

Putin's gas bonanza under threat as poisoning poses security test

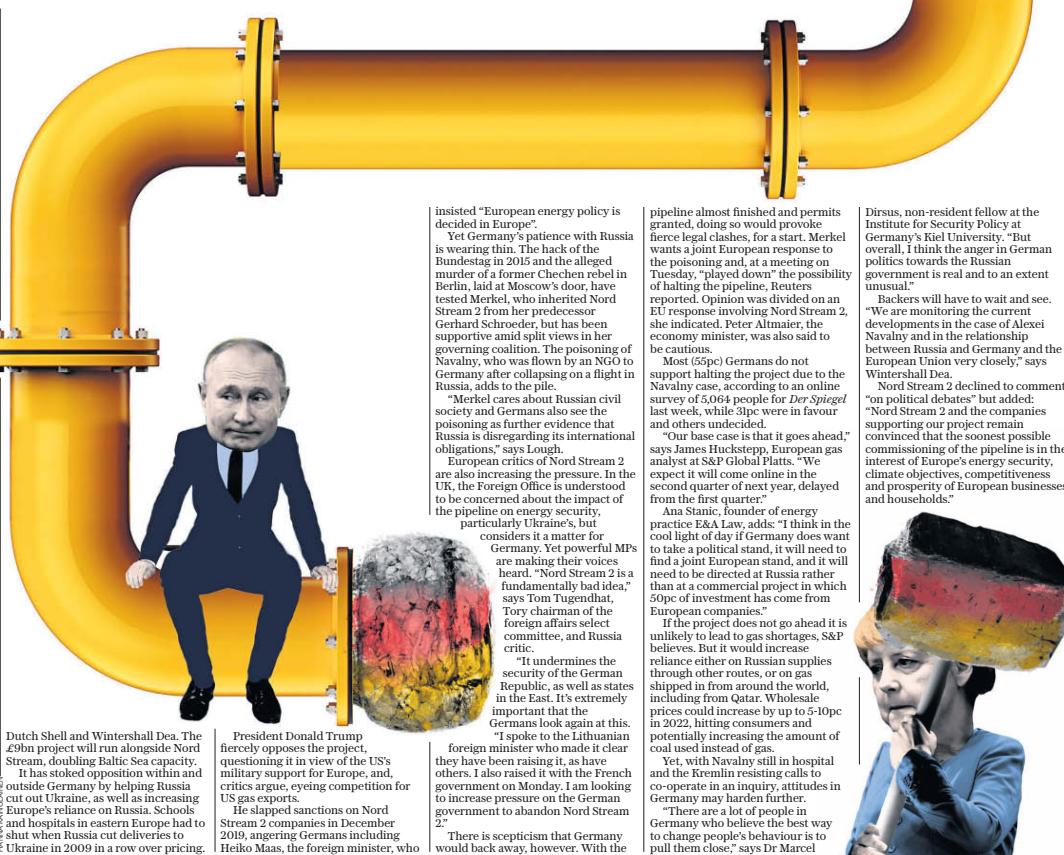
A standoff between Germany and the Kremlin has cast doubt over the giant Nord Stream 2 pipeline project, finds Rachel Millard

The pine trees and sandy beaches of Lubmin, north-east Germany, are about to be interrupted by a troublesome arrival from 760 miles away. The Nord Stream 2 pipeline is set to emerge from the Baltic Sea and feed billions of cubic metres of gas each year from Russia into Germany and European markets. Pipes have been laid at up to 3km (1.9 miles) per day at times since construction started in 2016, with more than 664 miles already laid on the route from Russian port Luga.

They may end up going nowhere, however. The poisoning of Russian dissident Alexei Navalny with the Soviet-era chemical Novichok has provoked anger at Moscow, fuelling opposition towards the pipeline. Angela Merkel, the German chancellor, has hinted for the first time that Nord Stream 2 could be at risk, raising doubts over a project set to provide gas for millions but also increase Russia's energy dominance at a time of concern about its suspected involvement in crimes from hacking to the poisonings of Navalny and the Skripals in Salisbury in 2018.

"There is a growing realisation in Berlin that Germany is dealing with a criminal regime in Moscow that cannot be a reliable partner," says John Lough, associate fellow for the Russia and Eurasia Programme at Chatham House. "This calls into question what Germany said for so long was just an economic project... The issue [Nord Stream 2] is now finally on the agenda - and that is significant".

Russia already supplies up to 40pc of Europe's gas with overland routes across Ukraine, Poland and Turkey, and Nord Stream 1 under the Baltic Sea. Some of that comes to the UK as regional markets are connected, though exactly how much is unclear. Nord Stream 2 is now finally on the agenda and 50pc funded by European companies including Royal



Dutch Shell and Wintershall Dea. The £9bn project will run alongside Nord Stream, doubling Baltic Sea capacity. It has stoked opposition within and outside Germany by helping Russia cut off Ukraine, as well as increasing Europe's reliance on Russia. Schools and hospitals in eastern Europe had to shut when Russia cut deliveries to Heiko Maas, the foreign minister, who

President Donald Trump fiercely opposes the project, questioning it in view of the US's military support for Europe, and critics argue, eyeing competition for US gas exports. He slapped sanctions on Nord Stream 2 companies in December 2019, angering Germans including Heiko Maas, the foreign minister, who

insisted "European energy policy is decided in Europe".

