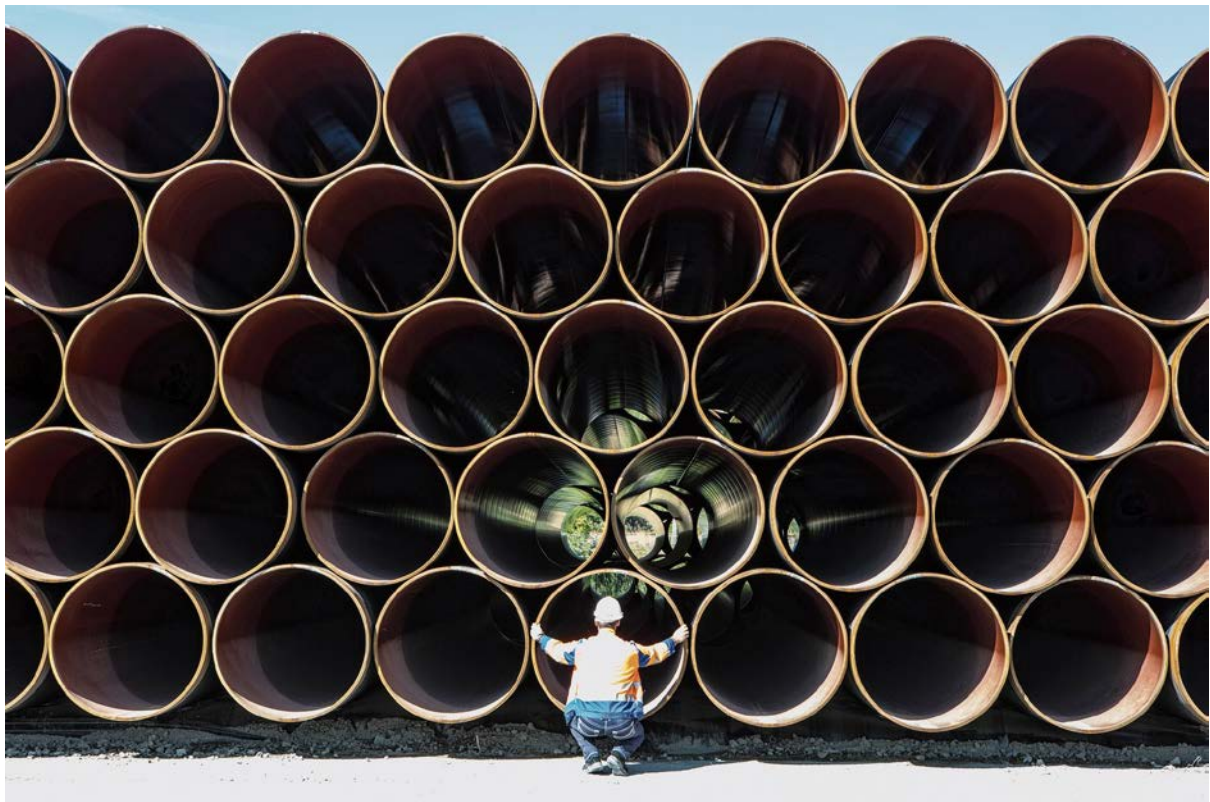


Germany's Support for Gazprom's Nord Stream 2 Pipeline:

A Process-Trace Analysis of the Government's Decision to Back
a Controversial Energy Project



MSc Thesis Public Administration (IEG).

Leiden University

By: Pim van Heeswijk

Supervisor: dr. Dovile Rimkute

Abstract

This research focusses on the Nord Stream 2, a planned gas pipeline that will run from Russia to Germany, through the Baltic Sea. For years, the pipeline has been part of an intense political debate between its supporters and its opponents. It has led to tensions between EU Member States, concerns about Europe's gas dependency on Russia, and fear for substantial losses of important gas revenue for Ukraine. Moreover, the companies involved in the project even risk the deployment of economic sanctions, directed by the U.S. administration. Among them are the German companies BASF and E.ON, who, despite the project's controversy, have received continuous support from their national government.

In order to explain why the German state backs this gas deal, this causal process tracing study will analyse the fundamental role of BASF and E.ON with respect to the German energy policy and their interest in the NS2. Moreover, the research will analyse whether they were successful in influencing the government to support the pipeline.

Besides providing a comprehensive storyline, liberalism will be applied and tested as an explanatory and systemic theory. The results of the study indicate that liberalism is not just a unit-level, or domestic paradigm, as its critics have often argued, but that it can in fact explain the power of domestic interests and its subsequent consequences for international relations.

I. Foreword

This thesis is the end product of my Master Public Administration (IEG). Researching the Nord Stream 2 project was highly interesting, as the case involves matters of energy, economics, foreign politics, security, and European integration. Therefore, I believe that it served as a fitting case study to conclude a diverse and multi-disciplinary master programme.

There are several people that I would like to thank for their assistance during this project. First of all, I would like to thank my supervisor Dovile Rimkute, whose guidance has been of huge help throughout the process. Furthermore, I would like to thank my girlfriend Sandra for her continuous support and joy. Finally, I would like to thank my parents who offered me the possibilities to study and allowed me to expand my horizon.

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IV. List of Abbreviations

BCM	Billion Cubic Meters
BDI	<i>Bundesverband der Deutschen Industrie</i>
CPT	Causal Process Tracing
CEE	Central and Eastern European
EC	European Commission
EEZ	Exclusive Economic Zone
IEA	International Energy Agency
LNG	Liquefied Natural Gas
OA	<i>Ost-Ausschuss der Deutschen Wirtschaft</i>
NS1	Nord Stream 1
NS2	Nord Stream 2
TEP	Third Energy Package
TPES	Total Primary Energy Supply
UOKIK	Urząd Ochrony Konkurencji I Konsumentów

1. Introduction

In early March 2018, the international community was shocked by the events in Salisbury, the United Kingdom. It appeared that former Russian intelligence agent, Sergei Skripal, and his daughter Joelia had become the victim of a nerve-agent attack, leaving them both hospitalized for weeks. On the 26th of March 2018, Germany's Foreign Minister Heiko Maas strongly condemned the assault. His government argued that the alleged perpetrator, Russia, should be faced with the consequences (Maas, 2018).

As part of a common EU response, the Ministry decided that four Russian diplomats were to be expelled from German territory (Borger, Wintour, & Stewart, 2018). According to the Minister, it was a difficult decision, but it did send "a message of unqualified solidarity with the United Kingdom and signals the German Government's determination not to allow attacks on our closest partners and allies to go unanswered" (Maas, 2018).

Within 24 hours after the Ministers' statement, political analysts and the states' allies were surprised to see that the Russian energy giant Gazprom received the final permit for the construction of its Nord Stream 2 (NS2) pipeline in Germany's Exclusive Economic Zone (EEZ) (Gurzu, 2018) (Nord Stream 2, 2018).

The gas project, which is co-financed by Germany's energy companies BASF/Wintershall and E.ON, enters the Ust-Luga Area in western Russia, crosses the Baltic Sea, and ends in the Greifswald area in east-northern Germany (Gazprom). The new pipeline will serve as an extension for Nord Stream's first string (NS1), which was completed in 2011 (Annex 1) (Gazprom, 2012).

The 1200 km pipeline is expected to be finished at the end of this year and will transport an annual capacity of 55 billion cubic meters (bcm) of gas (Gazprom). The European energy companies Royal Dutch Shell, ENGIE, OMV and Uniper (in which E. ON owned a stake of 46.7% until 2018 (The Economist Intelligence Unit, 2018)) are also involved in the project (Gazprom).

Expectations are that the construction will cost a mere 11 bn dollars (The Economist, 2019). But the political price for the project seems to be even higher, as it has led to tensions between its supporters, the United States and Europe's post-communist countries (Annex 1).

One of the main reasons for this is that currently the lion's share of Europe's imported gas flows through Ukraine, a country which serves as a key transit point for Russia (The Economist, 2019). For these transit services the Ukrainian gas company Naftogaz earned \$2.8bn in 2017, making it an important contribution to the states' fragile national budget (The Economist, 2018) (Olearchyk, 2017).

The war in eastern-Ukraine, following the Maidan Revolution, and the annexation of Crimea severely damaged the economic and political relationship between Russia and Ukraine. Recent history has demonstrated the Kremlin's willingness to cut off gas transports to its neighbour, as it decided to do so after the Ukrainian crisis erupted in 2014 (Gardner, 2014).

Critics argue that the NS2 could therefore have damaging consequences for Europe's (energy) security. There are several reasons for this. Firstly, it could deprive Ukraine of its transit fees and of German support during potential gas disputes with Russia. Because the new pipeline is bypassing Ukrainian territory completely, and potential cut offs would therefore not be affecting Germany (The Economist, 2019). Critics fear that this could make Russia more prone to pursue such a strategy (The Economist, 2019).

Secondly, also Poland and other Central and Eastern European (CEE) states (see Annex 1.) strongly criticise Germany and the European Commission for their positions *vis-à-vis* the project, claiming that its termination will "upset the energy balance" (DW, 2018). Poland is also fearful for its current position as an important transit state, and could eventually "find itself at the mercy of Gazprom and Russia" (Jong, 2016).

Thirdly, as the pipeline crosses the Baltic Sea, critics fear that that the NS2 could serve as a justification for Russia to increase its military presence along the Baltic states (The Economist, 2019), countries that have been ever-suspicious of Russia's foreign policy ambitions. The final concern is that, once the NS2 becomes operational, the market share of Gazprom in Germany will increase significantly from 40 percent to 60 percent (Jong, 2016).

This development would be counterproductive to Brussel's energy policy, which aspires to decrease its Member States' reliance on imported Russian gas (Jong, 2016) and wants to make the EU largely reliable on renewable energy sources (European Commission, 2018, p. 8).

In recent attempts, the European Commission (EC) has sought to update its Gas Directive, which would apply EU energy competition rules on pipelines from outside the EU, like the NS2. What followed was a "brief Franco-German *contretemps*" (The Economist, 2019) about this increased energy mandate for Brussels. Eventually, a settlement was reached: The new Gas Directive determines that EU competition rules will have to be respected by third countries whose pipelines enter European territory, but the EU Member State where such a project hits ground will be in charge of enforcing these EU regulations (Posaner, Gurzu, & Tamma, 2019).

For years, Germany has been in favour of EU sanctions against Russia after the Ukrainian crisis erupted in 2014 (Jong, 2016), and, more recently, has backlashed Russia for its alleged role in the Skripal case. In Brussels, Chancellor Merkel often emphasizes the need for European solidarity and unity on issues such as climate change, migration and counterterrorism (Rankin, 2018), which makes Berlin's cooperation with the NS2 puzzling for many political analysts (Dempsey, 2016).

These seemingly contradictory events in German foreign policy leave a pressing research question, which will be the at the heart of this study:

Why did the German government decide to support the construction of the Nord Stream 2?

In providing the answers to the research question, this thesis will test the value of liberalism as an explanatory and systemic international relations theory. Liberal theory rests on a bottom-up view on politics, arguing that the demands or preferences of individuals and societal groups have to be observed prior to politics (Reus-Smit, 2001, p. 584).

This case study will primarily focus on the preferences of the economic interest groups, the German gas industry. It is expected that they have a substantial leverage over the national energy policy and over the state's position on the NS2. As Moravcsik, one of liberalism's leading scholars, describes "liberal IR theory elaborates the insight that state-society relations-

the relationship of states to the domestic and transnational social context in which they are embedded- have a fundamental impact on state behaviour in world politics” (Moravcsik, 1997, p. 513).

Later in this chapter, the objectives of this research will be further explained. Additionally, the value of this thesis for future academic research will also be discussed. The second chapter contains a literature review that analyses the work of leading liberalist scholars. This review will be followed by the theoretical framework, which emphasizes the core theoretical notions behind liberalism and describes which liberal ideas are of importance for this case study. With the use of liberalism’s key notions, the theoretical framework poses three hypotheses that will be tested in the empirical research.

The third chapter contains the research approach, which will explain the functioning of causal process tracing (CPT). A strategy that has been selected because there is not one independent variable that causes the outcome of this case. Therefore, this study will apply the techniques behind CPT, which is more centred on the dependent variable (Y) than on the independent variable (X) (Blatter & Haverland, 2012, p. 80). This part will be followed by a paragraph that contains the methodology of this thesis. The chapter concludes by describing how the hypotheses are operationalized.

The fourth empirical chapter provides the initiating conditions of the case study. It will describe Germany’s main foreign policy position vis-à-vis Russia and the importance of gas deals between the two countries. Finally, it will explain the functioning of Germany’s gas market and the role of both the industry and representative institutions.

The fifth chapter will look more closely into the role of Germany’s energy companies on the gas market, their relationship with Russia’s Gazprom, and their stakes with respect to the NS2 pipeline. The sixth chapter will highlight the developments that led to the support of Germany’s gas companies to construct the pipeline. It also explains their motivations to influence the national government to rally behind the project, and it will describe in what ways these companies exerted pressure.

The final empirical chapter will focus more on Germany’s political response to the project and it will describe whether the commercial interests of Germany’s gas companies have been taken

into account by their political representatives. Each of these empirical chapters will be followed by a review, in which the results will be compared to liberalisms' theoretical expectations.

The discussion section will summarize the key findings with respect to the theory. Here, attention will be given to its applicability and it will be accompanied with suggestions for further research. In the conclusion, an answer will be provided to the research question.

1.1 Goal of the research

This research has two main objectives. Firstly, by applying the key notions behind liberalism, it will test the explanatory and systemic value of this theory for empirical research. A theory is considered to be explanatory if it helps to develop answers to questions that are demanding an explanatory response (Humphreys, 2012, p. 33). Moreover, an international relations theory is systemic if it is capable of explaining "international politics through the comparative standing of states" (Zellmer Z. R., 2016, p. 41).

Over time, questions have been raised by critics with respect to the value of liberalism as an explanatory and systemic theory (as the literature review will discuss in more detail). In contrast, proponents of liberalism have claimed that the theory can "explain not only the foreign policy goals of individual states but the systemic outcomes of interstate interactions" (Moravcsik, 1997, p. 523). Therefore, a core objective of this thesis is to examine which arguments are valid.

Secondly, this study attempts to highlight the role of Germany's economic interest groups on the energy markets and to observe their leverage over national politics. These groups, therefore, will form the main unit of analysis of the case study. The empirical chapters will demonstrate their influence on the national energy policy and give an insight into these actors' business rationales, strategies, and challenges.

As most of the media coverage focuses on the position of political representatives *vis-à-vis* the NS2, this thesis will primarily observe the interests of Germany's economic interest groups with respect to the project. These groups will therefore be the main unit of analysis.

However, as the German government's support for the NS2 constitutes the dependent variable of this case study, relevant actors are the German chancellor, the German Ministry for Economic Affairs and Energy, and the Ministry of Foreign Affairs.

1.2 Added value of the research

Besides theory testing, the added value of the research is that it will discuss a multitude of Germany's contemporary foreign and energy policy challenges. This considering, the topic is believed to be a case of "substantive relevance" for several reasons (Toshkov, 2016, p. 289).

Firstly, the study discusses the importance of Russian gas for the German industry and the national economy, and describes how this influences the governments' foreign policy position. As it seems likely that Germany will remain highly dependent on Russian gas imports for the next decades, it is important to elaborate on the underlying interests of the key economic groups with respect to this energy relationship.

Secondly, it appears that the German electorate is increasingly concerned about issues related to climate change, as the Green Party was one of the main winners of the 2019 European Parliamentary elections (DW News, 2019). These recent results reflect the importance of energy concerns in the public debate. The added value of this research to that debate is that it explains the fundamental role of Germany's economic interest groups with respect to the energy transition and the national energy policy in general.

Thirdly, the case study demonstrates how economic interest groups and the German government respond to attempts of the European Union to regulate the energy market. The empirical observations explain the position of Germany towards the EU's involvement and competencies on matters of energy supply and market regulation.

Given that the EU is actively building an energy union, which ought to diversify Europe's energy sources and to ensure energy security (European Commission, 2019), highlighting the

leverage of economic interest groups with respect to this area is an important element of the case study.

Despite these multifaceted political, economic and environmental aspects of the NS2 project, few academic studies have been devoted to this specific pipeline. Currently, there are almost no studies that have an exclusive focus on Germany's continuous support for the NS2. This is surprising as there are many quality newspapers and blogs that cover the project, such as *The Economist*, *Politico* and *Carnegie Europe*. The final added value of this thesis is, therefore, to offer a comprehensive research study on an energy project that has remained relatively uncharted.

1.3 Generalization

Generally, the causal factors and the status of a combination of factors that led to the outcome of a CPT research "are strictly confined to the case(s) under study" (Blatter & Haverland, 2012, p. 82). Therefore, it seems quite impossible to generalize the results of a research that is based on a CPT within-case analysis. However, this thesis' approach does not strive to establish the effects of individual, independent variables, or the kind of generalization one would expect from comparative case studies (Blatter & Haverland, 2012, p. 82).

In contrast, the CPT approach is more closely related to the "diversity-oriented way of thinking that accompanies approaches based on configurational causation" (Blatter & Haverland, 2012, p. 82). Therefore, it is argued that CPT allows to establish merely a "possibilistic generalization: drawing conclusions toward the set of causal configurations that make a specific kind of outcome (Y) possible" (Blatter & Haverland, 2012, p. 82).

The benefit of CPT studies is that they can contribute to the theoretical debate by examining "which pathways are possible for reaching an outcome of interest" (Blatter & Haverland, 2012, p. 104). Additionally, this research approach can help identify the relevant factors and the functioning of social mechanisms that together form the basis for causal configurations (Blatter & Haverland, 2012, p. 136).

Consequently, by defining the relevant economic interest groups, the conditions under which these actors are becoming increasingly active towards representative institutions, and finally how the latter responds to their interests, can provide a general insight in how Germany's energy policy is shaped.

2. Literature review

This chapter will first review the studies that have been conducted on the NS2 pipeline and on the energy relationship between Germany and Russia. Secondly, it will briefly discuss why liberalism emerged as a theory in international relations and it will analyse the work of its most prominent scholars.

The literature review will primarily highlight the ideas of liberalists regarding the importance of domestic interests, as it is expected that these played a role during the development of the NS2 project. Finally, the review will outline the arguments of critics against liberal theory.

2.1 Research projects on the NS2

So far, only few academic studies have been devoted to the NS2, and there are almost no researches that attempt to explain the political support from EU Member States for the project. Currently, the majority of the academic contributions are merely focusing on the economic consequences or benefits of the pipeline, and are therefore mainly conducted by economists.

