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**Between Cooperation and Competition: Assessing The  
Baltic States Energy Security Complex**

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This MA paper focuses on the Baltic States energy security and the reasons why there is the lack of cooperation in it. Therefore, it aims at analyzing the Baltic States energy security issues in complex to capture the motives for cooperation or competition between the states. Such an approach is suggested by B. Buzan Regional Security Theory and its latest development Regional Energy Security Theory, performed by P. Polonkorpi. The qualitative analysis of several case studies (Lithuanian LNG terminal and NordBalt), testing what does the choice for cooperation or competition depend on, is conducted by using the process-tracing method, where the ability to implement energy infrastructure projects serves as an independent variable and cooperation or competition serve as a dependent variable. It is assumed that if a state has ability to increase its energy security by implementing national energy infrastructure projects, it chooses not to cooperate, if it doesn't have ability to implement infrastructure projects alone, it chooses to cooperate. Hence, the paper extensively analyzes the existing public documents on the issues analyzed and includes comments provided by ten interviewees (politicians, infrastructure managers, regulators and tradesmen). The results show that besides the ability to increase energy security by implementing national energy infrastructure projects the choice for cooperation depends on energy sector and the approach taken by a state (either strategic or market). Moreover, it is noticed that although implementation of BEMIP energy infrastructure projects reduced a state the possibility to gain advantage over the other state in the energy complex, it increased competition between Lithuania and Estonia both in energy and defense fields.

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## Introduction

*"But cooperation is, as is well known, only the reverse, positive side of conflict, and what in the parlance of politicians is called 'cooperation', in reality quite often is nothing but a euphemism for the new forms of power struggle"*

(G. Adler-Karlson)<sup>1</sup>

Energy concerns have been seen as ultimate and ever-present: people have always considered availability and accessibility of different types of energy as an essential condition of their self-preservation. As a result, energy security concerns and the investigation of such have become a part of general security research and are seen as an extremely important area in international relations. In addition to this, the topic of energy security has recently risen to the top of academic and political agenda of industrial societies, making it one of the most important elements of economic stability. However, it has become so significant in the political discourse only when the issue of energy security was not anymore perceived as a sheer part of a country's economy, but rather as an issue of prior political importance and even national security. Hence, energy supplies, their availability and stability became politicized and securitized.<sup>2</sup>

European Union (EU), being the second biggest energy resource consumer in the world<sup>3</sup>, has been concerned about energy security too. During the last decade it implemented a number of both internal and external energy security policies to preserve and, eventually, increase energy security in the union. Its policies aimed at creating one internal energy market all the member states would be integrated to by 2014 and, second, making such energy market highly liberal and competitive.<sup>4</sup> Yet it appeared that not all EU countries were ready to participate as there were three countries totally isolated from the EU energy system and,

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<sup>1</sup> G. Adler Karson, *The Political Economy of East-South-West. Cooperation*. New York: Springer-Verlag, 1976, 15.

<sup>2</sup> American Petroleum Institute, *Achieving Energy Security in an Independent World* <<http://www.api.org/policy-and-issues/policy-items/safety/achieving-energy-security-in-an-interdependent-world>> [Previewed on 05.11.2015].

<sup>3</sup> *Key World Energy Statistics*, International Energy Agency, , 2014. <<http://www.iea.org/publications/freepublications/publication/keyworld2014.pdf>> [Previewed on 05.11.2015].

<sup>4</sup> E. Korovina, *Integration of the Baltic States into the Internal Energy Market of the EU*, 2013 <[https://tampub.uta.fi/bitstream/handle/10024/94808/Korovina\\_gradu\\_oikea.pdf?sequence=1](https://tampub.uta.fi/bitstream/handle/10024/94808/Korovina_gradu_oikea.pdf?sequence=1)> [Previewed on 05.11.2015].

therefore, unable to create free and open energy market – these countries were the Baltic States<sup>5</sup>.

This problem got on the agenda of the European Commission (EC). Hence, since 2009 the EC has undertaken a number of measures to integrate the Baltic countries, but this goal had many difficulties to be achieved as the Baltic States were in extremely severe situation: they wanted to be part of the EU Internal Energy Market, they agreed to follow the European energy legislation (namely The 3<sup>rd</sup> EU Energy Package) and diversify energy suppliers, but the states didn't have the necessary energy infrastructure to be integrated. The EC has therefore implemented a special energy policy to integrate the Baltic States - the Baltic Energy Market Interconnection Plan (BEMIP).<sup>6</sup> The BEMIP was meant to focus on liberalization of markets, price transparency, energy efficiency and building the necessary interconnectors. Still, there were complications with BEMIP realization, based on the lack of the Baltic States regional cooperation.<sup>7</sup>

It is quite a challenge to explain why the Baltic States struggled for regional cooperation. At first glance, the Baltic States seem to have structural similarities: they share cultural traits and historical experiences, they have similar material resources and geopolitical constrains, they all conducted similar policies during the 2000s as well as became the members of EU and NATO in 2004 and the most importantly – they all were dependent on Russia for energy.

Despite that, during the last decade the Baltic States conducted quite different political and economic policies on energy security. Smith noted Lithuania as the most cooperative, Estonia as the most competitive and Latvia as the most inconsistent due to the prevalence of Russian speaking minorities in Latvia and Estonia, strengthening the tensions and picturing Lithuania as less hostile.<sup>8</sup> However, Leonard and Popescu argue that Lithuania has been the most hostile towards Russia since the 2000s as it was the regional leader, promoting the implementation of a number of energy supply diversification projects both regionally and in

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<sup>5</sup> European Commission, *The Baltic Sea Region States Reach Agreement on the Baltic Energy Market Interconnection Plan*, Brussels, 2009 < [http://europa.eu/rapid/press-release\\_IP-09-945\\_en.htm](http://europa.eu/rapid/press-release_IP-09-945_en.htm) > [Previewed on 05.11.2015].

<sup>6</sup> A. Grigas, *Energy Policy: The Achilles of the Baltic States*, *The Baltic States Today, Yesterday and Tomorrow*, Nortre Europe, 2013 < <http://www.institutdelors.eu/media/balticstateseu-energypolicy-grigas-ne-jdi-july13.pdf?pdf=ok> > [Previewed on 05.11.2015].

<sup>7</sup> A. Molis, *Transforming EU-Russia Relations: the Baltic States' Vision*, 2011 < <http://www.lfpr.lt/uploads/File/2011-25/Molis.pdf> > [Previewed on 05.11.2015].

<sup>8</sup> K. Smith, *Russians Energy Politics in the Baltics, Poland and Ukraine: A New Stealth Imperialism?*, Washington DC, The USA, 2004.

the EC.<sup>9</sup> Moreover, each Baltic state pursued different policies towards Russian investment in strategic energy infrastructure: Lithuania favored Western investors, Estonia cooperated with Russia in its economic policies and Latvia allowed Russia to invest into its gas sector, but kept oil under national control.<sup>10</sup>

The academic literature provides a range of possible explanations too. Keating argues on the lack of energy price transparency and trust between the Baltic States<sup>11</sup>, Grigas points different national interests and sovereign thinking<sup>12</sup>, Molis claims for the lack of understanding how important and beneficial cooperation is by focusing on state power and legacy factors (Gazprom's influence in the Baltics)<sup>13</sup>, Maigre stresses the legitimacy over effectiveness and lack of one regional institution coordinating cooperation<sup>14</sup>, Sraders and Ozolins unfold market approach with the focus on international competition instead of strategic approach with the focus on regional cooperation<sup>15</sup>, Dudzinska discusses the lack of common external energy policy<sup>16</sup>, which all create the adverse picture on regional cooperation. Thus, even though the states seemed to share mutual understanding on regional cooperation benefits and officially expressed this view by signing BEMIP, they rather compete between each other than cooperate.

The **problem** outlined above raises the following **questions**. First, what does the need for cooperation or competition in energy security in the Baltic States' region depend on? Second, is the choice of cooperation or competition determined by the specifics of energy sector?

Both state behavior and security studies feature the dichotomy of two paradigms: neo-realism and social constructivism. Neo-realists claim that international system is anarchical, hence, competition is the main state behavior pattern, influencing the way energy security policies

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<sup>9</sup> M. Leonard and N. Popescu, *A Power Audit of EU-Russia Relations*, European Council on Foreign Relations, 2007 <[http://www.ecfr.eu/page/-/ECFR-02\\_A\\_POWER\\_AUDIT\\_OF\\_EU-RUSSIA\\_RELATIONS.pdf](http://www.ecfr.eu/page/-/ECFR-02_A_POWER_AUDIT_OF_EU-RUSSIA_RELATIONS.pdf)>

<sup>10</sup> Grigas, A., *The Politics of Energy and Memory between the Baltic States and Russia*, Ashgate Publishing, London, UK, 2013

<sup>11</sup> Keating, D. *Energy Legacy of the Baltic States* < <http://www.politico.eu/article/energy-legacy-of-the-baltic-states/>> [Previewed on 05.11.2015].

<sup>12</sup> Grigas, 13.

<sup>13</sup> Molis, 11.

<sup>14</sup> M. Maigre, *Energy Security Concerns of the Baltic States*, International Centre for Defence Studies, 2010 < [http://www.icds.ee/fileadmin/media/icds.ee/failid/Merle\\_Maigre-Energy\\_Security\\_Concerns\\_of\\_the\\_Baltic\\_States.pdf](http://www.icds.ee/fileadmin/media/icds.ee/failid/Merle_Maigre-Energy_Security_Concerns_of_the_Baltic_States.pdf)> [Previewed on 05.11.2015].

<sup>15</sup> S. Sraders and J. Ozolins, *Are Baltic States Energy Secure?*, 2011 <<http://www.lithuaniantribune.com/8218/are-baltic-states-energy-secure-20118218/>> [Previewed on 05.11.2015].

<sup>16</sup> K. Dudzinska, *Energy Policy in the Baltic States – United or Separate?*, The Polish Institute of International Affairs, Poland, 2012 < [https://www.pism.pl/files/?id\\_plik=11583](https://www.pism.pl/files/?id_plik=11583)> [Previewed on 05.11.2015].



are formed. On contrary, social constructivists propose the idea that state behavior pattern is an open question each state has to answer when forming its energy security policies, hence, cooperation is one of the options to choose from.<sup>17</sup> Yet to analyze regional energy security there is a need of one theory, not only mediating between the two paradigms, but also filling the gap between them with consistent theoretical framework.

Buzan developed Regional Security Complex Theory, the theory that offers to fill the gap between neo-realism and social constructivism “by allowing both structure and securitization to determine the content of regional security”.<sup>18</sup> As Kahrs puts it, “it does not contradict the salience of realism, but offers a more nuanced approach that also accommodates constructivist concerns”.<sup>19</sup> Unification of two paradigms is beneficial in providing extensive explanations of political events without limiting them to structural determinism of realism and constructivism’s emphasis on agency.<sup>20</sup> Still the framework remains “within the general constrains of neo-realism” as the state remains the primary object of security.<sup>21</sup>

Buzan has introduced a new framework for security analysis by putting an emphasis on security complexes. A security complex is “a set of units whose processes of securitization, de-securitization or both are so inter-linked, that their security problems cannot reasonably be analyzed or resolved one apart the other”.<sup>22</sup> In addition to this, security complexes are formed both by cooperation and competition of interdependent rivalry and shared interests<sup>23</sup>. Security interactions among neighbors can result in the evolution of pluralistic security communities<sup>24</sup> that can be of different levels. Regional level of analysis is optimal as it allows mediating between state and system levels.

There are two basic factors that determine the Regional Security Complex existence, size, shape and the level of threat perception: the dominance of one actor and historical patterns of

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<sup>17</sup> D. Copeland, “*The Constructivist Challenge to Structural Realism*”, *International Security*, 2000, 25.

<sup>18</sup> R. Basrur, “*Decentralizing theory: regional international politics*”, *International Studies*, 2006, 420.

<sup>19</sup> T. Kahrs, „*Regional Security Complex Theory and Chinese Policy towards North Korea*“, *East Asia*, 21: 4, 2004, 65.

<sup>20</sup> Basrur, 421.

<sup>21</sup> B. McSweeney, *Security, Identity and Interests: sociology of international relations*, Cambridge University Press, 1999.

<sup>22</sup> B. Buzan, O. Waever and J. De Wilde, *Security: a new framework for analysis*, Lynne Rienner Publishers, 1998, 211.

<sup>23</sup> Buzan, Waever and De Wilde, 215.

<sup>24</sup> K. Deutch, *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience*, Princeton, 1957.

<[http://www.lsu.edu/faculty/lray2/teaching/7971\\_1s2009/deutsch1957.pdf](http://www.lsu.edu/faculty/lray2/teaching/7971_1s2009/deutsch1957.pdf)> [Previewed on 05.11.2015].

amity and enmity.<sup>25</sup> Although energy security is said to always be dynamic, the security complexes can both experience structural transformation and remain the status quo.<sup>26</sup>

Polonkorpi has further brought new insights to the Buzan's theory by challenging it and making it suitable for regional energy security analysis. According to him, Regional Energy Security Complexes can be formed by energy dependencies of two or more states and perception of this dependency as a threat. Historical amity and enmity patterns are well seen when evaluating bilateral relations between states and considering energy dependencies: if a state has stable relations with the other, the 50 % dependency on the only supplier for a certain resource may not be seen as a threat, whereas if relations are full of enmity, even smaller percentage of dependency may be seen as a threat.<sup>27</sup>

This paper argues that the Baltic States energy security issues should be seen in complex as the states not only have common external threat (energy dependency on Russia), but are also highly interdependent: they share the same Soviet-era energy transport and delivery infrastructure. Moreover, they all have to follow EU energy policies whose structure and the way they are enforced demand to link energy security problems, treat them as regional, perform the common processes of securitization and solve them by cooperative means.

Since 2009 the Baltic States were meeting regularly in the format of BEMIP High Level Working Group managed by EC to agree upon the number and location of energy infrastructure projects that would enable the Baltics to integrate into the EU Internal Energy Market. By the end of 2011, after long negotiations and assurance of EU financial support (such as EU structural funding and EIB) the High Level Working Group made final decisions upon six new energy infrastructure projects of priority in the region that had to be implemented by 2015. These include: regional LNG terminal, NordBalt, LitPol Link and Estlink II, BalticConnector and pipeline between Lithuania and Poland. However, there were two projects the Baltic States could not agree about for quite a long time: regional LNG terminal and NordBalt. Although all the projects indicated in the BEMIP and supported by EU financially were obliged to serve regional needs, by 2011, after ineffective negotiations, Lithuania took all the risks and decided to start building the terminal on its own to at least increase national security by 2015. Meanwhile, to reach an agreement and start building NordBalt, Lithuania had to share a quarter of the EU funding with Latvia.

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<sup>25</sup> B. Buzan and O. Waever, *Regions and Powers: The Structure of International Security*, 2004, 25.

<sup>26</sup> *Ibid*, 25.

<sup>27</sup> M. Polonkorpi, *Energy Security and the Regional Security Complex Theory*, Aleksanteri Institute, 2008.

Therefore, the problem of cooperation between the Baltic States leads to the following **hypothesis**: if a state has ability to increase its energy security by implementing national energy infrastructure projects alone, it chooses not to cooperate; if it doesn't have ability to implement infrastructure projects alone, it chooses to cooperate.

In this paper cooperation or competition will serve as a dependent variable, whereas ability to implement energy infrastructure projects will serve as an independent variable. The **goal** of this paper is to highlight some significant facts about dynamics of state behavior under the pressure of energy security concerns, arguing that due to Lithuania and Estonia's ability to implement new energy infrastructure projects, the energy security complex of the Baltic States has started to change, setting new energy production and consumption relations, being formed in the region.

Therefore, there are three **objectives** to achieve:

1. to describe the status quo of the Baltic Energy Security Complex in time period 2009-2011);
2. to analyze public documents surrounding BEMIP, Lithuanian LNG terminal and NordBalt projects, evaluating the motives for choice of cooperation or competition in each;
3. to examine the Baltic Energy Security Complex in time period 2012-2015 by comparing the current situation with the status quo as well as comparing electricity and gas sectors in terms of cooperation and competition.

The methodology of this paper is a qualitative analysis of several cases using the process-tracing method to perform a deep study of each case. Apart from public discourse, the experts of four different energy-related fields have been interviewed: 2 politicians, 1 regulator, 2 tradesmen and 5 infrastructure managers (TSOs). The list of interviewees is provided in Appendices, Annex V. It is important to add that the projects analyzed can be divided into two groups: international projects (e.g. NordBalt) and intra-national (e.g. Lithuanian LNG terminal). This grouping is reasonable when capturing the level of energy interdependency and evaluating what is the dominant approach used in the region (market or strategic) to make a decision on the implementation of a new project. Moreover, such grouping unfolds the core purpose of the new project: to increase regional energy security or to implement national external policy.

The paper starts with the theoretical description of the main concepts used in the analysis. Then status quo structure of the Baltic Region Energy Security Complex is provided moving further with the deep analysis of BEMIP and two energy infrastructure projects implementation, dedicating a chapter for each. After that, the shift of energy interdependency relations within a region is analyzed by finishing the analytical part with comparison of two situations: the status quo (2009-2011) and current (2012-2015) energy interdependency in the Baltic Region Energy Security Complex as well as comparing the electricity and gas sectors in terms of cooperation and competition. Finally, the conclusions are drawn.

## 1. Theory

Before discussing the peculiarities of the selected case studies, it is important to review the major theoretical issues and perspectives, useful to understand the formation and structure of the Baltic States energy security complex. Since in International relations theory the division between *structure* and *agency* as well as *cooperation* and *competition* influence the way the case studies are framed and interpreted, in this section some relevant theoretical questions and assumptions will be sketched.

### 1.1 International Relations theory and state behavior determinants: cooperation and competition

State behavior studies feature the dichotomy of two paradigms: neo-realism and social constructivism. Although in International Relations theory these two approaches compete, especially when defining the nature of international system, social constructivists, through the work of Alexander Wendt, challenged the neo-realist notion of anarchy, pointing out that anarchical international system does not necessarily force states into “recurrent security competitions”, state behavior can rather be conflictual or cooperative.<sup>28</sup> According to neo-realist approach, however, the main priority of states is to ensure their own survival, which often leads to conflict, thus, allows neo-realists to argue that the nature of the international system is anarchical, making war inevitable. Constructivists, on the other hand, agree that all states try to survive, yet the way in which they achieve this survival is an “open question”, illustrating that state survival does not need to entail the use of force or engagement in

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<sup>28</sup> Copeland, 25.

conflict.<sup>29</sup> In this sense constructivists, with their perception of multiple meanings, can see the opportunity for cooperation where realists only consider the possibility of conflict.

Moreover, neo-realists claim that states have no choice, but to put their own interests ahead of the other states interests, as they always feel the fear of “the other”, which never reduces<sup>30</sup>. Yet constructivists oppose to this, claiming that fear can be overcome through interaction with the other states and argue that diplomatic relations between states helps to reduce states’ fears and foster cooperation.<sup>31</sup> This presupposes the idea that every state has to decide what behavior pattern to choose: fear of each other and interest *competition* or diplomatic relations and *cooperation*.

Yet unity among members (or structure) happens only when there is a stranger threatening a group, which implies that its move towards *cooperation* and, eventually, integration is exogenous to the group itself.<sup>32</sup> This argument shows the relevance of internal soft variables in the causal explanation of state behavior, leading to the agent-structure debate between neo-realists and social constructivists: whether interests and contexts outdrive values and identity. According to neo-realists, interests are rational and mainly based on power and survival, evident in politics and economy. On contrary, social constructivists re-evaluate the formation of state interests to explain state behavior and actions.<sup>33</sup>

Therefore, it is crucial to unfold the extent of the impact the external environment and national survival interests of a certain structure sharing one cultural identity do on the formation of organization that implies the corresponding policies. From the security studies’ point of view, this either implies an “ad-hoc functional organization in the form of alliance, based on minimum common dominator” or “the existence of a security community sharing not only common interests, but also a common system of norms, leading to further integration”.<sup>34</sup> This paper follows the assumption that the structure analyzed - Baltic region

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<sup>29</sup> C. Weber, *International Relations Theory: A Critical Introduction*, 3<sup>rd</sup> Ed. London: Routledge, 2009.

<sup>30</sup> J. Mearshamer, *Structural Realism*, International Relations Theories: Discipline and Diversity, Oxford: Oxford University Press, 2007.

<sup>31</sup> Copeland, 26.

<sup>32</sup> C. Hardens and M. Legrenzi, *Beyond Regionalism?: Regional Cooperation, Regionalism and Regionalization in the Middle East*, Ashgate, 2008 <[https://www.ashgate.com/pdf/SamplePages/Beyond\\_Regionalism\\_Intro.pdf](https://www.ashgate.com/pdf/SamplePages/Beyond_Regionalism_Intro.pdf)> [Previewed 05.11.2015].

<sup>33</sup> K. Waltz, *Theory of International Politics*, Addison Wesley Publishing, 1979 <<https://www.press.umich.edu/pdf/9780472099818-ch1.pdf>> [Previewed 05.11.2015].

<sup>34</sup> E. Adler and M. Barnett, *Security Communities*, Cambridge University Press, 1998, 45 <[http://books.google.it/books?id=wFiU4nPB0wC&printsec=frontcover&source=gbs\\_ge\\_summary\\_r&cad=0#v=onepage&q&f=false](http://books.google.it/books?id=wFiU4nPB0wC&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false)> [Previewed 05.11.2015].

energy security complex – is rather interest-driven than shares common identity or values, which makes an impact on energy security policy outcomes.

Talking about state behavior it is critical to define what state behavior patterns are as well as how, when and why states follow them. Thus, the next section covers the main state behavior patterns, namely *cooperation* and *competition*.

