



# Energy Security: A Case of the Baltic States

**Manoranjan Kumar**

PhD Scholar at Centre for European Studies  
Jawaharlal Nehru University, New Delhi, India.

## Abstract

Energy resources are a very necessary and key input in the development of any country of the world. The whole economic growth of a nation is based on various factors and energy is the most important of them. A well-developed energy infrastructure and a secure supply of energy resources facilitate a country's technological and social progress. The growth of a nation is closely linked with the availability of energy resources and the Baltic States are not an exception. The three Baltic states of Estonia, Latvia, and Lithuania have had their own unique feature in primary energy supply during the last three decades. Oil shale is the main energy resource in Estonia; however, Latvia is mainly dependent on natural gas and Lithuania's main energy resource for power generation was nuclear power (Ignalina Nuclear Power Plant till 2009). In 2015, the main energy sources for the Baltic countries were oil products (48%), biomass and waste (22%), and natural gas (21%). Biomass has replaced fossil fuels in electricity and heat generation, but the share of oil has remained at 48% due to increased transport volume. The energy infrastructure of the Baltic states is closely integrated with Russia, as they were part of the former USSR and are heavily dependent on Russia for their natural gas supply. This dependency makes them more vulnerable in terms of energy security. This article will explain the major energy security concerns of the Baltic states and it will also trace the measures they are adopting to diversify their energy mixes and secure supply according to their requirements.

**Key Words:** Energy, Security, Threats, the Baltic states, Russia

## Introduction

Historically, energy security has played a key role in shaping the national interests and security strategies of the Baltic states. Energy security is a unified system, which attempt to ensure the accessibility and reliability of energy resources. Availability, Reliability, Affordability and Sustainability are mainly four aspects of energy security. This concept is multidimensional, which include external and internal action both. The International Energy Agency (IEA) defines energy security as "the uninterrupted availability of energy sources at an affordable price". European Commission defines "energy security in its Green Paper (2000) as the—uninterrupted physical availability of energy products on the market, at a price which is affordable for all consumers (private and industrial) with respecting environmental concerns and looking towards sustainable development"

According to the needs of the concerned state the concept of energy security varies in their interpretation. Such as for the energy exporting countries, the energy security alludes to the ceaseless access to global energy markets for the business purposes. While, for energy-importing countries, the meaning of energy security is to guarantee access to a constant supply of energy at reasonable costs, keeping in mind the end goal to keep up the economic and social development. The meaning of energy security for US is— “producing energy at home and relying less on foreigners;” but for China, it is— “buying stakes in foreign oil fields”. For Russia, energy security means— “restrictions on foreign investment in domestic oil and natural gas;” while, for Japan it means— “offsetting its scarcity of domestic resources through diversification, trade and investment.” Energy security is more than providing energy on reasonable prices in all conditions and all places. There is also a scope of economic, social, legal and environmental measures which can help secure these resources as people need. Energy security is a very important issue for most of the countries of the world but it is more crucial for those states who are more dependent on foreign supplies for their energy requirements. Since long time, Lithuania, Latvia and Estonia have been rely on Russia for their energy needs in the form of oil and natural gas supplies, which makes these states vulnerable to political pressure. Russia has used energy as an instrument in their foreign policy to increase influence in the Baltics, at least since late 1990s and continues to do so (Elletson, 2006). However, the three Baltic States are now diversifying their energy supplies and trying to reduce dependence from Russia. Still, they are considerably dependent on Russia for their natural gas needs.

### **Baltics reliance on Russia for energy requirements**

The energy infrastructure of the Baltic States is closely connected with Russia and the reason behind this connection is that for approximately half of the century the Baltic countries were part of Soviet Union. After gaining their freedom, the Baltic countries focused at entering into the EU and NATO, to fortify their condition and reduce energy dependency on Russia. Energy dependence in the 1990s was considerable in the three countries. The data of Eurostat shows, “the total energy dependence was around 45% for Estonia, 70% for Lithuania and 90% for Latvia” (Wayers, 2016). These three countries were 100% dependent on Russia for natural gas supply. Despite being the member of the European Union, the three Baltic States are still not connected to the other EU countries in terms of energy sector, and they are also very away from the European Commission’s vision of “a well-integrated European energy market”. However, in spite of their post-Soviet Western orientation, the three Baltic States remain very much rely on Russian oil, gas and electricity to fulfil their energy requirements (Malmlöf, 2010).

