**Tallinn, Estonia's Capital City (***Photo courtesy of flickr)*

# Russia's Energy Relationship with the Baltic States

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Launched in 1988, Estonia's process of separation from the Soviet Union provided a clear signal to all republics to perform a similar motion. On December 26, 1991, the world witnessed the breakdown of the superpower, the Soviet Union, into 15 smaller states. The reasons for the collapse of the 70-year power may be seen in the deepening economic and political crisis, the geopolitical situation, the role of the United States with Ronald Reagan as President, and the pervasive tendencies to gain sovereignty over the Eastern Bloc countries.

Undoubtedly, the loss of Russia's influence in the new sovereign, democratic, and independent countries such as Lithuania, Latvia, Estonia, and Poland has made it necessary to change the energy policy. Key in the newly defined Russian foreign policy regarding the Baltic Republics was bilateral relations and an unwillingness to participate in any group projects not led by Russia.[1] In addition to Moscow's desire to play a key and asymmetric role in international agreements, the Baltic countries showed particular distancing and distrust of any announcement of cooperation in the field of energy. As transit states for raw material, these countries dealt with Moscow's political moodiness by developing

various sophisticated policies. The geographical location has strategic importance; however, Russia has an opportunity to bypass its reliance on this proximity.

Officially for Russia, the Baltic region is not an area of unique treatment[2] concerning foreign policy. Nevertheless, Russia's hegemonic approach to all kinds of unions, as well as the republics belonging to the Western European unions and organizations (UE, NATO, W4+, BALTRON), will motivate nations to act in an isolated way with Moscow. Moreover, remnants of the past Soviet infrastructure in these countries reflect traditional thinking. Russia is a key exporter of energy resources to western Europe. Industrial Germany is especially dependent on regular and uninterrupted supplies of gas and oil, and they expect it at a predictable price. In 2011, the situation was further complicated as Moscow launched a shared strategic pipeline. This pipeline, called the Nord Stream, allows for the constant transport of oil from Russian Vyborg to German Greifswald on the bottom of the Baltic Sea. For 11 billion Euro[3] Russia bought independence in the exporting of oil to Europe and Germany and avoided unwanted cooperation. If this occurs, are the Baltic States somehow limited in the context of Moscow energy export strategy? Are Lithuania, Estonia, Latvia, and Poland still of value for Moscow in the context of energy supply or is the Kremlin's support policy necessary for the Baltics?

To provide an effective policy, the states should use either diplomacy, military or, economic measures. Used to project military power over the years of the Cold War, Russia had to redefine its policy towards the economy. It must be admitted that the Kremlin successfully uses "energy cut-off policy" (oil and gas) in the cases of discordance. This occurred in Lithuania, Ukraine, and Georgia. The deterrence policy is also applied. After the beginning of the Ukrainian crisis, both in 2009 and 2014, Moscow used a policy of intimidation to achieve their strategy goals. The two Russian monopolies, Gazprom and Transneft, are the hydrocarbon muscle of the Kremlin and supply Europe with 5.9 mbd of oil and 132 bcm of natural gas by pipelines built by Russia. They also comprise one third of the annual total consumption in the area.[4] What is more, dependence on Russian gas for the Baltic States is almost 100%. Russia ranks first place in the production of gas in the world and second in the extraction of oil (behind Saudi Arabia). Its potential economic power has evolved from a communist country geared to military solutions in just 20 years.

Could small countries such as Lithuania, Latvia, Estonia, and Poland have a chance to challenge the power based on their full dependence? Well, they do. They have two instruments to conduct the fight. While Russia also has access to the Baltic Sea via St. Petersburg and Kaliningrad, these locations unfortunately (fortunately for Europe) are by some historical reasons abandoned in the term of infrastructure. Furthermore, Kaliningrad Oblast is an exclave surrounded by Lithuania and Poland. Seeking solutions such as the construction of the Nord Stream pipeline obviously provides an advantage and represents a weapon for the Baltic countries. However, the cost is high and is the subject of a dispute with Finland and Sweden as well as the subject of the cooling of bilateral relations between Germany and the USA.

The subject of the Northern Pipeline was creatively resolved with Finland. Russia exerted pressure on Finland mainly by keeping high export duties on Russian wood since 2007, making them a potential reduction of the Helsinki agreement on German-Russian investments off the coast of Finland.[5] This is another example of the application of economics to apply pressure and achieve Russian goals. Another major Russian infrastructure energy project associated with its strategies to the Baltic Sea is the construction of the Baltic Pipeline System BTS-2, connecting Unecza in Brianski region with a port terminal in Ust-Luga in the Gulf of Finland. The purpose of investment is to create a new pathway transport of oil by sea. This would enable the reduction of the value of existing transit routes in the form of the Druzhba oil pipeline leading through Poland to Germany. Additionally, it might allow them to

close its branches, which create separate routes using the Russian port of Primorsk, the Ukrainian ports of Odessa and Pivdenniy, Latvian Ventspils, and the Polish Naftoport in Gdansk. The strategic sense of building BTS -2 is the elimination of the effects of Russia's infrastructural collapse of the USSR. Those led to the loss of political control over the ports used in Poland and Latvia. According to the plans of the Russian route BTS- 2, in the first year of the operation, the transfer will be 30 million tons of crude oil, and after graduating from the investment, the transfer will be up to 50 million tons annually(6). Russia will significantly reduce its dependence on the transit of gas through Belarus, Poland, Ukraine and the Baltic States. An additional gain of the Kremlin from the implementation of the BTS- 2 will be a strong blow to the project of oil transit route Baku-Supsa-Odessa-Brody-Plock-Gdansk which is beyond the control of Moscow.