The primary relationship between agents (states) in international system is that of *competition* for resources: food, territory, control. It is also recognized that agents not only *compete* but also *cooperate* with one another, sometimes simultaneously, for instance, working in groups (or in *cooperation*) while also fighting for dominance within these groups (*compete* among each other). Thus, if we looked closer at inter-agent behaviors, it would be seen that pure *competition* or pure *cooperation* does not exist. *Cooperative* behavior is explained as an exception to the general *competitive* landscape and happened only when two (or more) agents share enough interests that *cooperation* could be seen as a form of agent selfishness. While this is true in a narrow sense, it misses the larger point - that *cooperation* between any two or more agents can confer advantages to all, regardless the distance and interests, which is to all international system.<sup>35</sup>

Furthermore, it is also significant to add that when two or more agents interact in a *cooperative* manner, such as for their individual survival, then those agents can be seen to form a new system — new agent — at a higher level of organization. This paper argues that regions are this kind of new agents and are formed by *cooperative* interactions. Since the paper focuses on one region – the Baltic States region, the next paragraphs elaborate on *cooperative* behavior the states, belonging to one region, could perform.<sup>36</sup>

State *cooperation* is a balance of systemic processes formed by interaction and behavior coordination between the states when behavior subjects are governments, *cooperation* method is dialogue and consultation, the scope of consultation involves the military, security and foreign policy as well as other areas of production-consumption process, where the goal to achieve is a win-win situation.<sup>37</sup>

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<sup>35</sup> J. Duffy, Cooperative behavior and the Frequency of Interaction, 2003  
<<http://levine.sscnet.ucla.edu/archive/refs4122247000000000060.pdf>> [Previewed 05.11.2015].

<sup>36</sup> Ibid, 3.

<sup>37</sup> State Cooperation, Summaries of EU legislation, 2006  
<[http://europa.eu/legislation\\_summaries/institutional\\_affairs/treaties/amsterdam\\_treaty/a28000\\_en.htm](http://europa.eu/legislation_summaries/institutional_affairs/treaties/amsterdam_treaty/a28000_en.htm)> [Previewed 05.11.2015].

The original form of *cooperation* is unbalanced or anarchical international system. Temporary balanced international system can become unbalanced if the conditions change, which then becomes the starting point for new *cooperation* dialogue. The goal states aim to achieve is the balanced international system as it is an ideal condition for *cooperation* and at the same time is the highest condition of *cooperation*.<sup>38</sup>

*Cooperation* is also behavior coordination that refers to the coordination of contradictions and conflicts, occurred while each side tries to realize its benefit maximization. Thus, the purpose is to preserve the balanced *cooperation* instead of getting back to balanced betrayal or anarchy, prevalent before *cooperation* dialogue starts.<sup>39</sup>

Conventionally, there are two types of cooperation to distinguish: mutualism and commensalism, explaining whether both or just one part is benefitting. However, besides that, there is an alternative distinction to consider providing three ways of cooperation: explicit cooperation, implicit cooperation and disruptive cooperation. Explicit cooperation defines two (or more) agents using explicit communication to coordinate their behaviors. It the most organized way of *cooperation* and is can be fully coordinated.<sup>40</sup>

Implicit cooperation, on the other hand, is about agents who end up cooperating “by accident”, meaning that their actions are determined individually without any explicit communication. But because of the particular state of the environment, including their configuration with one another, they each happen to benefit from the actions of the other. The tit-for-tat strategies in the iterated prisoner’s dilemma illustrate the concept. Past actions of one agent is noted and factored into future actions of another. There is no explicit communication, and each agent is looking out for their own best interests and nothing else. When a tit-for-tat agent interacts with a “narrowly selfish” agent, cooperation does not arise, but when two tit-for-tat agents interact it does. The tit-for-tat agent does not get to choose its strategy, rather the environment that it finds itself in that determines whether it will be in a cooperative situation or otherwise. In social systems, implicit cooperation occurs all the time, though we tend to assume that all cooperation requires explicit communication. This fallacy helps explain the popularity of conspiracy theories.<sup>41</sup>

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<sup>38</sup> Duffy, 12.

<sup>39</sup> Ibid, 14.

<sup>40</sup> Three Kinds of Cooperation <<http://emergentfool.com/2007/10/01/three-kinds-of-cooperation/>> [Previewed 05.11.2015].

<sup>41</sup> Ibid, 2.

Disruptive cooperation can be illustrated by the analogy “the enemy of my enemy is my friend.” If in international system full of agents one of them is cooperating with one another to their mutual benefit over the general non-cooperating agents, the independent agents can gain relative benefit by simply disrupting the cooperation of these two agents. It should be noted that social agents exhibit this dynamic all the time. As an example, this now happens in The U.S., where dissident political parties are presenting a unified front in their opposition to Putin’s all powerful ruling party. What way (-s) of cooperation can be found between the Baltic States is subject to analysis, that is going to be performed in the following chapters.<sup>42</sup>

However, there are always *cooperation* risks to be aware of. Risks include both internal and external potential factors, leading to the state *cooperation* deviation. Thus, some risks should be measured before starting *cooperation* by firstly asking what the probabilities of imbalance and the extent of *cooperation* imbalance are.

One of the most potential risks to emerge regarding cooperation imbalance is state structure ability to cooperation. State structure ability includes the allocation of state’s resource capacity, transformation of the industrial structure, technical development capability, trade development capacity and open economy ability. These five indicators and their impact on the area that is the subject to cooperation should be evaluated before starting “a conversation”. If structure ability of two countries, willing to cooperate at a particular area is big, they will not manage to cooperate and/or balance cooperation.<sup>43</sup>

Another important risk is the subject decision-making risks. They include mutual trust risk (that agents are mutually willing to maintain the cooperation), which would increase the potential for conflicts of interests in cooperation on both sides, influencing decision-making. Moreover, there is an opportunism risk, defined as a form of behavior that only pays attention to short-term interests. This can also form a different cooperation vision by a state, leading to different expectations about the future benefits. Also, information asymmetry plays an important role. Information is a processed data and is sensitive to time, errors, interpretation and distribution. At the same time, information asymmetry can lead to the wrong decision-making, the betrayal of the party in order to avoid some loses or prevention of being betrayed at the next step of cooperation.

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<sup>42</sup> Ibid, 2.

<sup>43</sup> Wang Qi, Xu Ting-ting and Guo Xiao-li, *Analysis on the Risk of Northeast Asia Regional Energy Security Cooperation*, 2004 < [http://ac.els-cdn.com/S1876610212000665/1-s2.0-S1876610212000665-main.pdf?\\_tid=485dfaba-f7da-11e4-9214-0000aab0f01&acdnat=1431347941\\_898c9cae2859926f780d53422c5c455a](http://ac.els-cdn.com/S1876610212000665/1-s2.0-S1876610212000665-main.pdf?_tid=485dfaba-f7da-11e4-9214-0000aab0f01&acdnat=1431347941_898c9cae2859926f780d53422c5c455a) > [Previewed on 05.11.2015].



What is more, cooperation systems have both economic (economic level, inflation) and political (political stability, geopolitics) environments that can impact cooperation externally. Thus, external environment risks are not to overcome. Besides that, an important issue is cooperation pattern factors, such as common goal cooperation, share-information cooperation and common action cooperation, resulting in high dependency on each other, both symmetrically and asymmetrically.

Regardless the mentioned risks, whether and when states *cooperate* (or *compete*) depends on a number of factors: first, the definition of the other and second, on the threat.<sup>44</sup> Yet different schools of thought have different opinion on when state *cooperation* or *competition* occurs.

Neo-realists consider competition as a natural feature of an international system as states have to counterweight the power of other states if they want to survive as sovereign entities. As a result, asymmetric gains produced by cooperation are potential security risks. Thus, states would cooperate either to balance or bandwagon power endangering their security.<sup>45</sup> Besides that, according to Gilpin's Hegemonic Stability Theory, cooperation between states would only happen if there is a hegemon in order to appease or counterweight it.<sup>46</sup> In Baltic region energy security case, such a hegemon is Russia that not only influences the region externally, but also functions as a hegemon.

Social constructivism, on the other hand, following the rationale that interests are constructed by actors through processes of communication and interaction, states that neo-realistic idea of international system, constituted by sovereign states, is outdated. Moreover, it says that cooperation is much less a rational reaction to the existing international structure, but "the result of ideas successfully brokered by hegemonic actors who dominate the definition, distribution and institutionalization of these collective understandings."<sup>47</sup>

Nevertheless, both theories agree that international rather than domestic determinants form preferences, yet they both maintain that power, which plays the main role in cooperation. Furthermore, neo-realism and social constructivism stress the necessity of hegemony (unbalanced or potentially unbalanced system) as a pre-condition of cooperation.<sup>48</sup> What

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<sup>44</sup> Hardens and Legrenzi, 28.

<sup>45</sup> S. Walt, *The Origins of Alliance*, Cornell University Press, 1987  
< <http://www.ou.edu/uschina/texts/WaltAlliances.pdf> > [Previewd on 05.11.2015].

<sup>46</sup> R. Gilpin, *The Rise of American Hegemony*, Ashgate Publishing, 1971.

<sup>47</sup> J. Ruggie, *Multilateralism: the anatomy of institution*, Cambridge University Press, 1992.

<sup>48</sup> Hardens and Legrenzi, 29.

concerns Baltic region energy security complex, this paper argues that the member states entered the organization to balance the external threat – Russia.

Although it is now clear that cooperation and competition are the main patterns of state behavior, it would be incorrect not to discuss the goals and aims these behaviors are performed to achieve. Since in international relations the main aim, interest and value of the actors (states, organizations or even individuals) is survival, the concept of *security* connects the existential issues directly. The central question here is how to define the referent object of survival/security. Neo-realists frame the referent object as material values, whereas social constructivists stress the security of ideas, cultures and identities.<sup>49</sup> Therefore, any form of either *cooperation* or *competition* has the same goal: preservation or security of existential interest. The same rationale can be applied when talking about regional security, which the next section is going to expand on.

## 1.2 Security dynamics and Regional Security Complex Theory

Any discussion of security and its concepts is complex and controversial, making security quite a challenge to define as concepts of security are the different bases on which states and the international communities as a whole rely on their security. Examples of concepts can be the balance of power, deterrence, peaceful coexistence, neutrality, non-alignment, collective security and others.<sup>50</sup> This paper focuses on balance of power security concept as it analyzes regional security structure – the Baltic States – trying to counterbalance its external power Russia.

The balance between countries in a region is always relative, which is the factor states consider in addressing their security concerns. The perspective of a region of small and weak states is different from that of a major power as it can influence regional balance, while, very often, small nations do not have many options, but to adjust to the situation and to try to stay out of the struggle for power.

Baltic States are small states that have become independent members of the international community relatively recently. It has become apparent that they have specific security

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<sup>49</sup> B. McSweeney, *Security, Identity and Interests: a sociology of international relations*, Cambridge University Press, 12.

<sup>50</sup> UN Department for Disarmament Affairs, Report of the Secretary – General, *Concepts of Security*, New York, 1986 <<http://www.un.org/disarmament/HomePage/ODAPublications/DisarmamentStudySeries/PDF/SS-14.pdf>> [Previewed on 05.11.2015].

problems of their own. Their emergence and recent developments have highlighted the special needs and vulnerabilities. Although the special needs of these states have given rise to such categories as "small island states", the concept of small states is more relative than precise. The characteristics which all small states have in common are as follow: a very small population, they all suffer from other disadvantages such as a small territory, limited natural resources and economic as well as social underdevelopment. These characteristics place a severe limitation on the capacity of small states to organize and guarantee their national security on their own. This basic defenseless is what makes small states especially vulnerable to external attacks and intervention. Their smallness makes them easy targets for aggression by more powerful states and more vulnerable to concerted external propaganda. Moreover, small states that are strategically located in relation to the interests of the big powers or those that possess valuable natural resources. So they face even more formidable problems: they are under great pressure to accommodate the wishes of the more powerful states.<sup>51</sup> In this connection, it is clear that the best prospects for ensuring the national security of the Baltic States lie in the creation of regional security structure.

Security dynamics concept, based on the existence of danger and threat at any moment, has been an object of debates for decades. According to Buzan, security of an actor is only measurable if considered in terms of systematic interdependence among the components of the system. He provided a relevant theory of Regional Security Complex – an attempt to link neo-realism and social constructivism, developed by the Copenhagen School. A security complex is “a set of units whose processes of securitization, de-securitization or both are so inter-linked, that their security problems cannot reasonably be analyzed or resolved one apart the other”.<sup>52</sup> Regional level of analysis is important as it allows mediating between state and system levels. Security interactions among neighbors are then prior due to their shorter distance of the potential threats, which can result in the evolution of pluralistic security communities.<sup>53</sup> However, it is crucial so emphasize that security complexes are formed both by *cooperation* and *competition* of interdependent rivalry and shared interests, thus, security communities are also forced to settle the disputes within the security complex members.<sup>54</sup>

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<sup>51</sup> Ibid, 16.

<sup>52</sup> B. Buzan, O. Waever and J. De Wilde, *Security: a new framework for analysis*, Lynne Rienner Publishers, 1998, 211.

<sup>53</sup> K. Deutch, *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience*, Princeton, 1957.

<sup>54</sup> Buzan and Waever, 1998, 11.

In addition to this, the presence of external threat in the region makes member states to temporarily de-securitise intra-regional conflicts in order to unite and fight a common threat.<sup>55</sup>

The main structural features of Regional Security Complex (RSC) are the differentiation of units, the number of units, the patterns of *amity* and *enmity* and the distribution of power within the security complex.<sup>56</sup> Complexes are defined by “who is actually interconnected in terms of security interaction”<sup>57</sup>, where the main factor in the complex is the high level of mutual felt threat among two or more states. Further, states can have various shared interests that make them interdependent and not conflictual. Such patterns are long-term because of their structural, historical and geographical nature.

Yet structures unlike geography are more flexible. Structure of the security complex can change as a result of changes in the regional balance of power or as a result of change in historical *amity* and *enmity* patterns: either regressing to the forms of self-help or progressing towards deeper integration, caused by external and internal transformation.<sup>58</sup> There are four structural options available for security complex:

- 1) *Status quo*, where changes in distribution of power or *amity* and *enmity* patterns have not transformed the essential structure of the security complex;
- 2) *Internal transformation*, where structure of the security complex changes within the existing boundaries of the complex as a result of changes in those two factors;
- 3) *External transformation*, where outer boundary of the security complex is changed, because new states move into the complex or states move away from the complex. This usually implies redefining more than one security complex;
- 4) *Overlay*, which in military security means overwhelming military presence by more powerful state in the area of weaker state(s) that suppress functioning of normal security dynamics of the region.<sup>59</sup>

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<sup>55</sup> B. Buzan, *People, States and Fear: An Agenda for International Security Studies in the Post-Cold War Era*, Prentice Hall, 1991.

<sup>56</sup> B. Buzan and O. Waever, *Regions and Powers: the structure of international security*, Cambridge University Press, 2003, 14.

<sup>57</sup> Buzan, Waever and De Wilde, 35.

<sup>58</sup> Buzan, 1991, 24.

<sup>59</sup> *Ibid*, 16.

It is assumed in this paper that Baltic regional energy security complex underwent the *internal transformation* where one member-state – Lithuania – shifted its actions. This shift requires the re-definition of the complex. Inevitably, *amity* and *enmity* patterns as well as *cooperative* and *competitive* tendencies in the region are influenced by external threat Russia and the changes in the systemic power distribution.

Buzan has also pointed out that security complexes can be of two kinds: homogenous and heterogeneous. Homogenous security complex consists of states and operates within one sector, whereas heterogeneous security complex accepts the interaction of various actors beyond the states and the integration of different domains (not only political, but also economic, cultural, societal). Such distinction allows creating a more sophisticated framework for analysis on different levels, units, sectors and interpretation of security.<sup>60</sup> Baltic region energy security complex is homogenous in terms of its units, but heterogeneous in terms of the sector considered – energy is strongly influenced by reasons of internal distribution of power and external threat (Russia).

Having this said, it is time to elaborate on how RSC can be applied. Although RSC emerge where actors (states) construct issues of a certain region as security threats, securitization within RSC may be asymmetrical as a prior security threat by one actor may not be viewed as a prior threat to another.<sup>61</sup> To understand the process by which issues become securitized and, thus, a complex emerge social constructivism suggests studying discourse and political constellations. Neo-realism, on the other hand, helps to understand how security interactions among states occur.<sup>62</sup> Hence, relevant structural factors, such as evolution of economic interdependence, trade, demographic changes, are included to highlight the emerging structure of security relations, which supports the agency factors, identified through discourse analysis. Patterns of security construction are primarily elements defining a RSC.<sup>63</sup>

### **1.3 Regional Energy Security Complex**

Regional Energy Security Complex (RECS) concept was firstly defined by Buzan and Waever, who did not consider energy as a separate sector of security, but, instead, it was

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<sup>60</sup> Buzan, 36.

<sup>61</sup> Buzan, Waever and De Wilde, 24.

<sup>62</sup> Ibid, 27.

<sup>63</sup> Ibid, 28.

incorporated into the economic security sector.<sup>64</sup> However, it is important to underline that the energy security complex is an abstract analytical concept and as such it should not be confused with such concepts as the fuel and energy complex (which in Russian context is used to describe energy sector of the Russian economy).<sup>65</sup> RESC as a separate concept was defined by Polonkorpi, who claimed that „regional energy security complexes are formed by energy related interaction between two or more states in a limited geographical area, which includes an energy dependency relationship between the states involved and perception of this dependency as a threat“.<sup>66</sup> The energy interaction includes transactions such as production (export), purchasing (import) and transit of energy. Similarly to RSC definitions by Buzan and Wæver, RESC also include the threats arising from energy dependencies and are usually more intense between states (or regions) in close geographical proximity.

In order to outline a regional energy security complex, there is a need to evaluate the relative strength of energy dependencies by measuring such factors as energy trade balance, level of domestic energy resources and possibilities for energy diversification.<sup>67</sup> However, dependency figures are aggregate measures of overall energy (supply) dependency from specific exporting country that have to be balanced against energy mix of the individual states. For example, at first sight Finland’s 100% dependency on natural gas imports from Russia would indicate strong dependency pattern resembling circumstances in Georgia and in Armenia. Yet the decisive difference is that natural gas constitutes only around 11% of Finland’s primary energy consumption.<sup>68</sup> Therefore, as Polonkorpi suggests, there is always room for analytical choice, whether to construct regional energy security complexes based upon aggregate energy dependencies or whether it makes more sense to construct these along major energy sources (natural gas, oil, coal, electricity, renewables, hydro power or nuclear power).

What is against dividing energy security complexes according to the energy sources, is the fact that in the policy making process the energy security of any given state is treated as an aggregate whole.<sup>69</sup> However, a powerful counter argument for analyzing the security implications of the different energy sources separately is the difference in their transportation

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<sup>64</sup> B. Buzan, and O. Wæver, 2003, 97.

<sup>65</sup> Polonkorpi, 3.

<sup>66</sup> Ibid, 6.

<sup>67</sup> Ibid, 8.

<sup>68</sup> M. Kara, *Finish Energy*, Helsinki, 2004.

<sup>69</sup> Polonkorpi, 12.

capabilities and the structure of their markets. For example, the crude oil can be easily transported by large tankers from the other side of the world and thereby the oil market is truly global, whereas the natural gas trade rests upon far less mobile gas pipelines and that is one of the reasons why such thing as the global gas markets or a global gas price are still under formation. Although it is technically possible to transport liquefied natural gas (LNG) over long distances by ships, for the most part the gas producers and customers are still lacking the expensive LNG-infrastructure to create a truly global market for natural gas. Among the Baltic States region, only Lithuania has an LNG terminal, whereas the distribution of Lithuanian LNG gas within the Baltic state region is still subject to pipelines.

Moreover, Baltic states region is highly dependent on Russian gas and electricity, so their energy security policies are implemented around reduction of this energy dependency. Therefore, the Baltic States RESC is completely based upon aggregate energy dependencies.

### 1.3.1 Energy dependency and interdependency concepts

Since the 1970's the *dependency* and *interdependency* concepts have been widely used in the mainstream IR theory. *Interdependency* has been associated with liberalist emphasis on markets *dependency* versus neo-realist emphasis on political *dependency*. According to Sullivan, the mainstream liberal arguments have advocated separation between economic and political issues, claiming that economic activities occur in non-politicized space, whereas neo-realists regard economics subordinate to politics, because, according to them, nations are the main actors and the power is their main objective.<sup>70</sup> Furthermore, as Cohen puts it, liberalism sees states mainly as trading states seeking absolute gains and not interested what are the gains of other states, whereas neo-realism sees states mainly as territorial states, seeking gains relative to other states, like gaining better position among the states.<sup>71</sup>

Just like in the main RSC theory, important factors that define the energy security complexes are the historical *amity* and *enmity* patterns that have an influence on how the energy *dependency* is perceived. Each energy *dependency* case can be perceived in varying degree either as a mutually beneficial *interdependency* (positive *dependency*) or as an unequal and threatening *dependency* (negative *dependency*). In other terms, interdependency can be seen both as *cooperation* and *competition* among the states. The *amity* and *enmity* patterns can be

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<sup>70</sup> M. Sullivan, *Theories of International Relations – Transition vs. Persistence*, Palgrave MacMillan, 2002, 152.

<sup>71</sup> B. Cohen, "Review: The Political Economy of International Trade", *International Organization*, 1990, 204.

seen as factors that partially explain why certain energy *dependencies* are politicized and/or securitized when others are not. Based on the different *dependency* perception alternatives, the nature of the energy *dependency* can be placed into an economic-political-security continuous sequence. State with cordial bilateral relations to another state might not consider 30% energy *dependency* from neighboring state as a serious security threat, whereas two states with antagonistic relations might perceive even 10% dependency as a serious threat to national security.

Although in reality the economic and political aspects of energy security are often merged together, that doesn't reduce the impact of analytical separation of these aspects, which forms the foundation for the study of energy security complexes. Without analytical separation of these different aspects, energy security would be interpreted as either completely market driven quest for equilibrium between energy supply and demand or a completely state driven geopolitical *competition* for energy resources and transit routes.<sup>72</sup>

Therefore, energy *dependency* is politicized or securitized more easily if it is linked to other controversies or conflicts (*enmity*) between states and these *enmity* perceptions can be regarded as factors which turn *dependency* into a negative energy *dependency* or *competition*. Thus, the energy security complexes are likely to follow the already existing lines of security interdependence in the region.