For example, the economic consequences for European Member States once the NS2 pipeline becomes operational have been forecasted by Sziklai, Kóczy & Csércsik (2018). The article uses primarily economic models to calculate the impact of the new pipeline on gas prices for producers and consumers (Sziklai, Kóczy, & Csércsik, 2018, p. 10).

A more historical and comprehensive account on the German-Russian political and energy relationship has been provided by Gross (2016). In the article, Gross compares the economics of natural gas imports to Germany in 1982 and in 2014 (Gross, 2016). The article offers a valuable account on the level of dependence of German firms and industries on Russian trade. Although, the latter is helpful to understand the level of entanglement of the domestic actors with Russia, the study is not focussed exclusively on the NS2 pipeline.

The same goes for the contribution by Skalamara (2016), who also explains the involvement of EU companies with the Russian gas sector. In her article, the scholar reveals the hidden actors behind the EU-Russia energy relations, which, according to the study, are strongly influenced by the major gas companies (Skalamara, 2016, p. 27).

Moreover, the scholar argues that neo-realism, another major IR theory, provides a limited and too narrow lens to study energy agreements (Skalamara, 2016, p. 48). She criticizes this theoretical paradigm for its “failure to recognize the predominance of the private sector in in energy geopolitics” (Skalamara, 2016, p. 32). Therefore, Skalamara advocates that more neo-liberal explanations should be sought to study energy relations between Russia and the EU, which is part of the reason why the liberal framework has been selected to study this case.

However, Skalamara’s research does not focus exclusively on the NS2 pipeline, but primarily on the Southern Gas Corridor deal and the potential impact of the EU’s energy legislation. Furthermore, it does not apply the core assumptions or causal mechanisms provided by liberalism to the NS2 case, but rather compares the theoretical paradigms and their explanatory power with respect to her case studies.

While several researchers examine the economic impact of the new pipeline, or focus on the energy relationship between the EU and Russia more generally, there is still an empirical gap with respect to the domestic interests behind the NS2; a project that seems to have damaging consequences for the relations between traditional political allies.

2.2 Why domestic interests matter

The ideas behind liberalism emerged in the late 1980s, when the world was witnessing deep changes in international relations, such as the emergence of interstate interdependence, the increase in international trade and the creation of transnational actors (Sirello, p. 1). In contrast to the realist assumption, liberals argue that “the international stage is not occupied by unitary states, but rather different groups attempting to realize their interests amidst the interests of other groups” (Zellmer Z. R., 2016, p. 42).

Liberalists believe that what matters most in international affairs, is the configuration of state preferences (Moravcsik, 1997, p. 513). State preferences can be defined as the “fundamental substantive social purposes that give states an underlying stake in the international issues they face” (Moravcsik, 2010, p. 234). Liberalism is thus a domestic politics approach that claims that we cannot understand international political outcomes without observing the configuration of the state’s domestic preferences.

Furthermore, liberalism’s “central insight” is that globalization can induce variation in both social demands and state preferences. Together, they are the “fundamental cause of state behavior in world politics” (Moravcsik, 2010, p. 234).

The liberal international theory generates several predictions, for example those that concern issues of war, peace, trade liberalization, and, protection (Moravcsik, 2010, p. 246). According to its proponents, liberal theory can predict broad political phenomena for which other IR paradigms have provided only few explanations (Moravcsik, 2010, p. 246).

One of the first major influences on liberal theory was the development of the two-level approaches, which integrated the international and national political level, (Schieder & Spindler, 2014, p. 117). According to one of its founders, Robert Putnam (1988), this approach assumes that political executives are simultaneously trying to reconcile domestic and international demands (Putnam, 1988, p. 460).

Thus, in contrast to state-centric theories like neorealism, Putnam argues that one cannot assume that the executive of a country is unified in its views (Putnam, 1988, p. 432). Instead, Putnam claims that “central executives have a special role in mediating domestic and international pressures precisely because they are directly exposed to both spheres” (Putnam, 1988, p. 432). In other words, both the domestic and international level can influence the government’s position at the negotiation table.

Although, the two-level approach seems useful for a practical analysis of international affairs, it has been argued that it cannot fully explain the development of government’s preferences (Schieder & Spindler, 2014, p. 117). Considering that the empirical puzzle of this thesis involves the latter, the two-level game approach will not be strictly applied. However, Putnam’s views on the domestic political level have influenced the theoretical framework,

which will be complemented by the main findings of other liberalists. Together, their ideas will provide the theoretical foundations for the empirical research.

The importance of national interests also played a pivotal role in Jack L. Snyder's 'Myths of Empire: Domestic Politics and International Ambition' (1991). Along five different events of conflict, Snyder outlines the influence of domestic imperialist and military interest groups on national political actors.

The scholar argues that, in the pursuit of private interests, these groups will "hijack the state and pervert national policy" (Snyder, 1991, p. 14). Additionally, Snyder claims that the more powerful and persuasive these interest groups are, the more a state would be forced to pursue aggressive politics (Snyder, 1991, p. 15). The study concluded that, "among the great powers, domestic pressures often outweigh international ones in the calculations of national leaders" (Snyder, 1991, p. 20)

The explanatory power of liberalism has also been compared to that of neorealism by Wolf (2002), who studied the post-conflict relations between military allies and former enemies (Wolf, 2002, p. 2). The cases showed that the fact that military allies would become rivals at a certain moment in history, was primarily determined by the state's preferences that were "generated by the domestic distribution of power and interests" (Wolf, 2002, p. 3).

The three cases studied by Wolf, indicated that domestic structures (following the liberalist reasoning) had a greater impact on the emergence of new rivalries than the distribution of power among states (Wolf, 2002, p. 3), which follows the neorealist argument. Although, the results of Snyder's and Wolf's researches are more applicable to military and conflict scenarios than to energy case studies, their work offers a valuable account on the domestic actors' interests and their impactful influence on state behaviour.

Inspired by Putnam's two-level game, Helen V. Milner (1997) brought "domestic politics back into international relations theory" (Milner, 1997, p. 3). In her book, 'Interests, Institutions and Information', Milner claims that international relations and domestic politics are strongly interconnected (Milner, 1997, p. 3).

The objective of her contribution to liberalism was to develop a more explicit theory on the interaction between domestic and international politics (Milner, 1997, p. 4), and to research why nations decide to cooperate with one another (Milner, 1997, p. 234). Milner claims that the reasons why domestic politics matter is because the state cannot be regarded as a unitary actor (Milner, 1997, p. 16).

Furthermore, the scholar claims that there is no strict hierarchy regarding domestic politics, but that the latter rather “resembles a web of interdependent relations” (Milner, 1997, p. 233). Therefore, Milner claims that states should be considered to be “polyarchic” (Milner, 1997, p. 12), meaning that they consist of at least two groups that are sharing power over the decision-making process, and who generally have different interests with respect to policy (Milner, 1997, p. 233).

The research of Milner elaborated on the ways that domestic preferences can influence the state’s position. Therefore, she has offered a more comprehensive view on the domestic level of international negotiations than her predecessors. Consequently, Milners’ ideas have strongly contributed to the development of this thesis’ theoretical framework.

Arguably, the most comprehensive approach of liberalism has been developed by Moravcsik (1997). As Schieder and Spindler claimed: “Moravcsik has probably done more than anyone else to consistently develop a verifiable liberal theory in IR” (Schieder & Spindler, 2014, p. 108). This is the main reason why Moravcsik’s formulation of liberal theory has had a significant influence on this study’s theoretical framework.

In his article ‘Taking Preferences Seriously’, Moravcsik reformulates the core premise of liberalism and states that societal ideas, interests and institutions are the main influencers on state behaviour (Moravcsik, 1997, p. 513). Subsequently, these factors are determining the formulation of state preferences (Moravcsik, 1997, p. 513).

Furthermore, Moravcsik highlights that the implication of liberalisms’ structural and systemic qualities is that, in contrast with neorealism, it explains not only foreign policy objectives of individual states, but that it can identify the “systemic outcomes of interstate interactions” (Moravcsik, 1997, p. 523).

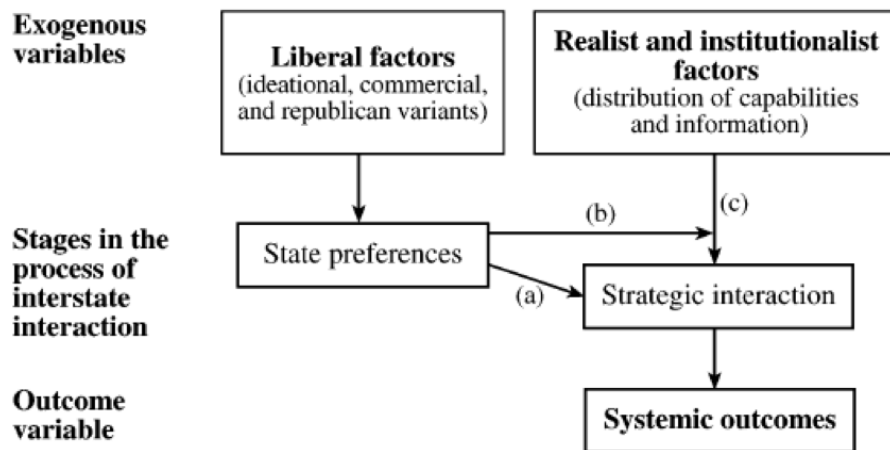
Consequently, considering the empirical puzzle of this study and the fact that the German government has continued to defend the NS2 in the international arena, liberalism is expected to provide an appropriate framework for the empirical analysis.

2.3 A two-stage model of state behaviour

Before outlining the arguments of liberalisms' theoretical counterparts, it is important to briefly highlight how liberalists regard the functioning of their theory in relation to the other main paradigms of IR.

Generally, liberalists claim that the state's preferences are "causally independent of the strategies of other actors, and therefore, prior to specific interstate political interactions" (Moravcsik, 1997, p. 519), see figure 1.

FIGURE 1. The two-stage model of IR.



(Moravcsik, 1997, p. 545).

According to Moravcsik, a two-level model causes a more comprehensive research approach because preferences are defined by states; a process that can be explained by applying liberalist theories (Moravcsik, 1997, p. 544). However, inter-state behaviour is highly complex and is therefore rarely caused by an individual factor (Moravcsik, 2010, p. 249).

Therefore, it has been suggested that research should be complemented by exploring the importance of realist or institutionalist factors and their relationship to state behaviour (Moravcsik, 1997, p. 544). Inspired by the scholar Robert Dahl, Moravcsik describes this premise as follows: “We cannot ascertain whether A influenced B to do something (that is, power) unless we first know what B would otherwise do (that is, preferences)” (Moravcsik, 2010, p. 250).

This notion is one of the core reasons why liberalism has been selected to study this case. However, the discussion analysis will provide suggestions for future research with respect to the other main IR paradigms.

2.3 Criticism on liberalism

This paragraph will outline some of the critical arguments that have been raised against liberalism. The discussion chapter will later reflect on these arguments and analyse whether they seem valid in light of the empirical case study.

For years, liberalism has been viewed as merely a normative ideology, rather than a theory that could compete with to other major explicatory theories of international relations (Sirello, p. 1). One of these theories is realism, which argues that that preferences are fixed and uniformly conflictual (Legro & Moravscik, 1999). The political scientist Kenneth Waltz, who is considered to be one of the core founders of neorealist theory, argues that the ultimate goal of states is to ensure their survival (Legro & Moravscik, 1999).

But also, other notions of liberalism have been criticized. For some, the central liberal claim “what states want determines what they do” seems “commonsensical, even tautological” (Moravcsik, 2010, p. 248). Most notably, neorealists have argued that the preferences of states are unimportant, as the results that are achieved at the international stage are seldom corresponding to the intentions of actors (Moravcsik, 2010, p. 248). This notion leads neorealists to assume that no valid generalization can be drawn from the examination of intentions (Moravcsik, 2010, p. 248).

According to liberalisms' critics one cannot regard the state as merely a "mirror of powerful economic or civil society interest" (Schieder & Spindler, 2014, p. 119). Therefore, liberalism has often been considered to be a strictly domestic or unit level theory, that ignored the international environment (Moravcsik, 1997, p. 522).

The response of liberalists to these critiques is that liberal theory does not imply that states will get what they want, nor that they are ignoring the actions of other states (Moravcsik, 2010, p. 248). Liberalists claim that the contrary is true: each state would prefer acting as it pleases, but they are forced to achieve objectives under the constraints of other states' preferences (Moravcsik, 2010, p. 248).

Additionally, liberalists believe that the heads of governments are always systemically thinking about their countries' positions within a structure that is composed of the preferences of other states (Moravcsik, 1997, p. 523).

Moreover, liberalism has been criticized for being "too complex to provide a systemic analysis of international politics" (Schieder & Spindler, 2014, p. 119). This argument has been raised because it is believed that liberal theory prioritizes social concerns; leading to an introduction of complex elements that cannot be explained by a general paradigm in IR (Zellmer Z. R., 2016, p. 41).

Regarding the latter, Humphreys (2012) added: "Moravcsik seeks to identify causal mechanisms linking social preferences to state behaviour, but he makes no effort to show how discrete explanatory hypotheses should be developed" (Humphreys, 2012, p. 29). Moreover, Humphreys critique on Moravcsik's liberal view is that the latter claims that state behaviour is dependent on the configuration of preferences within states and among state actors, but that this does not offer any specific causal generalizations (Humphreys, 2012, p. 32).

Consequently, together with the critique that liberalism would not acknowledge the "powerful incentives of the international environment" the theory has been criticized for not being systemic, as it cannot explain "international politics through the comparative standing of states (Zellmer Z. R., 2016, p. 41).

Liberal scholars attempted to refute the latter, by claiming that state preferences can actually reflect the “patterns of transnational societal interaction” (Moravcsik, 1997, p. 522). For example, in the political economy for foreign economic policy, “social demands are derived not simply from domestic economic assets and endowments, but from the relative position of those assets and endowments in global markets” (Moravcsik, 1997, pp. 522-523).

In the discussions section these arguments will be taken into account. In the following chapter the predictions of the main liberal scholars regarding political outcomes will be further outlined.

3. Theoretical Framework

The ideas of the liberal scholars that have been introduced in the previous paragraph form the theoretical framework of this research. The function of this framework is to elaborate on the main elements of liberalism, a theory that stresses the importance of domestic interest groups with respect to state behaviour. The validity of these notions will be reviewed along the empirical observations, which will test the overall explanatory power of the theory.

According to Moravcsik, the central position of the state-society relations in world politics can be formulated in three core assumptions: (1) the nature of fundamental social actors, (2) the state, and (3) the international system (Moravcsik, 1997, p. 515).

This chapter will first elaborate on the characteristics of these liberal arguments. The general independent variable, which claims that domestic influences matter, will be tested by three hypotheses. These will be presented in the final paragraph of this chapter.

3.1 The Primacy of Societal Actors

The first argument behind the notions of liberalism is that the fundamental actors in world politics are individuals and private groups, who are generally risk-averse and rational (Moravcsik, 1997, p. 516). These groups can include, among others: classes, firms, bureaucracies, political parties and industrial sectors (Snyder, 1991, p. 316).

According to Milner, this means that states are polyarchic rather than hierarchical (Milner, 1997, p. 11). Therefore, her central claim is that states are composed of actors with different preferences who are sharing power over decision-making (Milner, 1997, p. 11).

Additionally, domestic groups can have different policy preferences because they are “differentially affected by government policies” (Milner, 1997, p. 16). Additionally, not all relevant societal or economic interest groups have the same level of influence; but rather the

sizes of interest groups, or their organizational capacities “have a decisive influence on their political efficacy” (Schieder & Spindler, 2014, p. 117).

These actors are organizing their “exchange and collective action to promote differentiated interests under constraints imposed by material scarcity, conflicting values, and variation in societal influence” (Moravcsik, 1997, p. 516). Their differentiated interests are formed independently of politics and domestic actors will intend to advance their preferences through collective action and political exchange (Moravcsik, 1997, p. 517).

With respect to the latter, the domestic actors can play two different roles. Firstly, they can act as pressure groups, who can contribute campaign funds and mobilize voters (Milner, 1997, p. 60). Secondly, they have an indirect role as they have the ability to act as “information providers” to political representatives (Milner, 1997, p. 60).

Furthermore, the interests and demands of societal and economic actors are treated by liberalists to be “analytically prior to politics” (Moravcsik, 1997, p. 517). Contrastingly with realism, liberal theory rejects the notion that an “automatic harmony of interests” exists, but argues that competition is inevitable once there is differentiation and scarcity (Moravcsik, 1997, p. 517).

Consequently, liberalists believe that a high level of scarcity can aggravate conflict, as groups and certain individuals will be more inclined to defend their positions and resources (Moravcsik, 1997, p. 517). On the other hand, when there is a relative abundance of public goods, the propensity for conflict is lowered, as the demands of individuals and groups are more easily met (Moravcsik, 1997, p. 517).

3.2 Representation and State Preferences

The second argument of liberalism claims that states are representing a subset of their domestic society, and on the basis of the latter’s interests the public officials are defining the preferences of the state and act purposively in international affairs (Moravcsik, 1997, p. 518). According to Moravcsik, the representative institutions and practices are forming the “critical transmission

belt”, as preferences and the social power of societal actors are translated into the state’s policy (Moravcsik, 1997, p. 518).

Liberalists believe that this assumption causes individuals and groups to turn to the state in order to successfully achieve their objectives. Also, Snyder claims that the national state has a central role, as it is regulating the behaviour of domestic actors within its jurisdiction, while, simultaneously, those groups are trying to form coalitions in order to try to capture state power (Snyder, 1991, p. 317).

As a consequence, liberalists believe that a government’s policy is “constrained by the underlying identities, interests, and power of individuals and groups who constantly pressure the central decision makers to pursue policies consistent with their preferences” (Moravcsik, 1997, p. 518).

According to Milner, economic or societal groups can decide to pressure representative institutions to cooperate or not (Milner, 1997, p. 16). This pressure can consist of promising to increase-, or threaten to withdraw, their electoral support for the government (Milner, 1997, p. 16).

Furthermore, Liberalists acknowledge that political representatives can have their own preferences, however they are not always fully informed about the consequences of policies for the interest groups (Milner, 1997, p. 60). Subsequently, the domestic actors might try to transmit “strategic information” through, for example, lobbying activities (Milner, 1997, p. 60).