Yet Germany's patience with Russia is wearing thin. The hack of the Bundestag in 2016 and the alleged murder of a former Chechen rebel in Berlin, laid at Moscow's door, have tested Merkel, who inherited Nord Stream 2 from her predecessor Gerhard Schröder, but has been supportive amid split views in her governing coalition. The poisoning of Navalny, who was flown by an NGO to Germany after collapsing on a flight in Russia, adds to the pile.

"Merkel cares about Russian civil society and Germans also see the poisoning as further evidence that Russia is disregarding its international obligations," says Lough.

European critics of Nord Stream 2 are also increasing the pressure. In the UK, the Foreign Office is understood to be concerned about the impact of the pipeline on energy security, particularly Ukraine's, but considers it a matter for Germany. Yet powerful MPs are making their voices heard. "Nord Stream 2 is a fundamentally bad idea," says Tom Tugendhat, Tory chairman of the foreign affairs select committee, and Russia critic.

"It undermines the security of the German Republic, as well as states in the East. It's extremely important that the Germans look again at this. I spoke to the Lithuanian foreign minister who made it clear they have been raising it, as have others. I also raised it with the French government on Monday. I am looking to increase pressure on the German government to abandon Nord Stream 2."

There is scepticism that Germany would back away, however. With the

pipeline almost finished and permits granted, doing so would provoke fierce legal clashes, for a start. Merkel wants a joint European response to the poisoning and, at a meeting on Tuesday, "played down" the possibility of halting the pipeline. Reuters reported. Opinion was divided on an EU response involving Nord Stream 2, she indicated. Peter Altmaier, the economy minister, was also said to be cautious.

Most (56pc) Germans do not support halting the project due to the Navalny case, according to an online survey of 5,064 people for Der Spiegel last week, while 31pc were in favour and others undecided.

"Our base case is that it goes ahead," says James Hucklestep, European gas analyst at S&P Global Platts. "We expect it will come online in the second quarter of next year, delayed from the first quarter."

Ana Stanic, founder of energy practice E&A Law, adds: "I think in the cool light of day if Germany does want to take a political stand, it will need to find a joint European stand, and it will need to be directed at Russia rather than at a commercial project in which 50pc of investment has come from European companies."

If the project does not go ahead it is unlikely to lead to gas shortages, S&P believes. But it would increase reliance on Russian supplies through other routes, or on gas shipped in from around the world, including from Qatar. Wholesale prices could increase by up to 5-10pc in 2022, hitting consumers and potentially increasing the amount of coal used instead of gas.

Yet, with Navalny still in hospital and calls for Russia to co-operate in an inquiry, attitudes in Germany may harden further.

"There are a lot of people in Germany who believe the best way to change people's behaviour is to pull them close," says Dr Marcel

Dirsus, non-resident fellow at the Institute for Security Policy at Germany's Kiel University. "But overall, I think the anger in German politics towards the Russian government is real and to an extent unusual."

Backers will have to wait and see. "We are monitoring the current developments in the case of Alexei Navalny and in the relationship between Russia and Germany and the European Union very closely," says Wintershall Dea. Nord Stream 2 declined to comment "on political debates" but added: "Nord Stream 2 and the companies supporting our project remain convinced that the soonest possible commissioning of the pipeline is in the interest of Europe's energy security, climate objectives, competitiveness and prosperity of European businesses and households."

New boss has a fight on his hands at defence giant Babcock

David Lockwood is 'not your typical CEO' but has already shown he relishes a challenge, finds Alan Tovey

Babcock is the company that Britain cannot go without. It maintains the Navy's fleets, services a quarter of a million weapons for the Army and also trains pilots for the RAF and across the Forces. Half of its £4.5bn annual revenue comes from military contracts, making it the Ministry of Defence's second largest supplier.

Other big contributors are aviation services, such as aerial firefighting and rescue, both growing markets, and servicing nuclear power facilities. However, Babcock's shares have been steadily declining for five years

as it has fallen out of favour with shareholders, while the City has moaned about poor communications, with one investor complaining of a "drip, drip, drip of downgrades".

Babcock's troubles hit the headlines two years ago when it was attacked by "Boatman Capital Research", an anonymous outfit, which issued a damning dossier. It alleged the company "systematically misled investors" by burying bad news, claimed Babcock's relationship with the MoD had broken down and attacked management.

Little wonder chief executive Archie Bebel sounded relieved this summer when he delivered his final set of annual results after 16 years with the business. In February he'd announced he was going and the results - which included a £305m writedown - were to be the gaiter-playing chief executive's last, with his successor

£2.25bn

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announced a fortnight later. Taking up the reins tomorrow is David Lockwood, the former boss of Cobham, the defence and technology business snapped up by Advent last year for £48m.