Russia has been using its energy resources as a geo-political tool and supplying natural gases, oil, and other energy resources at a very high price in comparison with other western countries. For example, “Lithuania has paid 36% more for Russian natural gas in the first four months of 2014 than Germany has paid” (Coffey, L. & Kochis, D. 2015). Russia understands the compulsion of dependency of the Baltic States in the field of energy resources. The reason behind high price of the energy supply is that Russia has been sole natural gas importer to the Baltics due to the infrastructural compulsion. The Baltic States heavily depend on Russia for energy. Russia has been using this weakness of the Baltic countries from long time. As, Gazprom, an energy company owned by Russia, has a large share in the natural gas companies of the Baltic States. The company is owning 37% of Estonia’s Eesti Gaas

(a further 10% was owned by another Russian gas company, ITERA), 34% of Latvia's Latvian Gāze (16% also owned by ITERA), and 37% of Lithuania's Lietuvos Dujos shares at the point of its highest involvement in 2014. These large percentage of shares gave Gazprom considerable rights to influence the policies and strategies of the Baltic States' companies (Hoellerbauer, 2017).

In course of the most recent one decade, Russia has changed from a comparatively weak and partly democratic nation to an authoritarian nation strengthened by an abundance of natural resources. Russian endeavours have constantly become more intensive, to boost impact over political and business-related decision-making in the Baltic States. In such situation the role of economic sphere, and particularly the energy, have become very significant weapon for Russia, and it provides separated opportunities to approach Baltic neighbours. Russia is also trying to influence the domestic energy politics of the Baltics by broadening its soft power. For example—by lobbying, encouraging and supporting a blurred and informal political culture, and also strengthening a post-Soviet way of communication between local business circles and the political elite (Kaljurand and Mäliksoo, 2008; Maigre, 2010). Russia uses its energy reserves as a tool to exert its influence in the Baltic region. In the case of oil, Russia built the 'Baltic Pipeline System' (BPS), which was completed in 2001, to bypass the Baltic States to reach Western Europe. This pipeline has helped Russia a lot by allowing to cut the supply of oil to the Baltics, without interruption to supply to Western Europe (Hanson, 2013).

Energy situation after independence in the Baltic States are as follows:

The three Baltic states of Estonia, Latvia and Lithuania have their own unique feature in primary energy supply during last three decades. Oil shale is the main energy resources in Estonia; however, Latvia is mainly dependent on natural gas and Lithuania's main energy resource for power generation was nuclear power (Ignalina Nuclear Power Plant till 2009). In 2015, the main energy sources for the Baltic countries were oil products (48%), biomass and waste (22%), and natural gas (21%). Biomass has replaced fossil fuels in electricity and heat generation, but the share of oil has remained at 48% due to increasing transport volume.

**Lithuania:** "Since the first days of Lithuania's independence, energy security has been one of the most sensitive issues of economic and political survival of the state" (Janeliunas, 2009). When Lithuania got independence in 1990's and thereafter immediately punished by the Soviet Union through an energy blockade from 20 April to 2 July 1990. During this period Lithuania was completely cut off from oil and fuel supply. This energy disruption had a very destructive impact on the economy of this newly independent state. Janeliunas states, "leaders in the Soviet Union were confident about Lithuania's incapacity to develop a self-sufficient economy and therefore they believed that Lithuania would be forced to return" (Janeliunas, 2009). But this didn't happen, but after the official international recognition of Lithuania's independence, it was clear that energy security will be a challenge for Lithuania. And as soon as Lithuania joined the EU, the dependency on Russia has reduced to 40-50%. Lithuania's main energy resource for power generation was nuclear power (Ignalina Nuclear Power Plant till 2009).

