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ARE BALTIC STATES ENERGY SECURE?

To answer this question we need to look at two aspects – the external and internal dimension, and the third one that does not comply with the traditional international relations theories – Russia. The answer on the Baltic States' energy security in fact lies in three questions.

Is the region still sandwiched between Western Europe and Asia in terms of energy security?

At first, we would like to lay emphasis on the NATO and EU membership. The transition period and consequent membership in 2004 implied a lot of homework to promote hard and soft security aspects. To be eligible NATO members, we must be ready to react whenever and wherever necessary in accordance with external challenges. If one day we are short of energy, will we be capable of fulfilling the necessary tasks?

The EU itself embodies principles for secure and sustainable energy market. The new challenges in the EU energy market set as a goal by 2020 to improve energy efficiency by 20%, to reduce greenhouse gas emissions by 20%, and to increase the share of renewable energy sources by 20%. Each member state has its own quantitative measures to reach the common objectives. The EU has the capacity of addressing the balanced interdependence among suppliers and consumers. It has tools to handle relations between market participants. Differently from the Baltic energy market of 7 million people, the EU has suppliers' interest considering its capacity to consume and capability to finance consumption. It is in each member state's interest to be a part of the common energy market.

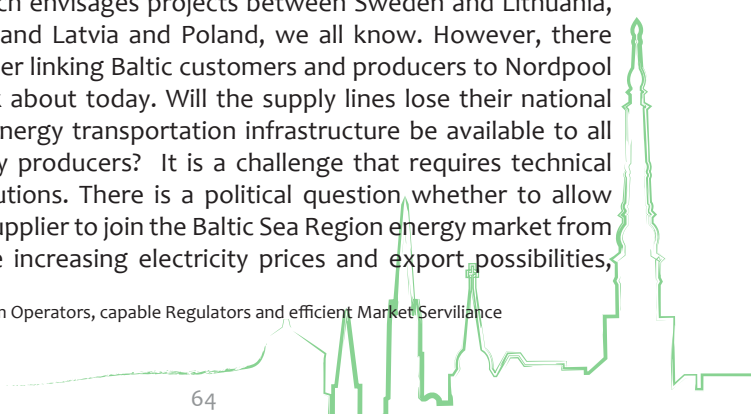
If a market is consolidated, energy loses its purely national aspect. If energy is imported via external supply lines and reaches a closed energy market with limited opportunities to diversify suppliers, there must be a concern about energy security. Electricity and gas are of consideration here as they are linked to transportation routes and the energy source.

With the integration of Baltic and Nordic electricity markets, the problem has been partially solved. Experts should find answers to some challenging questions: Will the supply lines be available to all interested electricity producers, including the ones outside the Baltic – Nordic area, who may be interested in building a nuclear power plant in Kaliningrad?

What concerns gas, there are three options within the EU market: predictable and reliable energy from Norway; energy from Algeria with strong linguistic ties, lots of stabilization projects in the country, and risks of political instability. Russia: business as usual? Let me remind you that the Baltics heavily depends on gas imports from Russia.

Estonia, Latvia, and Lithuania are parties to the Baltic Energy Market Integration Plan, which envisages projects between Sweden and Lithuania, Finland and Estonia, and Latvia and Poland, we all know. However, there are some answers after linking Baltic customers and producers to Nordpool we could try to think about today. Will the supply lines lose their national aspect and will the energy transportation infrastructure be available to all the interested energy producers? It is a challenge that requires technical and institutional¹ solutions. There is a political question whether to allow Russia as an energy supplier to join the Baltic Sea Region energy market from Kaliningrad. With the increasing electricity prices and export possibilities,

¹ Relevant Transmission System Operators, capable Regulators and efficient Market Servilance



the interest to invest grows also on the part of Russian companies and they promise to be much more flexible than the undecided Balts!

Coupling the Baltic and Nordic electricity markets would help to diversify energy resources and suppliers, or in other words: market principles serve as an additional factor for energy security. If Estonians are partial members of the Nordic electricity markets and Latvians and Lithuanians join the club soon with an improved infrastructure, gas and the political aspects it brings to the region should be balanced out with renewable sources and capability to produce more than we actually need, which is a crucial aspect for energy security. In the case of the gas market, the Balts should seriously consider taking a more vigilant and resilient approach in the assessment of their energy risks.

Challenges for national states or energy security is not free and given!

Each country has its own energy structure: the balance between imports and indigenous energy sources, specific sources used for national energy needs and exports, if available. The overall picture should be a subject of risk assessment. Energy experts use the formula $n-1$ (if one kind of energy source or transportation line shuts down, what options there are to substitute the missing energy supply, should it be power line or energy source). Every energy source and transportation line should be a subject of analysis showing the vulnerability and sensitivity of each Baltic country. The 2008 crisis in Ukraine showed how vulnerable and sensitive EU countries were when they stopped receiving the planned gas supplies.