On the other hand, positive energy *interdependency* or *cooperation* is likely to develop according to the rules of the energy market, where the main threats are secure supply and stable price of energy. According to Chase, the lack of self-sufficiency in energy is not a problem, because energy trade is the mechanism that should balance that out.<sup>73</sup> However, the concentration of the future oil and gas reserves/production in the hands of smaller number of states with uncertain prospects for political stability emphasizes *enmity* or negative perception aspect. As a result, energy security complex could be defined as a geographical area where both negative energy *dependencies* and positive *interdependencies* are concentrated.<sup>74</sup> Energy security community is here understood in terms of Deutch, who defined it as a product of profound integration that created sense of community among the states which led to the expectations that conflicts within that community would be resolved in a non-violent manner. States within the security community share core values and security

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<sup>72</sup> Polonkorpi, 13.

<sup>73</sup> H. Chase, 2006 <<http://www.helsinki.fi/aleksanteri/energy/Events/chase.htm>> [Previewed on 05.11.2015].

<sup>74</sup> Polonkorpi, 14.



*cooperation* between them reinforces the mutual understanding of these shared values.<sup>75</sup> In energy there were attempts to form an energy security community, like European Energy Security Treaty, proposed by Poland in 2006, but none of them were successful, hence, regional approach was taken instead.

Energy resource wise, natural gas appears as the most likely candidate for being used for political purposes. Unlike the crude oil, natural gas doesn't have a global market or a global price, both of which are regionalizing factors. Furthermore, natural gas prices are negotiated locally and quite often the NG prices are not made public. The lack of transparency provides more opportunities to *competition* than *cooperation*.

Moreover, the transportation of the natural gas is for large degree still pipeline dependent and, therefore, possibilities for rapid adjustment in importing and exporting patterns of the natural gas are much more inflexible than in crude oil, which can be transported by large tankers from several different producers around the globe. Developments in the shipment techniques of the liquefied natural gas (LNG) can also challenge the dominance of the pipelines as the main export system for the natural gas. Improved LNG systems would increase competition and reduce the price in the European gas market. However, critics denounce these estimates as over optimistic. First of all, LNG as a substance is much more difficult and expensive to transport than crude oil, since extra transport distances add notably to the overall transport costs. Secondly, construction of the LNG delivery and liquefaction infrastructure is also expensive and volatility of the gas market is an additional risk factor for the potential long term investor. As a result, short distance regional LNG markets are more likely to emerge than an oil-like integrated global market for LNG. If this holds true, the LNG may not offer a solution to the regionalizing security qualities of the pipelined natural gas. Furthermore, LNG facilities and large LNG vessels have been securitized as attractive targets for the terrorists, which has for its part delayed introduction of the LNG technology in many countries.<sup>76</sup> Having this said, the analysis of one case study – construction of Lithuanian LNG terminal and its regional benefit - is going give important insights on Baltic States RESC dynamics.

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<sup>75</sup> Deutch, 12.

<sup>76</sup> P. Roberts, *The End of Oil – On the Edge of the Perilous New World*, Houghton Mifflin Company. Boston: New York, 2004.

### 1.3.2 Regional Energy Security Complex structure

Structure of the energy security complex may change as a result of relative changes in the energy *dependency* (by %) or as a result of shifts in the perceptions of the energy *dependency* to energy *interdependency* or vice versa. As an example, building a new power plant by one state could decrease its energy *dependency*, but this might not be enough to alter the existing regional energy *dependency* patterns and therefore the structural *status quo* of the energy security complex. *Internal transformation* would occur when regional energy projects are significant enough to change the *dependency* patterns within the region. *External transformation* can occur as a result of major strategic energy infrastructure undertakings, such as new oil and gas pipelines, that bring substantial amount of additional energy resources to the complex from outside, change the energy *dependency* patterns and link new states to the complex. By extension, this might shift the boundaries of more than one energy security complex. *Overlay* in the energy security complex could be viewed as a total dependency on a one energy supplier (or a customer) in the region. *Overlay* could also occur if one state has a monopoly position in energy transportation (for example, Lithuania with its LNG terminal).<sup>77</sup>

Since it was earlier assumed that Baltic state region has undergone an internal transformation, here it would be a place to explain such an assumption. First, there were six energy infrastructure projects started to implement in a region recently. Second, all of them aimed at reducing energy dependency from Russia. Third, 4 of them are being built in Lithuania and only two in Estonia. Thus, it is possible to suppose that these projects have enough power to shift energy *dependency* structure in a region, making two other states more *dependent* on Lithuania.

## 2. Methodology and Data

In the previous sections it was discussed what regional security complex is and how it can be applied to regional energy security analysis. This section though focuses on the methodology the analysis will be conducted in. Therefore, it will consist of the description of the chosen

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<sup>77</sup> Polonkorpi, 15.

research method, research design and variables, used to test the hypothesis generated in the introductory part. Besides that, it will briefly explain the types of data used for the analysis.

This paper uses the qualitative case study methodology and analyzes several cases as it aims at producing the policy-relevant knowledge on when states choose to cooperate. Small-n studies can generate conditional generalizations by identifying causal mechanisms that help to tackle the motives of a certain state behavior and interpret the outcomes of the interstate interactions<sup>78</sup>, which is the goal of this thesis.

Although there are six energy infrastructure projects discussed in the paper (regional LNG terminal, LitPol Link, NordBalt and Estlink 2, Lithuanian-Polish pipeline and BalticConnector), only two of them are analyzed in deep – Lithuanian LNG terminal and NordBalt. These two projects can be divided into two groups: intra-national projects (e.g. Lithuanian LNG terminal) and inter-national projects (e.g. NordBalt). Such a distinction is reasonable as it helps to capture the level of energy interdependency between the Baltic States and evaluate what is the dominant approach used in the region (market or strategic) when making a decision to implement a new project. Moreover, such grouping unfolds the core purpose of the new project: to increase regional energy security or to implement national external policy. It is an important regional security issue as both energy infrastructure projects produce regional benefit, either primary or secondary. Yet if the project's core goal is to bring economic benefits to a certain state only, this creates a negative interdependency among the states constituting one energy security complex and makes a negative effect on sustainability of regional energy security in general. The project analysis covers the period of 2008-2015, starting with the preparatory stage for BEMIP and finishing with end of project implementation.

The method used is process tracing. Process tracing is a fundamental tool of qualitative analysis. This method is often invoked by investigators who carry out within-case analysis based on qualitative data. It is defined as „the systematic examination of diagnostic evidence selected and analyzed in light of research questions and hypotheses posed by the investigator“.<sup>79</sup> Process-tracing can contribute decisively both on describing political and social phenomena and evaluating causal claims. Such a method makes it possible to explicate interest-formation over time and explore the interplay between structure and agency by

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<sup>78</sup> George and Barnett, 23.

<sup>79</sup> D. Collier, Understanding Process Tracing

<<http://polisci.berkeley.edu/sites/default/files/people/u3827/Understanding%20Process%20Tracing.pdf>>  
[Previewed on 05.11.2015].

explaining the outcome of the energy security dialogue.<sup>80</sup> The method works by extracting all of the observable implications of a theory, rather than merely the observable implications regarding the dependent variable. Then implications are tested empirically by secondary data analysis, often including the elite interviews too.

Therefore, to evaluate the motives for choice of energy cooperation or competition within the complex, public documents surrounding BEMIP, Lithuanian LNG terminal and NordBalt will be analyzed. Each will be studied by providing the background information, examining whether it is a case of cooperation or competition (or, in other words, national or regional energy security gets increased), analyzing the all three Baltic States' public documents on the project and measuring what impact does the project do on the regional interdependency and, consequently, threat perception.

Besides that, since it is assumed that ability to implement energy infrastructure projects could also alter regional interdependency and energy security balance in the complex and, as a result, influence the choice for further cooperation (which was treated as a positive interdependency) or competition (which was treated as a negative interdependency), the research design is structured so that the Baltic States energy security complex would be studied within two periods of time. The first covers the period from 2009, just after signing BEMIP, and lasts till 2011, when several decisions to implement most of the planned energy infrastructure projects particularly in Lithuania, namely NordBalt, and Lithuanian LNG terminal, were made, whereas the second covers the period from 2011 till 2015, the closest date to the end of the mentioned project implementation. Claiming that the first period is the status quo for Baltic States energy security complex, the implications observed in two periods (such as complex structure, state energy mixes, patterns of amity and enmity, regional interdependency, issues of securitization and regional interests), will be finally compared to see whether there was any change within the complex over time.

Thus, the analytical part starts with the brief description of the Baltic States energy security complex status quo, which is then followed by the energy infrastructure project analysis, assuming that the projects possibly alter state behavior (they either choose to cooperate or compete) and the complex itself. The thesis finishes with the comparison of status quo and current (by 2015) the Baltic States energy security complexes in terms of cooperation (positive interdependency) and competition (negative interdependency).

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<sup>80</sup> George and Barnett, 32.

Regarding the research variables, *ability to implement energy infrastructure project* will serve as an independent variable making an effect on *cooperation/competition* as a dependent variable. Such variables will let to specify whether and how the emergences of *the cooperation/competition* change if the is or there is no *ability to implement energy infrastructure project* by a state itself.

Since the method used in this thesis is process tracing, it is absolutely crucial to have high-quality material. There are two sources of data used in the paper: secondary material (public documents and reports surrounding the issues and including the views and perspectives by all three states' representatives) and primary material, the semi-standardized interviews with the experts representing four different dimensions: political, infrastructural, commercial and regulatory. The political dimension was represented by former Energy Minister A. Sekmokas and T. Lukoševičius, the head of International Cooperation and Planning Department at the Ministry of Energy of the Republic of Lithuania. Infrastructural dimension was represented by the executives working for either electricity or gas companies operating the transmission systems: S. Bilys (Amber Grid), D. Virbickas (LITGRID), T. Matulionis (Klaipėdos nafta), V. Boks (Augstsprieguma tīkls) and K. Kukk (Elering). The commercial dimension was represented by two executives working in the companies organizing energy trade: K. Kūrmē (CEO of GET Baltic) and D. Garbaliuskaitė (acting CEO of Baltpool). Lastly, the regulatory dimension was represented by V. Jankauskas, former official of National Control Commission for Prices and Energy, Lithuania. The purpose of these interviews was to increase the validity of the analysis, which was to perform a check on the analytical results. Due to this, the interviewees were specifically selected because of their expertise in the Baltic States energy relations.

### **3. Analysis**

Having established the research methodology, the following section will present the analysis of the Baltic States energy security complex, consisting of three chapters. First, it will begin with the status quo description of the Baltic States energy security complex, covering the period 2009-2011. Second, it will be continued with the deep study of BEMIP and two energy infrastructure projects (one- inter-national, the second - intra-national). Third, it will be preceded with the Baltic States energy security complex evaluation in year 2012-2015, where the comparison of the complex over time is examined in terms of energy

dependencies. Since the research paper aims at investigating under which circumstances the Baltic States choose to cooperate/compete, both national and regional approaches will be used in the analysis to either prove or deny the hypothesis, claiming that states choose to cooperate only if they have no ability to implement energy infrastructure projects, so important for national energy security, by themselves.

### 3.1 The status quo of the Baltic States Energy Security Complex

In this thesis the notion *status quo* refers to the Baltic States energy security complex (BSESC) from 2009-2011, the period when all the Baltic States, having signed Baltic Energy Market Interconnection Plan (BEMIP) in 2009<sup>81</sup>, were negotiating over the actual place of the regional energy infrastructure projects. The final decisions on that were made by 2011, closing one stage of the planned Baltic States integration into the overall EU Strategy for the Baltic Sea Region, which was approved in 2009.<sup>82</sup> It was the time when all the states declared the need of energy supply diversification and were officially looking for options to preserve energy security in the region in the format of BEMIP High Level Working Group and in the EC, promoting the idea of regional cooperation.<sup>83</sup> Yet to fully understand the context of that period of time and its realities as well as see the Baltic States as an energy security complex, the broader description of the setting has to be given. Therefore, this section of analysis is going to elaborate on the *status quo* structure of the BSESC by sketching its member states, discussing the energy mix in each state, evaluating patterns of amity and enmity between each other, justifying why the complex was assumed to be heterogeneous, measuring regional dependency, naming common threats and their significance, defining securitizing actors, securitized issues and specifying the diversity of interests within the complex.

#### *Complex Structure*

First of all, it should be explained why these three states in particular - Lithuania, Latvia and Estonia – constitute a regional energy security complex. They are not only the neighboring countries, sharing cultural traits and historical experiences as well as having similar material

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<sup>81</sup> Baltic Energy Market Interconnection Plan < <https://ec.europa.eu/energy/en/topics/infrastructure/baltic-energy-market-interconnection-plan> > [Previewed on 05.11.2015].

<sup>82</sup> The European Union Strategy for the Baltic Sea Region < <http://www.balticsea-region-strategy.eu/about> > [Previewed on 05.11.2015].

<sup>83</sup> A. Grigas, Energy Policy: The Acheeels Heel of the Baltic States, 2013 < <http://www.institutdelors.eu/media/balticstateseu-energypolicy-grigas-ne-jdi-july13.pdf?pdf=ok> > [Previewed on 05.11.2015].

resources and geopolitical constraints, they are extremely vulnerable too: the energy sectors of these three states are inextricably linked not only because of their import dependence on a single and potentially hostile source, but also due to their main resources (electricity and gas) transport and delivery infrastructure. During 2009-2011 they were fully depended on Russia while virtually isolated from the rest of the European Union (EU), making them “energy islands”.<sup>84</sup> Thus, diversification and security of energy sources, increasing the competitiveness of domestic energy markets were the interests of all three countries, which made them the drivers of EU’s common external energy policy.<sup>85</sup> Although Lithuania and to some extent Estonia have been less compromising towards Russia and more willing to take the lead in liberalization and security of supply policies, while Latvia has preferred a slower and more cautious approach, overall, they could inevitably be called a regional energy security complex as they met all the complex criteria: facing the same energy security threats they started the processes of securitization, hence, their security problems could not be analyzed and resolved one apart the other, which implied high interdependency and the need of cooperation between them.

Besides that, the EU has seen the Baltic States as one energy security complex as well by identifying the Baltic States “as the first of six major sets of energy infrastructure projects”.<sup>86</sup> The integration of the Baltic States into EU energy networks has been seen as one of the main objectives that would contribute to the stability and economic growth of the EU internal energy market. This view is also shared by the European Council which clearly endorsed this in its conclusions of the European Council meeting in October, 2008.<sup>87</sup> Therefore, it is reasonable to see the Baltic State energy security issues in complex.

Despite the similarity in energy issues, the Baltic States are quite different in their energy mixes. To meet its energy needs, each country uses the energy available to it in different proportions.<sup>88</sup> This is what the energy mix refers to. The proportions are measured taking the values of the total primary energy supply. It has to be emphasized that the percentages of the

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<sup>84</sup> Ibid, 15.

<sup>85</sup> Ibid, 16.

<sup>86</sup> Baltic Energy Market Interconnection Plan, Final Report of the High Level Group  
< [http://ec.europa.eu/energy/sites/ener/files/documents/2009\\_11\\_25\\_hlg\\_report\\_170609\\_0.pdf](http://ec.europa.eu/energy/sites/ener/files/documents/2009_11_25_hlg_report_170609_0.pdf)>  
[Previewed on 05.11.2015].

<sup>87</sup> Council of the European Union, Presidency Conclusions, Brussels, October 16, 2008  
< [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/103441.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/103441.pdf)> [Previewed on 05.11.2015].

<sup>88</sup> About the energy mix < <http://www.planete-energies.com/en/medias/explanations/about-energy-mix>>  
[Previewed on 05.11.2015].

resource consumed in the country in total are not equal to the percentages constituting the energy mix since a significant portion of primary energy is used in conversion processes to generate secondary energy, particularly electricity.<sup>89</sup> However, the data provided in the form of energy mix has a big importance when interpreting the structure of the energy system of a country and its dependency on external resources.

To start with Lithuania, the period of 2009-2011 was quite a challenge as it had to close its Ignalina Nuclear Power Plant (INPP) by January, 2010. Nuclear power constituted 13 % of the Lithuanian energy mix in 2009 and was all consumed domestically in the Cogeneration or Combined Heat and Power (CHP) plants, generating electricity and heat.<sup>90</sup> It should be added that CHP plants generated more electricity than it was domestically consumed. Hence, Lithuania had a possibility to also export almost as much electricity as it consumed, which is clearly seen from the Chart 1 where electricity constituted -1% of the whole energy mix.

As a result, in the following years nuclear power had to be substituted by other resources and it was mainly natural gas, which increased its imports, altering the Lithuanian energy mix from 10% to 13% in 2011. However, the CHP plants did no longer work as before – they generated three times less electricity in 2010 by increasing its imports by 40%, altering energy mix as well (from -1% to 3%)<sup>91</sup>. In 2011 natural gas import was even bigger than in 2010, yet slightly less natural gas was used for CHP plants work, which resulted in the decrease of electricity and heat generation even more, leaving pretty much the same level of electricity imports (3% of energy mix).<sup>92</sup> Lithuania was still capable of little electricity export, but it was six times less than in 2009. Therefore, the closing of INPP mainly hit on two energy sectors: electricity and gas.

In terms of energy mix, electricity and gas percentages changed a little bit if they are compared with the imports of crude oil, constituting almost a half of the energy mix, or the

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<sup>89</sup> Ibid, 1.

<sup>90</sup> International Energy Agency Report of 2009  
<<http://www.iea.org/statistics/statisticssearch/report/?country=LITHUANIA&product=balances&year=2009>>  
[Previewed on 05.11.2015].

<sup>91</sup> International Energy Agency Report of 2010  
<<http://www.iea.org/statistics/statisticssearch/report/?country=LITHUANIA&product=balances&year=2010>>  
[Previewed on 05.11.2015].

<sup>92</sup> International Energy Agency Report of 2011  
<<http://www.iea.org/statistics/statisticssearch/report/?country=LITHUANIA&product=balances&year=2011>>  
[Previewed on 05.11.2015].



exports of oil products, taking a third of it. Crude oil was mainly used in the oil refineries to meet quite a small domestic need leaving the biggest part of it as oil products for exports.<sup>93</sup> However, it is crucial to stress that Lithuania was importing crude oil from different suppliers, maintaining the oil hubs within the Baltic Sea and had many options for diversification. On contrary, increasing imports and decreasing exports of gas and electricity were making Lithuania more vulnerable and depended on external resource provider – Russia, as its gas and electricity infrastructure, remaining from the Soviet times, could only connect it with one resource provider and leaving the country with no options for resource diversification. Thus, even though gas and electricity took 15-16 % of energy mix after the INPP was closed, it was big enough percentage to feel insecure in terms of security of supply.

Quite a different situation is seen when Latvian energy mixes are analyzed. First of all, unlike in Lithuanian energy mixes, there is no nuclear or heat in either of three complexes. Moreover, there are no negative percentage values, suggesting that there is no fuel mainly used for exports and, therefore, suggesting the biggest amount of resources to be imported. Natural gas, just like oil products and biofuels, constitutes almost a third of the all three energy mixes, leaving other resources a small percentage, making the most significant of them the hydro power, which all Latvia produces by itself. Electricity constitutes relatively a small percentage of the whole mix over the years, because Latvia generates almost as much electricity its electricity and CHP plants as it consumes. Although Latvia still imports two thirds of its total electricity consumption, half of the total consumption is exported. Thus, Latvia, belonging to the same soviet electricity infrastructure, is little depended on Russian electricity, as it could always generate more in its CHP and heat plants by increasing the use of natural gas. In terms of biofuels and oil products, consisting two thirds of Latvian energy mixes, Latvia has many options for oil supply from the Baltic Sea hubs and biofuels are generated by Latvia itself, making the country relatively safe.<sup>94</sup>

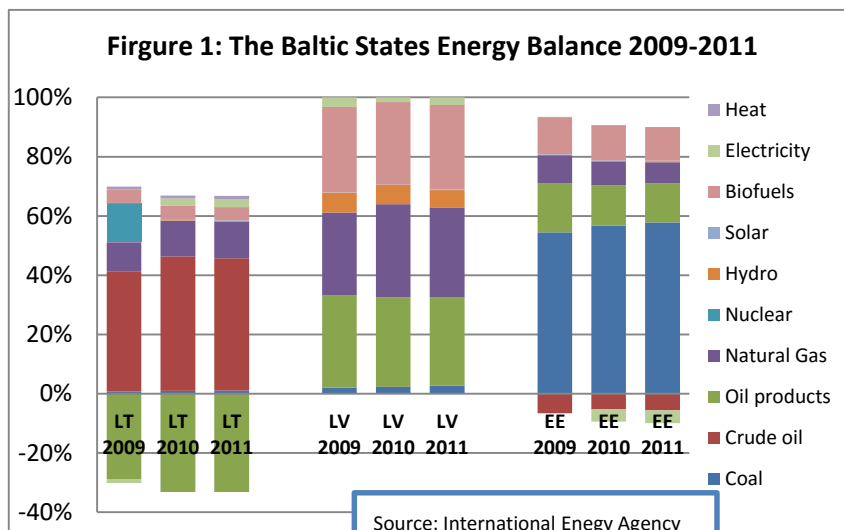
However, the red sign pops up when natural gas question is touched as again, it is the question of soviet natural gas infrastructure leaving Latvia 100 % dependent on Russia and even in a worse situation that Lithuania is. The good thing is that Latvian energy mix does not change over years, showing its country's stability in energy field, yet at the same time, no willingness to implement radical energy policies to reduce dependency on Russian gas at that time.

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<sup>93</sup> Ibid, 1.

<sup>94</sup> International Energy Agency Report of 2009, 2010 and 2011.

Estonian energy mixes of that time are different at one point: if in 2009 the country was importing almost as much electricity as it exported perfectly balancing between domestic and foreign needs, in 2010 Estonia started to export more electricity than it imported as its electricity plants started to generate the amount of electricity it used to import, keeping the numbers alike in 2011 too. Electricity consumption remained at the same level as well. What regards electricity dependency, Estonian energy mixes show that it wasn't so much dependent on Russian electricity infrastructure as other countries were.<sup>95</sup>



What is more, Estonia did not have nuclear and heat resources in its energy mixes. Unlike Lithuania, that increased its natural gas import to substitute nuclear in electricity

generation in electricity and CHP plants, Estonia increased the import of coal, making it bigger and bigger part of its total energy mix over years.<sup>96</sup> Taking into consideration the fact coal emits the largest percentage of CO<sub>2</sub>, which EU was forced to put regulation on by limiting the allowed amount of CO<sub>2</sub> emissions due to the first commitment of Kyoto Protocol, involving 2008-2012<sup>97</sup>, Estonia was getting closer and closer to the red line with such a behavior.