This notion is shared by Putnam, who argues that domestic groups are pursuing their interests at the national level by pressuring their government to adopt favourable policies (Putnam, 1988, p. 434). These groups will be favourable to policies if they produce gains for their income, or if they reduce the costs of consumption goods and inputs. On the other hand, policies will be opposed by the domestic groups if they result in financial losses (Milner, 1997, p. 62).

3.3 Interdependence and the International System

The third and final argument of liberalism claims that the behaviour of a state is reflecting the patterns of state preferences (Moravcsik, 1997, p. 520). According to Moravcsik, states need a purpose in order to pursue cooperation or to provoke conflict (Moravcsik, 1997, p. 520). Furthermore, national governments will try to maximize their ability to satisfy domestic pressures at the international level, while at the same time they want to minimize the negative consequences of international developments (Putnam, 1988, p. 434).

According to Milner, the international position of a state is exerting an important impact on its domestic politics and economics and, “conversely, its domestic situation shapes its behaviour in foreign relations” (Milner, 1997, p. 3). Furthermore, the scholar argues that the executives’ behaviour resembles their concern over the state of the national economy and their dependence on the key interest groups’ support. Therefore, they are inclined to choose policies that can optimize both spheres (Milner, 1997, p. 35).

A state’s behaviour in political affairs depends on whether pressures from the international community are more insistent, threatening, and immediate than the pressures from domestic actors (Snyder, 1991, p. 317). Snyder argues that it is an empirical question, whether international or domestic woes are more pressing and how these interact (Snyder, 1991, p. 317).

Furthermore, liberalists claim that the critical theoretical link between the preferences of states, and the behaviour of one or more states, is determined by the level of policy interdependence (Moravcsik, 1997, p. 520). This concept entails that if the dominant groups in a society are actively trying to pursue their preferences, it can create costs or benefits to the societies of foreign countries (Moravcsik, 1997, p. 520). Therefore, Moravcsik argues that state behaviour is constrained by the pattern of interdependent state preferences (Moravcsik, 1997, p. 520).

Besides from societal and economic interest groups, such a constraint could also stem from the executive’s existing domestic coalition. According to Putnam, political entrepreneurs have “a fixed investment in a particular pattern of policy positions and a particular supporting coalition” (Putnam, 1988, p. 458). If a new international deal could threaten that investment,

or if ratification would result in the necessity to create a different coalition, a political leader would be reluctant to endorse such an agreement (Putnam, 1988, p. 458).

In addition, Moravcsik argues that preferences can be compatible or harmonious, cases in which unilateral policies can be optimal or insignificant for others (Moravcsik, 1997, pp. 520-521). On the other hand, a more conflictual outcome between states can occur when the “underlying state preferences are zero-sum or deadlocked” (Moravcsik, 1997, p. 521).

The latter entails that the pursuit of preferences by dominant social or economic interest groups, with the assistance of their national governments, will impose costs on the dominant societal actors in other states (Moravcsik, 1997, p. 521). This will result in a bargaining game with only “few mutual gains and a high potential for interstate tension and conflict” (Moravcsik, 1997, p. 521). In other words, once the ruling coalition of a state is in favour of an incompatible policy, it can result into “antagonistic relations” (Wolf, 2002, p. 10).

In conclusion, liberalism claims that once states are displaying costly coercive tactics, it is not a “particular configuration of power”, nor the result of “uncertainty”, as realists and institutionalists presume, but it is “a configuration of preferences conflictual enough to motivate willingness to accept high cost and risk” (Moravcsik, 1997, p. 521).

The three core liberal arguments outlined previously remain “relatively thin or content-free” (Moravcsik, 1997, p. 524). Therefore, as this case study’s empirical puzzle involves the configuration of preferences, it is important to elaborate further on how the interests of economic interest groups exactly emerge, and under what circumstances these groups are expected to become increasingly active at the political level.

3.4 Commercial liberalism

Liberal theory consists of multiple variants that can explain the importance of domestic societal preferences and their connection to state behaviour. These are ideational, commercial and republican liberalism (Moravcsik, 1997, p. 545). As the NS2 deal was signed by gas companies, the research will focus on commercial liberalism.

This variant is concerned with the market structure, the economic benefits, costs and pressures that can be imposed on domestic actors (Zellmer Z. R., 2016, p. 45). Therefore, it is strongly related to the first and second core liberal argument because it offers an insight in why economic interest groups would press for a certain governmental policy.

The liberal scholar Moravcsik argues that “commercial liberalism explains the individual and collective behaviour of states based on the patterns of market incentives facing domestic and transnational actors” (Moravcsik, 1997, p. 528). Moreover, liberalists argue that once changes are introduced to the structure of domestic and global economies, the costs and benefits of transnational economic exchange are altered (Moravcsik, 1997, p. 528).

If incentives (e.g. economic profits) are substantial then the theory predicts that powerful societal actors will pressure their national governments to pursue favourable policies. However, it also highlights that if these policies are costly, and are not considered to benefit society as a whole, more opposition is likely to emerge (Moravcsik, 1997, p. 528).

Furthermore, Moravcsik argues that in times of economic development “the material stake of social actors in existing investments” increases, causing the actors to oppose war, or sanctions that could harm their businesses (Moravcsik, 1997, p. 530).

3.5 The core liberal arguments and hypotheses

Based on the theory’s main arguments and the variant of commercial liberalism, three hypotheses have been derived. The function of this paragraph is to define and to introduce the hypotheses that will be tested in the empirical chapters. This, in order to test the general independent variable derived from liberalism: domestic interests matter.

The first liberal notion stated that the fundamental actors in world politics are made up by private groups and individuals (Moravcsik, 1997, p. 516). These groups can be political parties, firms or industries (Snyder, 1991, p. 316). The latter will be at the heart of the empirical research, considering that the NS2 deal has been signed by two German gas companies.

Moreover, the size of these interest groups- or their organizational capacity matters, as liberalists note that these characteristics have a decisive influence with respect to their political efficacy (Schieder & Spindler, 2014, p. 117). Therefore, it is expected that the two gas companies, BASF and E.ON, are sizeable companies that have a considerable role with respect to gas trade and supply. Therefore, empirical research will first examine their role on the national and European gas market and explore their potential leverage over Germany's energy policy.

Secondly, liberal theory stresses that the interests of the economic interest groups should be analysed prior to politics (Moravcsik, 1997, p. 517), meaning that it is key to first define the value of the NS2 for the German gas companies. Here the variant of commercial liberalism can help identify the incentives of the gas companies to pursue the project (Moravcsik, 1997, p. 524). The first hypothesis that will be tested is therefore:

H1: Germany's economic interest groups are powerful actors on the energy market and they have an interest in the Nord Stream 2 pipeline.

In case that it has been established that these actors have a fundamental role and that they have an interest in the planned pipeline, the empirical observations will focus on the pressure of these interest groups towards their representative institutions. It will be analysed whether the economic interest groups have turned to the state to pursue their objectives.

Because the second core argument of liberal theory predicts that powerful individuals or groups will pursue their interests at the national level by pressuring the government to adopt a favourable policy (Putnam, 1988, p. 434). This pressure can be done, for example, in the form of lobbying governmental institutions, threatening to withdraw electoral support, or by launching a campaign to promote natural gas. Therefore, the second hypothesis that will be tested is:

H2: Germany's economic interest groups actively sought to influence their representative institutions to support the Nord Stream 2 pipeline.

The notions of the variant of commercial liberalism also form an important addition to the research related to the second hypothesis, as it focuses more specifically on the economic

interest groups' motivations. Therefore, commercial liberalism can help to establish why economic interest groups could have been motivated to press for a certain policy at the political level.

The third argument of liberalism predicts that the behaviour of a state reflects the preferences of its domestic interest groups. As political representatives are concerned over the state of the national economy and are dependent on the support from powerful domestic interest groups, it will determine their behaviour in international affairs. In other words, the domestic situation of a state will shape its behaviour in foreign relations (Milner, 1997, p. 3).

Therefore, the third and final hypothesis of this case study states:

H3: Germany's economic interest groups succeeded in influencing the national government to support the Nord Stream 2.

By testing the third hypothesis, the outcome of this case study will be analysed. The causality and the functioning of these hypotheses will be further discussed in the chapter on research design, along with the types of evidence that will support or reject the three hypotheses.

4. Research approach and design

Now that the liberal framework has been established and that the hypotheses have been presented, this chapter will elaborate on the research strategy in more detail. As mentioned previously, the research will be done according to causal-process tracing. The first part of this chapter will outline why this approach has been selected. The related subparagraphs will present the types of evidence of a CPT study.

The second part of this chapter will go into further detail with respect to causality. This part presents the causal mechanisms of a CPT study and it will explain how this CPT cycle corresponds with the hypotheses that have been established. Thirdly and finally, this chapter presents the operationalization and methodology.

4.1 The characteristics of causal process tracing

The approach in this research is based on causal-process tracing (CPT) techniques. This approach has been selected for several reasons. Firstly, the CPT approach is Y-centred and therefore it focuses on the multiple complex causes of an outcome (Blatter & Haverland, 2012, p. 80).

Secondly, the explanatory strength of CPT is that it answers “pro-typical questions” such as “How come? and/or How was this (Y) possible?” (Blatter & Haverland, 2012, p. 80). Therefore, the research question ‘Why did the German government decide to support the construction of the Nord Stream 2?’ can presumably be answered with the CPT approach.

Thirdly, the CPT strategy claims that a social outcome is usually a result of a combination of causal factors (Blatter & Haverland, 2012, p. 80). As the research question of this thesis cannot be answered by analysing the influence of one independent variable (X), this notion forms an important characteristic of a CPT analysis.

Fourthly, the CPT approach is considered to be an “adequate analytical approach to develop and test configurational theories and hypotheses” (Blatter & Haverland, 2012, p. 80). This characteristic of CPT provides the possibility to test liberalism as an explanatory and systemic theory.

Finally, CPT is considered to be a “fundamental element of empirical case study research because it provides a way to learn and to evaluate empirically the preferences and perceptions of actors, their purposes, their goals, their values and their specification of the situation that face them” (Vennesson, p. 233). Therefore, as the preferences of domestic actors play an important role in liberal theory, it is believed that CPT offers the correct research tools to analyse the case under study and to test the strengths of the liberal arguments.

4.2 Causality in causal process tracing

In this paragraph, the functioning of causality in a CPT analysis will be further explained. Firstly, it is important to highlight that in order to draw a causal inference, CPT is considered to be a technique that makes use “of the fact that causality plays out in time and space” (Blatter & Haverland, 2012, p. 81).

Secondly, CPT assumes that multiple causal conditions are necessary to be jointly sufficient to create a certain outcome (Blatter & Haverland, 2012, p. 94). This fits the earlier described notion that a CPT analysis is not interested in the causal effect of one independent variable. In contrast, a “single causal factor can be very strong”, but “it would never be able to cause the outcome alone” (Blatter & Haverland, 2012, p. 94).

A causal factor can be considered to be a necessary condition if it implies that the outcome of a case would not have occurred without its presence (Blatter & Haverland, 2012, p. 120). However, also other elements might have to be added to make this outcome actually occur (Blatter & Haverland, 2012, p. 120).

Consequently, the presence of a necessary condition can lead to the next step in the causal chain, but only if complementary and contextual conditions are included to explain why it

occurred (Blatter & Haverland, 2012, p. 120). In other words, the CPT analysis “is always searching for causal conditions that are individually necessary and, in combination with other causal conditions, sufficient for the outcome” (Blatter & Haverland, 2012, p. 93)

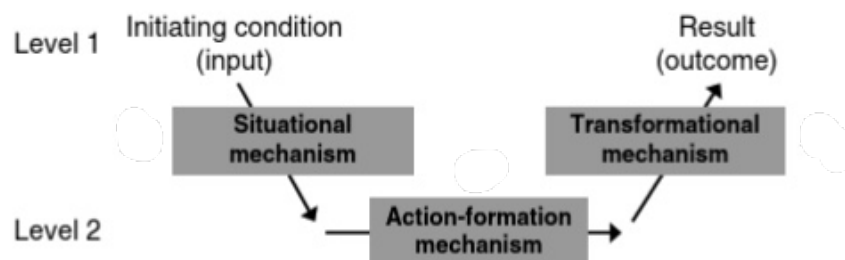
4.2.1 Causal conjunction

The causal chain that will be pursued in this case study, is called a “causal conjunction” (Blatter & Haverland, 2012, p. 94). This conjunction is based on the presence of multiple causal conditions that can work interactively or additively in a certain time period to form the causal configuration (Blatter & Haverland, 2012, p. 94).

Furthermore, the CPT approach is interested in process tracing the links and steps that are leading to the outcome. While doing so, CPT can be connected to the liberal theory and the previously established hypotheses. Because in order to claim that causal factors have been sufficient for the outcome, researchers should turn toward the use of “coherent theoretical models based on a consistent set of social mechanisms” (Blatter & Haverland, 2012, p. 94).

Consequently, causal mechanisms are “configurational entities” that can combine “three different types of social mechanisms: situational mechanisms, action-formation mechanisms, and transformational mechanisms” (Blatter & Haverland, 2012, p. 95) According to CPT’s sequence of causality (*figure 2*), there are several social mechanisms, which are derived from theory, that together can form a causal mechanism (Blatter & Haverland, 2012, p. 95).

FIGURE 2. Variants of social mechanisms that jointly form a causal mechanism



(Blatter & Haverland, 2012, p. 95)

In this case study, the initiating condition entity will provide the basis for the empirical chapters that are connected to the hypotheses. Therefore, the initiating conditions will describe the energy relationship between Germany and Russia, which has long been determined by Germany's foreign policy of *Ostpolitik*. Furthermore, it will explain the characteristics and the general structure of the German gas market.

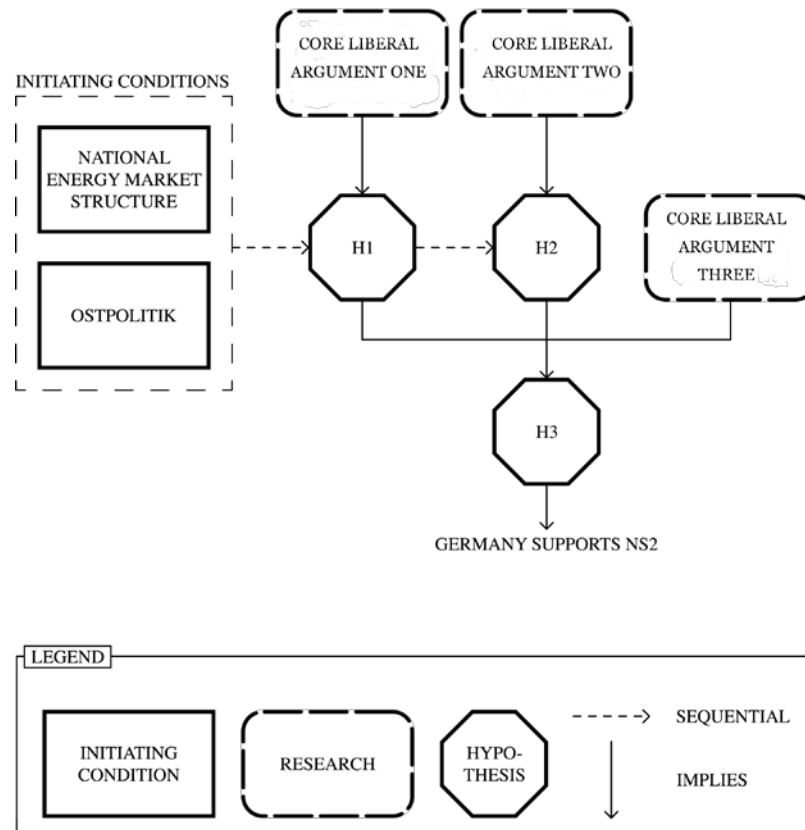
The situational mechanism is connected to H1 of the case study. The related chapter introduces the German economic interest groups and analyses their role on the national and European gas market. Furthermore, it will analyse whether these economic interest groups have an interest in the NS2.

The latter is considered to be a necessary condition in order to move on to the action-formation mechanism. Here, the “theoretical micro foundations” (Blatter & Haverland, 2012, p. 95), of liberal theory will be examined. This action-formation mechanism will form the second link in this causal-process tracing study and will be applied in order to test H2.

The transformational mechanism will form the basis to conclude whether or not the pressure of domestic actors influenced the position of the national government *vis-à-vis* the Nord Stream 2 project. Did the initiating conditions, situational mechanism, and the action-formation mechanism actually lead up to the transformational mechanism- or outcome? This mechanism will form the basis in order to test H3 and to prove whether or not the theory's arguments hold.

The previously described sequence of the three liberal hypotheses (based on the CPT sequence of causality) and their causal impact on the outcome of this case is illustrated in figure 3.

FIGURE 3 (own graph). The social mechanisms and sequence of the case study



4.3 Operationalization

A solid confirmation of *H1* will have to result from evidence that indicates that Germany's economic interest groups have a fundamental role with respect to the state's energy policy. This could be demonstrated by documents that indicate the importance of the companies for the national economy, or that show that they are crucial actors with respect to the supply of natural gas.

Secondly, the evidence should indicate that these companies have a clear interest in the NS2 and that they invested their capital and resources in the project. Additionally, the evidence should demonstrate that the pipeline's termination would offer these actors substantial returns. Jointly, these factors can be considered to form a necessary condition, which is needed in order to move on the subsequent hypotheses and steps in the sequence of causality.

Empirical evidence that would reject this hypothesis could indicate that these actors do not play an important role with respect to the state's energy policy, nor that these actors have a clear interest in the planned pipeline. This could be demonstrated by, for example, evidence that indicates that the NS2 is primarily favoured by the governmental coalition, rather than by Germany's economic interest groups.

To establish a solid confirmation of H2, the empirical evidence should demonstrate that the economic interest groups were trying to influence political representatives with respect to the project. This evidence could demonstrate that the companies launched an active lobby, or a campaign to promote the NS2 at the political level. The empirics could also imply that financial rewards have been offered to politicians to support the project.

The second hypothesis will be rejected if the empirical evidence does not demonstrate that the economic interest groups have pressured the government to adopt a favourable position to the NS2. This could be the case if there is no evidence that can demonstrate that meetings between political representatives and the gas industry have taken place, or if the NS2 shareholders' interests are not being pursued by lobbyists.