As in the case of these port terminals, the disintegration of the Soviet Union also led to the loss of the Kremlin's political control over the oil refineries in post-Soviet Central Europe. Efforts by Russia to purchase these systems resulted in competition between Polish and Russian investors for refinery Mazeikiu in Lithuania. The takeover of the Lithuanian refinery by Polish oil company "PKN Orlen" prompted Gazprom to employ a very aggressive strategy in the region.[6]

December 2009 brought another disorder influencing stability in the region. For safety reasons, Lithuania closed a second reactor at Ignalina nuclear power plant. From 2009 to 2010, electricity production decreased from 15.32 TWh to 5.7 TWh. At the same time, imports in the nation's energy grew from 4% to 56%(8). Russia used the occasion on 25 August 2009 to decide to build two nuclear power plants. The first is to be built jointly with Belarus in Ostrowiec near Grodno. The second power plant would fill the gap for Kaliningrad and is planned near Nieman. The latter is estimated at 5 billion euro, and its power would be 2x1150 MW. Russia is estimated to complete the project by 2018. Although the construction of such plants would fill a gap in Eastern Europe and would allow Moscow to enter the German market, which decided to close the nuclear power plants after the plant accident in Fukushima. However, it seems to be impossible to complete these projects. President Vladimir Putin in Sochi on May 20 called a council of the Russian power sector to revise plans to establish a Baltic Nuclear Power Plant near the town Nieman. Technically, the change would have to rely on the study of the possibility of building a small (40 MW) and medium reactors (640 MW) of power. Therefore, the Russian media reported that the construction of this plant had been temporarily frozen. The reason for this is most likely the failure of previous attempts to either obtain international financing and lack of contracts with foreign customers for the supply of electricity generated in the future power plant.[7]

Consequently there are two possible options for action in the matter of construction: either isolate energy for Kaliningrad or connect it to the European network. Interestingly Moscow is expected to decide on the first option: use existing power plants in Kaliningrad and resignation in the construction of a nuclear one and energy exports. Once again, it turned out that Lithuania (a theoretical future main importer) is not going to give up the project to build a power plant. Likewise, Poland has a similar view of the EU regulation on a common strategy and trade between members of the union. On July 18, 2012 in Minsk during a working visit, Prime Minister Dmitry Medvedev signed a contract for the construction of the Belarusian nuclear power plant. This was preceded by a multi-year negotiation that failed to resolve fundamental issues such as divisions of profits, shares in the construction, and distribution of export.

The Belarusian authorities are hoping that the emergence of a nuclear power plant will reduce the import of Russian gas to supply the domestic energy consumption. In addition, Minsk assumed that, with this investment, it would be possible to export a surplus of electricity to the EU, including Poland. Considering the fact that Russia is the only lender and nuclear fuel supplier and exporter of gas to

Belarus, it seems improbable that Moscow will continue this project[8], especially since the Kaliningrad project has been halted. The second issue is that plans for the construction of nuclear power plants in Kaliningrad and Belarus are competitive with Polish-Baltic proposals to build two new power units in the Polish Zarnowiec and Lithuanian Visaginas.[9]

Russian projects are also designed to prevent the inclusion of the Baltic States into the EU electric grid of ENTSO-E (European Network of Transmission System Operators for Electricity) and to keep them controlled by the so-called Moscow BRELL circle (Belarus, Russia, Estonia, Latvia, Lithuania). This is a subtle high stakes game. On one hand, Russia benefits from selling nuclear fuel for future reactors, and on the other, Russia benefits from controlling electrical market due to its monopolist position in this area.

The Baltic nations—Lithuania, Latvia, Estonia as well as Poland—are dependent on energy from Russia. At the same time, they all strive for an extensive strategy of diversification. This article asserts clearly that although each country has similar actions and interests, they are not consistent and coordinated. Every country pursues an isolated policy evidenced by the construction of LNG terminals, power plant construction plans, or policies to introduce the third EU energy package. Clearly marked diverging interests of Russia and the Baltic countries highlights the lack of capacity of unified action, which could contribute to the strengthening of a dominant part of Gazprom.

As long as all the players continue to focus on regional projects that are less expensive, but with limited strategic value, there will be no chance of weakening the role of the Kremlin. There are at least three possible solutions. First is the consolidation of energy security policies and complete the nuclear power plant project in Lithuania. Second is the construction of a common international LNG terminal that connects to Finland and Sweden, instead of three local terminals. The third solution is to introduce, as soon as possible, the Third UE Energy Package, which will enable the Baltic's to join the network and significantly cut off supplies from Russia. This third option, after seizing Crimea, seems to be most likely to be introduced in the EU. It turns out the Baltics are active players and not just accidently market participants in the energy game. Is it is also obvious that each side wants others to provide strong policy and maintain businesses. Because of this interrelationship, the possible Moscow moves are much more limited than it is thought.

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