**Latvia:** "Latvia's dependency on energy imports was immense, immediately after regaining independence—80-90% of total energy consumption" (Spruds, 2009). This was considerably higher than on account of Lithuania. Because of the sharp decrease in energy demand, increasing production and utilization of local resources (biomass

from wood among other) and also increased energy efficiency, Latvian energy import dependency could be diminished to 60-70% in 2004. Currently, according to the DIIS report 2022, the primary energy resources in Latvia are oil (45.86%), natural gas (27.45%), and hydropower (16.81%) respectively. However, dependency is still among the highest in the European Union, especially since Latvia has only one main supplier for its energy needs—Russia. In this way, Latvia remains substantially reliance on the imported energy supplies (Spruds, 2009; Wayers, 2016).

**Estonia:** In comparison with Lithuania and Latvia, the situation of Estonia has been better. Since initial years of independence, Estonia has never been totally relying on its biggest neighbour Russia. In 1990, Estonia's reliance on external energy supply was only around 45%. The cause behind it was, Estonia primarily depends on its local energy resources like oil shale, wood, and peat (Mäe, 2009). The reserves of these local energy resources, especially oil shale, have been large enough to fulfil the Estonia's energy requirements. The import of gas constituted not as much as 33% of the essential energy consumption. Until joining EU, Estonia had already decreased its reliance to around 25-30% in 2004. In 2008, Estonia was dependent for only 27% energy needs from outside sources.

The lack of viable energy sources has made the Baltic States, totally dependent on pre-independence energy structure to fulfil their energy needs. However, since 2015, they are diversifying their energy imports and also focusing on renewable energy resources.

### **Measures towards Energy Security: Diversification of Energy Mixes**

Energy security is very significant for most countries of the world, for economic purposes. But as far as the Baltic States are concerned, energy security means something more to them. It has not just economic interest but also very crucial political significance, which affects the relations of these countries. The minimum reliance on Russian energy imports means maximum political freedom and least interruption of the “great neighbour Russia” which occupied the territory of the Baltic States for most of the last century and still seems willing to influence any political decision it can (Weyers, 2013). Mihaela Carstei (2012) states that in order to achieve energy security, the region has to overcome a number of challenges, including: • Achieving diverse sources of gas supply; • Modernizing the power generation infrastructure; • Incentivizing energy efficiency; • Expanding connections to regional power grids; and • Expanding gas network connections to access global supply.

The Baltic States have been very much dependent on Russia for their energy needs and Russia has been also cashing in this weakness of the Baltics by selling oil, natural gases and other energy resources at higher prices. For achieving energy security, the best way is to diversify the energy supply. So, to reduce sole dependency on Russia and being secure in the energy sector the three Baltic States are searching new options and this is one of the reasons why energy security is the heart of the foreign policy of the Baltic States. Despite being part of EU, these countries are not fully connected to the other EU countries in term of energy market. But in recent times the EU has been helping the three Baltic States by various initiatives to diminish dependency on Russia. The European Union is trying to enhance the energy security of its all-member states through a common energy policy. The policy is focusing on increasing joint mechanism amongst member states and financing infrastructure projects

which interconnect member states. Moreover, it supports energy diversification and especially focus on renewable energy in order to diminish dependency on foreign supply (Weyers, 2013).

All the three Baltic States also have worked to improve their connections to Europe with the assistance of European Union. Under the auspices of the Baltic Energy Market Interconnection Plan (BEMIP), an EU initiative intended to encourage the integration of the Baltic energy market into Europe, the EU granted financial support for two projects, the Balticconnector pipeline amongst Estonia and Finland and the Interconnection Poland Lithuania (GIPL). The EU has additionally given 18.7 million euros for improvements of the pipelines between Latvia and Estonia. The Baltic-connector pipeline, which costs 250 million euros to construct, 187.5 million of which has been provided by the EU, is currently still in the initial stage, with an expected completion date in 2020. Crucially, this project will allow gas to flow in both directions, depending on demand (Hoellerbauer, 2017). The expected cost of the GIPL project is 444 million euros, out of which 266 million euros will be covered by the EU. This pipeline is slated to begin construction this year although it is not expected to be completed until 2021. GIPL is a much larger project in comparison with the Baltic-connector. Though the Baltic-connector includes 146 km of pipeline, GIPL consists of between 487 and 534 km. Recently, GIPL ran into problems with the planned way of the pipeline, showing that much work remains. However, once the pipelines are complete, the Baltic States will never again qualify as energy islands and will be integrated with the European gas network (Hoellerbauer, 2017).