The second biggest part of its energy mixes was oil products, whose import percentage over years was decreasing. However, oil products final consumption was increasing in line with the growing numbers of oil products transfers and decreased percentage of crude oil in the energy mix of 2010 and 2011, that balanced the situation: as the crude oil value was minus, showing the balance between import and export, the smaller negative percentage implies that more crude oil was used for domestic oil needs. The increasing benefit from transfers was

<sup>95</sup> Ibid

<sup>96</sup> Ibid

<sup>97</sup> Kyoto Protocol, United Nations Framework on Climate Change <[http://unfccc.int/kyoto\\_protocol/items/2830.php](http://unfccc.int/kyoto_protocol/items/2830.php)> [Previewed on 05.11.2015].

accordingly connected with crude oil exports, creating some opportunities to increase the export and earn more money in 2011.<sup>98</sup>

The third biggest part of Estonian energy mixes is natural gas, whose percentage in the mixes was gradually decreasing too. This suggests that Estonia could be working on reduction of its dependence on Russian energy infrastructure in both electricity and gas sectors. Yet again, at the cost of coal imports moving its energy risks from „East“ to „West“.<sup>99</sup>

As it was seen from analysis, the Baltic States had quite different energy mixes in 2009-2011. Lithuania had the biggest variety of resources in its energy mixes even after INPP was shut down and it also had the biggest percentage of resource exports, namely oil products and electricity it had surplus of in 2009 only. Estonia could export its crude oil over all three years and electricity in 2010 and 2011. However, Latvia did not export anything. Lithuania was mostly dependent on crude oil, Latvia – on oil products and natural gas equally and Estonia – on coal. The biggest dependency on Russian infrastructure was seen in Latvia on natural gas, then in Lithuania again on natural gas, the main source to produce electricity and heat, yet Estonia was getting more and more independent over years by decreasing its dependency on natural gas, being only fourth biggest resource supplied.

What regards energy production within the Baltic States in 2009-2011, Lithuania was the leader in the region in terms of solar energy leaving Estonia very close, but behind. Latvia, on contrary, produced almost no solar energy. A different situation is seen with hydro energy. Latvia can be called the leader in this area, whereas Estonia produced almost no hydro energy. Lithuania produced as much hydro energy as solar. Lithuania was the only to produce crude oil, heat and nuclear, whereas Estonia was the almost the only to produce coal. Latvia was the leader in biofuel. In general, energy production over years was different in all three countries. In 2009 Lithuania was the leader as it had INPP, but in 2010 and 2011 it produced the smallest amount of energy, which would be a quarter of all Estonian energy produced and almost the half of Latvian energy produced. Moreover, Estonia was the only one to increase its energy production over years and being the least dependent on any other country resource wise.<sup>100</sup>

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<sup>98</sup> International Energy Agency Report of 2009, 2010 and 2011.

<sup>99</sup> Ibid.

<sup>100</sup> International Energy Agency Report of 2009, 2010 and 2011.

Energy consumption was also a factor differentiating the Baltic States one from the other. First, although all states were consuming the same resources, in Lithuania consumption was the biggest and was gradually increasing over years. However, both in Latvia and Estonia consumption increased in 2010 only. The smallest consumption is seen Estonia. Oil products were consumed the most in all states, but only in Lithuania natural gas was the second biggest resource consumed, whose percentage was increasing, making it the most dependent on Russian gas infrastructure.<sup>101</sup>

The Baltic States energy import is the last factor to discuss in this section. Being the biggest consumer, Lithuania was also the biggest importer of resources, even six times bigger than Estonia and three times bigger than Latvia. If Latvia and Estonia's primary resource to import is oil products, in Lithuania it is crude oil, yet inevitable number two resource to import in all countries is natural gas, making them all dependent on Russian gas imports.<sup>102</sup>

Having discussed the similarities and differences of the Baltic States in energy field, it is reasonable to further elaborate on their common energy threat – energy dependency on Russian energy infrastructure, proving that the Baltic States energy security problems are not apart from one the other, thus, they are regional. Despite successful transformation of Estonia, Latvia and Lithuania into democratic polities with market economies, their political systems remained institutionally weak by fragmentation and commercialization. This made their politics particularly vulnerable to corruption and, hence, Russian influence. In addition, big Russian minorities in Latvia and Estonia have been an important factor enabling Russia to successfully establish networks based on common language, values and interests. Even more, despite their EU and NATO membership, Russia continued to rely on direct coercion in the Baltic States to keep them within its political, economic, and energy fields: both local and Russian business groups engaged in political lobbying and party financing to favor Russian interests in the Baltic States. They included local businesses that export goods to Russia, local companies active in the energy and transit sectors, and Russian oil and gas companies operating in the region. Yet the most significant point of pressure was the energy sector as all three states were roughly 90 % dependent on Russia for oil and nearly 100 % for natural gas.<sup>103</sup>

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<sup>101</sup> Ibid.

<sup>102</sup> Ibid.

<sup>103</sup> A. Grigas, *Legacies, Coercion and Soft Power: Russian Influence in the Baltic States*, Chatham House, 2012

Russia was able to exert influence in the Baltic energy field not only through policies of coercion but also owing to the field's interlinked structural features. The Baltic States were highly dependent on Russian energy because of the lack of domestic resources and the legacy of the Soviet-era infrastructure of pipelines, electricity and gas grids that were all linked to Russia.<sup>104</sup> The most recent incidents in the Baltics include the halting of oil supplies to the Latvian port operator Ventspils Nafta since 2003 and to the Lithuanian oil refinery Mažeikių Nafta since 2006, as well as interruptions to the oil supply via rail to Estonia in May 2007. However, these attempts to influence the in favor policies in the region were of little success as oil is traded internationally and all three Baltic States have the capacity to import non-Russian oil and oil products via their terminals on the Baltic Sea.<sup>105</sup>

In contrast, their gas import infrastructure was limited to Soviet-era pipelines and totally dependent on Russia. As a result, the Baltic States have never had gas conflicts with Russia. According to Grigas, there are four main reasons to explain that. First, Russia secured its interests in the region when its national gas company Gazprom acquired a controlling share in all three Baltic national gas companies: in 2009-2011 Gazprom still owned 37% of Eesti Gaas and of Lietuvos Dujos and 34% of Latvijas Gaze. Itera, a gas distributing company with close connections to Gazprom, owned 10% of Eesti Gaas and 16% of Latvijas Gaze. Second, Moscow has created a powerful network of local gas interests with ties to Gazprom, including all local gas distributing companies such as Itera (operating in Latvia and Estonia), Dujotekana, Stella Vitae and Vikonda (all operating in Lithuania). Third, unlike Ukraine and Belarus, the Baltic States' gas markets were profitable for Gazprom because they paid market prices and did not receive any discounts. Fourth, Russia was dependent on Latvia and Lithuania because the pipeline providing Lithuania with gas continues onwards to Kaliningrad and because Gazprom largely owns the Latvian gas storage facility in Inčukalns, which holds supplies not only for the three Baltic States but also for the Russian Pskov region.<sup>106</sup>

Furthermore, Russia has tried to influence Baltic policies regarding the EU's Third European Energy Package, obligating for the ownership of transmission system operators to be unbundled by separating the transmission and distribution of electricity and gas from their

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<sup>104</sup> Ibid, 3.

<sup>105</sup> G. Simons, Perception of Russia's Soft Power and influence in the Baltic States, 2014 <[https://www.academia.edu/9608980/Perception\\_of\\_Russia\\_s\\_soft\\_power\\_and\\_influence\\_in\\_the\\_Baltic\\_States](https://www.academia.edu/9608980/Perception_of_Russia_s_soft_power_and_influence_in_the_Baltic_States)>[Previewed on 05.11.2015].

<sup>106</sup> Grigas, 12.

generation in order to encourage competition in the energy sector. In the Baltic States it meant separating Gazprom's ownership of gas distribution to consumers from the gas transmission pipelines. Of the three unbundling options proposed by the EC, Lithuania selected the most stringent way of 'ownership unbundling' out of three, according to which both management and assets of power grids had to be sold off by the generation companies to someone who has no association with the power industry or to another grid operator. In 2010 Lithuanian law proposed the separation of the transmission business of Lietuvos Dujos from the distribution business, whose shares were owned by Gazprom (37%), Germany's E.ON (39%), the Lithuanian state (19%) and private investors (6%). This meant that the decision-making rights regarding the transmission business were about to be shifted to Lithuanian Government. Although Gazprom, Lietuvos Dujos itself and even Vladimir Putin tried to change Lithuania's decision towards unbundling by threatening of higher gas prices, Lithuania did not change its position.<sup>107</sup>

On contrary, both Estonia and Latvia asked for an exemption from the new EU gas directive until 2014, claiming that they were not able to separate the activities as their energy infrastructure was not connected to the rest of the EU. Moreover, they have both chosen the independent transmission operator option, which was the least stringent and the most favorable option for Gazprom. Latvia was among the EU states that initially called for more lenient unbundling options which was a result of Latvijas Gaze together with the largest Latvian consumer of Russian gas, the national electricity producer Latvenergo, play in the Government's energy policy and position on unbundling, greatly influenced by the fact that the government had an agreement with Latvijas Gaze giving the company exclusive rights to ensure gas supply and distribution until 2017. Thus, unbundling could result in considerable costs for the government for breaking the terms of this agreement. In response to Estonia's and Latvia's more lenient positions, in December 2010 Gazprom announced that it would lower the gas prices for these two countries by 15%, but not for Lithuania because of its unbundling policies. This was the biggest threatening from the Russian side to better keep cooperative relations with Russia.<sup>108</sup>

Therefore, this review of the recent Russian attempts to influence the Baltic States energy field illustrated how much effort Russia put on keeping the region in control and what it is

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<sup>107</sup> V. Pakalkaite, *Gazprom and the natural gas markets of the East Baltic States*, Regional Centre for Energy Policy Research, Corvinus University Budapest, 2012.

<sup>108</sup> *Ibid*, 2.

capable of. Although each state experienced Russian coercion in a different way, there is no doubt that it is the main regional threat in energy field all the states have to be aware of and take actions to decrease the dependency at the minimum cost. As the review showed, each state has different speed and extent on dependency reduction since Russia has different levers of coercion. The response to Russian pressure was earlier explained taking into consideration two basic factors: the structure of energy field (commenting on the data on energy mixes, energy production, consumption and import, provided above) and the Russia-related actors' activity reduction in the Baltic region energy security complex by mutual agreement on implementing the 3<sup>rd</sup> Energy Package. This also explains why the BSESC of 2009-2011 was called to be heterogeneous. Yet the process of implementation will be explained in detail in the second part of the analysis (3.2 Baltic energy infrastructure projects).

#### *Patterns of amity and enmity*

What regards the patterns of *amity* and *enmity*, this paper follows the approach proposed by Polonkorpi, claiming that the patterns are seen as factors that partially explain how certain energy *dependencies* are perceived and why some get politicized and/or securitized when others are not. To capture the patterns of *amity* and *enmity* within the BSESC, the public reports and official documents issued around the period of 2009-2011 were analyzed.

Lithuania and Latvia are old neighbors whose nations have many things in common. However, in 2009-2011 Lithuanian foreign policy was focused on Poland, Belarus, Russia and the U.S.A., leaving relations with Latvia aside. This shows that there was no close connection between all the neighbors. The study of Germanas and Sarkanis shows that officially Lithuania and Latvia demonstrated unity, but there was no one position and coordination of actions. To explain the possible reasons of miscellaneous actions, they indicate eight factors determining Lithuanian and Latvian behavior: different memory of history, different confessional religious experience, different economic and cultural influence by neighboring countries, different national structure, distorted nature of economic activity, resulting in competition, different tax rates and excises, resulting in economic barriers, weak intergovernmental relations as well as both old and new stereotypes, leading to mistrust and suspiciousness.<sup>109</sup> These factors sound reasonable to complicate bilateral relations.

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<sup>109</sup> N. Germanas and A. Sarkanis, Pranešimas apie Latvijos ir Lietuvos bendradarbiavimo perspektyvas, 2012

In 1999 Latvia and Lithuania signed an agreement on cross border cooperation. However, the Commission of Intergovernmental Cross Border Cooperation was inactive in achieving results in years. Therefore, EU promoted cross border cooperation by establishing a program for 2007-2013, aiming at strengthening bilateral relations and realizing common projects, which provided Latvia and Lithuania with the possibility to apply for funding that was up to 60 million Euros.<sup>110</sup> Yet there were no intra-institutional capability to prepare projects meeting the funding requirements and imbibe the EU money. Hence, in 2009-2011 there was no effective institutional cooperation between the states too.

Economically, Latvia and Lithuania were important partners. In 2009-2011 Latvia was the fourth biggest importer to Lithuania and Lithuania was the third biggest importer to Latvia. Moreover, Latvia was the second country Lithuania invested to and Lithuania was the tenth country Latvia invested to.<sup>111</sup> Despite the fact, that economic activities between countries, that are similar in economic activity structure, not only develop business relations, but also increase competition and friction between economic operators, eventually reaching the higher – official – level and creating problems, such behavior didn't lead to bigger conflicts between Lithuanian and Latvia as every state protected its own business interests only.

Yet Lithuanian and Latvian cooperation in foreign policy and security (including energy security) was not so productive. Border delimitation of territorial waters in the Baltic Sea was still under question, even though Lithuanian and Latvian political dialogue was active in the formats of the Baltic Assembly and the Baltic Council of Ministers. Disregarding that, in 2009-2011 Latvians saw political dialogue on security as successful. The only problem they communicated officially was the lack of integration in to the EU both in general and in terms of energy security. Furthermore, they spoke for stronger cooperation creation in energy by building the necessary connections with the EU.<sup>112</sup>

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< <http://www.lt-lv-forum.org/files/786/Prane%C5%A1imas%20apie%20Latvij%C3%B9s%20ir%20Lietuvos%20bendradarbiavimo%20perspektyvas.pdf>> [Previewed on 05.11.2015].

<sup>110</sup> Lithuania-Poland-Russia ENPI Cross-border Cooperation Programme 2007-2013 < <http://www.lt-pl-ru.eu/news.php>> [Previewed on 05.11.2015].

<sup>111</sup> Lietuvos Latvijos prekybiniai santykiai <[http://www.verslilietuva.lt/files/files/PDF/Eksporto\\_zemelapis/Latvija/Tarptautine\\_prekyba\\_su\\_Latvija.pdf](http://www.verslilietuva.lt/files/files/PDF/Eksporto_zemelapis/Latvija/Tarptautine_prekyba_su_Latvija.pdf)> [Previewed on 05.11.2015].

<sup>112</sup> M. Rozentale, Latvian and Lithuanian relations' development and achievements after the two countries joined the European Union, prospects for cooperation, Rigas Stradite Universitate < [https://www.google.lt/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&cad=rja&uact=8&ved=0CFUQFjAG&url=http%3A%2F%2Fwww.latlit.eu%2Fuploaded\\_files%2FEvents%2FAnnual\\_Event\\_2010\\_Dobele%2F2\\_LT\\_Metla-](https://www.google.lt/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&cad=rja&uact=8&ved=0CFUQFjAG&url=http%3A%2F%2Fwww.latlit.eu%2Fuploaded_files%2FEvents%2FAnnual_Event_2010_Dobele%2F2_LT_Metla-)



Therefore, despite the lack of general cooperation it would be wrong to call Lithuanian and Latvian relations envious. The countries were important neighbors economically and their political dialogue was miscellaneous due to the indicated factors. However, apart from the Border delimitation of territorial waters in the Baltic Sea issue, the public discourse does not unfold significant conflicts between the countries in the period analyzed.

Latvian and Estonian bilateral relations were even called “excellent cooperation” as for common interests in the Baltic Sea Region and a close partnership within EU and NATO.<sup>113</sup> Although the relationship between Latvia and Estonia has always been good in general, they could not really call each other allies. While Latvians and Lithuanians may at times call each other "brothers", Estonians are usually referred as the northern "neighbors". Quite often it has seemed as if Estonians do not really want to be associated with the Baltic, but rather to identify themselves with the Nordic countries, and especially with Finland. It also seems that there has always been a certain degree of competitiveness between these countries. Moreover, in terms of political participation of ethnic minorities, Latvia has definitely achieved more visible results trying to avoid parallel societies.<sup>114</sup>

Economically, in 2009-2011 Estonia was one of Latvia's most significant economic partners. The trade between the countries was growing every year - Estonia was Latvia's second largest export partner and the fourth largest import partner. What concerns investments, Estonia was the number one investor in Latvia and Latvia was the seventh largest investor in Estonia.<sup>115</sup>

Cooperation between Latvia and Estonia in the area of defense took place mainly within joint military projects of the Baltic States. Cooperation between the air forces continues within the framework of the common air space surveillance system BALNET and cooperation between naval forces – within the naval squadron BALTRON. Cross border cooperation between Latvia and Estonia was also active. Various projects have been implemented with

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Rozentale\_Latvia\_Lithuania\_In\_EU.ppt&ei=4BFKVFjgM4ayUezxgcgK&usg=AFQjCNHF9Au7Zykper73OIJGUHJwV  
Tao\_A&sig2=dRFJEHrs9QWU6QKSvGsDHQ>[Previewed on 05.11.2015].

<sup>113</sup> Relations between Latvia and Estonia, Ministry of Foreign Affairs of the Republic of Latvia <  
<http://www.mfa.gov.lv/en/policy/bilateral-relations/relation-profile/relations-between-latvia-and-estonia>>[Previewed on 05.11.2015].

<sup>114</sup> What is relationship between Estonia, Latvia and Lithuania like? <  
[http://www.reddit.com/r/europe/comments/2xs3tj/what\\_is\\_the\\_relationship\\_between\\_estonia\\_latvia/](http://www.reddit.com/r/europe/comments/2xs3tj/what_is_the_relationship_between_estonia_latvia/)>[Pre  
viewed on 05.11.2015].

<sup>115</sup> Relations between Latvia and Estonia, 3.

financial support from the EU, mainly in the areas of education, culture, promotion of tourism, environment protection and health care.<sup>116</sup>

What regards security, there were no specific bilateral relations announced between Latvia and Estonia in English as Latvia and Estonia worked for security in the format of NATO. Moreover, there were no separate discussions found on Latvian-Estonian energy security relations, their issues were only analyzed in terms of all the Baltics. In addition to that, there were no conflicts between the states identified. Therefore, even though there is relatively little information on Latvian-Estonian relations in 2009-2011, their relationship was amicable.

Lithuanian and Estonian relations in 2009-2011 were taintless. Bilateral relations between Estonia and Lithuania were very good as they were based on similar foreign policy priorities, which led to close cooperation and active communication occurring between Estonia and Lithuania on different levels. Yet most of their meetings took place regionally in the framework of Baltic Sea Region (Baltic Council of Ministers, Baltic Assembly) and Nordic-Baltic (NB8) cooperation.<sup>117</sup>

In 2009-2010 Lithuania was Estonia's good economic and trade partner. According to the Department of Statistics, Lithuania was Estonia's sixth largest trade partner.<sup>118</sup> Moreover, Lithuania was also in fifth place as a source of imports. Estonia was the third biggest country for Lithuanian exports and the tenth for imports.<sup>119</sup> Thus, Lithuania was exporting to Estonia more than imported. Still Estonia was the sixth biggest investor in Lithuania and Lithuania was the fourth biggest investor in Estonia.<sup>120</sup>

Lithuanian – Estonian defense cooperation was very alike to Latvian – Estonian as in 1995 the defense ministers of Estonia, Latvia and Lithuania concluded a trilateral defense-related cooperation agreement on trilateral joint projects that in 2009-2011 were still present and some have been terminated upon the achievement of their goals (such as BALTBAT and

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<sup>116</sup> Ibid, 1.

<sup>117</sup> Lithuania – Relations, Estonian Embassy in Vilnius  
< [http://www.estemb.lt/eng/estonia\\_and\\_lithuania](http://www.estemb.lt/eng/estonia_and_lithuania)>[Previewed on 05.11.2015].

<sup>118</sup> Ibid.

<sup>119</sup> Ekonominis bendradarbiavimas su Estija, Lietuvos užsienio reikalų ministerija  
< <http://ee.mfa.lt/ee/lt/dvisalis-bendradarbiavimas/ekonominis-bendradarbiavimas>>[Previewed on 05.11.2015].

<sup>120</sup> Ibid.

BALTSEA). Besides these, a new project was also added to the agreement. It was BALTRON, consisting of the joint naval staff of the three Baltic States located in Tallinn.<sup>121</sup>

Security was an issue of bilateral debate between Lithuania and Estonia in 2011. They started negotiations on the establishment of the center of excellence as both countries sake to become NATO's energy and cyber security hubs (yet the decision on that was only made in 2012, making Lithuania the winner).<sup>122</sup> What concerns energy security in particular, the presidents and foreign ministers discussed the possibilities of strengthening regional energy cooperation and the benefits of building Visaginas nuclear plant in Lithuania.<sup>123</sup> Thus, energy security was a common issue of discussion between Lithuania and Estonia.

In general, Lithuanian and Estonian relations seem to be the most productive, especially on security issues, making them the most concerned about country amity. Estonian – Latvian relations would be in the middle and Lithuanian – Latvian relations could be called the least productive. The extent of economic transactions between all three states were growing over years, making them more and more interdependent as well as keeping the Baltics with no serious internal conflicts. Therefore, despite vague cooperation in 2009-2011 none of the discussed bilateral relations could be called envious.

#### *Energy dependency within the complex*

Talking about energy dependency between the Baltic States in 2009-2011, it is important to stress that all their energy related interactions were transit of energy, because they were linked by Soviet-era energy infrastructure, making them much dependent on single supplier – Russia – and on each other as well (due to the fact that energy infrastructure had to be regularly maintained to function well).

