

Towards a Baltic Winter of Discontent?

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During recent years, a sure sign of autumn has been the perennial attempts by Russia to intimidate its Eastern Europe neighbors by threatening to cut off gas supplies. As the European Union is currently facing a standoff with Moscow over the Eastern Partnership and regional trade deals, more Russian attempts to bully Europe should perhaps be expected this winter. But while Europe needs Russian energy, Russia also needs the European energy market. Any attempt to transition from Russian energy dependence will therefore reduce Moscow's ability to coerce and put pressure on European countries.

One of the most vulnerable parts of Europe is the three Baltic states. Together, they make up an 'energy island' that is heavily dependent on the influx of Russian energy. Case in point: one single supplier, the Russian giant Gazprom, provides 100 percent of the natural gas consumed by Estonia, Latvia and Lithuania. Moreover, some 70 percent of Lithuanian electricity comes from Russia.

For the three Baltic states, achieving energy security is accordingly synonymous with reducing their energy dependence on Russia. This, however, is easier said than done.

The region's energy architecture remains isolated from the rest of Europe's, leaving Russian energy as the only game in town.

Fortunately, some efforts to improve the region's energy infrastructure and better integrate the Baltic energy systems into the European energy network are underway.

For example, the 'NordBalt' link between Lithuania and Sweden is expected to become operational in late 2015. This power interconnector will allow for the inflow of cheap Norwegian electricity to the Baltic market, and could triple the Baltic energy market's capacity. In another example, the 'LitPol Link' between Lithuania and Poland will also begin to be rolled out sometime in 2015. Additionally, the 'Estlink', an electrical connection between Estonia and Finland is currently being expanded.

The EU is also supporting these efforts as a part of the Baltic Gas Energy Market Interconnection Plan (BEMIP Gas), which the European Commission has recently listed as a priority under its Multiannual Financial Framework 2014–2020. Still, the work to create a single European energy market remains a distant fantasy and this is not likely to change anytime soon.

In addition to conventional energy sources, the Baltics are also pursuing renewables as a source of energy independence. Already, Latvia gets about a third of its overall energy from renewable resources. In Lithuania and Estonia the numbers are 23 and 17 percent, respectively. Finally, the Baltics are also exploring the possibility of shale gas production, an area where the U.S. experience could offer vital lessons.

Although the current efforts to reduce dependence on Russian energy are noteworthy, more is needed if the Baltics are going to succeed in this task. What is especially lacking from the current efforts is a region-wide approach to diversifying the energy supply.

One opportunity to do so is through forming a regional gas trading hub. In line with its efforts to promote an internal energy market in Europe, the EU has proposed establishing a regional liquid natural gas terminal to provide the Baltic states direct access to the European LNG market. However, the implementation of this terminal, due to disagreements over its location, is now being delayed. Instead, the Baltic states are pursuing their own smaller national LNG terminals.

This is unfortunate. The Internal Energy Agency has estimated that a regional LNG terminal would not only be more economically viable than having three separate ones, but it would also facilitate the emergence of a regional gas market and promote integration with Europe.

In addition to building a single Baltic LNG terminal, promoting a common approach to energy security should also be done through regulatory reform measures within the three Baltic states.

There is no doubt that the Baltics are making progress on energy security, though more regional coordination is still needed.

The big question, however, is how Russia will respond. Given the importance of the European market to Russian energy exports, further attempts to make Europe more dependent

on Russian gas are underway. Gazprom is already planning to establish its own LNG terminal in Kaliningrad. Russia is also supporting the construction of the Nordstream pipeline. Although bypassing the Baltics, this project will enhance continental Europe's energy reliance on Russia.

Yet, at the same time, Russia's long-term energy policy continues to refocus on China as an expanding market starved for energy, unlike Europe with its economic woes. The combination of falling energy prices and the prospects of cheap U.S.-made shale gas in Europe, now an even greater issue for Russia as the U.S. continues to approve LNG export permits at an ever-increasing rate, is putting pressure on Russian energy policy-makers. Controlling the gas supply to Europe remains one of Russia's most important foreign policy tools, and one which Moscow is not ready to forgo anytime soon.

Against the possible prospect of new Russian attempts to put pressure on its European neighbors, the Baltic states of Estonia, Latvia and Lithuania are well off to continue pursuing their strategy of energy supply diversification and integration. However, these efforts cannot be made on a strictly national and ad hoc manner, but must be a coordinated regional approach. In doing so, the EU should also look to play its part as a supra-national entity best suited to coordinate multilateral energy policy.

The following months will give an indication of how well these efforts to pursue energy security in the Baltic are working, and how Russia will react. If the Russian decision earlier this fall to carry out discriminatory checks against Lithuanian trucks along the two countries' borders is any indication, this could indeed turn out to be a very cold winter in the Baltic.

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