Both the projects have confronted considerable problems which are influencing the process to push ahead gradually. The main reason why these projects have not yet been implemented is that it is believed that the source of Latvia's gas reservoirs being Russian in origin will not contribute to the expansion of the market. Another important reason for the slow speed in implementing these projects is that 'Gazprom' is a private company in which the Russian government is the biggest stakeholder and thus controls a greater part of Finnish and Estonian gas companies, making the practicability of the politically reality of this project very low (Maigre, 2010).

According to Hoellerbauer, the EU has also indirectly helped to push Russian gas interests out of the Baltics. The EU mandates his member states to unbundle their gas markets under the provision of Third Energy Package, which was passed in 2009. Now the member states can separate control of energy generation and supply from its transmission. The goal of this Package is to prevent one company from squeezing competition out of the market, by unfairly dominating infrastructure and diversifying sources of gas supply and to connect European gas grids. In 2012, Lithuania and Estonia both have started unbundling their gas markets and completed the process in 2014. In spite of the fact that Gazprom battled unbundling in Lithuania, the company in the end assented after intervention and a substantial fine from Lithuania's competition authority (Hoellerbauer, 2017).

Each of the Baltic States is also trying hard to cut down dependency on Russia. For instance, Lithuania is the first of the three countries, which is combating with the region's dependence on Russia. Lithuania leased a floating gas storage and re-gasification vessel from the Norwegian shipping company Höegh LNG for 10 years at a cost of 430 million euros and developed the coastal infrastructure, which is necessary to connect the floating terminal to Lithuania's gas network. The vessel is stationed in the port of Klaipėda and it gives Lithuania a chance to import Liquefied Natural Gas (LNG). There is no need for overland pipelines for transportation of LNG because

it is transportable by ship. This project was not financially supported by the EU, because the European Union was more interested in a regional project, not in a national LNG terminal. This terminal was inaugurated by Lithuanian President Dalia Grybauskaitė in October 2014 and on that occasion the President said “from now on, nobody will dictate us the price for gas or buy our political will”. The terminal began operating in December 2014. Gazprom was once the sole provider of the gas in the Baltic States but after the inauguration of the Klaipėda Liquefied Natural Gas (LNG) terminal, the dependency has been reduced (Hoellerbauer, 2017).

Importing LNG, expanding connections with the rest of Europe, and diminishing Gazprom’s impact are working together to reduce the Baltic States’ reliance on Russia for natural gas. In 2015, the new ‘NordBalt’ link between Lithuania and Sweden further facilitated the process by establishing a common Baltic-Nordic electricity market. Historically, the lack of cooperation and varying levels of commitment by the Baltic States became obstacles in decreasing the energy reliance from Russia. But these obstacles may disappear soon. In December 2016, the prime ministers of Estonia, Latvia, and Lithuania agreed to establish a unified Baltic gas market by 2020.

## Conclusion

Since regaining full independence in 1991, in the aftermath of the disintegration of the USSR, the three Baltic states were heavily dependent on Russia for their energy needs as their energy infrastructure was solely integrated with Soviet-era structure. The primary energy mix in Estonia was oil shale, Lithuania was dependent on nuclear power and Latvia on natural gas and hydropower. Until 2014, the Baltic states were 100% dependent on Russia for their natural gas import but in December 2014, Lithuania’s Klaipėda LNG terminal started operating and subsequently the dependency on Russia reduced significantly. In recent years, the three countries Lithuania, Latvia and Estonia has focused on diversifying their energy sources. With the help of the European Union, they are integrating with European electric grids. NordBalt link, Balticconnector, GIPL, EstLink1, and EstLink2 are such examples that have been significantly reduced the dependency on Russia. The ongoing war in Ukraine and the energy crisis have showcased how the investments in national energy security are of crucial importance.

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