A solid confirmation of H3 would result from evidence that demonstrates that the government's position on the NS2 has been shaped by the economic interest groups. This evidence should indicate that the responsible political authorities (e.g. German Ministry for Economic Affairs and Energy) have supported the NS2 solely because it is in the interest of the gas industry.

This hypothesis will be tested by observing if the industry's rationale with respect to the necessity of the NS2 is reflected in the governments' narrative. Moreover, it will be examined if the government or coalitional parties have made a specific reference to the gas companies involved in the project, and whether they support the pipeline because it is in the latter's' interest.

This hypothesis should be rejected if the evidence demonstrates that the government is not considerate to the interests of the national gas industry. It could, for example, be the case that the German government is supporting the NS2 because it is inclined to strengthen the states' strategic position in Europe, or towards other international actors.

It can also be the case that the German governments' reasoning with respect to the NS2 has not been influenced by the interests and pressure of the national gas industry, but rather by Germany's general foreign policy strategy towards Russia. Then, evidence should demonstrate that the NS2 merely reflects the wish of the German government to keep Russia economically tied to Europe.

4.4 Methodology

The empirical case study will be based on a documentary analysis. The causal process-tracing will focus on documents that have been created between 2011, when the feasibility studies of the NS2 were ongoing (Nord Stream 2, 2018), and April 2019.

The evidence that will help to answer the research question will be derived from primary sources such as governmental documents, minutes of the NS2 debates in the German parliament, energy statistics, and media interviews with key public officials and the industry representatives.

Furthermore, news articles from influential sources such as Politico, The Economist and the Clean Energy Wire, a journalistic blog that focusses on Germany's energy transition, will help to establish and clarify the story-line of this case and shed light on the stakes at hand for the economic interest groups.

Finally, academic articles on Germany's economic interest groups, their role on the gas- and energy market, and Germany's energy relationship with Russia, will support the findings from the primary sources described earlier.

Blatter and Haverland argue that a successful CPT study should contain three kinds of empirical evidence: (1) comprehensive storylines that can provide the "big picture", (2) smoking-gun observations, that can create a level of certainty regarding the "dense link between a cause and an effect", and finally (3) confessions, the evidence that reveals "the

perceptions, motivations and anticipations of important actors” (Blatter & Haverland, 2012, p. 119).

By using these observations, a researcher can “draw conclusions on the status and role of causal conditions in the process of producing the outcome” (Blatter & Haverland, 2012, p. 81). The next subparagraphs will explain the functioning of these types of evidence in more detail.

4.4.1 Comprehensive storyline

By creating a comprehensive storyline, the research will extract the causal chains and offer detailed descriptions of the most influential critical situations that can establish the connection between the causes and the outcome (Blatter & Haverland, 2012, p. 30).

Additionally, the comprehensive storyline will be based on descriptions of “the historical development of structural factors” (Blatter & Haverland, 2012, pp. 118-119), such as Germany’s social actors and their role on the gas market. But also, the impact of developments such as the national energy transition and the emergence of a new competitor on the economic interest groups. Both news coverage and academic contributions of energy experts and political scientists on the NS2 will help to identify this storyline.

4.4.2 Smoking-gun observations

The smoking-gun observations will be abstracted from “a sense net of observations that show the temporal and spatial proximity of causes and effects” (Blatter & Haverland, 2012, p. 111). According to Blatter and Haverland, a smoking gun observation should be connected to other observations, which, together can be inductively used to make valid causal claims (Blatter & Haverland, 2012, p. 115).

These smoking-gun observations can make causal inferences by exposing “its dense temporal and spatial connection to other empirical observations”, ultimately this will form the “empirical basis” for the test of the hypotheses and theory (Blatter & Haverland, 2012, p. 115). These

smoking gun observations will be derived from news articles, statements of relevant actors and parliamentary debates.

4.4.3 Confessions

Finally, the “confessions” of major actors will help to get insights into the motivations that influenced the outcome (Blatter & Haverland, 2012, p. 30). These confessions will be abstracted from primary sources such as parliamentary minutes, media interviews, news articles and policy documents, which can offer an insight in the perceptions and anticipations of major actors (Blatter & Haverland, 2012, p. 143).

4 Initiating conditions

Before analysing the role of German companies on the national and European gas market, and describing their potential influence on their state's energy policy, this thesis will briefly describe the development of German-Russian gas relations. By outlining these initiating conditions, the relationship between Germany and Russia and the importance of bilateral energy projects will be explored.

4.1 A brief overview of the German-Russian gas relationship

Historically, the guiding principle of German foreign policy towards Russia has been that of *Ostpolitik*. Introduced by the social-democratic chancellor Willy Brandt in 1969, this term refers to the *rapprochement* of Germany with the communist bloc (The Economist, 2016). The policy was intended to improve the relations with East Germany, the Warsaw Pact nations and the Soviet Union (The Economist, 2016).

As a consequence of *Ostpolitik*, a number of economic agreements were signed between West Germany and the Soviet Union in the early 1970s (Chang, 2014). One of these accords was the exchange of wide-diameter steel pipe from West Germany for the deliveries of oil and natural gas from the Soviet Union, which was considered to be the “biggest trade deal ever concluded between the communist and non-communist blocs” (Chang, 2014).

In 1970, Ruhrgas AG, which later became part of E.ON, signed a long-term agreement with Gazprom to supply several billion cubic metres of natural gas a year from Russia via onshore pipelines (Nord Stream, 2012, p. 14). As building pipelines between Europe and Siberia was costly, such long-term gas contracts were a logical consequence; producers “wanted to be sure of recouping their investments” (The Economist, 2014).

It was in 1973 that Russian gas first started to flow to Germany and, despite the Cold War, imports were rising steadily in the decades that followed (Buck, 2018). It was under this policy

of *rapprochement* that “gas-for-pipes” deals had become possible between West Germany and the Soviet Union, which, at the same time, antagonised the United States (Buck, 2018).

According to the German historian Frank Bösch, these deals were part of long-term energy diplomacy, which “became a carefully built link which guaranteed cooperation even during political crises” (Noack, 2018). The building of natural gas pipelines “implied mutual trust within a stable relationship, which led to further collaborations” (Noack, 2018).

Some critics argue that the introduction of *Ostpolitik* led to (West) Germany’s natural gas reliance on Russia (Chang, 2014). On the other hand, Germany’s Social Democrats “credit *Ostpolitik* for the eventual fall of the Berlin Wall” (The Economist, 2016). Also after the reunification of Germany and the dissolution of the Soviet Union, confidence in *Ostpolitik* remained strong under German representatives. In the 1990s it was believed that it could serve as a tool to “knit Russia into a broader Europe” (Chang, 2014). Another subsequent effect of this policy was that German companies strengthened their commercial ties with Russia (Chang, 2014).

According to a research paper by the German Institute for International and Security Affairs, the market and contract structures that were developed under *Ostpolitik* served both Germany and Russia (Bros, Mitrova, & Westphal, 2017, p. 15). Because this period laid the basis for long-term stable relations, as “close personal ties” between the gas companies developed and “contract obligations were fulfilled” (Bros, Mitrova, & Westphal, 2017, p. 15). According to the institute, both businesses and representative institutions were regarding Russia as a reliable gas supplier (Bros, Mitrova, & Westphal, 2017, p. 15).

In the late 1990s and early 2000s *Ostpolitik* was intensified by chancellor Gerhard Schröder (Chang, 2014). During his term of office, the former leader of the centre-left Social Democrats (SPD) pushed for stronger ties with the Kremlin (Chang, 2014). When Schröder left the public stage, and was replaced by chancellor Angela Merkel, he accepted the position as chairman of the supervisory committee of the North European Gas Pipeline Company (NEGPC) (Szabo, 2015, pp. 75-76).

Its majority shareholder is Gazprom (with 51%), but also Germany’s E.ON and BASF each own 24.5 % of the shares in NEGPC (Szabo, 2015, p. 76). This venture received the overall

responsibility for building the first Nord Stream Pipeline (Szabo, 2015, p. 76). Currently, Schröder also sits on the board of Nord Stream’s second pipeline (The Economist, 2019).

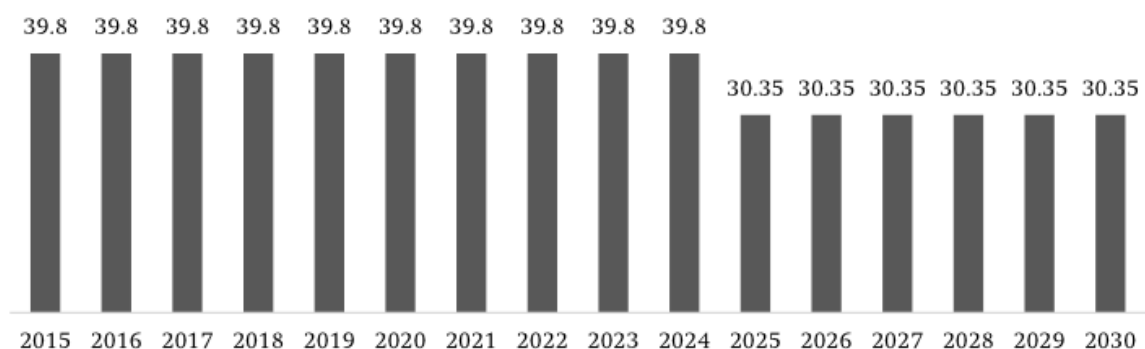
The collaboration between the German and Russian energy sector continued to exist in the following years, even during times of increased political tensions. In early 2006, a year after the Ukrainian Orange Revolution erupted, there were heated discussions over pricing and transit terms, which “unravelling into a bald political conflict” between Russia and Ukraine (Kramer, 2006).

The conflict led Russia to cut off the gas supplies to its neighbour (Kramer, 2006). The gas dispute had become a matter of serious concern for many EU countries and especially for the EU’s newly joined eastern Member States (Skalamara, 2016, p. 30).

The European gas industry’s major companies on the other hand, responded “calm and even optimistic” (Skalamara, 2016, p. 30). This notion is highlighted by the fact that nearly all European gas importers, including Germany’s E.ON Ruhrgas and Wingas, “renewed their long-term contracts with Gazprom between 2004 and 2006 for the subsequent 30 years” (Skalamara, 2016, p. 30).

These gas contracts are generally considered to be very stable. They are offering the importing companies fixed prices and a high level of certainty with respect to the delivered gas volumes (as figure 4. indicates).

FIGURE 4. The minimal contractual quantities of Russian gas imports to Germany, bcm



(Bros, Mitrova, & Westphal, 2017)

German businesses in the manufacturing and energy sector have been influential drivers of the German policy towards Russia. Stephen F. Szabo, a Senior Fellow at the American Institute for Contemporary German Studies, argues in his book ‘Germany, Russia and the Rise of Geoeconomics’ that it is “in the private sector where Germany encounters and engages with the world and is the reason why Germany has become the most successful economy in the West. This is especially the case regarding Germany’s relationship with Russia” (F.Szabo, 2015, p. 47).

4.2 The national energy economy

Arguably, the collaborations between the German energy industry and Russia are partly made possible by the national energy economy’s structure. According to a senior associate at the German Institute for Politics and Security in Berlin, Kirsten Westphal, the German corporate governance system has traditionally been characterized by its “highly concentrated control and ownership structure” (Westphal, 2018, p. 170).

The imported and domestically produced gas is subject to a market-based energy policy (Westphal, 2018, p. 170). The German Law on Energy Industry of 2005, states that the “security of supply is primarily the responsibility of private companies” (Westphal, 2018, p. 170). However, the national government does have a role in regulation and monitoring in order to safeguard the energy processes and to prevent emergencies (Westphal, 2018, p. 170). Furthermore, the state plays an important role in guaranteeing “a stable regulatory framework to let market forces work” (Westphal, 2018, p. 170).

Scholars argue that the German gas market’s structure is quite unique in the European Union (Bros, Mitrova, & Westphal, 2017, p. 17). Traditionally, the market was characterized by its three-tier structure, that included six big producing and five importing companies at the first level (Bros, Mitrova, & Westphal, 2017, p. 17).

At the second level, there were several regional transmission companies, who then, after receiving its energy from the first level, transported gas to around 700 municipal distribution companies (Bros, Mitrova, & Westphal, 2017, p. 17). This contrasts with the energy business

in other EU Member States, where gas trade is often in the hands of a state-owned monopoly, or the responsibility of a single company (Bros, Mitrova, & Westphal, 2017, p. 17).

Another major difference between the European and the German gas market structure is that the latter was formed by several “private companies with cross-ownership and some municipal shareholders” (Bros, Mitrova, & Westphal, 2017, p. 17). The players that dominated the market were the importing companies, such as Ruhrgas. Furthermore, these companies were all “interconnected through ownership and gas sale contracts” (Bros, Mitrova, & Westphal, 2017, p. 17).

But also, utilities such as Wintershal, had benefited from regional monopolies and territorial demarcations in the grid-bound sectors of gas and power until the EU’s internal energy market reforms were adopted in the late 1990s and early 2000s (Westphal, 2018, p. 170). Such European reforms will be described in more detail in the final empirical chapter.

Due to nature of Germany’s energy economy, the state “frames its energy security in commercial rather than strategic terms” and it maintains a liberal market-based approach (Westphal, 2018, p. 170). Furthermore, Westphal argues that Germany’s energy mix and the structure of its import dependencies are an outcome of decisions at the corporate level. Thus, it is the private utilities and companies that have the “primary responsibility for energy security” in Germany (Westphal, 2018, p. 171).

The Assistant Professor of Russian Studies, Morena Skalamara, acknowledges this as well and states that national companies “remain the pivotal actors in defining energy policy preferences with external partners, such as Russia” (Skalamara, 2016, p. 47). The scholar argues that in key Member States, such as Germany, “energy security seems to be interpreted as maximizing their respective energy companies’ market-shares and corporate strategy” (Skalamara, 2016, p. 47).

5 The role of Germany's economic interest groups (*H1*)

Now that the initiating conditions of the case study have been described in more detail, the first hypothesis of the case study will be tested. As the interests and demands of economic actors are treated by liberalists to be “analytically prior to politics” (Moravcsik, 1997, p. 517), this chapter will first analyse the role BASF and E.ON, the two main economic interest groups of this case study.

5.1 BASF/Wintershall

The world's leading chemical concern is BASF, which is based in Ludwigshafen, Germany, and founded in 1865 (BN Americas). In 2017, BASF employed 115,490 people worldwide, of which 54,020 are working in Germany (BASF). The company's gas production is delegated to its beneficiary, Wintershall Holding AG, a German crude oil and natural gas producer that is fully owned by BASF (Clean Energy Wire).

Wintershall is considered to be an important player on the energy market, as it is currently Germany's largest producer of crude oil and natural gas (Nord Stream). Furthermore, it trades and sells natural gas on the European market together with its subsidiaries W&G and GASCADE Gastransport (Nord Stream).

For years, Wintershall has been a close partner of Russia's state-controlled Gazprom, the holder of the world's largest natural gas reserves (Gazprom, 2019). Together, Gazprom and Wintershall started the construction of a gas network, which was intended to compete with the network of Ruhrgas, and was aimed at reducing Ruhrgas' monopoly on the gas market (Bros, Mitrova, & Westphal, 2017, p. 17).

Furthermore, the gas network was created to provide large German corporations with cheaper gas. Subsequently, Gazprom was offered a direct access to the German market, after the finalization of the MIDAL, RHG, STEGAL, JAGAL and WEDAL pipelines (Bros, Mitrova, & Westphal, 2017, p. 18).

Thus, the partnership of the two companies is extensive and their business activities are intertwined. In 2015, Wintershall and Gazprom concluded a major asset swap that ultimately gave the Russian partner a 50% share in the German gas trading companies Wingas, WIEH and WIEE (Wintershall, 2015). This enabled Gazprom to have access to every fifth gas consumer in Germany (Freytag, 2017) (Wintershall, 2015).

Furthermore, as part of the asset swap, Gazprom received shares in the natural gas storage facilities in the German municipalities of Rehden and Jemgum (Wintershall, 2015). In return, Wintershall received mining rights in Russia's Siberian gas fields, which could potentially offer the German company 274 billion cubic meters of natural gas (Freytag, 2017) (Wintershall, 2015). As a result, Wintershall retrieved more than half of its gas supply from Russian sources by 2017 (Freytag, 2017).

5.2 E.ON

The second German sponsor of the NS2 project is E.ON, a company that has its headquarter in Essen and has around 43.000 employees worldwide (E.ON, 2017). In Germany, the company employs 16.138 people (E.ON).

In 2016, the company provided energy to 5.3 million German households, of a total of 22.3 million power and gas customers worldwide (Amelang & Bieler, 2018). This makes it the country's second largest power provider (Amelang & Bieler, 2018). Since February 2003, E.ON delegated its gas operations to E.ON Ruhrgas AG. These operations include the production, distribution, transmission and storage of natural gas (Gazprom, 2009).

Like BASF, the company has also concluded several deals with Gazprom in the area of gas production in the past. In October 2008, for example, E.ON concluded a business agreement with its Russian partner. This deal enabled the German company to explore 25 % of one of the world's greatest natural gas fields (DPA News Agency, 2008) in the Russian Yuzhno-Russkoye area (Gazprom, 2009). These gas fields hold reserves of over 600 bcm, which could partly be transported by the NS2 once the pipeline is completed (DPA News Agency, 2008).

In 2010, E.ON was split into separate trade and transportation companies. Activities such as gas exploration, production and trade were delegated to its beneficiary Unipiper (Gazprom Export). Currently, E.ON owns a 3.5 per cent stake in Gazprom, making it the company's largest foreign shareholder (Gazprom, 2009).

5.3 The business rationale for the NS2 deal

In July 2015, the Deputy Chairman of the Gazprom Management Committee, Alexander Medvedev, and the Member of the BASF Board of Executive Directors, Hans-Ulrich Engel, signed a memorandum of intent in Berlin (Gazprom, 2015). With the memorandum, both BASF and Gazprom officially agreed to collaborate on the Nord Stream 2 pipeline construction (Gazprom, 2015). BASF representative Engel stated that:

“For over twenty years now, Gazprom and BASF have jointly constructed gas pipelines meant for reliable supply of Russian gas to Europe. [...] We are happy to know that Gazprom and other European partners declared their determination to take part in this important infrastructure project.” (Gazprom, 2015)

Not long after the memorandum, an impactful business arrangement between Gazprom and the European companies was concluded. On 4 September 2015, Gazprom, BASF, UNIPER, ENGIE, OMV, and Shell officially decided to construct the Nord Stream 2 gas pipeline (Wintershall, 2015). It was agreed that the Russian gas major would own a 50 percent share in the project, followed by the remaining European partners that would each own a 10 percent share (FIGURE 5.).