The Soviet-era natural gas supply to the Baltic States was the complex system. Still, not all cross border capacities were used: Estonian–Russian Narva interconnection and Lithuanian–Belarusian Ivancevici were not in use. Thus, the system was not fully exploited. Moreover, cross border interconnectors between Estonia–Latvia, Latvia–Lithuania and Latvia–Russia were bi–directional. The reason behind was the fact that all three Baltic States and Russia

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<sup>121</sup> Lithuania – Estonia Relations

<sup>122</sup> Lithuania and Estonia seek to become energy and cyber security hubs < <http://eurodialogue.eu/energy-security/In-Estonia-Lithuania-Foreign-Minister-Discussed-Ways-To-Strengthen-Regional-Cooperation>>[Previewed on 05.11.2015].

<sup>123</sup> Foreign ministers discusse regional cooperation <<http://eurodialogue.eu/energy-security/In-Estonia-Lithuania-Foreign-Minister-Discussed-Ways-To-Strengthen-Regional-Cooperation>>[Previewed on 05.11.2015].

were keeping some reserves of natural gas in the Inčukalns Underground Gas Storage (IUGS) facility which was located in Latvia and was operated by the local vertically integrated transmission system operator Latvijas Gaze. The states reversed the gas shipments when necessary. Estonia and Latvia were filling the storage during the warm seasons and was depended on the storage during the cold season, while Lithuania kept some gas for contingency reasons. Russia's motives to keep gas and ship them back to Russia were unknown, however, this could have formed due to the historical reasons as the system was built during Soviet times to provide natural gas for Lithuania, Latvia, Estonia, Pskov and partly Leningrad region in Russia.<sup>124</sup>

In terms of electricity dependency within the complex, in December of 2008 the Baltic States became the members of European Network of Transmission System Operators for Electricity (ENTSO-E), uniting 41 electricity transmission system operators of 34 countries and aiming at synchronization of five European electricity systems: Nordel, IPS/UPS, European Continental Network, Great Britain and Ireland.<sup>125</sup> A synchronous area is a geographical area in which power generators operate at the synchronized frequency and time. However, in 2009-2011 the Baltic States power system operators operated in the IPS/UPS synchronous area, within the power ring of Belarus, Russia, Estonia, Latvia and Lithuania (BRELL).<sup>126</sup>

BRELL was an agreement between the transmission system operators (TSOs) of the aforementioned countries, which regulated the coordination of the operational control over the power systems. In the period analyzed the TSOs of the Baltic States sake to ensure that BRELL decisions would be in line with the European Union legislation. Accordingly, the interests of the Baltic BRELL members were represented by Elering (Estonian TSO), Augstsprieguma tīkls (Latvian TSO), and LITGRID AB (Lithuanian TSO).<sup>127</sup> Therefore, the Baltic States were dependent on each other as they belonged to the same area of electricity synchronization and under one electricity transmission agreement – BRELL.<sup>128</sup>

Since there were no options of one Baltic country benefitting of these energy dependencies, and none of them was a single resource supplier to the other, the dependencies should be

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<sup>124</sup> Interview No. 3

<sup>125</sup> Who is ENTSO-E? <<https://www.entsoe.eu/about-entso-e/Pages/default.aspx>> [Previewed on 05.11.2015].

<sup>126</sup> Interview No. 4

<sup>127</sup> BRELL, International Activities, LITGRID <<http://www.litgrid.eu/index.php/about-us/international-activities-/621>>[Previewed on 05.11.2015].

<sup>128</sup> Interview No. 4

treated as positive, calling them energy interdependencies that show the state of cooperation within the complex.

### *Regional Issues of Securitization*

The issues each state securitized are well seen from the analysis of national energy strategies and national energy development plans. Estonia in its National Development Plan of the Energy Sector until 2020, released in 2009, pointed diversification of energy supply through the distribution of energy sources in the energy mix as its main priority. As it was shown, Estonia was slightly changing its energy mix within years by increasing the percentage of coal, even though it considered this as a non-practical activity for energy security and climate considerations. Yet it then approved a new technology that would decrease the level of emissions.<sup>129</sup>

Moreover, it aimed at developing the new electricity and natural gas connections. Estonia named the implementation of regional and long-term projects such as an electricity connection between Estonia and Finland EstLink 2, as well as the implementation of the BEMIP in cooperation with other EU member states, particularly the Baltic States.<sup>130</sup>

After the shutdown of INPP Lithuania became more dependent on electricity imports, thus, electricity was one of the most important sectors of state energy security. Therefore, to get integrated into the EU energy system it firstly had to get synchronized with the European Continental Network. As a result, in its National energy strategy of 2012 it named two electricity projects of the prior importance: LitPol Link, connecting Lithuania with Poland, and NordBalt, connecting Sweden with Lithuania. However, the price for these projects implementation was extremely big and it was a big question of financial measures to implement them.<sup>131</sup>

Lithuania's gas independence was a significant issue too as after the closure of INPP the bigger part of gas had to be used in electricity plants. Hence, Lithuania aimed at constructing a liquefied natural gas (LNG) terminal, which would diversify the supply of natural gas. There were attempts to renew Visaginas NPP project as well, which is clearly seen from

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<sup>129</sup> National Development Plan of the Energy Sector until 2020, 2009  
<[http://www.encharter.org/fileadmin/user\\_upload/Energy\\_policies\\_and\\_legislation/Estonia\\_2009\\_National\\_Development\\_Plan\\_of\\_the\\_Energy\\_Sector\\_to\\_2020\\_ENG.pdf](http://www.encharter.org/fileadmin/user_upload/Energy_policies_and_legislation/Estonia_2009_National_Development_Plan_of_the_Energy_Sector_to_2020_ENG.pdf)> [Previewed on 05.11.2015].

<sup>130</sup> Energy Policy in Estonia < [http://www.kas.de/wf/doc/kas\\_33609-1522-2-30.pdf?130222203647](http://www.kas.de/wf/doc/kas_33609-1522-2-30.pdf?130222203647)>[Previewed on 05.11.2015].

<sup>131</sup> Interview No. 1

strategic documents, but it wasn't Lithuania's priority, because there were other ways to reduce energy dependency faster and cheaper – by building the necessary energy interconnectors.<sup>132</sup>

Latvia was the smallest and economically weakest country in this analysis and often seen together with the other two Baltic countries – Estonia and Lithuania. Yet it was the most dependent on gas imports with an energy dependency rate of 65.7% in 2009.<sup>133</sup> Latvian energy guidelines for the years 2007-2016 mention two general problems/aspects for Latvia in relation to an EU energy policy. First, Latvia saw the necessity of ending the isolation of the Baltic energy market from the EU market; second, its official documents emphasized the necessity of a common external energy policy against suppliers, such as Russia and OPEC.<sup>134</sup>

According to other documents, the Latvian Government regarded it as necessary to make “legal agreements between the EU and transit countries on the energy dependency principles”<sup>135</sup>, to build alternative routes for the energy supply and also to have solidarity mechanisms that are needed for the case of gas supply disruptions. Concerning European common energy market, Latvia also favored extra EU funding, when the TEN-E sphere is enlarged.<sup>136</sup>

Moreover, documents about Latvia in the EU and its aims stress the aspects of market isolation. European external energy policy is mentioned, but the documents show the Latvian reservations about a common energy policy.<sup>137</sup> Latvia did not want EU competences to be extended to the national energy mix and primary energy supply or more ambitious regional energy security laws. In addition to that, it didn't want a further liberalization of the energy market until the fragmentation of the EU market is overcome.<sup>138</sup> Although there were certain limits on European policy in Latvian documents, in general, Latvia supported EU energy policy. However, it did not prioritize any energy infrastructure projects in its national strategic documents. Instead, The Energy Department of the Ministry of Economy, that is in charge of the Latvian energy policy, focused on the increased use of renewables and

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<sup>132</sup> Ibid

<sup>133</sup> Latvian energy dependency, Eurostat, 2009

<sup>134</sup> Interview No. 6

<sup>135</sup> Ibid

<sup>136</sup> Interview No. 6

<sup>137</sup> Interview No. 6

<sup>138</sup> Ibid

cogeneration as Latvia's priorities in the National Development Program for years 2007-2013.<sup>139</sup>

### *Regional energy interests*

Talking about regional energy security interests in the BESC in 2009-2011, it should be pointed that first of all, that there was lack of domestic energy expertise and deficiencies in strategic planning.<sup>140</sup> Maigre argues that the Baltic States' internal energy security problems evolved around the lack of strategic competence and deficiencies in strategic planning, because the growing dominance of the energy topic among national security issues was not accompanied by a growth in the number of domestic energy experts. Estonia, Latvia and Lithuania were short in professionals who have a combination of technical knowledge and a broad political-strategic outlook in energy policy. The few existing specialists often focused on narrow, job related concerns and were reluctant to see the problems and issues in a broader national energy security context.

Therefore, for a long time energy policy in the Baltic states was perceived and deliberately presented as „the domain of energy practitioners, who supposedly had to make informed and rational policy and business choices in a technologically and financially complex environment“. As a result, the energy sector has remained outside regional interest and scrutiny.<sup>141</sup>

Latvia put all its efforts handling the economic crisis and little was invested in plans to provide Latvian energy security after the crisis. In Lithuania, the lack of preparedness for the closure of INPP was the most obvious confirmation of a lack of strategic energy thinking as its closure became obvious much earlier, in 2002, when negotiations on EU membership concluded with the decision on its second reactor decommissioning. Yet, even after the closure of the first reactor in 2004, no real steps were taken to prepare alternative ways of producing electricity until 2009.<sup>142</sup>

Foreign energy expertise was very rarely used in the Baltic States. The Lithuanian National Energy Strategy, established in 2007, was written entirely by ministerial officials, who

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<sup>139</sup> National Development Programme for years 2007-2013

<sup>140</sup> Maigre, 20.

<sup>141</sup> Ibid, 64

<sup>142</sup> A. Spruds and T. Rostoks, T., Pulling the Baltic Sea Region Together or Apart?, 2009 <<http://www.cepsr.com/dwnld/dobrovolny-recenze2011020310.pdf>> [Previewed on 05.11.2015].

wanted to avoid criticism. In Estonia, the long-standing Estonian Energy Research Agency was closed in 2004 and established Estonian energy expertise was lost. In Estonia and in Latvia, the energy sector is the responsibility of the Ministry of Economic Affairs, whereas in Lithuania created a separate Ministry of Energy in 2009. According to the Prime Minister of Lithuania, the main Energy Ministry's responsibilities included the implementation of projects significant for state energy security, namely the construction of the new nuclear power plant, electricity connections with Poland, Sweden as well as gas pipeline to Poland and an LNG terminal.<sup>143</sup> On contrary, there was no high-level inter-agency coordination and management in energy issues in Estonia - there was no working government commission or parliamentary committee, focusing on energy or energy security issues.<sup>144</sup>

Since the Baltic States were small states, their officials knew each other both formally and informally, which helped to exchange information. However, the negative side of such communication was that there were no fixed sustainable procedure and institutional framework.<sup>145</sup> Therefore, regional energy interests were expressed not by the Baltic States themselves, structuring them in complex, but rather by EU that, being in contact with each state regularly, summarized their energy interests and noticed similarities. This argument though raises a question if the Baltic States see themselves in complex at all, maybe it is the EU perceiving three states in complex only.

Nevertheless, energy mix analysis as well as energy production, consumption and import analysis showed clearly, that all three states are dependent on Soviet-era energy infrastructure and to increase their energy security have to join European energy networks. To do that, they have to think regionally and actively participate in integration to the European energy system as this is mutually beneficial for all of them.

### **3.2 Baltic energy infrastructure projects**

This section discusses regional energy infrastructure projects that were both included in BEMIP and in the national strategic documents as of priority around 2009, when BEMIP was signed by Lithuania, Latvia and Estonia. These include: Lithuanian LNG terminal, LitPol

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<sup>143</sup> Prime Minister Kubilius wants to increase control over LEO LT, 2009  
<<http://www.osw.waw.pl/en/publikacje/ceweekly/2009-01-14/lithuania-prime-minister-kubilius-wants-increase-control-overleo-lt>>[Previewed on 05.11.2015].

<sup>144</sup> Maigre, 10.

<sup>145</sup> Interview No. 1



Link, NordBalt, EstLink 2, BalticConnector and gas pipeline between Poland and Lithuania.<sup>146</sup> As it is already proven that national strategic documents responded to the national energy mix and energy consumption, production and import relations between the Baltic States, this section firstly elaborates on BEMIP that was the engine for energy infrastructure project implementation. Further, it discusses two projects in detail - Lithuanian LNG terminal and NordBalt by tracing the process of their implementation to unfold the motives of the actors participating. These projects not only illustrate complications for regional cooperation, but also allows to compare two energy sectors (gas and electricity), examine how much cooperation can be determined by EU funding (NordBalt was funded and Lithuanian LNG terminal was not) as well as capture the level of energy interdependency while evaluating what is the dominant approach used in the region (market or strategic). Beside public documents found on the projects, the data from semi-structured interviews is used to make additional comments on project implementation.

### 3.2.1 BEMIP

The BEMIP was accepted by the Baltic States' governments in June, 2009. It was initiated by the EC aiming at the Baltic States' integration into the EU single energy system to remove energy isolation and improve the energy security situation in the region. Moreover, the other goals of the BEMIP were the implementation of energy trade and natural resources conservation, regulated energy communication between the Baltic States and the non-EU countries with the help of the EU 3rd energy package. Therefore, the plan comprised a lot of actions and projects to firstly integrate the energy isolated island - the Baltic States - in the united EU system. The main areas of the BEMIP were electricity market integration, electricity interconnections and generation as well as gas internal market and infrastructure.

The BEMIP included several energy projects which were also in the European Economic Recovery Program<sup>147</sup> so that the Baltic States would receive additional financial assistance. The total assistance had be around half a billion Euros, including the EC cohesion fund, TEN-E program and other financial sources. This shows how much the EU was ready to

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<sup>146</sup> Interview No. 2

<sup>147</sup> The Baltic Sea Region States reach agreement on the Baltic Energy Market Interconnection Plan, 2009.

invest to implement the EU energy market rules in the Baltic States and provide fair competition in the EU energy market.<sup>148</sup>

What regards electricity sector, the three Baltic States had to be integrated into the Nordic electricity market model and operate in accordance with the EU rules. Therefore, the first task to do was to separate the Baltic transmission system operators (TSOs).<sup>149</sup> The electricity infrastructure plan consisted of three sets of projects. One of them was the cooperation of the Baltic States with the Nordic countries, as well as Poland. Accordingly, the planned electricity link projects in the Baltic States energy field were NordBalt between Sweden and Lithuania; EstLink 2, connecting Estonia and Finland and LitPol Link, linking Poland and Lithuania. These projects aimed at strengthening the electricity network in the Baltic Sea Region.

The gas sector projects included the diversification of sources and suppliers by developing gas storages and the implementation of the reverse flow due to Baltic States dependence on single gas supplier. Hence, the projects had to help diversifying gas suppliers and developing new gas routes.<sup>150</sup> The most important projects were gas pipeline, connecting Poland and Lithuania, BalticConnector and regional LNG terminal. In February 2011, the European Council concluded that by 2015 all the EU states should be connected to the European gas and electricity networks and have implemented the legislation of the energy market.<sup>151</sup>

By 2011 the results of the open price area construction were already visible: the Baltic TSOs started separating (the shareholders of the Estlink1 achieved an agreement on the capacity purchase change<sup>152</sup>), the Nord Pool Spot (NPS) started operating in Estonia and in Lithuania<sup>153</sup>, restrictions to regulate prices were in process in Lithuania and Estonia, the 3rd Energy Package was fully accepted by Latvia and Lithuanian and partly in Estonia in electricity sector, allowing the electricity market integration to be achieved by 2015. In terms of gas sector, The 3rd Energy Package was only accepted by Latvia and Lithuania.<sup>154</sup>

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<sup>148</sup> Memorandum of understanding on the Baltic Energy Market Interconnection Plan, 2009.

<sup>149</sup> Interview No. 10.

<sup>150</sup> Making the internal energy market work, 2012.

<sup>151</sup> Interview No. 2

<sup>152</sup> Interview No. 5

<sup>153</sup> Interview No.

<sup>154</sup> Interview No. 10

On contrary, most of the energy infrastructure projects in the Baltic region were complicated. All these problems led to either delaying or closing the project.<sup>155</sup> To capture some of the reasons of complications, it is useful to track the implementation of the Action Plan, clearly described in the Progress reports of the BEMIP. Lithuanian-Polish electricity connection LitPol Link was at the preparation stage in 2009 and had to be finished in accordance with the initial plan by 2015. In 2012 it was still at the preparatory stage. What regards NordBalt, the EU planned to build the first NordBalt network between Klaipeda and Telšiai by 2013. However, in 2012 the landowners did not reach an agreement on the legislation and, therefore, the project realization was postponed till 2014. NordBalt had to be fully constructed in 2015. In terms of EstLink 2, its construction began in 2009 and had to be completed by 2014. In 2010 some steps were undertaken. An issue concerning investment was solved and environmental studies were finished. The project did not have more complications to be realized in accordance with the plan and get finished on time. In 2009 Polish-Lithuanian gas interconnection was discussed at the meetings, but the participants showed little interest in the project. There was a possibility of Latvian inclusion in the project. In 2009 BalticConnector project was under research and a decision concerning its implementation was not made. However, there was no certain decision regarding the regional LNG terminal construction made. Even though every state showed concern in building one, the EU estimated the Baltic States' energy market to be too small for such a terminal in each state. In the 4th progress report it was pointed that all the three Baltic States should support one LNG terminal and it should be a big regional project.<sup>156</sup>

EC, following these complications, has further proposed to allocate 40 billion Eur for the period 2014– 2020 in the next financial perspective for the Connecting Europe Facility, out of which 9.1 billion Eur was proposed to be allocated for the energy sector.<sup>157</sup> Algirdas Šemeta, Commissioner for Taxation, Customs, Anti-fraud and Audit, stated that one fourth of the funds provided for energy infrastructure would be devoted to the projects of the Baltic States, including not only natural gas, but also electricity interconnection projects.<sup>158</sup> The EC also created a list of priority energy corridors. This list included interconnectors linking

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<sup>155</sup> Interview No. 1

<sup>156</sup> BEMIP Progress reports No. 1, 2, 3 and 4 < <https://ec.europa.eu/energy/en/topics/infrastructure/baltic-energy-market-interconnection-plan> > [Previewed on 13.05.2015].

<sup>157</sup> Commission 2011.

<sup>158</sup> A.Šemeta: Europos Sąjungoje turi nelikti energetinių salų." *Europos Komisija*, 2011<[http://ec.europa.eu/lietuva/ziniasklaidai/30062011\\_energetines\\_salos\\_\\_lt.htm](http://ec.europa.eu/lietuva/ziniasklaidai/30062011_energetines_salos__lt.htm).> Previewed on 05.11.2015].

Finland and Estonia (EstLink 2), Poland and Lithuania (LitPol Link) and a regional LNG terminal and NordBalt in the Baltic States as well as internal system upgrades to reach sufficient capacity to allow free flow of gas in all directions. According to the EC, these projects would “end the isolation of the three Baltic States and Finland, ending single supplier dependency as well as enhancing security of supply in the whole Baltic Sea region through increased diversification of supplies.<sup>159</sup> Seeing the EU institutions’ determination to support the projects removing the energy islands, there were substantial possibilities that the EU would fund most of the projects.

Yet the EU promised to invest into the project if only all the countries achieve an agreement on the project location.<sup>160</sup> EstLink 2 and LitPol Link were not the objects of discussion as there were no other technical ways to be connected to both Nordic countries and EU internal energy system. However, regional LNG terminal and NordBalt were the objects of harsh negotiations as all three the Baltic States wanted to get the EU funding.<sup>161</sup> To capture the motives for the choice of cooperation/competition, two processes of negotiations are tracked in the next two chapters.

### **3.2.2 Lithuanian LNG terminal**

As it is seen in BEMIP, each of the Baltic States had a plan to build an LNG terminal and this was the biggest problem in the way of bringing alternative supplies to the Baltic States. The internal competition mood in developing the LNG terminals did not allow the Baltic States to sufficiently cooperate on this issue.<sup>162</sup> Estonia had been considering two possible sites for the LNG terminal: Paldiski or Muuga. Latvia has been selecting from 2–4 different places, but finally has focused on the port in Riga. Lithuania had been planning an LNG terminal in Klaipėda. However, international experts warned more than once that the small size of the gas markets of the three Baltic States only one LNG terminal is feasible.<sup>163</sup>

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<sup>159</sup> Interview No. 2

<sup>160</sup> Interview No.1

<sup>161</sup> Interview No. 2

<sup>162</sup> Interview No. 5

<sup>163</sup> G. Jahn, Ramboll Oil & Gas, 9.

Since 2008, the gap between hub based and oil-linked long term gas prices has been noted. The divergence was estimated to finish around 2013–2014.<sup>164</sup> As a result, when any of the planned Baltic LNG projects gets implemented, the consumers of the Baltic States would not necessarily have a choice of cheaper supply. They would have access to market based prices, however, which will depend on the demand and supply of the natural gas, thus, consumers would be able to buy gas when it is cheaper - in summer, store them and consume when it is more expensive.<sup>165</sup>

Both Latvia and Lithuania already had transmission pipelines to the Baltic Sea shores where the LNG terminals were planned, whereas Estonia was not connected to the natural gas transmission system of the country (especially the Paldiski site). Estonians planned to construct a transmission pipeline to Paldiski for a new LNG or interconnection to Finland. The projected LNG terminal in Estonia was used within the context of the interconnection with Finland, so the LNG could be common for the Baltic States and Finland.<sup>166</sup> In an annual report of 2010 the Estonian competition authority indicated that several investors had shown an interest in building a LNG terminal on the northern shores of Estonia, although no decisions have been made. Thus, the Competition authority stated that an “LNG terminal in conjunction with the BalticConnector would improve security of supply both in Estonia and Finland and would also activate competition in the wholesale market”.<sup>167</sup> This was possible, as Estonia and Finland would be able to trade between themselves, and via Estonia this LNG terminal would also bring natural gas other than Russian to Finland.<sup>168</sup>

The public releases show that there were two different competing private entities in Estonia, each involved in the development of their own LNG terminal projects: Estonian company Balti Gaas was developing the project in Paldiski, west from the capital Tallinn and LNG Estonia WAS developing the terminal in Muuga, east of the capital Tallinn.<sup>169</sup> As Balti Gaas stated, “the terminal would potentially cover the entire gas consumption in Estonia and the company has for future supplies a pre-agreement with Nitrofert, Estonia’s largest industrial

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<sup>164</sup> J. Stern and R. Howard, *The Transition to Hub-Based Gas Pricing in Continental Europe*. Oxford Institute for Energy Studies, 2011. <<http://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/03/NG49.pdf>> [Previewed 05.11.2015].