Lockwood, described by one veteran defence industry observer as "capable but a little odd, not your typical CEO", has taken on a big challenge with Babcock. How the City sees the company is by its market cap of just £1.26bn - just slightly more than a quarter of its annual sales.

It's not like Lockwood doesn't relish a challenge. In 2017, shortly after his arrival at Cobham, he announced £750m of charges and writedowns, and ordered a £500m rights issue, the company's second in a year. When Cobham was sold from under him, he complained "he'd done the hard bit and was looking forward to the benefits" of his restructuring that made it a target for private equity.

The City is hoping for a similar turnaround at Babcock, but isn't expecting a similar cash call. Barclays points to the company's £2.1bn of liquidity, calling an equity raise "unlikely (despite) its gearing ratio being the highest across its UK defence peers".

Instead, selling of parts of Babcock's sprawling business and boosting productivity are seen as much more likely. Long-term, stable military and other large government contracts will

remain but small and niche operations are likely to come under the microscope. Lockwood is currently in Italy as part of Babcock's international businesses, and insiders are preparing for sales processes.

One of Babcock's headline contracts, to build Type 31 frigates for the Royal Navy, is also likely to come under scrutiny, according to Barclays. It warns the £1.25bn deal for five ships carries the risk of being a fixed price arrangement, with defence projects having a history of delays and budget over-runs. Ensuring this doesn't happen will be a Lockwood priority, as well as demonstrating Babcock has no issues working with the MoD.

While his predecessor had started to improve communications with the City, a key task for Lockwood will be clearly explaining Babcock's strategy. Morgan Stanley's Anvesh Agrawal said that because much of Babcock's

contracts are non-competitive and highly technical they should be higher margin. However, the analyst warned the "increasing provisions and exceptional costs make it challenging to estimate the true underlying margin of the business. As new management gets to grips with the business and presents its strategic vision, it may aim to increase visibility on the margin outlook." This could include a "reset" of the current margin target of 11pc.

Lockwood might have to tell the City that Babcock isn't going to be as profitable as hoped for several years, though this could ultimately improve relations and end the confusion that has long been complained about.

With pressure on defence budgets only set to grow as governments tighten their belts, Lockwood faces a tough battle to make Babcock a target for investors rather than for the Boatman to return.

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A Babcock freightling plane in Italy, David Lockwood, below

AKOYA Joseph Kennedy Died at Liverpool On the 12 September 2017	ECHAVARRIA Elizabeth Died at Newton Heath On the 17 July 2019	JONES Keith Robin Died at Liverpool On the 3 April 2008	THOMPSON John Died at Blackpool On the 22 January 2015
BLACKLEY David Died at Crumppall On the 24 May 2019	FISHER Kevin Died at Manchester On the 30 December 2016	LEWIS Michael Died at Manchester On the 9 December 2018	TURD James Bernard Died at Southport On the 15 February 2019
BYRNE Tony Died at Manchester On the 6 November 2018	FOTTELL Michael Died at Bolton On the 23 January 2018	LUCAS Nigel Paul Died at Preston On the 21 June 2019	WALKER Harold Died at Blackpool On the 13 July 2019
CARBOLL John Died at Liverpool On the 18 February 2017	GLENN Andrew Died at Crumppall On the 19 December 2019	MARSHALL Ralph Hedger Died at Burnley On the 30 November 2012	WALKER John Died at Blackpool On the 12 May 2015
CARTER Stephen Charles Died at Salford On the 13 April 2018	GRIFIN Ronald Died at Blackburn On the 29 April 2014	MCCARTHY Brian Died at Preston On the 18 March 2020	WARD Thomas Died at Droylsdale On the 31 July 2005
COFFEY Joseph John Died at Longight On the 6 August 2017	GRIFITHS Ian Beesford Died at Rochdale On the 2 May 2014	MINTYRE Annie Died at Manchester On the 17 December 2010	WOOD Sheila Barbara Died at Bury On the 1 July 2018
CROSBY William Died at Manchester On the 10 August 2019	HARRISON Lane Died at Southport On the 27 January 2020	PRICE William John Rodham Died at Kendal On the 30 March 2008	WOOLF David Died at Manchester On the 28 October 2018
DAILY John Barry Died at Blackpool On the 30 July 2018	HULME Irene Died at Leigh On the 11 February 2016	REID Cynthia Died at Bolton On the 14 June 2016	
DAVIDSON Jim Mackenzie Died at Blackpool On the 26 November 2019	HEKOT Josef Died at Clitheroe On the 21 October 2019	ROSENBERG Ivor Harris Died at Crumppall On the 5 August 2019	

The kin of the above are requested to apply to the Solicitor for the Affairs of the Duchy of Lancaster, Ferrer & Co, 66 Lincoln's Inn Fields, London WC2A 3LR filling which the Duchy Solicitor may take steps to administer the estate of the above named.