FIGURE 5. Timeline and corporate structure of NS2**THE TIMINGS AND SHAREHOLDERS**

Details	Nord Stream 1	Nord Stream 2
Shareholder agreement signed	December 2005	September 2015
Work on laying first line starts	2010	2018 (tbc)
First line operational	2011	end-2019 (tbc)
Final shareholders	Gazprom (51%), BASF/Wintershall, E.ON (each 15.5%), Gasunie (joined 2008), GDF Suez (now Engie - joined 2010) - each 9%	Gazprom (50%), BASF, Uniper, Shell, Engie, OMV (each 10%)*
Final shareholders' home countries	Russia, Germany, The Netherlands, France	Russia, Germany, The Netherlands/UK, France, Austria*

*Prior to August 12 announcement

Source: Nord Stream, Platts

(S&P Global Platts, 2016)

The fact that Gazprom would become responsible for half of the project's financing, was primarily based on its wish to "circumvent the EU rules by not taking a majority share in the consortium" (Jong, 2016). The impact of EU legislation will be described in more detail in the final part of the empirical observations.

The Member of the Board of E.ON, Klaus Schaefer, responded enthusiastically to the deal:

"With this project we plan to continue and expand our successful partnership with Gazprom. The experience gained in Nord Stream has demonstrated that transportation of gas through the Baltic Sea is a reliable solution for the EU energy needs from the economic, technical and environmental points of view." (Gazprom, 2015)

As Schaefer's confession demonstrates, one of the main motivations for the collaboration on the NS2 is that the German energy firms hoped to expand their commercial relations with the Russian multinational (Lang & Westphal, 2017, p. 9). This is also influenced by the fact that their supply contracts with Gazprom will extend for decades to come (Lang & Westphal, 2017, p. 9) (Figure 4.).

Moreover, by doubling the direct pipeline capacity between Russia and Germany, to 110 bn cubic metres, the German gas distributors are becoming less dependent on intermediaries in

eastern Europe, which offers these companies the chance to resell cheaper gas themselves (The Economist, 2018).

The other factors that shaped the economic interest groups' preferences, are related to market conditions. Because at the time of the shareholder agreement, there was a decline in the gas exploration on European soil (which will be further described in the next empirical chapter). This was accompanied by depressed gas prices and an increasingly difficult business environment in Russia (Lang & Westphal, 2017, p. 9).

The latter resulted in another important aspect of this deal, which is that both BASF and E.ON's Unipiper have a preference for "safeguarding their investments in Russia" (Lang & Westphal, 2017, p. 9). Additionally, with the NS2, the German energy giants have an interest in strengthening their market position as suppliers, gas traders and producers (Lang & Westphal, 2017, p. 9).

A political response followed soon after the shareholder agreement was signed. The *Bündis 90/Die Grünen* (The Greens), an opposition party in Germany's Parliament, raised questions with respect to the implications of the NS2 for the energy markets and the involvement of the German sponsors (Deutscher Bundestag , 2015). Their concerns were addressed to the *Bundesregierung* (national government) formed by the Christian Democrats (CDU), the Christian Social Union (CSU), and the SPD.

The government responded to the Green Party's questions by claiming that the shareholder agreement was an "entrepreneurial project" and that the construction of new infrastructures was "to be welcomed" (Deutscher Bundestag , 2015, p. 4). Moreover, the following paraphrase of the debate, confirm the notions of authors scholars such as Westphal and Skalamara, as it demonstrates that energy companies have a significant level of autonomy with respect to their business activities:

(16) *"Ist der Bundesregierung bekannt, wohin das in Zukunft von Wintershall im Urengoj – Gasfeld explorierte Erdgas geliefert werden soll? Welche Pipelines sollen dabei in Zukunft genutzt werden (bitte ausführen, auch im Hinblick auf noch in Planung oder Bau befindliche Pipelines, so diese genutzt werden sollen)?"* (Deutscher Bundestag , 2015, p. 5). [Does the government know where Wintershall's gas, extracted from the Urengoj gasfield, will be

transported to in the future? Which pipelines (either finished, or currently under construction) will be used for this purpose?]

To which the government replied:

“Es ist die Entscheidung der Unternehmen, wie das geförderte Gas vermarktet und über welche Pipelines es transportiert werden soll.” (Deutscher Bundestag , 2015, p. 5) [It is up to the companies to decide how the financed gas will be marketed, and through which pipelines it will be transported to.]

The delivery of the first pipes for the NS2 was received in Germany in November 2016 (Offshore Technology). Unipiper’s adjusted earnings rose by a considerable 24% to 2.1bn euros over that same year, which was largely due to the renegotiation of gas-supply contracts with Gazprom and the shareholders agreement of 2015 (The Economist Intelligence Unit, 2017).

After the deal, Siemens, a major German manufacturer of electronics and electric tools, also entered into negotiations with Gazprom and discussed the procurement of technology and equipment that would be destined for the new pipeline (Gazprom, 2015).

In 2017, Nord Stream 2 AG and the European energy companies signed a financing agreement. Along with its European partners, both E.ON’s Unipiper and BASF’s subsidiary Wintershall agreed to provide the long-term financing for 50% of the total cost of the project. Therefore, each company will fund €50 million euros in the project. Gazprom remained the sole shareholder of the project company (Nord Stream 2, 2017).

5.4 Results and test of hypothesis 1

In the former paragraphs the initiating conditions of the case study were outlined. Furthermore, it focused on the influential role of Germany’s leading gas companies in shaping the national energy policy. It demonstrated these actors’ commercial involvement with Russia’s energy giant Gazprom, and their desire to collaborate on the NS2 pipeline.

According to the primary liberalist assumption, economic actors can have differentiated interests that are formed independently of politics (Moravcsik, 1997, p. 517). As the paragraph on initiating conditions previously demonstrated, this assumption is confirmed by the fact that despite the increased tensions between Russia and the West in 2006, Germany's energy companies continued their business activities with Gazprom and signed long-term gas contracts.

The NS2 shareholder agreement can be regarded as another example that domestic economic actors independently shape their differentiated preferences, considering that the NS2 deal was signed a little over a year after the outbreak of the Ukrainian-Russian conflict. Despite the EU's economic sanctions against Russia that followed these events (Lipman, 2014), the gas industry continued their close cooperation with Gazprom.

The smoking gun evidence that demonstrates the fundamental role of economic interest groups in Germany's energy politics, is the response of the *Bundesregierung* to the questions raised in the *Bundestag*. The government's answers to the questions of the parliamentary opposition demonstrate that the coalition parties viewed the NS2 construction as purely a business decision and that they did not deem it necessary to interfere.

Furthermore, the government's response during the parliamentary debate indicates that national energy companies such as BASF's Wintershall, have a significant level of autonomy with respect to their gas supply and trade objectives. This strengthens the validity of the liberalist assumption that the fundamental actors in world politics, and in this case in international energy affairs, are individuals and private groups (Moravcsik, 1997, p. 516)

Likewise, the evidence extracted from the *Bundestag* debate corresponds with the observations of scholars such as Kirsten Westphal and Morena Skalamara, who argue that energy companies have a decisive role in the state's energy policy.

Additionally, the confessions by the BASF and E.ON representatives after the shareholders agreement, and the considerable investments that their companies have done in the NS2 pipeline, demonstrate that Germany's energy sector is strongly in favour of the NS2 project.

The long-term contracts that they concluded with Gazprom on gas deliveries, the companies' shared ownership of Russian gas fields, and their expected 950-million-euro investment, indicate that the completion of the NS2 is of paramount importance for these importing companies. Therefore, one can argue that these events resulted in a considerable "material stake" (Moravcsik, 1997, p. 530) with respect to their investment in the pipeline.

In conclusion, the empirical observations are in line with liberals' core assumption with respect to the fundamental role of economic interest groups. Furthermore, it has been demonstrated that both BASF and E.ON have a clear interest in the pipeline. Together, these results confirm *H1*.

As previously indicated, the first core liberal argument related to this chapter was a necessary condition in order to move on to the action-formation mechanism of the CPT analysis. This will be at the heart of the next chapter's analysis.

6. The pressure of economic interest groups for the NS2 (*H2*)

The confessions of the previous empirical paragraphs have shown that the CEO's of both BASF and E.ON expressed their support for the NS2 project. Part of their motivation is that they believe that the NS2 will help to meet the EU's energy needs and that it will secure its gas supply (Gazprom, 2015).

In light of this, the following paragraphs will outline the energy demand before, during, and after the NS2's shareholder agreement. Moreover, important events such as the U.S.' fracking revolution and Germany's energy transition will be described, along with the related implications for the economic interest groups and their position on the NS2.

As the theoretical framework outlined, commercial liberalism emphasizes that the individual behaviour of states is based on the patterns of market incentives that face domestic and transnational actors (Moravcsik, 1997, p. 528). Moreover, this variant of liberalism claims that once changes are introduced to the structure of domestic and global economies, costs and benefits of transnational economic exchange are altered (Moravcsik, 1997, p. 528).

Consequently, it is expected that the introduction of U.S. gas exporters on the European market, and the German energy transition helped strengthen the interests of BASF and E.ON. in the NS2. Based on this premise, it is anticipated that these developments led these companies to pressure their national government to support the NS2 project. But before analysing these events, it is important to reflect on the importance of gas for Germany.

6.1 National gas demand and supply

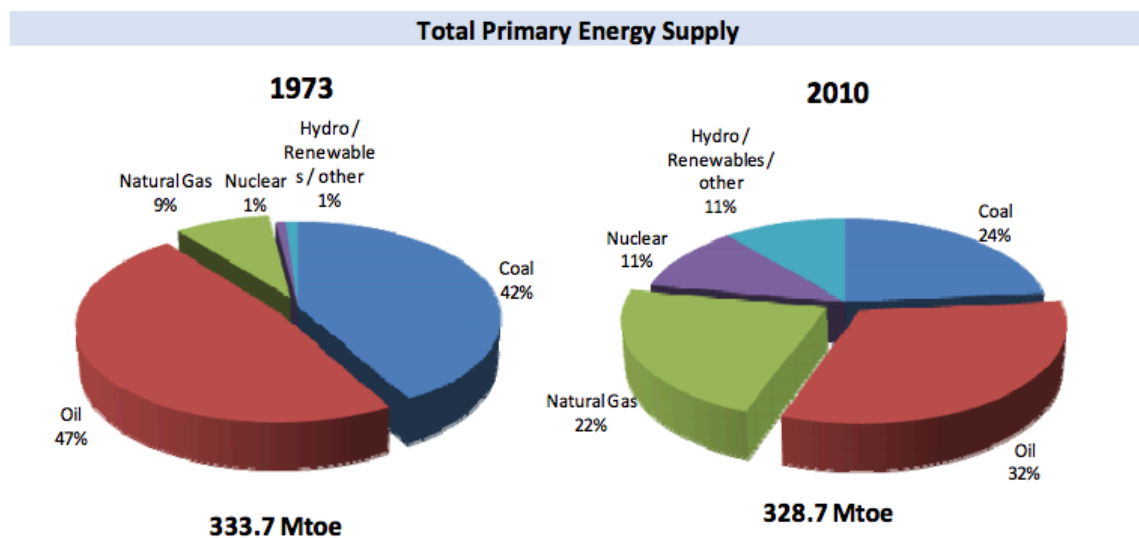
Traditionally, the imports of gas have been of vital importance for Germany. The country is considered to be the world's largest importer of natural gas, as foreign production covers 92 percent of the national consumption (Amelang & Wettengel, 2018). Most of the gas in Germany is used for private households and small businesses, then followed by industrial

consumption, which needs the fuel for chemical processes and power supplies (Amelang & Wettengel, 2018).

The German Federal Ministry for Economic Affairs and Energy considers gas to be a “flexible and versatile energy source for generating electricity, storing energy and [...] as a storage facility for renewable energy as well as for mobility” (Federal Ministry for Economic Affairs and Energy). Furthermore, the Ministry argues that in comparison with other fossil fuels natural gas is more climate-friendly, as it produces less levels of carbon dioxide (Federal Ministry for Economic Affairs and Energy).

However, the German consumption of natural gas declined with 10% since 2006 (IEA, 2012, p. 18). According to a government commissioned analysis, presented in an IEA 2012 report, “total consumption of natural gas in Germany is expected to continue to decline over the long term- although, conversely, the share of natural gas in Germany’s TPES [Total Primary Energy Supply] is expected to rise in the medium term (to 24% by 2025)” (IEA, 2012, p. 18). At the time the report was published, the share of natural gas in the TPES of Germany was around 22% (Figure 6.) (IEA, 2012, p. 3).

FIGURE 6. Germany’s Total Primary Energy Supply 1973/2010



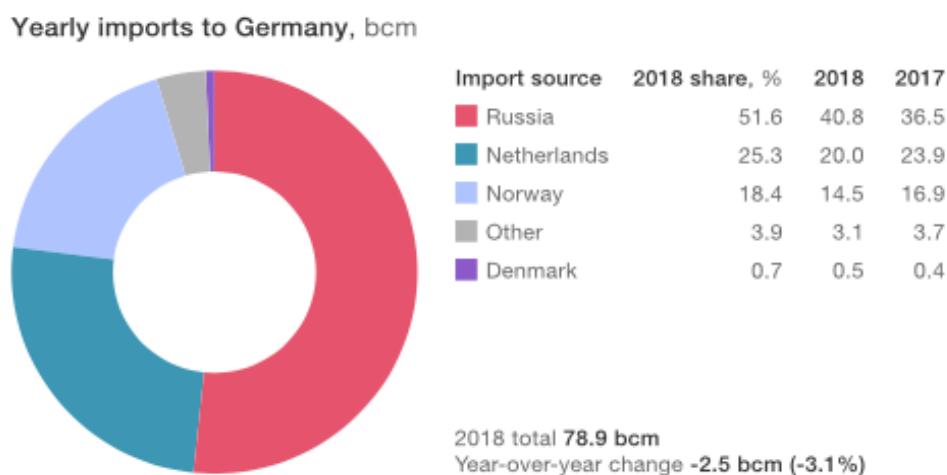
(IEA, 2012, p. 4).

But meeting this demand in the medium term seems to form a challenge, as Germany’s gas production has been falling since 2004 (Amelang & Wettengel, 2018). According to the International Energy Agency (IEA), “production in 2010 was 12.7 bcm, down from 14.5 bcm in 2009 and 18.6 bcm in 2006” (IEA, 2012, p. 20). According to the IEA’s report of 2012, German administrators estimated that the national domestic production would annually decline by an average of 5% (Annex 2) (IEA, 2012, p. 20).

Besides these domestic energy developments, also future disruptions in the gas exports from key energy partners, such as The Netherlands, will have an impact on Germany’s gas imports. In 2012, Gasunie, a Dutch company that exports large volumes of gas to Germany, “announced that it would be discontinuing altogether supplies to its eastern neighbour by 2030” (Morris, 2017).

This announcement came at a time when Germany still received 23 percent of its gas imports from the Netherlands (Morris, 2017). These volumes have risen to 25.3 percent in 2018 (Figure 7.). By 2022, the Netherlands will stop its exploration entirely in the gas-rich province of Groningen, a decision that was made after a connection between gas explorations and earthquakes was established (Boffey, 2018).

FIGURE 7. Germany’s gas imports from partner states



(McKinsey & Company, 2018)

Finally, importing gas from countries such as Norway and the United Kingdom also becomes increasingly difficult for Germany. Because the gas extraction from the North Sea is in decline and production in Norway will “fall sharply from 2023” (Lang & Westphal, 2017).

Consequently, it has been argued that “Nord Stream’s backers are making a simple bet with potentially huge rewards” (Buck, 2018). It appears that they estimate that if overall gas demand will be stable, or even declines slightly in the next twenty years, “Europe will have to find an additional 120 billion cubic metres a year of natural gas by 2035” (Buck, 2018).

In the next subparagraph, the options of Germany to substitute these dwindling supplies from their key partner states will be further explored.

6.1.1 Russian gas imports vs. American LNG

For years, the United States have been the world’s largest producer of natural gas (The Economist, 2018). The “fracking revolution”, as the U.S’ gas exploration is often called, ensured very low energy prices for North America (Westphal, 2018, p. 179). This was considered to be moving “the issue of economic competitiveness” to the forefront (Westphal, 2018, p. 179). In Germany, the “price gap across the Atlantic became an issue of concern, especially with respect to the German industry” (Westphal, 2018, p. 179).

The United States gas exports, however, only kicked off in early 2016 with the shipping of the first volumes of liquefied natural gas technology (LNG) (Johnson, 2016). According to this relatively new energy method, gas is extracted, frozen, shipped and regasified (The Economist, 2018). Ever since the introduction of LNG technology, the U.S. is keen on selling the gas on the European market (The Economist, 2018).

But turning to American gas could pose a problem for European buyers, as LNG is currently more expensive than pipelined gas from Russia (The Economist, 2018). It is even considered that the flood of LNG gas from the U.S. has a paradoxical result, as it increases rather than decreases Europe’s reliance on Russia (Johnson, 2016). Because the prospect of U.S. gas

exports has triggered Gazprom to cut its prices to many European customers, which gave “Europeans access to cheaper energy than they’ve had in years” (Johnson, 2016).

Consequently, if the NS2 would be completed, it offers German companies a considerable advantage as a reseller over America’s exporters of LNG (The Economist, 2018). This is the reason why “industrial giants such as BASF consider it essential to secure Russian gas to compete with their American rivals” (The Economist, 2018).

Additionally, Germany’s pipeline infrastructure currently still has a major advantage over LNG imports. Because all the gas that is currently being imported to the country is exclusively transported through pipelines (Amelang & Wettengel, 2019). Furthermore, there are no regasification terminals for LNG in Germany yet, and imports will have to enter through the terminals of neighbouring countries such as Belgium and the Netherlands (Waldholz, Wehrmann, & Wettengel, 2019). Therefore, for a long time it even “appeared that there was no economic case for LNG imports to Germany” (Waldholz, Wehrmann, & Wettengel, 2019).

6.2 The closure of nuclear power plants

The preference of German businesses to turn to gas imports from Russia is also the result of domestic events. In 2011, Germany was the biggest industrial power that announced plans to phase out nuclear energy, a decision that followed the nuclear disaster in Fukushima, Japan (Evans, 2011).