<sup>165</sup> Interview No. 3

<sup>166</sup> Interview No. 7

<sup>167</sup> Ibid, 13.

<sup>168</sup> Interview No. 5

<sup>169</sup> Interview No. 3

gas consumer”.<sup>170</sup> During the first phase of the Paldiski–based LNG terminal plan, the developers foresee supplying enough gas to cover Estonia's gas needs for three weeks.<sup>171</sup> In Muuga, the project was planned to start in 2012 at the earliest or 2014 at the latest.<sup>172</sup>

The company which developed the terminal project in Paldiski stated that it owned the land necessary for the construction. The company plans to build an onshore storage for the LNG and vaporizing facility in 2012–2014. The company believed that since the terminal was meant for the security of supply, it “shall be financed partly from tariffs”. It was seen that the company also considered that the LNG terminal could sometimes stand empty “to tear Gazprom prices down”. The company did not consider storing the received natural gas in Inčukalns in Latvia, as “Inčukalns cannot offer security of supply to Estonia as then the same pipe is used, and its throughput is limited”. Moreover, the company did not plan to invest in the transmission pipeline connecting Paldiski and the national gas system.<sup>173</sup>

It is important to state that the LNG investment location recommended in the final report for the BEMIP was destined to be located on the Finnish or Estonian shores. The LNG in Latvia was not mentioned in the BEMIP at all and LNG in Lithuania only as additional investment “in the case reverse flow in Yamal–Europe in Poland is not established”. In the final report it is also stressed that “the relative small gas markets in Finland, Estonia, Latvia and Lithuania do not generate scope for more than one LNG terminal”.<sup>174</sup>

In 2011, a feasibility study commissioned by Latvenergo was conducted in Latvia by a consortium of GL Noble Denton and the Energy Contract Company. Latvia planned to create a regional terminal which would be used by all East Baltic States and increase the energy security in the whole region.<sup>175</sup> According to the statements of the Latvian authorities, the feasibility study revealed that the Latvian advantage was its geographical location, pre-existing and appropriate infrastructure, and the developed natural gas connections with Lithuania and Estonia. As the factors favoring building an LNG terminal in Latvia they also mentioned vicinity of the underground gas storage facility, Inčukalns, which, if necessary,

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<sup>170</sup> Balti Gaas, 23.

<sup>171</sup> Balti Gaas, 11.

<sup>172</sup> *Estonia: LNG terminal to be built by 2014*, Eesti Päevaleht 2009

<[http://www.logisticsturku.fi/logistics/bulletin.nsf/webbydate\\_fin/3868B186E9790C39C22575DE00312DCD](http://www.logisticsturku.fi/logistics/bulletin.nsf/webbydate_fin/3868B186E9790C39C22575DE00312DCD)> [Previewed on 05.11.2015].

<sup>173</sup> Balti Gaas, 2011.

<sup>174</sup> Ramboll Oil & Gas, 2009.

<sup>175</sup> Interview No. 5

could be extended to 3.2 billion cubic meters and which “would help to keep the lowest possible price of gas acquisition, purchasing the natural gas at its lowest price during the period”.<sup>176</sup>

Lithuania declared that it would support the regional LNG terminal idea in Latvia<sup>177</sup>, but at the same time it seemed to have its own agenda. The public position of the Lithuanian officials was that Lithuania would not make obstacles for Latvia to build the regional LNG terminal, supposedly financed with EU money, but in addition Lithuania would build its own “small” terminal. It should be noted that the planned capacity of this “small” terminal was enough to cover almost all Lithuanian natural gas demand. The Lithuanian way of acting aimed at creating no perceived threat to the other Baltic States. Yet, LNG projects seemed to work only in Estonia.<sup>178</sup> For example, Estonian Balti Gaas did not forecast possible competition coming from Lithuania “due to the distance”.<sup>179</sup> Hence, in the case the terminal is built and fully exploited, the question raised here was if gas delivered by Gazprom by pipeline would be used at all. The long-term gas supply agreement between Lietuvos Dujos and Gazprom, however, was signed in 2004 and it was valid until the end of 2015<sup>180</sup> and the terminal is planned to be finalized by the end of 2014. This meant that one year later after the projected launch of the LNG, Lithuanian consumers could have more flexibility to choose where to buy the supplied gas.

However, the LNG terminal was a priority project of the Lithuanian gas sector. One of the alternatives that the government discussed was a combination of the LNG and the underground storage, although the government acknowledged that the possible site might not suite the project.<sup>181</sup> In 2010 two studies, conducted in Lithuania on the planned LNG, were completed: Belgium’s Exmar NV study on the liquefied natural gas technologies in Lithuania and USA Science Applications International Corporation study about the supply of gas by sea alternatives.<sup>182</sup> The Lithuanian company Klaipėdos Nafta signed a preliminary agreement with US Cheniere for the liquefied gas imports. According to the memorandum of understanding, Klaipėdos Nafta and Cheniere agreed to continue talks on liquefied natural

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<sup>176</sup> Latvijas Republikas Ekonomikas Ministrija, 2011.

<sup>177</sup> Andrius Kubilius, 2011.

<sup>178</sup> Interview No. 5

<sup>179</sup> Balti Gaas, 2011.

<sup>180</sup> Interview No. 3

<sup>181</sup> Government of the Republic of Lithuania, 2011.

<sup>182</sup> National Control Commission for Prices and Energy, 2011.

gas supply volumes. If negotiations are successful, long-term LNG purchase and delivery contracts were to be signed.<sup>183</sup>

In 2011, Klaipėdos Nafta became an owner of 33% of the electricity market operator, BaltPool, in order to establish a secondary natural gas exchange on the already existing electricity power exchange platform.<sup>184</sup> According to the feasibility study conducted by Sweco that calculated the recent price Lithuania paid for natural gas, the expected prices of LNG gas would be reduced by 10% and the estimated 350 million Eur investments into the LNG would be repaid in 4 years.<sup>185</sup>

One more specific aspect related to the Lithuanian plans to build an LNG terminal was the stated necessity to strengthen the gas transmission network from the seacoast so that the terminal would be viable. This concerned pipeline Šakiai–Klaipėda or Jurbarkas–Klaipėda. This would create a ring in the Lithuanian natural gas transmission system. The Lithuanian government divided this pipeline into three projects, and made a resolution to appoint EU funding to them in 2011, the total cost of the three projects of which was expected to be 50 million Euros.<sup>186</sup>

Therefore, all three Baltic countries were racing to build an LNG terminal, while for experts it seemed obvious that due to the small size of the Baltic gas market only one terminal is feasible. Both Estonia and Latvia were eager to attract investment into their planned LNG terminals from the other Baltic counterparts, while Lithuania's official position was to build an LNG on its own and for its own needs. In Latvia and Lithuania the LNG terminal projects were guided by the governments, while in Estonia a couple of private entities had plans to build LNG terminals in different parts of Estonia.

According to the energy mix analysis, Estonia was the least dependent on natural gas, which gave the country possibility to negotiate as long as it was necessary to persuade the other Baltic States on regional LNG terminal in Estonia. Latvia had an agreement with Gazprom for natural gas supply at low price till 2020.<sup>187</sup> However, Lithuania's agreement with

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<sup>183</sup> Interview No. 5

<sup>184</sup> *ibid*

<sup>185</sup> Dėl suskystintų dujų terminalo pripažinimo valstybei svarbiu ekonominiu projektu". Government of the Republic of Lithuania, 2011 <[http://www.lrv.lt/Posed\\_medz/2011/110713/39\\_papildymas.pdf](http://www.lrv.lt/Posed_medz/2011/110713/39_papildymas.pdf)> [Reviewed 05.11.2015].

<sup>186</sup> Interview No. 10

<sup>187</sup> *ibid*



Gazprom for natural gas supply was due 2015, according to which Lithuanians had to pay a higher price than Latvians. Having no other gas supply Lithuania had two possibilities: to prolong the agreement with Gazprom on the same unfavorable conditions or to build the national LNG terminal by its own, taking both financial and political risks.<sup>188</sup> In 2011 Lithuania chose to build the terminal in Klaipeda. Since there was no EU funding available for this project (that could still serve as a regional terminal), Lithuania had to take a loans from Nordic Investment Bank (34,8 million Eur)<sup>189</sup>, European Investment Bank (87 million Eur)<sup>190</sup> and cover the rest from its national budget. This was a big risk as the loan repay was guaranteed by Lithuanian Government. That was the price for gas security of supply.

### 3.2.3 NordBalt

NordBalt (also known as SwedLit) could be called one of the oldest electricity cable projects from all listed in BEMIP: the first negotiations on it started in 2004.<sup>191</sup> NordBalt was meant to connect Lithuania and Sweden and promote trading between Baltic and Nordic electricity markets as well as increase the security of electricity supply in both markets. Moreover, integration into the Nordic electricity system had to create possibilities to further integrate into the European system in general. However, political disagreements between Lithuania and Latvia over the location of the cables complicated project implementation, which made it start in 2010 only.<sup>192</sup>

Although electricity sector is subject to cooperation in particular due to its technical specifics as all the Baltic States are connected into the same Soviet-era electricity infrastructure and electricity is not a resource for storage (it either has to be used and wasted), this dispute created difficulties for both regional cooperation and EU funds allocation. Only in the end of 2009 and after long negotiations the agreement was reached with the decision to stick to the main idea of cable location - Lithuania. However, the final outcomes of these negotiations were quite surprising – to get Latvia's approval, Lithuania had to share with it a part of the EU funding that was primarily dedicated for project implementation and, as a result, harden

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<sup>188</sup> Interview No. 3

<sup>189</sup> NIB provides a long term loan for LNG terminal in Lithuania

<[http://www.sgd.lt/index.php?id=403&L=1&tx\\_ttnews%5BbackPid%5D=1&tx\\_ttnews%5Btt\\_news%5D=317&cHash=e9c8f48960f69546ae74dca36987a920](http://www.sgd.lt/index.php?id=403&L=1&tx_ttnews%5BbackPid%5D=1&tx_ttnews%5Btt_news%5D=317&cHash=e9c8f48960f69546ae74dca36987a920)> [Previewed on 13.5.2015].

<sup>190</sup> Lithuania gets EIB loan < <http://www.lithuaniantribune.com/57266/there-are-no-obstacles-to-lithuanias-lng-terminal-getting-an-eib-loan-201357266/>> [Previewed on 13.5.2015].

<sup>191</sup> Baltija vienija Skandinavijos pinigai ir energetika, Veidas, 2012 < <http://www.veidas.lt/baltija-vienija-skandinavijos-pinigai-ir-energetika>> [Previewed on 12.05.2015].

<sup>192</sup> ibid

Lithuania's financial burden. To capture the motives of the choice for cooperation, this section aims at tracing the process of the negotiations over project implementation location.

To start with the technical part, NordBalt project was an extremely important connector to the united power system of Northern Europe - Nordpool, allowing to trade electricity and get it at the lowest possible price. It was measured that since 2012 the electricity market of the Baltic States - Baltpool - could get integrated into the Nordic electricity market Nordpool. Estonia had already joined the Nordpool through the 300MW Estonian-Finnish (EstLink 1) cable as early as 2007, whereas Lithuania, Latvia and Sweden could be connected through the NordBalt cable in 2015.<sup>193</sup>

In addition to that, in case of full implementation of the Estlink, Estlink 2, and NordBalt projects, the Baltic States electricity market could be almost integrated into the Northern European market. Alongside economic responsibilities, Northern European legal rules regulated access to the market and aimed at isolating this market from 'strangers' if such come into force. Furthermore, at the same time, NordBalt increased competition between Swedish and Finnish electricity suppliers, since both countries strived to assume control over the whole electricity market of the Baltic States - Finland was about to approach from the Estonian side and Sweden from the Lithuanian direction.

NordBalt was planned as a submarine electricity cable between Klaipeda in Lithuania and Nybro in Sweden. The building of two parallel cables (that would be 900 km length in total) would enlarge the Baltic region electricity capacity by 700 MW.<sup>194</sup> However, at the project consideration stage, Latvia insisted on the construction of two independent converter stations in Lithuania and Latvia. To secure the plan, according to which the converter station had to be built in Lithuania making an additional cable leading to Latvia, Lithuanians conducted several studies.<sup>195</sup>

A feasibility study, completed in 2008, showed that the interconnection is feasible and would be economically reasonable in terms of technical, economic and legal aspects. Moreover, it

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<sup>193</sup> Interview No. 9

<sup>194</sup> A. Obushevs, M. Turcik and I. Oleinikove, Market Based Analysis of Power System Interconnections, *Scientific Journal of Riga Technical University*, Vol. 29, 2011.

<sup>195</sup> A. Kuznecov and V. Olenchenko, Transport and Energy Networks In the Baltic Region as an Impetus for Regional Cooperation, Institute of World Economy and International Relations, Russian Academy of Sciences, 2013 <[http://194.106.195.59/upload/iblock/56f/Kuznetsov%20A.,%20Olenchenko%20V.\\_4-15.pdf](http://194.106.195.59/upload/iblock/56f/Kuznetsov%20A.,%20Olenchenko%20V._4-15.pdf)> [Previewed on 12.05.2015].

would be even possible to connect to the cable to the wind park in the Baltic Sea. According to this study, such interconnection could be operational in 2015.<sup>196</sup> Besides that, a survey of the Baltic Sea bed, where the cable was projected to run, was completed in 2009. It helped to confirm the best cable route across the Baltic seabed and choose technology. Considering all necessary technical aspects and the potential preliminary price of the equipment, it was a Voltage Source Converter (VSC) technology chosen for the NordBalt link. This technology among other features offered a system recovery (Black Start) option and could operate in island mode. Moreover, the technology could leave a possibility to connect off-shore wind parks, solve reactive power compensation issues and required less territory for the installation of converter stations.<sup>197</sup> The fact that Lithuania had these studies conducted was quite a strong argument in negotiations with Latvians: „we are much further than Latvia with the project, we have commercial and technical studies done already“, claimed Lithuanian PM G. Kirkilas giving interview in 2008.<sup>198</sup>

Other sources show that Lithuania even tried to convince Latvia on its plan by suggesting it to hold 25% of all shares, giving another 25% to Estonia and leaving itself 50%. In return, Lithuanians would support the Latvian proposal on electricity cables in which Latvians offered to manage all the Baltic States electricity cables by one company.<sup>199</sup> Getting no positive outcome, Lithuanian government appealed Latvia to the European Commission to convince Latvia to cooperate in energy affairs.<sup>200</sup> After the European Commission interfered, some agreements were made on the political level.

In 2008, during the meeting of the Baltic Council of Ministers, Lithuanian PM G. Kirkilas, Estonian PM A. Ansip and Latvian PM I. Godmanis have agreed to continue their cooperation with a view to establish a functioning Baltic electricity market by 2012. It has been decided to set up a working group to this end. The Prime Ministers have also agreed to take the final decision on NordBalt in December, 2008. This project was also part of the

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<sup>196</sup> The European Union Strategy for The Baltic Sea Region, European Union Regional Policy, 2010 <[http://ec.europa.eu/regional\\_policy/sources/cooperate/baltic/pdf/2010\\_baltic.pdf](http://ec.europa.eu/regional_policy/sources/cooperate/baltic/pdf/2010_baltic.pdf)> [Previewed on 12.05.2015].

<sup>197</sup> Interview No. 4

<sup>198</sup> Kirkilas: nutiesus elektros tiltą į Švediją iki 2012-ųjų, IAE būtų uždaryta laiku, 2008 <<http://www.alfa.lt/straipsnis/196250/kirkilas-nutiesus-elektros-tilta-i-svedija-iki-2012-uju-iae-butu-uzdaryta-laiku#ixzz3ZvmLKKHY>> [Previewed on 12.05.2015].

<sup>199</sup> Elektros rebusas dar sprendžiamas, 2008 <<http://kauno.diena.lt/naujienos/verslas/ekonomika/elektros-rebusas-dar-sprendziamas-509379#ixzz3Zvn09Fa8>> [Previewed on 12.05.2015].

<sup>200</sup> A. Molis, Rethinking EU-Russia energy relations: What do the Baltic States want?, 2011 <<http://euroakadeemia.ee/materjalid/READ2.PDF>> [Previewed on 12.05.2015].

BEMIP, which was then being drafted on the initiative of the EC. Kirkilas underlined that Lithuania was interested in a more active and coordinated role of the EU in the context of energy security issues and hopes that the first discussion on the European Commission's Strategic Energy Review would be held already during the next European Council meeting in December, 2008. Moreover, he stressed that in 2009 Lithuania takes over from Estonia the relay of the presidency over the Baltic Council of Ministers on which it will emphasize the issues of regional cooperation.<sup>201</sup>

In July, 2009, Lithuania, Sweden and Latvia signed a memorandum of understanding regarding further cooperation while implementing the project. The power interconnection between Lithuania and Sweden was given a new name – NordBalt – which replaced the previous name – SwedLit. Lithuanian, Latvian and Swedish power companies resolved that the new name would reflect more exactly the main strategic goal of this project – the interconnection of common electricity markets of the Baltic States and Nordic Countries.<sup>202</sup> Further, they signed BEMIP, where NordBalt was marked as a priority project liable for EU funding.

The Leaders of the European Union member states also approved the infrastructure project support package, which included 175 million Eur financial support for the electricity link: 131 million Eur was allocated to the construction of the electricity link between Sweden and Lithuania and 44 million Eur to the construction of domestic lines in Latvia to ensure power flows from Sweden via the NordBalt link to all three Baltic States – Lithuania, Latvia and Estonia. The estimated investments into the Lithuania – Sweden interconnection project could total approximately 552 million Eur.<sup>203</sup> The project had to be financed by Lithuania, Sweden and EU funds. The agreements regarding the support were signed by March 2010.<sup>204</sup>

This helped to move to the planning phase by selecting the manufacturers of the cable and converter stations, awarding contracts to the winning bidders and commencing design and production. This was done in 2010. The converter stations construction work was expected to get started in the end of 2013 and the cable installation in the first quarter of 2015.<sup>205</sup>

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<sup>201</sup> Baltic Prime Ministers Agree to Take a Decision on SwedLit in December, 2008 <  
<http://www.penki.lt/Lithuanian-Politics/Baltic-Prime-Ministers-Agree-to-Take-Decision-on-Swedlit-in-December.im?id=181399&f=c&p=182>> [Previewed on 12.05.2015].

<sup>202</sup> Interview No. 4

<sup>203</sup> Interview No. 1

<sup>204</sup> *ibid*

<sup>205</sup> Lithuania – Sweden NordBalt power interconnection, Lithuanian Energy Quarterly, Issue 1, 2010.

Besides that, this project needed quite a number of small preparatory projects. Most of them were both considered in the BEMIP and supported by EU financially.<sup>206</sup> It is important to mention that preparatory work was done not only in Lithuania and Sweden, grid reinforcement was conducted in Latvia too (e.g. Kurzeme ring, performed by Augstsprieguma tīkls).<sup>207</sup> In Lithuania the project preparatory work was planned to be performed by the Lithuanian company LITGRID AB (that was still not unbundled from the state-owned Lietuvos Energija AB group) and in Sweden – by Swedish national grid operator Svenska Kraftnät that were in charge of the NordBalt interconnection project. Thus, in 2010 some small projects, supporting NordBalt were started in two different Baltic countries.

Therefore, although both Lithuania and Latvia insisted on serving as the end point of the cable and tried to convince that their networks are better equipped to function as a regional distributor, Lithuania won this „cable war“.<sup>208</sup> From a purely technical point of view it was completely irrelevant whether the cable would end in Lithuania or in Latvia. Irrational arguments and other slumbering sentiments that were deeply anchored in history threatened to halt the project.<sup>209</sup> Bult points out, although both countries held the view that the region’s dependence on Russian energy should be diminished, Lithuania saw itself as the leader of the Baltic States, having a natural right to claim the connecting point of the cable from Sweden and, thus, put all the possible efforts.<sup>210</sup>

Sweden had to make serious mediating efforts too. It announced that NordBalt will be started when two countries fully agree and make preparatory work. Furthermore, it did not provide official opinion favoring either of the countries competing. Thus, the final authorization on project implementation was issued by Swedish government in 2013 only.<sup>211</sup> Estonia was hardly willing to play a mediating role during this conflict as well as it already had EstLink 1 cable with Finland and EstLink 2 cable was planned for 2013. Furthermore, Estonia did not want to get involved in either disputes between Latvia and Lithuania, since this would affect

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<sup>206</sup> Interview No. 4

<sup>207</sup> BEMIP 3rd Progress Report , 2011 <

[https://ec.europa.eu/energy/sites/ener/files/documents/20120726\\_3rd\\_bemip\\_progress\\_report\\_final.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/20120726_3rd_bemip_progress_report_final.pdf)> [Previewed on 12.05.2015].

<sup>208</sup> Interview No. 1

<sup>209</sup> Interview No. 4

<sup>210</sup> Žodžiais sutinka, bet parašu nėra, Verslo žinios, 2008.

<sup>211</sup> Švedijos Vyriausybė suteikė galutinį leidimą tiesti „NordBalt“ jungtį į Lietuvą, Bernardinai, 2013

<<http://www.bernardinai.lt/straipsnis/2013-04-18-svedijos-vyriausybe-suteike-galutini-leidima-tiesti-nordbalt-jungti-i-lietuva/99416>> [Previewed on 12.05.2015].

the self-image of being a Nordic-oriented country that it dearly cherished.<sup>212</sup> Hence, its national interests in energy were over the regional ones.

Thus, to get the project done with the financial support by EU, Lithuania agreed to cooperate with Latvia and give it almost a quarter of all the money allocated. It was done in the same year the INPP was about to shut down. The INPP used to generate electricity in Lithuania to both satisfy the domestic needs and earn money on electricity exports. After its close Lithuania had two options again: to become dependent on single electricity supplier Russia, or to cooperate with other Baltic States on NordBalt. Even though the cost of the project had to be split into two (Lithuania and Sweden), there was no chance that Lithuania would manage to finance its part without EU funding. Hence, it chose to cooperate to get the project done at all.