Risk assessment and management certainly requires additional investment. To remind you, neither energy, nor energy security are free or given. National states are the main decision makers for their own economic development and security. Additional investment is the only way to improving country's energy security. It should be seriously considered by the Baltic States that depend on a huge share of one energy resource, such as gas (Estonia 9%, Lithuania 27%, and Latvia 29%). If there are no reasonable options to diversify natural gas imports from other regions, every state should have a plan on what needs to be done if gas supplies are interrupted one day. Taking into account the age of the infrastructure from the Urals to the Baltic States (gas supply line from Russia to the Baltics) technical disruptions may occur. If the infrastructure becomes unusable, who will invest in rebuilding the pipelines

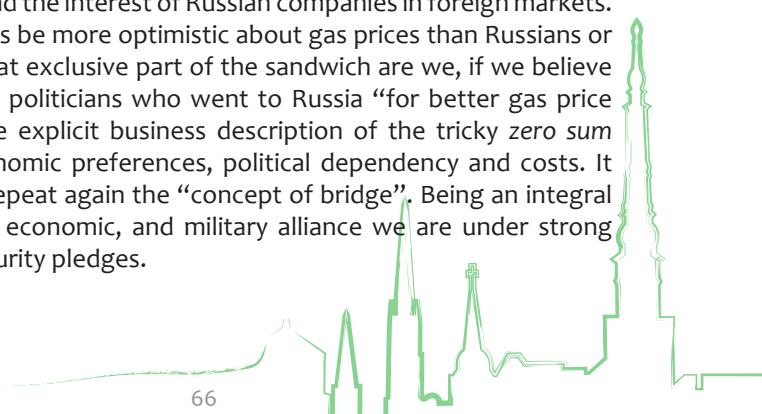
stretching from the Urals down to the Baltic region? The choice between expensive technologies and long-term energy security versus short-term driven interests and decisions is not easy but is crucial for energy security and long-term sustainable development.

The so-called national champions, babies of political establishment, are not always shaped for competitive markets and national energy security priority. It is economic and political convenience and not long-term economic security that plays the main role in decision making. The same outcome are promoted by activities of interest groups and lobbies, which form a natural part of every market: every business has its own interests to defend. In this case, the Baltic States should lay out the rules of engagement with interest groups for politicians to make their activities transparent and accountable to the society.

For the Baltic States to comply with the EU market development principles, to promote energy independence and security, as well as national interests and economic development the key term is “renewable energy resources”: wind, biomass, hydropower, solar energy, heat from the earth, and biogas are all available in the Baltic region. With an increased use of natural gas in the Baltic energy markets, biomass exports have grown, which is a paradox and achievement for the national energy security. This aspect characterizes unused capabilities to utilize indigenous energy sources at the same time promoting national economies and enhancing energy security. With more innovative technologies and market liberalization even a traditional energy consumer can become a part of a supply chain, for instance when solar batteries are placed on the roof of a residential building...

Russia: what is the future of energy business?

First of all, Russia forms a natural part of the energy market with its own economic interests and the interest of Russian companies in foreign markets. Then why should Balts be more optimistic about gas prices than Russians or West Europeans? What exclusive part of the sandwich are we, if we believe the words of Latvian politicians who went to Russia “for better gas price arrangements”. More explicit business description of the tricky *zero sum game*: balancing economic preferences, political dependency and costs. It would be wrong to repeat again the “concept of bridge”. Being an integral part of one political, economic, and military alliance we are under strong commitment and security pledges.



Secondly, Russia has managed to play its cards pressing on the Baltic States' weak point to promote its interests in the region. In that case we should pay a full price for Russian gas. Every household should be informed that the price we are paying today will no longer be the same tomorrow. Lower prices mean changing costs in other fields. Only the decision makers who went to Russia or Russian companies“ for a better deal” know what the real costs are. Russia will always use the sensitivities and vulnerabilities whenever it is convenient: it is natural in doing business or politics.

Estonia, Latvia, and Lithuania should do their homework for the EU and their national interest before even mentioning Russia. The key of energy security is simple: indigenous energy resources and producing more energy in the Baltics than we can consume. So we should not hesitate when it comes to the construction of new energy plants and projects in the Baltics, leaving our traditional power presentations and quarrels behind (which is our common interest). Then Russia will no longer be a subject of a political debate but an economic opportunity. To conclude, an encouraging sentence for doing business with Russia could be mentioned, but not as usual. Move forward through B2B, but with political brightness and consciousness. Business and national security are interlinked and help each other to achieve their goals.