A few months after the incident, Berlin had ordered the shutdown of eight of the state’s seventeen nuclear reactors, and decided that the remaining sites should be closed down by 2022 (Staudenmaier, 2017). This was an impactful decision, as the share of nuclear power in Germany’s TPES amounted 11% in 2010 (Figure 6.). But the use of nuclear energy had already been widely protested in Germany in the early 1970s and had continued to be the subject of national debate for many years (Staudenmaier, 2017).

German industries generally favour electricity that is being made with renewable, nuclear and coal power, as the production of electricity in gas-fired power plants is expensive (Wettengel,

2018). This is probably one of the main reasons why natural gas only produced 13 percent of Germany's electricity in 2017, and that gas-fired plants are almost never running on full capacity (Wettengel, 2018).

Therefore, the phasing out of nuclear power had negative financial consequences for Germany's energy producing industries. Germany's energy giant E.ON reported a record loss of 3.2 billion euros in 2014, which, for a large part, was caused by the costs that accompanied the radical restructuring for accommodating the phasing out of nuclear power (McCathie, 2015). As a result, E.ON initiated lawsuits against the government in which they demanded millions of euros in compensation (Juve, 2014).

They were accompanied by RWE (Juve, 2014), one of Europe's leading electricity concerns, based in Essen, Germany. Unlike companies such as E.ON and BASF, RWE has previously been hesitant to engage too closely with Gazprom and was considered to be unfavourable to increase its dependence on the Russian energy giant (Szabo, 2015, p. 72). However, the government decision to close down nuclear power plants had a significant financial impact on the company (Szabo, 2015, p. 72).

In 2011, the company increasingly "grappled with Germany's exit from nuclear power as well as large debts" (Wiesmann, 2011). This led RWE to enter into exclusive talks with Gazprom, after which they agreed to collaborate on the construction and operation of gas-fired power plants in Germany, the UK and the Benelux countries (Wiesmann, 2011). After the agreement, the company's CEO Jürgen Grossmann stated that "Gazprom was the kind of strong partner his company needed" (Wiesmann, 2011).

Besides E. ON and RWE, also the German multinational BASF, the largest chemical producer in the world, has been unfavourable to the turn-away from nuclear power (Wintershall, 2018). Being asked about the necessity for NS2, one BASF executive claimed that the government decision to phase out nuclear power in Germany "was ill thought out" (Dempsey, 2018).

The executive continued by stating that "Merkel didn't have any viable renewables energy strategy in place to fill the gap once we gave up nuclear energy" (Dempsey, 2018). The executive emphasized that Germany would need additional energy for its "energy-intensive

industries”, and concluded that the country needs the Nord Stream pipeline because it needs cheap energy (Dempsey, 2018).

6.3 The Energiewende

The phasing out of nuclear energy by 2022 and the support for renewable energy sources is part of the government’s wish to achieve an ambitious energy transition (*Energiewende*) (The Economist, 2014). The ultimate goal of this transition is to cut the country’s carbon emissions by 70 percent from 1990 levels by 2040 (The Economist, 2014).

In order to achieve this, Berlin has announced plans to phase out coal-fired plants by 2038 (Graupner, 2019). These plans are carried out by the Federal Ministry for Economic Affairs and Energy, which has the responsibility for all issues that are related to the *Energiewende* (Kuittinen & Velte, 2018, p. 16). These *Energiewende*’s ambitions mean that more energy will be derived from renewable sources on the long term, but on the short term, more energy from dirty fossil fuels, such as coal and natural gas, is needed (The Economist, 2014).

The Federal Ministry for Economic Affairs and Energy is coordinating the *Energiewende* dialogue with relevant stakeholders, such as the German utilities. Through multiple energy transition platforms, the Ministry continues to exchange information with representatives from businesses, industry and society (Kuittinen & Velte, 2018, p. 11).

But support from these key stakeholders is not a given. The major energy companies in Germany have often been very critical of their national government, arguing that the *Energiewende* is undermining their basic business models (Egenter, Russel, & Wettengel, 2017). For example, the decision to make more use of coal on the short-term, antagonized Mario Mehren, the CEO of Wintershall:

"The energy transition costs a great deal—but it doesn't achieve much because Germany is replacing nuclear power with coal [...] At the moment Germany is producing 40% of its electricity from coal. The share of natural gas in the power mix is just 10%. In terms of climate policy, that is ludicrous." (Forbes, 2018)

Another organization that has been anxiously viewing Germany's turn to coal and the economic sanctions on Russia is the *Ost-Ausschuss der Deutschen Wirtschaft* (OA), a powerful lobby group founded in 1952 (Szabo, 2015, p. 50). The OA provides support to 200 associated companies that are investing in Russia and mediates between business leaders and policymakers in Germany (Szabo, 2015, p. 50).

Ever since tensions between the EU and Russia intensified, following Ukraine's Maidan Revolution, the OA has been highly critical of the German sanctions directed at Russia. They argue that long-lasting damage has been done to the economic relations and mutual trust with the Kremlin (Siddi, 2016, p. 672). This is why, in 2016, the OA started advocating for the gradual lifting of Germany's economic sanctions (Siddi, 2016, p. 672).

In light of this, the chairman of the OA, Wolfgang Buchele, visited Russian president Putin in 2018 and expressed his support for the NS2 pipeline:

“Our trade is on the rise, but prospects and forecasts for the coming months, as I mentioned, are marred by additional sanctions. We hope we can find a way to deal with this. [...] We also hope, despite the problems, that the Nord Stream 2 project, currently under construction, will be seen to completion within the deadlines. Nord Stream 2 is important because Germany is about to abandon the use of nuclear energy and will no longer use electricity generated from brown coal.” (Buchele, 2018)

The criticism on Germany's *Energiewende* is voiced by one member of the OA in particular, the Federation of German Industry (BDI). In a 2018 BDI report, the organization is critical of the *Energiewende* and claims that the “high electricity costs”, and a “lack of vision on transport are worrying German industry” (Oroschakoff, 2018).

Therefore, in 2018, the German gas industry launched an initiative that proposes a different solution to the consequences of the *Energiewende*. Their *Zukunft Erdgas* (Future Natural Gas) campaign positions gas against the more CO₂-intensive oil and coal (Wettengel, 2018). The lobby claims that the protection of the climate is an urgent matter and its call for the increased use of natural gas is often spread in front of the *Bundestag* in Berlin (Wettengel, 2018).

According to Harald Hecking, managing director of the consultancy organisation ewi Energy Research & Scenarios, “gas will be a key element for Germany to reach its climate targets by 2030, because it is the most cost-efficient way to save CO₂ across all sectors” (Wettengel, 2018).

Moreover, Hecking argues that Germany needs to continue its gas use, because of the pre-existing and highly developed infrastructure from production and import to end use (Wettengel, 2018). According to Hecking, the gas transport is a tried and well-functioning system that consists of 530.000 kilometres of pipelines, that can supply multiple cities, big industries and power plants with a high level of security (Wettengel, 2018).

Hecking's consultancy also conducted a research study on Nord Stream 2 and its effect on European wholesale power prices (EWI, 2018). The study concluded that the NS2 would have a positive effect on energy prices in Germany (EWI, 2018), and was commissioned by Nord Stream 2 AG (EWI, 2018). In the following paragraph, similar lobbying activities of the economic interest groups will be explored.

6.4 The lobbying power of the gas industry

It is difficult to determine the exact magnitude of the lobbying power of the German energy and gas industry, as there are no official lobbyist registries in the country (Rettman, 2016). Therefore, the observations in this paragraph are based on news articles that covered meetings between high-ranking German officials and the energy industry, but also on interviews that have been conducted by academic scholars.

The latter has been done in a 2011 research study. According to Emma C. Verhoeff, a Dutch diplomat in Berlin, and political scientist Arne Niemann, the German energy companies' lobby offers them direct influence on the federal government (Verhoeff & Niemann , 2011, p. 1277). Their interviews with diplomats and business representatives, indicated that “around every Bundestag representative there are ten lobbyists” (Verhoeff & Niemann , 2011, p. 1277).

But also in Brussels the NS2 lobbyists are highly active. According to a relevant EU database, the company's annual budget for their EU lobby is €400-500 000, and annually pays an additional €200-400.000 to external lobbyists (UAWIRE, 2017).

Moreover, high-level meetings have been taken place between the industry and ministers. One month after the signing of the NS2 shareholder agreement, the former SPD leader Sigmar Gabriel received the CEO of Gazprom, Alexej Miller, in Berlin (Russische Botschaft, 2015). During the working meeting Gabriel, who served as the economy minister between 2013 and 2017 (DW, 2018), discussed the importance of the NS2 construction and emphasized the environmental and operational successes of Nord Stream's first pipeline (Russische Botschaft, 2015).

The study of news articles confirms that the lobbying power of Nord Stream is substantial. In an openhearted interview with the EU Observer, lobbyist Jens Mueller gave an insight in how his Nord Stream 2 consortium promotes the pipeline in Brussels and Berlin (Rettman, 2016). According to Mueller, the consortium receives support from several agencies in different countries where the NS2 could potentially make an impact (Rettman, 2016).

Furthermore, these lobbyists work alongside Russian embassies, which account for 138 accredited Russian diplomats in Brussels and 110 in Berlin (Rettman, 2016). Therefore, one can argue that there is considerable interaction between diplomats and industry representatives. As Mueller claimed: "Russian embassies are informed about the project development, as well as embassies from other shareholder or permitting countries" (Rettman, 2016).

As the initiating conditions of this empirical analysis already described, former German chancellor and SPD leader Gerhard Schröder is currently the Chairman of the Shareholders Committee of Nord Stream (Nord Stream). According to political analysts, Schröder is Nord Stream's "most prominent lobbyist", as he "still exerts immense influence over the Social Democrats" (Dempsey, 2016).

According to a senior associate at Carnegie Europe, Judy Dempsey, the former German chancellor has an important role in "ensuring that social democrats do not waver in their support" for the NS2 pipeline (Dempsey, 2016). This could have significant impact on

decision-making, as the coalition of Chancellor Merkel is dependent on the support from the Social Democrats (Assenova, 2018).

Although, Schröder has left the public stage for some time, the former-chancellor continues to present his views on German politics in national media. When coalitional talks in December 2017 seemed deadlocked, Schröder gave an interview to *Deutsche Welle*. In the interview Schröder stated that his former party needs to “drop the dramatics and get on with a grand coalition” with CDU and CSU (Shelton, 2017).

In the same interview, Schröder pleaded for the softening of Germany’s stance towards Russia and the relaxation of sanctions. Being asked what the government’s position should be, Schröder replied:

“Cooperation rather than confrontation. That is the sensible way to go. We need the equivalent of a new policy of détente” (Shelton, 2017).

It is important to emphasize that this interview was given only days after the news that the Social Democrats were re-entering the coalitional negotiations (Karnitschnig, 2017). For a long time after the national elections, it appeared that the conservatives would be heading towards a coalition with the Greens and liberals, two parties who had expressed their discontent with the NS2 project (Karnitschnig, 2017). Therefore, the fact that the SPD was entering the coalitional negotiations revived the hopes of the NS2 proponents that the to-be formed German government would not turn against the project (Karnitschnig, 2017).

But also before these events, the interests of the gas industry appeared to have been translated to the political level. The current Vice-President of the *Bundestag* and deputy leader of the Free Democrats, Wolfgang Kubicki (Deutscher Bundestag), has been accused of lobbying for the Nord Stream project (Oltermann, 2017). During the coalition talks between the Free Democrats, CDU and the Green Party in late 2017, an email was seen by the English newspaper ‘The Guardian’.

The email was favouring the NS2 project, and disputed the “claims of a more critical attitude” to the NS2 among the other coalition candidates (Oltermann, 2017). The email was signed off

in collaboration with the law firm Kubicki & Schöler, of which Wolfgang Kubicki is a founding partner (Oltermann, 2017). Furthermore, the email stated that NS2 would “make EU wholesale prices of gas 32% lower by 2020”, and that there was “no legal need for an agreement between the EU and Russia to give the project the go-ahead” (Oltermann, 2017).

But also in academic circles, the interests of the Nord Stream consortium appear to be represented. In July 2018, the prestigious university Kings College London was criticized by the German watchdog LobbyControl for giving a platform to a lobbyist, Friedbert Pflüger (Oltermann, 2018). Pflüger, who previously served under Merkel’s first cabinet as a deputy defence minister, works as a director of the University’s European Centre for Energy and Resource Security (EUCERS) (Clean Energy Wire).

Under Pflüger’s directorship, a strategy paper was published (Goldthau, 2016) indicating the university’s logo (Oltermann, 2018). The report’s results even appeared in publications of prestigious political journals, such as *Foreign Policy* (Johnson, 2016). According to LobbyControl, the strategy paper was sponsored by the five European sponsors of the NS2 (Oltermann, 2018). Besides publishing the strategy paper, Pflüger has hosted political debates in Brussels attended by Members of the European Parliament and the energy companies’ CEO’s (Beckman, 2017).

6.5. Results and test of hypothesis 2

The previous paragraphs have demonstrated the position of the economic interest groups towards the import of more volumes of Russian gas. This has been the result of several factors, for which commercial liberalism provided an explanation.

Firstly, their position towards the NS2 appears to be influenced by the availability of natural gas. For years, Germany is witnessing a decline in its domestic production of the fuel (which had already been relatively marginal). Moreover, imports from key trading partners such as the Netherlands and Norway are expected to dwindle. Together, these events can be considered to be problematic for a highly industrialized country. It appears that these circumstances motivated the NS2’s shareholders and sponsors to pursue the NS2 project (Buck, 2018).

The second reason is related to the competitive position of the German gas companies. For years, these economic interest groups had witnessed a competitive advantage of U.S. industries, as the latter was able to make use of cheap energy under its states' fracking revolution. Therefore, another motivation to construct the NS2 was caused by the wish of companies to enhance their competitive position *vis-à-vis* the U.S., and to secure cheap energy supply.

The prospect of the U.S. as a large gas exporter, with the introduction of its LNG technology, triggered Gazprom to reduce its gas prices for European consumers. This made the NS2 an even more attractive project for its sponsors and gas dependent industries.

Both developments correspond with the notions of commercial liberalism that claims that once changes are introduced to the structure of domestic and global economies, the costs and benefits of transnational economic exchange are altered (Moravcsik, 1997, p. 528). In this case, it was the benefit of importing relatively cheap Russian gas, in times of expected scarcity, that had a considerable impact on the position of the German economic interest groups towards the NS2.

Thirdly, also domestic changes to the energy market triggered the economic interest groups to press for increasing the imports of Russian gas. The impact of the state's nuclear phase out was substantial and resulted into record losses for companies such as E.ON. and RWE. This even pressured the latter to enter businesses negotiations with a company that it did not favour as a commercial partner before. It also triggered these companies to enter legal proceedings against the German government, in which they demanded financial compensation.

Observations have shown that the responsible ministry that guides the *Energiewende* is in a close dialogue with the national energy companies and affected industries. Criticism of these economic interest groups on the national government's decision surged, arguing that the nuclear shut down was "ill thought out" (Dempsey, 2018), as the confession of one BASF executive demonstrated. This underlines the liberal prediction that claims that policies, in this case the *Energiewende*, will be opposed by domestic groups if they result in financial losses (Milner, 1997, p. 62).

But besides the nuclear phase-out, also other aspects of the state's *Energiewende* have been criticized by the industries' executives. The confession of the CEO of Wintershall indicates

that his company vows for an increased share of natural gas in the electricity production at the expense of coal. In his statement, the CEO also condemns the government for moving towards more use of coal.

One can argue that these critical messages are intended to inform the government and the public about the consequences of the *Energiewende*. This fits the liberalist argument that governments might not be fully informed about the consequences of certain policies for the interest groups, triggering the latter to transmit “strategic information” to its political representatives (Milner, 1997, p. 60). One way to transmit this information, as liberalists suggest, is by lobbying the government (Milner, 1997, p. 60).

Regarding the latter, the empirical observations showed that the gas industry’s representation and lobby is considerable. The German industry is being represented by powerful lobby groups such as OA and BDI. Furthermore, the Nord Stream consortium deploys different tactics to influence policymakers in Berlin and Brussels. The industry’s *Zukunft Erdgas* campaign calls for an increase of natural gas, and NS2 lobbyists are working alongside Russian diplomats in Berlin and Brussels.

Moreover, high-level politicians such as Wolfgang Kubicki and academics such as Friedbert Pflüger have been linked to the Nord Stream lobby. These empirical observations underline the argument posed by Snyder, who claims that domestic actors will try to form coalitions in their attempt to capture state power (Snyder, 1991, p. 317).

However, the smoking gun evidence presented in the previous paragraphs is the role of the Chairman of the Shareholders Committee of Nord Stream, Gerhard Schröder. Having served as a chancellor and being a very prominent member of the SPD, one can argue that Schröder has been offered the position of CEO to represent the consortium’s interests in the landfall state and to make use of his vast political network.

The reason why this can be considered to be a smoking gun, is because it can be connected to another empirical observation (Blatter & Haverland, 2012, p. 115); namely, that the government coalition is strongly dependent on the SPD. Additionally, the interview with the *Deutsche Welle* demonstrates that Schröder continues to advise his fellow party members on

issues such as the formation of a new coalition and, more evidently, Germany's foreign policy towards Russia.

In conclusion, the empirical evidence indicates that Germany's economic interest groups have been pursuing their interests at the national level, by pressuring their government to adopt a favourable position on the NS2 (Putnam, 1988, p. 434). This notion is considered to be the theoretical micro-foundation that is related to the CPT's action-formation mechanism in the causal chain. Considering this chapters' empirical evidence, the second hypothesis can be confirmed.

7. The support of the German government for the NS2 (H3)

The previous empirical chapters have shown that companies such as E.ON and BASF are powerful domestic actors and that they have a strong interest in the NS2. It was also demonstrated that they deployed a variety of different tactics to influence the government in supporting the project, ranging from lobbying activities to conducting favourable research papers.

Therefore, where previously the main focus was on the economic interest groups and their potential influence with respect to energy policy, this chapter will analyse to what extent these actors' views are actually being represented by political actors (transformational mechanism).