### 3.3 Current Baltic States Energy Security Complex

In this thesis the notion *current* refers to the Baltic States energy security complex (BSESC) from 2012-2015, the period when all the Baltic States had negotiated over the actual place of the regional energy infrastructure projects, the EU funding was already allocated and the financed projects were about to end. Even though it was time when the countries were working on their projects to be finished on time, the situation in the complex has slightly different from the *status quo*. To see the change, the earlier structure of argumentation will be followed: this section of analysis studies the structure of the BSESC, discusses the energy mixes as well as import, production and consumption relations between the states, evaluates patterns of amity and enmity between each other, justifies why the complex became homogeneous, measures regional dependency, names common threats and their significance, defines securitizing actors, securitized issues and specifies the diversity of interests within the complex.

#### *Complex Structure*

During 2012-2015 the BSESC still consisted of three states: Lithuania, Latvia and Estonia. Some argue that agreements between Estonia and Finland on LNG terminal construction let Finland threat as a part of BSESC. However, these agreements were only reached by the end

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<sup>212</sup> J. Bult, Energy Cooperation in the Baltic Sea Region. Caught between 'Modernism' and 'Post-modernism'? <[http://www.atlcom.nl/ap\\_archive/pdf/AP%202009%20nr.%207/Bult.pdf](http://www.atlcom.nl/ap_archive/pdf/AP%202009%20nr.%207/Bult.pdf)> [Previewed on 12.05.2015].

of 2014.<sup>213</sup> Moreover, from the electricity sector point of view, Finland was a part of Nordic electricity system the Baltics were to fully integrate to when NordBalt is completed. Thus, analyzing the period 2012-2015 this paper follows the complex structure of three.

Energy mixes, illustrating the resources the countries depend on the most, show a slightly different situation than was seen in 2009-2012. First, natural gas and electricity took a smaller part of the energy mix in each country over years, letting the renewables to increase accordingly. In Latvia renewables even overtook natural gas in 2012 and left oil in the second place, like it had in Lithuania and Estonia. The same tendencies in the Baltic States show that it was the effect on common energy policies, aiming at reducing the dependency on Soviet-era energy infrastructure were successful and had an effect on each of them. Such a jump in renewables in Latvia can be explained by a fact that Latvia did not implement any energy infrastructure project, hence, specialized in other resources to decrease its national dependency on Russia and other states.

As a result, the Lithuanian national energy consumption in 2012 was 2% bigger than in 2011 and was based largely on natural gas (37%) and oil (35%). The renewables share increased from 18.0% to 21.7% between 2009 and 2012, making the country closer to reaching the 2020 national renewable energy target of 23%.<sup>214</sup> Electricity consumption increased as well and reached 8 % of total energy consumption in 2012. In 2013 national energy consumption decreased. Accordingly, electricity consumption was 2 % smaller and natural gas consumption was 4 % smaller than in 2012.<sup>215</sup> In 2014 electricity consumption remained the same. Unfortunately, the annual statistics for 2015 will get public in July, 2016. However, scientific prognosis shows that national consumption could increase.<sup>216</sup> Latvian consumption consisted of oil (30%), gas (27%) and renewables (36%), leaving electricity 3 % only in 2012. In 2013 national consumption dropped by 2,7%. If compared to 2012, the consumption of electricity decreased by 20%. This can be explained with the drop in the in the electricity production in hydroelectric power plants. In 2013 as compared to 2012 consumption of fuel wood in households dropped by 6%, use of natural gas decreased by 6,8 % and consumption

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<sup>213</sup> Finland and Estonia to build LNG terminals, 2014 < <http://www.euractiv.com/sections/energy/finland-and-estonia-build-lng-terminals-310096>> [Previewed on 12.05.2015].

<sup>214</sup> Eurostat

<sup>215</sup> Valstybinės kainų ir energetikos kontrolės komisijos ataskaita EK už 2013 m.

< <http://www.regula.lt/SiteAssets/naujienu-medziaga/2014-liepa/ATASKAITA-EK-2013.pdf>> [Previewed on 05.11.2015].

<sup>216</sup> Iki 2020 m. energijos suvartojimas augs iki 8% < <http://www.ateitiesenergija.lt/uploads/userfiles/file/aei-pltros-programos-pristatymas.pdf>> [Previewed on 05.11.2015].

of heat – by 4,3%.<sup>217</sup> There were no major changes in 2014. Although there is no data on 2015 yet, but Latvians made optimistic prognosis on further consumption too.<sup>218</sup> Estonian consumption consisted of coal (60%), oil (18%), gas (9%) and renewables (14%) in 2012.<sup>219</sup> In 2013 total consumption decreased by 2%, lowering the consumption of each resource a little bit except for solid fuels, whose consumption slightly increased.<sup>220</sup> Yet Elering (Estonian electricity TSO) made negative prognosis of Estonian energy consumption in the future mainly due to the climate policy through different CO2 prices.<sup>221</sup> Thus, it is now seen that if in 2009-2011 consumption of energy was either stable or growing, 2012-2015 brings attention to another tendency – decrease of energy consumption in the Baltics.

What regards imports, in 2012 Electricity imports into Lithuania decreased by 1.8%. The amount of electricity imported into Lithuania from Russia decreased by 13%, while electricity imports from Estonia increased by more than one third.<sup>222</sup> In 2013 electricity import was 11% smaller than in 2012, creating a 7 % smaller electricity generation too. In terms of natural gas, in 2013 Lithuania imported 18,7 %. Half of Latvia's import in 2012 was oil (51%), natural gas took a third (34%) and electricity the third place (10%).<sup>223</sup> Unfortunately, there is no data in English on the exact Latvian energy imports in 2013. In 2012 Estonia had a 13% dependency on energy imports, it mainly imported natural gas. In 2013 this dependency decreased by 2%, reducing the imports of gas. Therefore, the decrease in consumption influenced energy imports, mostly natural gas. It is also important to stress that electricity was also traded within the region and its imports from Estonia increased in the period of 2012-2015.

In terms of energy production, both Lithuania and Latvia had an increase in electricity generation that came from renewable production. Their share of the local production portfolio grew by almost one sixth in Lithuania within 2012-2015. In Latvia renewables constituted

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<sup>217</sup> Consumption of energy resources dropped in Latvia < <http://www.baltic-course.com/eng/analytics/?doc=92984>> [Previewed on 05.11.2015].

<sup>218</sup> Energy Security and Diversification of Energy Supplies < [http://ecrgroup.eu/wp-content/uploads/2011/07/Anrijs-Matiss\\_Energy.pdf](http://ecrgroup.eu/wp-content/uploads/2011/07/Anrijs-Matiss_Energy.pdf)> [Previewed on 05.11.2015].

<sup>219</sup> Gross inland energy consumption in 2012 <[http://ec.europa.eu/eurostat/statistics-explained/index.php/File:F6\\_EU28\\_GROSS\\_INLAND\\_ENERGY\\_CONSUMPTION\\_3\\_2012.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:F6_EU28_GROSS_INLAND_ENERGY_CONSUMPTION_3_2012.png)> [Previewed on 05.11.2015].

<sup>220</sup> Final Energy Consumption in years < <http://www.stat.ee/34183>> [Previewed on 05.11.2015].

<sup>221</sup> Estonian long-term energy scenarios, 2014 <<http://elering.ee/public/Infokeskus/Uuringud/Estonian-Long-term-Energy-Scenarios.pdf>> [Previewed on 05.11.2015].

<sup>222</sup> Poderys

<sup>223</sup> Total imports of Latvia in 2012 <[http://www.enercee.net/fileadmin/enercee/images/Latvia/LAT-imports\\_energy\\_2012.PNG](http://www.enercee.net/fileadmin/enercee/images/Latvia/LAT-imports_energy_2012.PNG)> [Previewed on 05.11.2015].



15% of the total production and biomass took the rest 85%. Estonia was producing electricity from solid fuels, which took 81% of all the produced resources. Renewables and natural gas took smaller parts, respectively 12.3% and 1.0% in Estonia. Hence, the enforcement of EU Energy Strategy 2020 showed significant results in decreasing the Baltic States dependency on Russian electricity in 2012-2015.

Although there was much of Russian influence noticed in the status quo of the BSESC, the current complex as it no longer had so many tools for policies of coercion. First, there were no cuts of energy supply in the Baltics. Yet in 2013 Russia stopped Lithuanian dairy products at the Russian custom offices<sup>224</sup>, which showed that Russia still has energy-unrelated tools to halt the Baltics. Second, if in 2009-2011 it tried to influence the Baltic States while they were adopting the EU 3rd Energy Package, in 2012-2015 nothing could be changed. First, in 2013 separated its electricity TSO LITGRID AB from Lietuvos Energija AB, the group of energy companies generating, distributing and transmission energy and created a separate group of companies for Lithuanian electricity and gas TSOs – UAB EPSO-G. In 2014 Lithuania nationalized its gas TSO Lietuvos dujos by buying its shares from Gazprom, E.ON. and some other private entities, making them all the property of the state under the new name AB Amber Grid and accountable for UAB EPSO-G, whose 100% of shares belongs to the Ministry of Energy. Latvia unbundled its electricity TSO Augstspriegumatīkls JSC. Legally unbundled since 2005, it was a subsidiary of Latvenego, but it became an independent state owned company in January 2012. On contrary, the gas TSO in Latvia is Latvijas Gāze with E.ON and Gazprom owning the majority of its shares. Latvia got an explicit derogation from the Gas Directive exempting it from unbundling rules until 2017. The certification of this gas TSO has therefore not taken place yet.<sup>225</sup> Estonian gas TSO EG Võrguteenus AS got an exemption and did not require the transmission system ownership unbundling from the producer and the seller as Estonia had network connection only with Russia and there was no other alternative suppliers. Despite of the exemption, Estonia chose the way of gas market liberalization in order to increase its energy security, security of supply and competition. By the amendments enforced in the Natural Gas Act in 2012, the parliament made a decision not to apply in the future the exemption and choose the way of complete ownership unbundling.

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<sup>224</sup> Lithuanian dairy products at the Russian custom offices < <http://www.15min.lt/en/article/world/lithuanian-government-still-has-no-official-information-about-russia-s-import-restrictions-529-375317>> [Previewed on 05.11.2015].

<sup>225</sup> Latvia < [https://ec.europa.eu/energy/sites/ener/files/documents/2014\\_countryreports\\_latvia.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/2014_countryreports_latvia.pdf)> [Previewed on 05.11.2015].

Estonian electricity TSO Elering AS was separated by ownership from all other electricity production and sale undertakings from 2010. All of its shares belong to the Estonian state.<sup>226</sup> Therefore, in 2012-2015 Latvijas Gaze was the only Baltic TSO left not unbundled, which shows that Russians still had influence on this gas company.

Since most of the Baltic TSOs were nationalized, the complex became homogenous, as then states were the main actors and they were operating within one sector – energy.

### *Patterns of amity/enmity*

In 2012-2015 there were no significant conflicts or disagreements between Lithuania and Latvia, which were earlier described as the least amicable. There were no disputes between Latvia and Estonia either. However, there were several disputes between Lithuania and Estonia, earlier called the most amicable. The first disagreement between Lithuania and Estonia was over the Rail Baltica project implementation, started in 2014. It had been agreed that the standard gauge should run via Kaunas and bypass Vilnius, but the Lithuanian government sought the project to involve the capital city of Lithuania. Estonia disagreed saying that the new project would take more time and become more expensive. Juhan Parts, the Estonian Minister of Economic Affairs and Communications, told *The Wall Street Journal* that the Lithuanians are fools because of changing the plans. Moreover, he suggested that Lithuania should finance the Vilnius connection by itself.<sup>227</sup> Secondly, in 2013 there was a dispute between the countries over the rotation of the NATO air policing mission. Estonia sought rotation of the air policing mission from 2015, indicating that NATO fighter jets should not only land in Lithuania, but also in the Estonian base of Amari. Meanwhile, Lithuania wanted its Air Force base in Šiauliai to keep its status as the main and permanent place of deployment, saying that the rotation scheme would increase costs considerably.<sup>228</sup> Hence, bilateral relations of the Baltic States changed as Lithuania and Estonia apparently started to compete between each other on defense.

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<sup>226</sup> Estonian electricity and Gas Market, 2012

<[http://www.ceer.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/NATIONAL\\_REPORTS/National%20Reporting%202013/NR\\_En/C13\\_NR\\_Estonia-EN.pdf](http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/NATIONAL_REPORTS/National%20Reporting%202013/NR_En/C13_NR_Estonia-EN.pdf)> [Previewed on 05.11.2015].

<sup>227</sup> Who finds the disagreement over the Rail Baltica Useful? <<http://www.lithuaniantribune.com/61830/who-finds-the-disagreement-over-the-rail-baltica-useful-201461830/>> [Previewed on 05.11.2015].

<sup>228</sup> Estonia and Lithuania disagree on rotating NATO air policing mission <<http://estonianworld.com/security/estonia-and-lithuania-disagree-on-rotating-nato-air-policing-mission/>> [Previewed on 05.11.2015].

Nevertheless, there were no clear signs of the change in the countries' foreign policy directions. State officials were meeting regularly and officially promoted cooperative relations both in bilateral relations and Baltic Council of Ministers. Moreover, the states continued economic cooperation and the level of it was still increasing over years. It should be also mentioned that in 2013 Lithuania held the Presidency of the EU, during which it became more visible in the EU, which helped to create new options for trade and political cooperation on EU and energy issues in particular. Latvia was appointed to hold the presidency in 2015, whereas Estonia was honored to organize the EU events in 2018. It is reasonable to claim that the political prestige of Lithuania increased, temporarily making it the driver of the Baltic States issues too.

### *Energy dependency within the complex*

There is no doubt that energy dependencies changed in the complex in 2012-2015. First of all, it was the new energy infrastructure. In 2013, when EstLink 2 was implemented, Latvia and Lithuania could buy electricity either from Estonia or Russia. Thus, both countries became more dependent on Estonia. Second, with the implementation of NordBalt by the end of 2015, Latvia will get the third supplier to buy electricity from, so it would also become dependent on Lithuania, whereas Estonia with its EstLink 2 could start seeing Lithuania as a competitor for customers. Accordingly, Lithuania would eventually start seeing Estonian electricity as a subject to competition too.<sup>229</sup> However, since neither Estonia, nor Lithuania will become the only electricity supplier as well Soviet-era infrastructure is getting removed with the new regional cables, it is more reasonable to see the Baltic States as interdependent in a positive way both for supply and demand.

Yet to create competition before NordBalt is finished and it gets possible to integrate into the Nordic energy system as well as trade energy in its electricity market Nord Pool (which allows the Baltic countries to get the best price for electricity), in 2010 the Lithuanian National Control Commission for Prices and Energy licensed BaltPool to administrate Lithuanian electricity market. Baltpool was established in order to foster the creation of harmonized common Baltic electricity market integrated with the Nordic market and, further, with Central and Eastern European markets as defined in the BEMIP. In 2012 the power exchange operator of Nordic countries Nord Pool Spot AS started administration of Lithuanian power exchange. The registered participants of Nord Pool Spot Lithuanian price

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<sup>229</sup> Interview No. 2

zone, which aimed to hedge against price variation in electricity exchange Lithuanian price zone, participated in the exchange for electricity derivatives, administrated by Baltpool. Therefore, the creation of the Baltic electricity market and electricity trade within the region were regulated and controlled, which prevented one state dominance over the other as well as the usage of energy for political purposes. This supports the argument on Baltic States positive interdependency in electricity sector.

However, the situation with gas sector was much different. After the disputes over regional LNG and Lithuania's decision to build it on its own in 2011, which could provide all the region with gas, Estonia responded by announcing that it agreed with Finland on building two LNG terminals, connected with a pipeline between them in 2014. Lithuanian terminal started functioning in 2015, whereas Estonian-Finish ones were planned to be built by 2019. Hence, it is possible to state that Estonia did not want to be dependent on Lithuania and saw this dependency as a threat not only because of LNG price uncertainty, but also as a dominant actor within a complex.

Lithuania did not want to be treated as a regional threat, so in 2011 Baltpool was also licensed to and operate Lithuanian gas market. When Nordpool started operating, Baltpool took place on the commodities exchange by trading natural gas or transfer of the right of acquisition of natural gas. Trade on the natural gas exchange in 2012-2015 was local as there were no international participants in the market at that moment.<sup>230</sup> Still the creation of Baltpool was a start of the common gas market in Lithuania and, eventually, in the Baltic States region. Besides Baltpool, in 2013 there was one other company created by Lithuania – UAB GET Baltic. It aimed at arranging the natural gas trade in the Lithuanian market, but also had a long term goal of becoming a natural gas exchange operating in the Baltic countries and generating a value for the economy of the whole region. UAB GET Baltic operates in accordance with the model of the Finnish Natural Gas Exchange, hence, is the more advanced market than Baltpool. It is important to add that 34% of company shares belong to the Finnish company Gasum Oy.<sup>231</sup> However, it is obvious that GET Baltic performs the same operation as Baltpool. Therefore, the question rises why did the government of Lithuania established two (possibly) regional gas markets? The theory suggests that Lithuania could have established Baltpool to keep control on the regional gas market to make Lithuanian LNG profitable. However, GET Baltic and Finnish ownership

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<sup>230</sup> Interview No. 9

<sup>231</sup> Interview No. 8

shows that there were other actors interested in controlling the gas market. The Estonian-Finnish agreement of LNG terminals explains, why.

Meanwhile, Latvia that has an agreement with Gazprom on natural gas supply till 2020 will only benefit from the competition between Lithuania and Estonia as it will again have three gas suppliers to choose from. Hence, it already is and will get even more interdependent with two other Baltic States.

### *Regional Issues of Securitization*

Lithuania is going to issue a new national energy strategy in 2015. The strategy was drafted in 2014 and, according to it, the increase of energy security in Lithuania is discussed in terms of 3 scenarios: nuclear, flexible non-nuclear and inflexible non-nuclear. It is argued that non-nuclear scenario is cheaper while flexible scenario gives more opportunities to increase national energy security. However, it is also stated that security of supply will be fully ensured with the implementation of the entire planned energy infrastructure.<sup>232</sup> Hence, during 2012-2015 Lithuania did not securitize any new energy issues.

Latvia did not issue a new energy strategy or any other official document on energy in the period of time analyzes. By 2014 it was still developing its Energy Strategy 2030 in accordance to the Development Guidelines for 2007-2016, where security of supply and developed infrastructure are the main objectives.<sup>233</sup> Having in mind that the Latvian government changes very often due to political disagreements, it is not so easy for Latvia to create one and consistent energy strategy. Thus, in 2012-2013 there was no new energy issues securitized too.

Finally, in 2012-2015 Estonia did not issue a new energy strategy either. The last energy-related document issued was Research, Development and Innovation Strategy 2007-2013 “Knowledge-based Estonia”. Under the Strategy, six national programs are outlined, energy technology being one of them. Yet it was working on Estonian Energy Strategy 2030, which aimed at changing the Estonian energy mix by reducing carbon intensity, promoting a cost-

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<sup>232</sup> Nacionalinė energetikos strategija, projektas, 2014 <<http://www.lrv.lt/bylos/LESSED%20projektas/Dokumentai/1.%20Nacionalines%20energetikos%20strategijos%202014%20projektas.pdf>>[Previewed on 05.11.2015].

<sup>233</sup> D9: EED Implementation in Latvia, 2014 <[www.esd-ca.eu/reports/.../national-implementation-report-2014-latvia](http://www.esd-ca.eu/reports/.../national-implementation-report-2014-latvia)>[Previewed on 05.11.2015].

efficient regional approach to natural gas supply, developing new electricity infrastructure and increasing the share of renewable energy resources in the supply mix.<sup>234</sup>

Therefore, the analysis of documents shows that there were no new regional issues of securitization in the Baltics. Each country was focused on its own energy issues not only to increase energy security, but also create long-term energy strategies.

### *Regional Energy Interests*

Energy mix analysis and issues securitized in 2012-2015 suggest that all three Baltic States were trying to increase the part of renewables in their energy mixes as well as increase energy effectiveness at the lowest possible price. Such an interest was a result of EU energy policy demanding to reach the so called 20-20-20 targets by 2020.<sup>235</sup> Commitment to low-carbon activity was not only a challenge for Estonia, whose the biggest part of energy mix was the usage of coal, it was a challenge for all the Baltic economies, whose industry and agriculture was based on carbons as a fuel. However, by 2015 the states did not take any cooperative actions to meet the targets, which prove once again, that national interests were over the regional.

## **Conclusions**

This paper aimed at highlighting significant facts about the dynamics of the state behavior under the pressure of energy security concerns, arguing that, due to Lithuania and Estonia's ability to implement new energy infrastructure projects, the energy security complex of the Baltic States has started to change, setting new energy production and consumption relations, being formed in the region. Therefore, it had three objectives to achieve: to describe the status quo of the BSESC in 2009-2011, analyze public documents surrounding BEMIP, Lithuanian LNG terminal and NordBalt, evaluating the motives for choice of cooperation or competition in each and examine the BSESC in 2012-2015 by comparing the current situation with the status quo as well as levering electricity and gas sectors in terms of cooperation and competition.

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<sup>234</sup> Estonia 2013, International Energy Agency  
< [https://www.iea.org/publications/freepublications/publication/Estonia2013\\_free.pdf](https://www.iea.org/publications/freepublications/publication/Estonia2013_free.pdf)>[Previewed on 05.11.2015].

<sup>235</sup> The 2020 Climate and energy package  
< [http://ec.europa.eu/clima/policies/package/index\\_en.htm](http://ec.europa.eu/clima/policies/package/index_en.htm)>[Previewed on 05.11.2015].

The analysis of the status quo was done evaluating several factors. First, the examination of the complex structure in 2009-2011 showed that the Baltic States had different energy mixes and rates of consumption, production and import. It was also proven that Russia had a big influence in the region, whose actions in Latvia were the most visible. Moreover, Russia tried to influence the adoption the EU 3<sup>rd</sup> Energy package and its coercive politics was successful in Latvia and Estonia as they asked for exemption from the new EU gas directive until 2014. On contrary, Lithuania chose to fully unbundle both electricity and gas sectors.