7.1 The government's position on EU oversight

On 8 October 2012, the heads of government Angela Merkel, Vladimir Putin, Francois Hollande and Mark Rutte were addressing the board members and shareholders of Gazprom and Europe's major energy companies, who had gathered for a festive ceremony at the Portovaya Bay, Russia (Gazprom, 2012). The reason for the event was the presentation of the preliminary results of feasibility studies for the construction of Nord Stream 2, which concluded that the project would be "economically and technically feasible" (Gazprom, 2012).

Despite the fact that the NS2's construction in 2012 was still in an early stage, the leaders' video messages demonstrated that the national governments were already aware of the importance of the project for the companies involved. But unlike the first Nord Stream pipeline, the project planning of the second was quickly faced by the prospect of having to deal with the EU's reinforced energy policy (Riley, 2015).

In 2009 the European Union adopted a Gas Directive (2009/73/EC, 2009) and accompanying legislation that became known as the Third Energy Package (TEP) (Riley, 2015). In general, the TEP states that the supply of gas will have to be separated from the network over which it

is transported (Riley, 2015). In other words, the EU's TEP could potentially bar suppliers "from owning both pipelines and the gas that passes through them" (The Economist, 2015).

In order to guarantee competition, TEP determines that a new gas network will have to provide access to third-parties (Riley, 2015). Furthermore, under article 11 of the Gas Directive it has been agreed that "any non-EU entity seeking substantial participation in, or control over, a network will be subject to the same unbundling requirements as an EU-based entity" (Riley, 2015).

Moreover, the regulatory authorities of the Member States must confirm that foreign owners, such as Gazprom, comply with the requirements established by EU law, and do not risk the security of the EU's energy supply (Riley, 2015). In previous European court cases, it has been established that also an offshore pipeline must comply with EU law (Riley, 2015). This is caused by the fact that the pipeline will pass through the territorial seas and Exclusive Economic Zones of Denmark and Germany, but also through the EEZ's of Estonia, Latvia, Lithuania, Finland, Poland and Sweden (Riley, 2015).

On the 28th of October 2015, two months after the signing of the shareholder agreement, Germany's government officials attempted to reassure the main stakeholders that the regulation of the pipeline's construction and operation would remain under national competence. This was made clear by the minutes of a meeting between Russian president Putin and Sigmar Gabriel, the former German Minister for Economic Affairs and Energy. Discussing the project's planning, Gabriel explained that:

"What's most important as far as legal issues are concerned is that we strive to ensure that all this remains under the competence of the German authorities [...] if we can do this, then opportunities for external meddling will be limited. And we are in a good negotiating position on this matter [...] in order to limit political meddling in these issues – [...] we need to settle the issue of Ukraine's role as a transit nation after 2019" (Kremlin, 2015).

According to political analysts, these efforts were not only about maintaining good relations with the Russian state or its energy sector, the meeting was also set during times of the SPD's "worst crisis in post-war history" (Delcker, 2016). It has been stated that Gabriel was under

increased pressure to win back SPD voters, who were often members from the energy sector's powerful domestic labour unions (Delcker, 2016).

7.2 EU objections against the NS2

Two months after the meeting between Gabriel and Putin, opposition from the European Council and its President Donald Tusk surged. During an EU summit in mid-December, the Council President backed the Visegrad countries and their concerns with respect to the pipeline under construction (Denková & Gotev, 2015). Tusk claimed that:

“Together, we perceive the Nord Stream 2 project as controversial. We think it goes against the strategic interests of many countries in the EU and it economically harms Ukraine. We have [...] a common position on this and we would like to see the European Commission to assess whether the project complies with European rules” (Denková & Gotev, 2015).

Tusk added that this problem would have to be solved “as Europe” and that it should not be solved “in bilateral relations with the suppliers” (Denková & Gotev, 2015).

At the same summit, the latter was disputed by chancellor Angela Merkel, stating that: “I made clear, along with others, that this is a commercial project; there are private investors” (RT, 2015). It has also been reported that during one incident at the summit, Merkel told the Italian prime minister Matteo Renzi that the NS2 “was none of his business” (Rettman, 2016).

In 2016, however, Germany's neighbouring state did make it its business, as a Polish anti-monopoly watchdog ruled against the financial structure of the NS2 (Sharples, 2016). Although, not crossing Polish territory, the regulator had a say on the construction of the NS2 because its European sponsors have assets in Poland (Jong, 2016).

According to the watchdog UOKIK (Urząd Ochrony Konkurencji i Konsumentów), the Nord Stream's shareholder and European sponsors would have to “withdraw their application for permission to formally form the joint venture” (Sharples, 2016).

After investigating the NS2's application, UOKIK ruled that the project would undermine competition and would strengthen Gazprom's dominant position on the European gas market (Reuters, 2018). The German competition office, *Bundeskartellamt*, reviewed a similar application of the Nord Stream consortium, which was approved in an earlier stage of the project's development (Jakóbk, 2016).

According to the first shareholder agreement, signed in 2015, the Western firms intended "to cover a third of the project's financing through equity and raise the remainder on international financial markets" (Jong, 2016). The consequence of the Polish decision, therefore, was that Gazprom would have to increase its stake in the project (Jong, 2016). However, despite agreeing on a new financing structure in April 2017 (BASF, 2017), the Polish objections were largely ignored and Gazprom remained Nord Stream AG's sole shareholder (BASF, 2017).

During the NS2's development, Poland has been fiercely resisting the pipeline. With the Polish Foreign Minister, Jacek Czaputowicz, stating that Germany's support for the Russian pipeline was "anti-European" and "harmful to the security of all of the European Union" (DW, 2018). Like Germany the country has traditionally been highly dependent on Russian gas, but in recent years it has concluded bilateral agreements with the U.S. to start importing large volumes of LNG (DW, 2018).

7.3 Increased pressure from the U.S.

The intensified energy relationship between Germany and Russia has also not gone unnoticed in Washington, and the NS2 project has become part of heated debate among the western alliance. In referring to the new pipeline, the U.S. President Donald Trump made hawkish remarks that Germany is a "captive" of Russia (The Guardian, 2019). Being asked about the NS2 deal, U.S. Vice-President Mike Pence, added that "we cannot strengthen the west by becoming dependent on the east" (The Guardian, 2019).

The dissatisfaction of the U.S. was already present for some time. In June 2017, the states' Senate passed a bipartisan bill that would allow Treasury to impose sanctions on foreign companies that have done an investment in Russian pipelines (The Economist, 2017).

According to sources, the move was strongly opposed by the economic interest groups and politicians (The Economist, 2017). The former minister Gabriel and Austria's chancellor Christian Kern declared in a joint statement: "Europe's energy supply is Europe's business, not that of the United States of America" (The Economist, 2017).

These messages were, however, ignored in Washington. In early 2019, the U.S. Ambassador to Berlin, Richard Grenell, sent a letter to German companies involved in the NS2's construction, warning them of the "significant risk of sanctions" if they would not pull out of the gas project (Janjevic, 2019).

According to sources of *Handellsblat*, a German newspaper, companies such as Unipiper and BASF interpreted the letter as an "*unverhohlene Drohung*" [blatant threat] (Flauger & Koch, 2019). The companies turned to the Ministry of Foreign Affairs and asked how they should react to the American message (Flauger & Koch, 2019). The Ministry, led by SPD's Heiko Maas, advised the companies not to respond (Flauger & Koch, 2019).

But indirectly, they did. The lobby group *Bundesverband der Deutschen Industrie* (BDI), represents companies such as E.ON (BDI, 2019, pp. 26-27). Its president, Dieter Kempf, has spoken out against the U.S. energy diplomacy and their threat of sanctions against German businesses. After claiming that LNG was simply too costly for German industries (DW, 2018), he stated:

"I have a big problem with a third country interfering in our energy policy [...] German industry needs Nord Stream 2 to enhance energy supply safety" (DW, 2018)

Also, Unipiper declared it would continue to support the project. After admitting to have "a very bad feeling" about the potential deployment of U.S. sanctions, CFO Christopher Delbrück declared that "Unipiper will remain one of the financing partners of this project and we are – as before- fully committed to the project" (Kublik & Wyborcza, 2018).

Generally, supporters of the NS2 believe that the U.S. threat of sanctions is merely an attempt to increase its own role on the European gas market (The Economist, 2018). More recently, in January 2019, Foreign Minister Maas, defended the energy industry's decision to construct the

NS2 (Reuters, 2019). According to Maas, matters of European energy policy would have to be decided in Europe and not in the U.S., adding that imposing unilateral sanctions against the project was “certainly not the way to go” (Reuters, 2019).

7.4 The Bundesregierung’s view on the NS2 (late 2016-2018)

In this paragraph, the debate regarding the NS2 in German politics between late 2016 and 2018 will be described. Additionally, it will be analysed to what extent the state has attempted to keep the NS2 project under its regulatory competence and its efforts in Brussels will be explained.

As the previous paragraphs have shown, the pipeline’s construction disturbed many of Germany’s traditional political allies. But also in the *Bundesregierung*’s parties, opposition against the project surged. In an article in the *Frankfurter Allgemeine Zeitung*, CDU politician Norbert Röttgen criticised the government’s rationale. He argued that claiming that this project was purely a matter of the private sector and would have nothing to do with politics was “*inakzeptabel und provokativ*” [unacceptable and provocative] (Wehner & Veser, 2016).

Contrastingly, in a visit to St. Petersburg, the SPD’s energy minister Gabriel, re-affirmed his support for the project, claiming that it was the right time to intensify the German-Russian economic cooperation (Karnitschnig, 2017). During his visit, Gabriel added: “We’ve always known Russia as an especially reliable gas supplier” (Karnitschnig, 2017).

For a long time, Chancellor Merkel continued to regard the pipeline as a pure business matter, arguing that EU institutions should not be meddling in a strict commercial enterprise (The Economist, 2017). However, this is contrasting with statements of close sources to Merkel who claimed that, privately, the chancellor “would be happy to see the project fold” (The Economist, 2016).

Perhaps the latter, together with the increased opposition within her own party, contributed to a significant change in Merkel’s position towards the project. On 10 April 2018, the German

chancellor met with her Ukrainian counterpart, Petro Poroshenko (Rettman, 2018). At the meeting, Merkel attempted to reassure Ukraine.

The chancellor declared that in the view of the German government, the NS2 project would not be possible without clarifying the future role of Ukraine as a transit state (Rettman, 2018). Adding that “this is not just an economic project [...] of course, political factors must also be taken into account” (Rettman, 2018). To some extent, these statements irritated the chief of the lobby group *Ost-Ausschuss*, Wolfgang Buechele, who declared that:

“The companies involved have already invested more than €4bn in trust in legal certainty. Changing the legal basis [of the pipeline] in retrospect for political reasons would damage confidence in legal certainty in the EU” (Rettman, 2018).

In a joint op-ed, published in ‘The National Interest’, the CEO’s of BASF/Wintershall and Unipiper were also inclined to respond to the change of the government’s tone and criticized the gas network of Ukraine’s main gas company Naftogaz:

“Germany and the EU are committed to ensuring Ukraine’s place as a European gas partner. But placing all the proverbial eggs in the basket of Ukrainian transit is beyond foolhardy—in addition to not having enough capacity to meet European needs, the Ukrainian system’s age and Naftogaz’s lack of investment in infrastructure provide the opposite of “energy security”” (Schäfer, Mehren, & Seele, 2018).

But despite adding a political connotation to the government’s narrative, the state’s support for the project did not waver. In fact, during a European Parliamentary meeting in November 2018, Merkel emphasized the need for the pipeline once more (Merkel, 2018). During the speech, the chancellor repeated her renewed position on the matter, stating: *“Ich setze mich sehr dafür ein, das die Ukraine als Transitland nicht ausscheidet”* [I will see to it that Ukraine will not lose its position as a transit country] (Merkel, 2018).

Speaking in a plenary meeting room filled with many NS2 opponents, the chancellor explained that Germany would not have access to nuclear energy in a few years’ time (Merkel, 2018). Adding that also coal would be phased out of the country’s energy mix (Merkel, 2018).

Therefore, the chancellor argued that increased volumes of gas for a transition period would be needed (Merkel, 2018).

These observations are disputed by sources that claim that the government's interpretation of the state's necessity for gas has been incorrect. Because in the same year as Merkel's Parliamentary speech, another research study was conducted by the DIW Berlin (the German Institute for Economic Research).

The DIW is an independent organization and considered to be one of the leading research institute in Germany (Inomics). According to the institute, the NS2 would not be necessary to secure the supply of natural gas for Germany and Europe (Neumann, Göke, Holz, Kemfert, & von Hirschhausen, 2018).

Furthermore, the DIW research concluded that: "the energy consumption forecasts on which the project is based, especially the EU Reference Scenario, significantly overestimate natural gas demand in Germany and Europe" (Neumann, Göke, Holz, Kemfert, & von Hirschhausen, 2018, p. 242).

The study also indicates that in the case the NS2 would not be constructed, that there would not be a supply gap of natural gas (Neumann, Göke, Holz, Kemfert, & von Hirschhausen, 2018, p. 242). Finally, it claims that according to multiply profitability studies "high losses up to the billions" could be the result of the project's completion (Neumann, Göke, Holz, Kemfert, & von Hirschhausen, 2018, p. 242).

7.5 The national debate (2019)

In early 2019 there was a debate on the subject in the German *Bundestag*, where the Green Party raised concerns and the *Bundesregierung* explained its continuous support for the gas project. During the debate, Peter Altmeier, the minister of energy and successor of Sigmar Gabriel, primarily emphasized that the NS2 was a private project (Altmeier, 2019, p. 9244).

The minister, who is a member of Merkel's CDU, continued by stating that it has been agreed a long time ago that German companies and not the state would have the "main responsibility" for gas supply (Altmeier, 2019, p. 9244). Additionally, Altmeier argued that the creation of the country's gas infrastructure was also in the hands of the private sector (Altmeier, 2019, p. 9244).

More direct references to the economic interest groups of the NS2 and the importance of the project for their business activities, were done by the SPD member and representative for the city of Kassel, Timon Gremmels. Concerned with BASF's competitive position and its access to cheap energy, Gremmels stated:

"BASF braucht preiswertes Gas, um chemische Produkte zu entwickeln. Wenn es das nicht bekommt und auf teures LNG-Gas aus den USA zurückgreifen muss, werden die chemischen Produkte nicht mehr in Deutschland hergestellt, sondern in den USA" (Gremmels, 2019, p. 9253) [BASF needs cheap gas to develop chemical products, when it cannot have access to that and is forced to turn to expensive LNG-gas from the U.S., then these chemical products will not be manufactured in Germany anymore, but in the U.S.]

But Gremmels also addressed the issue of job security and the importance of Russian gas to maintain it:

"Wir wollen den Wirtschaftsstandort Deutschland stärken Deswegen ist der Bezug von Gas aus Russland zu wettbewerbsfähigen Preisen auch ein wichtiger Punkt, um Arbeitsplätze in Deutschland zu sichern, zum Beispiel auch bei mir in Kassel, wo Wintershall seinen Sitz hat" (Gremmels, 2019, p. 9253) [We want to strengthen Germany as a business location, which is why buying gas from Russia against competitive prices is an important factor for securing jobs in Germany, for example also in my city of Kassel, where Wintershall has its seat].

7.6 The renewed EU gas directive

The previously described debate occurred a day after the EU had revamped its energy regulation, which would bring pipelines starting outside of the European bloc under the same rules as those within (Financial Times, 2019).

Under the new legislation, pipelines cannot be owned directly by its suppliers and at least 10% of its capacity must be made available to third parties (Financial Times, 2019). The new rules would only be applicable to the 54 kilometres of NS2 pipeline that will run through Germany's territorial waters (Gurzu, 2019). This entails that some restructuring will have to be done by the NS2 shareholders, but given the fact that it is a joint-project of Gazprom and five European companies, this is not seemed to be impossible (Financial Times, 2019).

Perhaps the most significant change that has been introduced, is that the Member State where a transit pipeline ends, will be responsible for the application of the new EU rules (Financial Times, 2019). Potentially, this would allow the landfall state to grant exemptions to certain energy projects, even though this could be scrutinized by the European Commission (Financial Times, 2019). This outcome was the result of a German-French compromise (Stearns, 2019), and it can be considered as an important win for the NS2 supporters.

This outcome has not, however, completely assured the NS2's investors. On the 12th of April 2019, Nord Stream 2 AG wrote a letter to the European Commission's president, Jean-Claude Juncker (Warnig, 2019). In the letter, the project's shareholders claimed that the NS2 should be eligible for a derogation of the new gas directive, which could potentially be invoked by projects that have already been completed (Gurzu, 2019).

In addition, the consortium stated that substantial financial resources have been devoted to the project already (Warnig, 2019), wherefore it would need a derogation from these new rules (Gurzu, 2019). If the NS2 would not become eligible for such a derogation, then "the measure would be discriminatory against [Nord Stream 2 AG] as an investor and the EU may be breaking an international treaty" (Gurzu, 2019), hinting that the new gas directive might be disputed in court.

But also, other ways are being explored by the consortium in an attempt to dodge EU oversight. According to the Financial Times, the shareholders are looking into a way to “hive of its last 50 km into a separate company” (Toplensky, Barker, & Foy, 2019). The consortium is considering to create a new company that would manage and own the pipeline’s last kilometres in German territorial waters (Toplensky, Barker, & Foy, 2019).

While this part would be subjected to the EU’s renewed gas directive, the rest of NS2 would be kept outside the bloc’s jurisdiction (Toplensky, Barker, & Foy, 2019). The consortium’s plans have not been shared with the German regulators yet, nor did the state’s economy ministry respond to the news (Toplensky, Barker, & Foy, 2019). These latest developments demonstrate that the political and legal rows over the NS2 project are far from over.

7.7 Results and test of hypothesis 3

In this final empirical chapter, the government’s position on the NS2 project has been further described. From the early beginning the German government was in favour of the pipeline. This is demonstrated by the statements of chancellor Merkel who, for a long time, continued to claim that the pipeline was purely a commercial project, rather than a political one.

In the early stages of the NS2, it became clear that EU legislation could potentially have an effect on the financial structure and, therefore, on the completion of the project. Only two months after the NS2 shareholder agreement was signed, Germany’s energy minister Gabriel discussed the issue of potential EU interference during a high-level meeting at the Kremlin.

The ministers’ confessions demonstrate that the state was determined to pursue the construction of the pipeline. Additionally, the minutes showed that Gabriel wanted to shield of the project from external meddling by the EU. Together, these observations are in line with liberalism, as they demonstrate that the state has tried to maximize their ability to satisfy domestic pressures at the international level (facilitating the import of cheap energy), while at the same time they were inclined to minimize the negative consequences of international developments (EU oversight) (Putnam, 1988, p. 434).

It is important to review this meeting in light of other empirical observations. According to *Politico*, the meeting took place when the SPD was facing difficult times and Gabriel had to win back voters; who were often members from powerful domestic labour unions related to the energy sector (Delcker, 2016). Together, these observations result in smoking gun evidence, as the behaviour of the executive (minister Gabriel) resembled the dependence on the key interest group's support (Milner, 1997, p. 35)

Increased opposition from CEE Member States and Council President Donald Tusk emerged, with the latter claiming that the issue should not be resolved bilaterally by the suppliers. The U.S. administration decided to pursue a more hawkish style of diplomacy, with the ambassador in the German capital even hinting on the deployment of sanctions against the NS2's shareholders. The U.S. considers the project to be against the general interest of the EU, but also as a threat to its own potential foothold on the European energy market as a seller of LNG.

According to many traditional European and transatlantic allies, Germany's underlying preferences are zero-sum (Moravcsik, 1997, p. 521). Consequently, this is why a more conflictual outcome has occurred, with the threat of economic sanctions and the worsening of bilateral relations between Washington and Berlin as a result (Moravcsik, 1997, p. 521).

The renewed U.S. diplomacy triggered companies such as Unipiper, and lobby organizations such as BDI, to speak out against the threat of possible sanctions. These observations have also been in line with commercial liberalism, as the "material stake" of the gas companies in the NS2 reduced their "willingness" to accept the costs and risks of American sanctions (Moravcsik, 1997, p. 530). Also, foreign minister Maas declared that energy is a matter of Europe and not of the U.S. administration.

Here it is clear that the German industries and political representatives are ignoring the calls of the U.S. and are not inclined to stop the NS2's construction, thereby potentially risking the deployment of economic sanctions. This corresponds with the third assumption of liberalism that claims that the configuration of domestic preferences can be conflictual enough to motivate willingness to accept potential high costs and risks (Moravcsik, 1997, p. 521).

After increased domestic and foreign criticism on the pipeline, the German government started to stress that the project also had a political dimension and that a solution would have to be

found to safeguard Ukraine's role as a transit state. Interestingly, this led to an immediate response by the president of the *Ost-Ausschuss der Deutschen Wirtschaft* and by the CEO's of Germany's gas companies.

In a joined op-ed, the industries' CEO's responded to the governmental shift, and openly doubted the capabilities of Ukraine's gas network to secure gas supply. These events demonstrate that the industries' interests did not fully corresponded with the government's renewed reasoning. However, this does not necessarily contrast with the notions of liberalism, that would generally assume that domestic interests shape the government's position.

Because according to liberalism's third core argument, states are not simply following their own preferred paths, without recognizing the positions of other countries (Moravcsik, 1997, p. 520). The events correspond with the liberalist view that the heads of governments are systemically thinking about the countries' position within a structure composed of other state's preferences (Moravcsik, 1997, p. 523).

Furthermore, the *Bundesregierung's* willingness to include Ukraine in its narrative and stating that the NS2 also has a political dimension, did not change the government's overall position on the project, which was still primarily shaped by the states' economic and energy interests.

This was highlighted by the chancellor's speech at the European Parliament. In the discourse, Merkel expressed that Germany's ambitions under its *Energiewende*, led to support for the new pipeline and the willingness to turn to Russia for its country's gas supply. As the second chapter of the empirical study previously demonstrated, this fully corresponds with the reasoning of the state's economic interest groups.

It is remarkable that when the feasibility studies for the NS2 were ongoing, the International Energy Agency's 2012 report (chapter five) noted that the total consumption of natural gas in Germany was expected to continue to decline over the long term (IEA, 2012, p. 18).

In addition, a more recent research study conducted by DIW Berlin stated that the energy consumption forecasts on which the NS2 was based, significantly overestimated the natural gas demand in Germany and Europe (Neumann, Göke, Holz, Kemfert, & von Hirschhausen,

2018). These observations are clearly contrasting with the forecasts of the economic interest groups and, subsequently, of the German government.

However, as the first empirical chapter demonstrated, these differences underline that it is the economic interest groups that are the fundamental actors. Additionally, it is their preferences can shape the state's narrative and position. This was again confirmed by the energy minister, Peter Altmeier, who stated that the German companies and not the state have the "main responsibility" for gas supply (Altmeier, 2019, p. 9244).

The importance of the state's energy sector was further outlined by another smoking gun of this final empirical chapter: the confessions of the SPD representative for the city of Kassel, Timon Gremmels. According to Gremmels, BASF needed cheap energy for its competitive position *vis-à-vis* the U.S., claiming that Germany had to be strengthened as a business location.

What makes Gremmels confession smoking gun evidence, is that this argument fully corresponds with the observation of chapter six, which described that BASF considers it to be essential to secure Russian gas in order to compete with the U.S. gas exporters (The Economist, 2018).

Finally, the empirical observations indicate that it is the Social Democrats that have been the most vocal supporters of the NS2 project. The confessions of the ex-minister Sigmar Gabriel, foreign minister Heiko Maas, and the parliamentarian Gremmels, suggest that the NS2's completion is an important issue for the SPD.

It is important to emphasize that the party's position in Germany's governmental coalition- and the fact that its members have headed the ministries of energy and foreign affairs during the projects' development- has impactful consequences with respect to the states' support for the NS2.

Consequently, as liberalism argues that state behaviour is constrained by the pattern of interdependent state preferences (Moravcsik, 1997, p. 520), these observations appear to be in line with the liberalist view that political entrepreneurs can have a supporting coalition with a "fixed investment" in a certain policy position (Putnam, 1988, p. 458).

Furthermore, as once source suggested, chancellor Merkel is believed to be personally against the NS2 (The Economist, 2016). Together, these observations imply that an increased EU mandate on energy affairs, and its potential negative consequences for the NS2's operationalization, could threaten the CDU's "investment" (Putnam, 1988, p. 458) in the governmental coalition.

Another observation that suggests that this is the case, is the fact that the confessions of the newly appointed CDU energy minister Peter Altmeier during the *Bundestag* debate did not introduce a change in the government's overall position on the project. Despite the fact that the CDU seems internally divided on the matter, as Norbert Röttgen's media statements indicated.

In conclusion, there is a clear overlap of the rationale of the German state and the narrative of the gas companies regarding the necessity for the NS2. Like the economic interest groups, the government also stated that more gas had to be imported due to the dwindling supplies from other energy sources.

This is especially remarkable considering the fact that a recent study by DWI Berlin concluded that the necessity of the new pipeline is highly questionable. Additionally, Gremmels statements indicate that the commercial interests of the gas companies are being strongly represented by the SPD. These observations strengthen liberalisms' core arguments.

However, no evidence has been found that allows for a solid confirmation of hypothesis 3. The CPT analysis could not establish that it was solely the economic interest groups that were successful in influencing the government's position on the NS2.

It cannot be stated with complete certainty that the SPD's support for the NS2 has not also been the result of the willingness to maintain Russia economically tied to Germany, or to Europe. As the initiating conditions of this research already described, the governmental party appears to have a solid trust in the positive effects of *Ostpolitik*.

This considering, the third hypothesis should be softly confirmed.

8. Discussion

This thesis had two main objectives, conducting a comprehensive study on Germany's support for the NS2, and testing liberalism as an explanatory and systemic theory. This discussion section will address the key findings with respect to the latter. The chapter also includes suggestions for future research.

As the literature review previously outlined, liberalism has often been criticized for not providing an explanatory and systemic theory. Scholars like Humphreys posed two main objections: Firstly, liberalism, as reformulated by Moravcsik, does not provide discrete explanatory hypotheses, and, secondly, it does not allow for any specific generalizations.

To start with the former, this research does not claim that it has found the key to solve this issue, and it did prove to be a complex endeavour to extract the explanatory hypotheses from liberalism. However, by linking the social mechanisms of the core liberal arguments to the CPT's cycle of causality, it was not impossible. In fact, the social mechanisms derived from liberalism (domestic interests → pressure of domestic actors → state behaviour) have proved highly functional to process trace and to explain the outcome of this energy case study.

Additionally, by applying the notions behind commercial liberalism, it was possible to analyse under what economic and market conditions the gas companies were operating, and why they considered it essential to pursue the NS2 pipeline.

Regarding the second objection, I do not agree that liberalism should be disregarded as a systemic theory. In contrast, the liberal theoretical framework helped to explain why the government accepts the potential high costs that it faces in the form of economic sanctions from the U.S., or why it risks the worsening of political relations with EU Member States and Ukraine. Because it appears that the configuration of Germany's domestic preferences is conflictual enough to accept the potential high costs and risks (Moravcsik, 1997, p. 521).

Therefore, once it can be determined what preferences fundamental domestic actors have, liberalist theory can help to identify the "systemic outcomes of interstate interactions"

(Moravcsik, 1997, p. 523). Although, liberalist scholars already proposed the latter, the results of this case study are in line with that argument.

Although, the limits regarding the generalization of this within-case study have already been previously discussed, it was possible to provide a “possibilistic” generalization (Blatter & Haverland, 2012, p. 82). While examining the strengths of liberalism, the case study demonstrated that Germany’s gas companies are fundamental actors and that they have a considerable leverage over energy policy.

But the study also raised some interesting questions with respect to the theory’s applicability to other case studies. The negative consequences of the *Energiewende* on the energy company’s basic business models (Egenter, Russel, & Wettengel, 2017) imply that domestic interests are not always being served by the state. Although, this would not immediately reject the notions behind liberalism, it does suggest that other case studies related to the economic interest groups and the promotion of their interests during the defining moments of the state’s energy transition should be conducted to further test liberal theory.

Although, this study was limited to the German gas companies, the NS2 project is also supported by countries such as France and The Netherlands (annex 1). Therefore, future empirical research could focus on the role of their national energy companies and their potential leverage over energy policy. The liberal framework could also be applied to the antagonistic position of the U.S. administration regarding the pipeline, and to research whether the states’ behaviour can be traced back to the preferences of its national gas industry.

Researching the role of economic interest groups is especially relevant considering that governments are expected to come with answers to confront climate change and to pursue energy transitions. This case study attempted to demonstrate that liberalism can be considered a correct theoretical framework to conduct such studies.

However, it cannot be excluded that the German government has been supportive of the NS2 project because it believes in the value of *Ostpolitik*. Therefore, future research could consider to study the impact of this policy of *rapprochement* on the support for the NS2. Because, as the initiating conditions demonstrated, *Ostpolitik* has for a long time been a guiding principle in German-Russian relations.

Therefore, future empirical research on the NS2 and Germany's support could be conducted by applying the theoretical tools behind historical institutionalism. Then, more attention should be devoted to the power of lock-in mechanisms, or path dependency. Perhaps this theoretical framework could provide an additional explanation for why Germany supports a highly controversial pipeline with Russia. Moreover, as the configuration of state preferences has been at the heart of this study's analysis, the suggestion to apply another theoretical framework to the case, is in line with the two-stage model explained earlier.

8. Conclusion

This thesis started with the research question: Why did the German government decide to support the construction of the Nord Stream 2? As a CPT strategy is interested in the combination of causal factors that led to an outcome (Blatter & Haverland, 2012, p. 80), multiple answers were provided to answer this question.

The first empirical chapter explained that the gas companies, E.ON and BASF, are fundamental actors in Germany. The situational mechanism demonstrated that these economic interest groups signed the NS2's shareholder agreement, because the project would offer them substantial returns.

The notions of commercial liberalism and the first core liberal argument directed towards the observation that the German gas companies had a considerable material stake in their investment. It has also been established that a confirmation of *HI* was a necessary condition in order to move on to the next step in the causal chain.

Also in the second empirical chapter, the notions of commercial liberalism were applied in order to demonstrate that the gas industry opted for the planned pipeline for several reasons. Firstly, the introduction of American LNG on the European markets strengthened the economic interest groups determination to pursue the NS2 project, which would transport relatively cheap pipelined gas from Russia.

Secondly, supplies from key partner states are expected to dwindle, which contributes to the gas companies' conviction to accommodate for this deficit. Thirdly, it appears that BASF and E.ON are unified in their concern over the implications of the *Energiewende*, which is why they criticized the government for the phasing out of nuclear energy and the increased use of coal. Crucially, these concerns and the subsequent interests of the gas industry are being well-represented by lobby organizations, (ex-)politicians, and academics.

This considering, liberal theory provided the right directions to indicate the action-formation mechanism of this case study: scarcity, in combination with the economic benefits of Russian pipelined gas, triggered the economic interest groups to form a coalition and to try to capture

state power (Snyder, 1991, p. 317). The latter has been demonstrated by the fact that the industry acted promptly to the news of the re-emergence of the SPD as a coalition candidate, as former-chancellor Gerhard Schröder urged his party to enter into a new government.

Another smoking gun observation of the *Bundestag* debate showed that the commercial interests of BASF/Wintershall in the NS2 are being strongly represented by the SPD. One explanation for this is the party's traditional dependence on the electoral support from the industry's workers, as indicated by minister Gabriel's meeting at the Kremlin.

Given the SPD's support for the project and its position in Germany's coalition, it appears that the gas industry has been capable of deploying the state for its interests. Consequently, the empirical evidence implies that it has been the economic groups' interests that ultimately defined the state preferences (Moravcsik, 1997, p. 518). Because during the former and current CDU-led government, the industry's reasoning appears to have been taken over in the states' narrative on the NS2 (transformational mechanism).

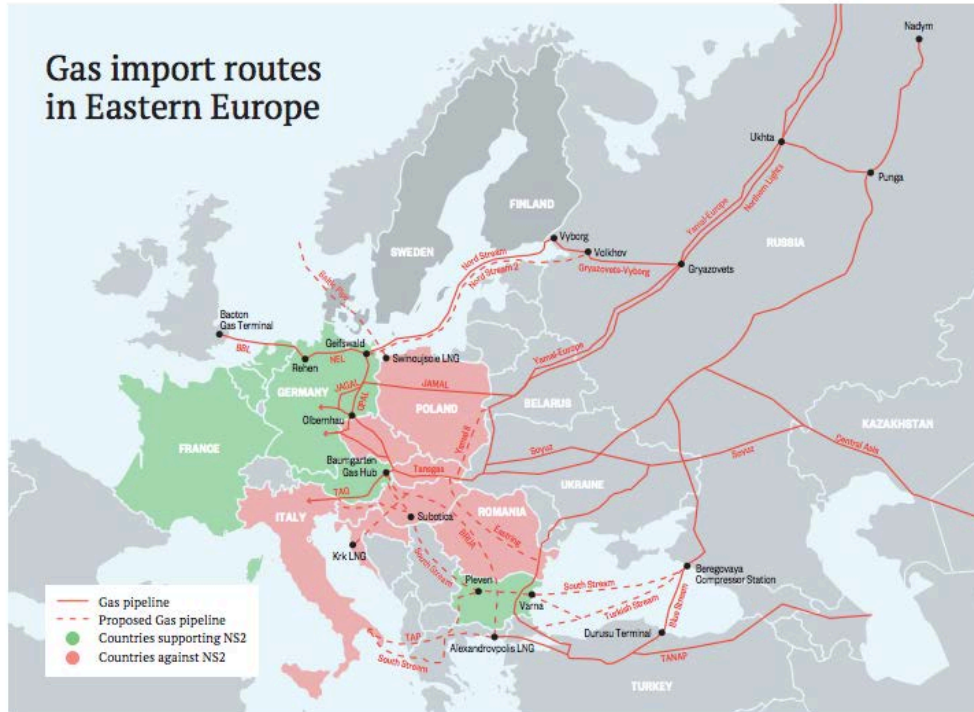
As the German industry's preferences are incompatible with the interests of the CEE states and the U.S., the events have resulted into "antagonistic relations" (Wolf, 2002, p. 10). However, other empirical studies on the power of *Ostpolitik* should be conducted in the future. This, in order to determine whether support for the pipeline also stemmed from a motivation to maintain Russia economically involved with Germany and Europe.

What the research did demonstrate is that the preferences of powerful economic interest groups matter. Furthermore, it implied that these domestic interests have led the government to accept high costs and risks over its support for the NS2. Time will have to tell whether the pipeline can become operational in late 2019, or whether legislative and sanctioning pressure from the international community will stop the project in its tracks.

Following this research, it is suggested that the latter would be unlikely, due to the strong influence of domestic preferences on the state's behaviour. One thing remains undisputed, the controversy that surrounds the Nord Stream 2 pipeline seems far from settled.

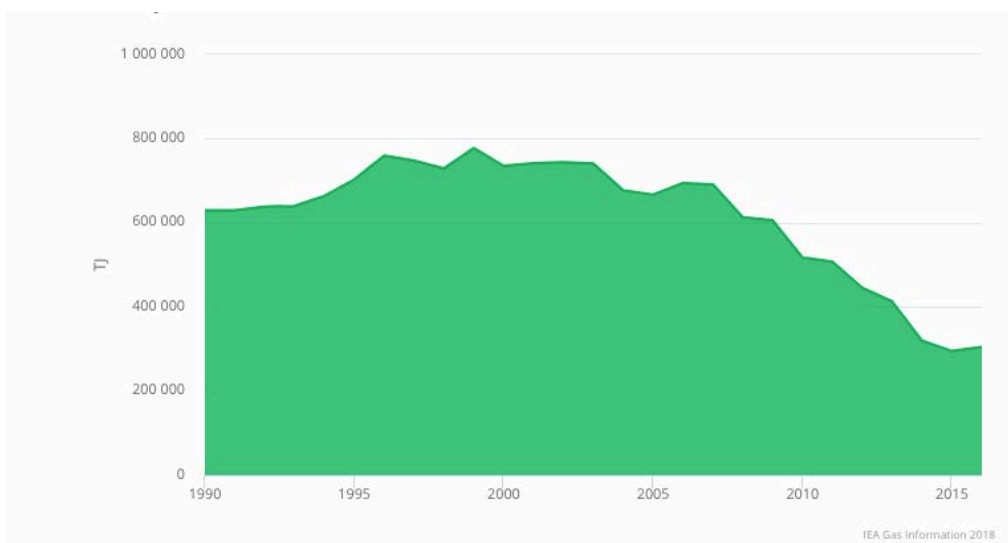
Annexes

ANNEX 1. Supporters and opponents of the Nord Stream 2 pipeline



(Giuli, 2018)

ANNEX 2. Natural gas production in Germany (1990-2016)



(IEA, 2018)

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