Second, the analysis of the patterns of amity/enmity showed that in 2009-2011 there was little cooperation within the Baltics. Despite that, countries mostly kept amicable relations as they did not have significant conflicts, they were trade partners and performed the regional energy policies that had been enforced by EU. The relations between Lithuania and Latvia were the least amicable due to the several factors, such as mistrust, whereas relations between Lithuania and Estonia were the most productive.

Third, energy dependency within the complex was seen in terms of transit relations as all three countries were fully dependent on Soviet-era electricity and gas infrastructure, they belonged to the same electricity zones, where electricity trade was balanced by Russians, so they were positively interdependent among each other as there was no country that could benefit more from this dependency.

Accordingly, regional issues of securitization aimed at decreasing dependency on Russian electricity and gas infrastructure. Hence, in their national documents Lithuania and Estonia prioritized the infrastructure that would enable the regional integration in to the European energy market. However, Latvia, being the most dependent on Russian gas, did little as it had an agreement for Russian gas supply at a good price until 2020.

Regional energy interests were mainly formed by BEMIP and the EU energy legislation. Therefore, it seemed that regional energy interests were expressed not by the Baltic States themselves, structuring them in complex, but rather by EU that, being in contact with each state regularly, summarized their energy interests and noticed similarities. This suggested the Baltic States no to see their energy issues in complex at all, they rather implemented common energy policies enforced by EU that was the only to perceive three states in complex.

The analysis of BEMIP showed that even though there were six projects of priority distinguished in the BEMIP, which EU was determined to partly fund, two of them -

Lithuanian LNG terminal and NordBalt – were the extreme cases of competition and cooperation. After two years of ineffective negotiations over regional LNG terminal, where all three Baltic countries were racing to build a terminal, while for experts it seemed obvious that due to the small size of the Baltic gas market only one terminal is feasible, Lithuania decided to build it on its own and took all the financial and political risks. Lithuania chose not to cooperate, because of several reasons. First, the studies it conducted showed the possibility to cover almost all the regional gas demand. Second, two banks could issue loans at low interest (namely EIB and NIB). Three, the investments into the LNG could be repaid in 4 years. Thus, it found itself able to build the national terminal without EU funding and, in case of successful gas trade within the region, it aimed to benefit from the terminal operation.

LNG terminal was also a priority project of the Lithuanian gas sector, indicated in the National Energy Strategy of 2007. Hence, there was much political will to support the construction of the terminal in Klaipeda. Natural gas was the second largest resource in the Lithuanian energy mix as well as Lithuania's gas agreement with Russia was about to end in 2015. Lithuania did not want to pay for gas more than Latvians did any longer. Therefore, it decided not to cooperate with Latvia and Estonia.

On contrary, the NordBalt shows that after long negotiations Lithuania agreed to share the EU funding with Latvia to make the project start at all. NordBalt was a priority project of the Lithuanian electricity sector. Besides, it was the final link to integrate the Baltic States' electricity market into the Nordic electricity system. Hence, Lithuania had a big responsibility for finding an agreement with Latvia. Moreover, Lithuania did not have financial ability to cover half of the project costs, in parallel it planned to build the national LNG terminal, which needed big investments.

Also, electricity sector is much more sensitive than gas sector as it is never an issue of one country, thus, the decision on cooperation was taken after evaluating all the sides. Besides, Lithuania was the most dependent on Russia on electricity as it had to close the INPP, covering all the domestic electricity needs. Accordingly, Lithuania was the most flexible on the process of negotiations, which finally resulted in cooperation.

It is now clear that it was not enough to make the Baltics sign common energy policy agreement (namely BEMIP). The suggested EU funding did not remove the complications for cooperation either. What determined the choice for cooperation or competition was state's ability or inability to implement the project of its own and, partly, the energy sector, as



electricity has never been an issue of one country due to its technical specifics (synchronized work and balanced control of supply). Therefore, the hypothesis of this paper (**if a state has ability to increase its energy security by implementing national energy infrastructure projects, it chooses not to cooperate; if it doesn't have ability to implement infrastructure projects alone, it chooses to cooperate**) was fully proven.

The inter-national/intra-national dimension was important as well. First, it reduced the regional dependency and, second, it could suggest more attractive prices for energy. This was also the case in the Baltics. Lithuania had a choice to buy Estonian or, to be precise, Finnish electricity and get more dependent on it. Yet, it was much better to get independent by linking itself with Sweden and bargain for the better electricity prices. Natural gas sector provides the same conclusions. Lithuania did not want to get interdependent on Latvia or Estonia for gas as well as it wanted to choose the best price. Therefore, in its energy field Lithuania demonstrated the market approach and did not prioritize regional cooperation over national energy interests.

Regarding the third objective, some interviewees argued that agreements between Estonia and Finland on LNG terminal construction let Finland threat as a part of BSESC. However, this paper did not use this approach for the 2012-2015 analysis. Energy mix analysis shows that all three countries increased the percentage of renewables to substitute such a big usage of resources making them dependent on Russia. Although the scientific prognoses showed the increase of Baltic energy total consumption, it was gradually decreasing over years by lowering the imports of electricity and gas. On contrary, the production of energy increased in all three countries as they started generating electricity from renewables and solid fuels (in Estonia). Hence, the region was getting less and less dependent on Russia. The same tendency regards Russian influence on the Baltics. The nationalization of gas and electricity TSOs did not allow the Russians to interfere the Baltic energy. In 2012-2015 there was one (out of six) TSO still dependent on Russia left – it was Latvijas Gaze.

Patterns of amity and enmity changed as well. Lithuania and Estonia, that used to be the most amicable, became the least amicable as they had several conflicts within the period analyzed. Besides, there were changes in energy dependency within the region. If the countries were equally interdependent in 2009-2011, currently only Latvia is interdependent with Lithuania and Estonia. Gas sector could become dominated by Lithuania, but in the end of the period analyzed Estonia declared its plans to build two other terminals with Finland. This

declaration created competitive relations that can affect the future Baltic gas market. Electricity sector was dominated by Estonia that finished EstLink 2 in 2013. Yet, Lithuanian NordBalt is going to alter this dominance by creating more competition in the Baltic electricity market too. Therefore, although still interdependent, the Baltic States became much more competitive than cooperative than they used to be.

The analysis of documents shows that there were no new regional issues of securitization in the Baltics in 2012-2015. Moreover, by 2015, the states did not take any cooperative actions to either meet the 20-20-20 targets, or on renewables.

Therefore, it would be right to conclude that the BSESC underwent in internal transformation that not only changed the way they were interdependent, but also influenced the choice for cooperation and competition within the complex. Although the EU with the help of BEMIP tried to force the energy cooperation within a region, the Baltic States were not willing to cooperate and avoided cooperation where it was possible, which was clearly illustrated by the analysis of two cases. Integration into the Nordic energy system will allow attributing the Baltics to the bigger - Nordic – complex. However, it is unlikely that it will be possible to talk about the Baltic States sub-region or sub-complex as competition between Lithuania and Estonia will direct the countries to the opposite directions. Yet, to be fully secure, they will not exceed the boundaries of the Nordic energy system that might bind them as long as Nordic Countries are rich with resources.

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## Summary in Lithuanian

Nors Baltijos šalys oficialiai išreiškė regioninio bendradarbiavimo svarbą ir šią nuomonę išreiškė pasirašydamos Baltijos energijos rinkos ir jungčių planą, įgyvendindamos jungčių projektus jos veikia konkuruojančiai, nei bendradarbiauja. Taigi šio magistro darbo tikslas buvo atskleisti, kokie faktoriai veikia Baltijos šalių sprendimus bendradarbiauti arba konkuruoti, kai yra sprendžiami regioninio energetinio saugumo klausimai. Kadangi Lietuva ir Estija buvo šalys, pasirinkusios įgyvendinti strateginius energetikos infrastruktūros projektus, darbe teigiama, jog būtent derybos dėl strateginių projektų vietos ir įgyvendinimo padarė įtaką regioninio energetinio saugumo balansui.

Šiame darbe iškelti du pagrindiniai klausimai. Pirma, nuo ko priklauso poreikis bendradarbiauti Baltijos šalių regione? Antra, ar sprendimas bendradarbiauti priklauso nuo energetikos sektoriaus? Siekiant atsakyti į darbe išsikeltus klausimus, buvo panaudota B. Buzano regioninio saugumo komplekso ir P. Polonkorpi regioninio energetinio saugumo komplekso teorijos, teigiančios, kad energetinio saugumo problemas, būdingas vienam regionui, galima analizuoti kaip vieną problemų rinkinį. Tokį rinkinį lemia tarpusavio priklausomybės ryšys, tų pačių grėsmių suvokimas ir vienos šalies dominavimas kitų šalių atžvilgiu. Jei priklausomybė nuo kurios nors (dominuojančios) šalies nėra suvokiama kaip grėsmė, ši priklausomybė yra vertinama kaip teigiama tarpusavio priklausomybė, jei ji suvokiama kaip grėsmė, tuomet tai neigiama priklausomybė.

Baltijos šalių energetinio saugumo problemas analizuojant regioninio energetinio saugumo komplekso rėmuose keliamą tokią hipotezę: jei šalis turi galimybę padidinti savo energetinį saugumą įgyvendindama, ji rinksis nebendradarbiauti; jei šalis neturi galimybių padidinti savo energetinį saugumą įgyvendindama energetikos infrastruktūros projektus pati, ji kooperuos. Taigi galimybė padidinti savo energetinį saugumą energetikos infrastruktūros projektus pačiai yra darbo nepriklausomas kintamasis, o bendradarbiavimas/konkuravimas – priklausomas kintamasis.

Rašto darbe keliami trys uždaviniai. Pirma, apibūdinti Baltijos šalių energetinio saugumo kompleksą nuo 2009-2011, pagrindiniu derybų dėl strateginių energetikos infrastruktūros projektų vietos ir įgyvendinimo metu. Antra, išanalizuoti BEMIP ir du energetikos infrastruktūros projektus, dėl kurių kilo didžiausi nesutarimai: Lietuvos LNG terminalą ir NordBalt, įvertinant motyvus, kurie lėmė sprendimus bendradarbiauti ar konkuruoti. Trečia,

įvertinti Baltijos šalių energetinio saugumo kompleksą nuo 2012-2015 ir palyginti jį su status quo kompleksu, vertinant, kaip pasikeitė šalių tarpusavio priklausomybės ryšiai ir palyginant, ar bendradarbiavimas/konkuravimas priklauso nuo energetikos sektoriaus.

Tyrimui pasirinkta kiekybinė kelių atvejų analizės metodologija ir proceso sekimo metodas. Tyrimo duomenis sudaro vieši dokumentai ir medžiaga, gauta atliekant pusiau struktūrinius interviu su politikais (2), energetikos infrastruktūros įmonių vadovais (5), reguliatoriumi (1) ir prekybininkais (2).

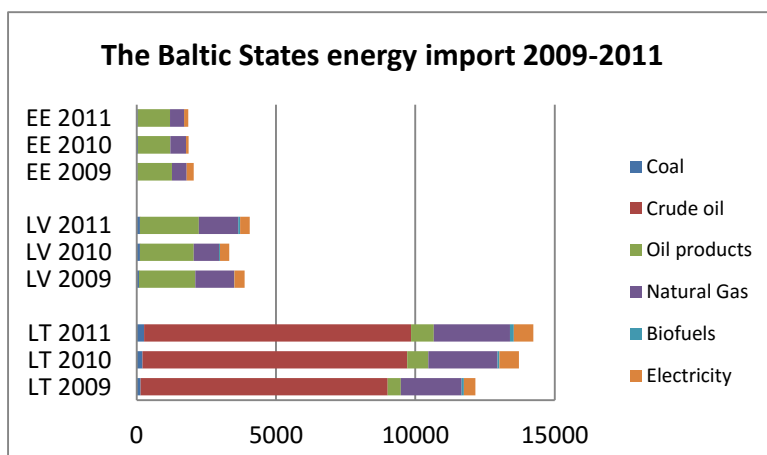
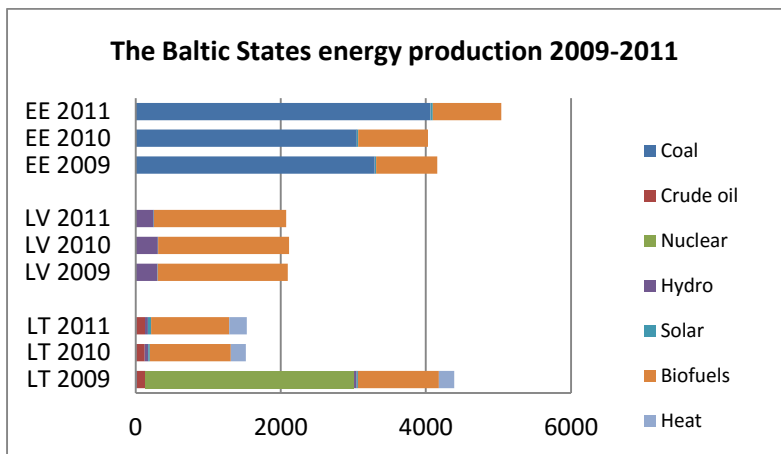
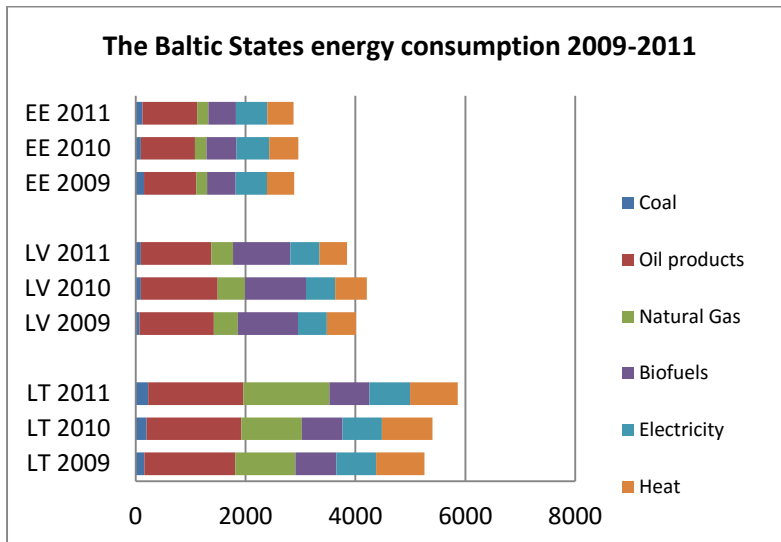
Išsami projektų analizė leido įrodyti išsikeltą hipotezę, kadangi Lietuva rinkosi bendradarbiauti įgyvendindama NordBalt, kadangi neturėjo galimybių įgyvendinti projektą pati. Tuo tarpu LNG terminalo atveju Lietuva rinkosi konkuruoti, kadangi rado galimybių jį įgyvendinti pati ir be ES finansinės paramos. Taip pat pasirinkimus lėmė energetikos sektorius. Kadangi elektros infrastruktūra visada yra sujungta su kitos šalies infrastruktūra tam, kad būtų sukontroliuotas elektros balansas ir būtų kuo mažesni nuostoliai už nepanaudotą elektrą, elektros sektoriuje Lietuva bendradarbiavo. Taip pat NordBalt (kaip ir EstLink 2) buvo svarbus integracijai į šiaurės šalių elektros rinką. Kadangi estai EstLink 2 užbaigė dar 2013 m., NordBalt atsiradimas padidino konkurenciją regioninėje elektros rinkoje. Tuo tarpu dujų sektorius ir būtent LNG technologija leidžia šaliai neprisirišti prie kitos ir gauti dujų nebūtinai per regioninius dujotiekius. Taigi Lietuva šiuo atveju rinkosi konkuruoti, tikėdamasi iš investicijų į terminalą dar ir uždirbti. Tačiau 2014 m. gale, Estijai pareiškus, jog ji kartu su Suomija statys dar 2 terminalus, konkurencijos lygis regione išaugo, atimdamas iš Lietuvos dominavimo regioninėje dujų rinkoje galimybę.

Atlikus Baltijos šalių energetinio saugumo kompleksų palyginimą paaiškėjo, kad išaugusi konkurencija energetikoje paveikė ir bendrą regioninio energetinio saugumo balansą. Šalys palaipsniui didino atsinaujinančių išteklių kiekį savo energetinių išteklių balansuose, mažindami dujų ir elektros vartojimą. Taigi, ir priklausomybę nuo Rusijos. Taip pat pastebėta, kad pasikeitė jų tarpusavio priklausomybės santykiai. Jei jos buvo vienodai priklausomos nuo sovietinės elektros ir dujų infrastruktūros 2009-2011, 2012-2015, dėka naujos infrastruktūros, tarpusavio priklausomybę pavyko sumažinti, nes atsirado didesnis išteklių tiekėjų pasirinkimas. Taigi komplekse įvyko vidinė transformacija.

## Appendices

### Annex I: The Baltic States energy consumption, production and import in 2009-2011.

Source: International Energy Agency.



## Annex II: The Baltic States natural gas infrastructure in 2009-2011.

Source: internet website [www.ambergrid.lt](http://www.ambergrid.lt)



## Annex III: BRELL ring.

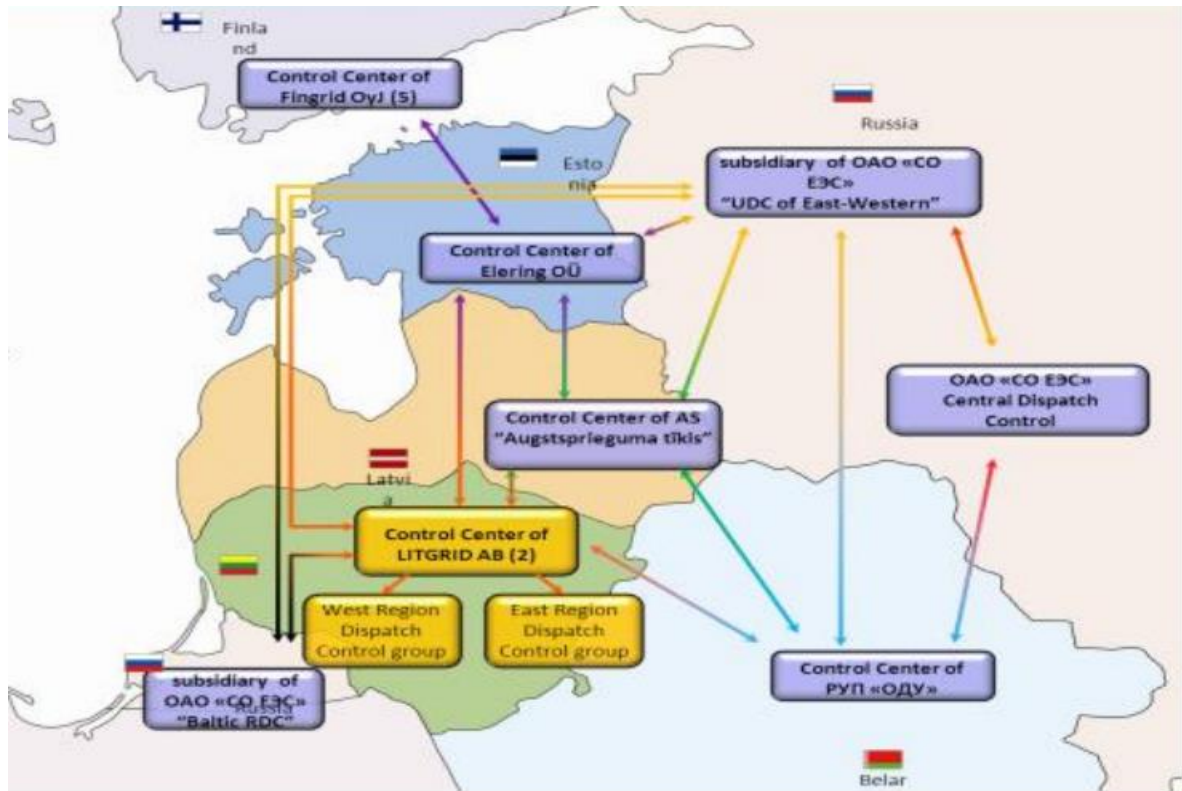
Source: Internet website [www.euractive.com](http://www.euractive.com)





### Annex IV: The BRELL ring electricity transmission system operators.

Source: internet website [www.litgrid.eu](http://www.litgrid.eu)



## Annex V: List of Interviewees

### *Politicians:*

1. A. Sekmokas, a former Energy Minister of Lithuania (2009-2012). Interviewed on April 26, 2015. **(Interview No. 1)**
2. T. Lukoševičius, Head of International Cooperation and Planning Department at the Ministry of Energy of the Republic of Lithuania. Interviewed on April 16, 2015. **(Interview No. 2)**

### *Infrastructure managers:*

1. S. Bilys, CEO of AB Amber Grid, Lithuanian gas TSO. Interviewed on April 9, 2015. **(Interview No. 3)**
2. D. Virbickas, CEO of LITGRID AB, Lithuanian electricity TSO. Interviewed on April 11, 2015. **(Interview No. 4)**
3. T. Matulionis, Head of Lithuanian LNG Terminal Project, AB Klaipėdos nafta, the company that built Lithuanian LNG terminal. Interviewed on April 4, 2015. **(Interview No. 5)**
4. V. Boks, CEO of JST Augstsprieguma tīkls, Latvian electricity TSO. Interviewed on April 10, 2015. **(Interview No. 6)**
5. K. Kukk, CEO of Elering AS, Estonian electricity TSO. Interviewed on April 19, 2015. **(Interview No. 7)**

### *Tradesmen:*

1. K. Kurmē, CEO of GET Baltic, Lithuania. Interviewed on April 29, 2015. **(Interview No. 8)**
2. D. Garbaliuskaitė, CEO of Baltpool, Lithuania. Interviewed on April 13, 2015. **(Interview No. 9)**

### *Regulators:*

1. V. Jankauskas, a former official of National Control Commission for Prices and Energy, Lithuania. Interviewed on April 14, 2015. **(Interview No. 10)**