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The Baltic States: stop Russian natural gas imports

Despite their natural gas supplies dependence, the Baltic states decided to suspend their imports from Russia. Such a decision is connected with the necessity to look for alternative supply sources and to fully use the existing infrastructure, which will also be expanded. Regional cooperation, including with Poland, will be key for Lithuania, Latvia, and Estonia. Due to Russia's attack on Ukraine, the construction of another LNG terminal in the Baltic States is likely to be accelerated, which will strengthen the level of regional energy security.

Demand and current supply sources. Natural gas consumption of all Baltic states combined was approx. 4 bcm in 2021 (Lithuania – 2.3 bcm, Latvia – 1.2 bcm, Estonia – 0.5 bcm). Compared to 2020, there was a slight increase – by only 1%. Thus, demand did not return to higher levels before the COVID-19 pandemic, as the economic recovery in 2021 was limited by high natural gas prices on the international market. This forced Baltic states to take measures to prevent the negative effects of the price crisis (see "IEŚ Commentaries", no. 512).

The Baltic states depend on the import of natural gas because this commodity is not produced there. They depend to varying extents on Russia, which is supported by the existing infrastructure. As a result of the opening of the regasification terminal in Klaipeda in Lithuania in 2014 (2.9 bcm annually), the level of Lithuania's dependence on Russia in 2021 was the lowest among the Baltic states and amounted to approx. 49%. The situation is somewhat different with regard to Latvia and Estonia, which still import gas mainly from Russia (approx. 90% and approx. 95%, respectively)[1].

Lithuania is supplied from Russia via Belarus, Latvia, and the LNG terminal in Klaipeda. Importantly, Lithuania also plays an important transit role for natural gas supplies to the Kaliningrad Oblast. Deliveries to the oblast from February 24, 2022, have not been suspended (the 10-year transit contract is valid until December 2025), but are carried out at a lower level (the decrease in February and March 2022 compared to supplies from January 2022 amounted to 9% on average). Natural gas is imported to Latvia from Russia via Estonia and Lithuania. On the other hand, Estonia, which is the country most dependent on Russia in terms of natural gas supplies, imports this commodity by using infrastructure from Russia and Latvia. Thus, deliveries are possible via the LNG terminal in Klaipeda. There is only one natural gas storage facility in the Baltic states – in Inčukalns, Latvia (capacity of 2.3 bcm), which makes it difficult to balance the market in periods of peak demand. In the past, a natural gas storage facility was planned in Syderiai (0.5 bcm) in Lithuania, but investment for it failed and it was eventually abandoned.

Key importance of infrastructure. The decision of the Baltic states to abandon natural gas supplies from Russia as of April 1, 2022, would not have been possible without the existing infrastructure enabling the diversification of sources. On one hand, alternative supplies can currently be realized via the LNG terminal in Klaipeda. On the other hand, thanks to the commencement of the operation of the bi-directional gas pipeline BalticConnector (2.6 bcm per year), the energy markets in the region have been fully integrated since 2020. Given these circumstances, it is possible to ensure gas supplies from the Baltic States to Finland. Starting in October 2022, such a situation will also be possible in the opposite direction as a result of the commissioning of the LNG terminal in the Hamina port in Finland (4 bcm per year). The Baltic states will also be able to import gas from the north.

Beginning on May 1, 2022, the situation of the natural gas market in the Baltic states will change when the GIPL (Gas Interconnection Poland-Lithuania) pipeline will be put into operation, i.e. the Poland-Lithuania

[1] Eurostat data.

interconnector, which will enable the integration of these countries into the European Union market. As a consequence, it will be possible to import natural gas from Poland to the Baltic States, as well as use the existing underground natural gas storage for the Baltic states to maintain stocks in Poland. As the gas pipeline will be bi-directional (2.4 bcm on the route from Poland to Lithuania and 1 bcm from Lithuania to Poland), it will also be possible to deliver gas from the LNG terminal in Klaipeda to Poland. This type of cargo is to be unloaded in Lithuania in the second quarter of 2022 and will be transported through the new gas pipeline to Poland.

Old and new ideas for diversification. Apart from the existing infrastructure, the Baltic states also plan to increase imported capacity by building a new LNG terminal. There were several plans in the past, and discussions are still ongoing as to which project should be implemented (see "IEŚ Commentaries", no. 357). Currently, the construction of the LNG terminal in Skulte (Latvia) is the furthest along, as the environmental impact assessment of this project is already underway. According to the plans, construction could be completed by 2024. The Skulte project provides for the construction of a traditional LNG terminal.

In the present circumstances, the governments of Estonia (the initiator of the project) and Finland decided on April 7, 2022, to jointly lease a ship serving as a floating LNG terminal (FSRU type) in order to ensure energy security of these countries for the coming year's autumn and winter period (2022/2023). Both governments have not yet disclosed details of the project, but it is anticipated that the ship could be moored in the port of Paldiski in Estonia in the Gulf of Finland, and the gas would be re-gassed to both Estonia and Finland via the BalticConnector. The scenario in which the terminal in Paldiski will act as a temporary solution until the terminal in Skulte is put into operation is also being considered. Latvia is additionally eyeing the construction of another – for only domestic needs – LNG terminal, but the details of this project are not yet known (analysis are to be ready in the next few months). On the other hand, Lithuania, in addition to taking full control of the terminal in Klaipeda (the 10-year lease period from the Norwegian company Höegh LNG will end on December 24, 2024), is also considering carrying out analysis towards the expansion of the terminal.

Generally speaking, for the whole Europe, not only the Baltic states, the availability of this commodity and ensuring the Danish Straits' permeability will be a problem. Therefore, it will be important to expand the import infrastructure (regasification terminals), as well as the export infrastructure (gasification terminals). Without this type of infrastructure, it will be difficult for EU countries to reduce their energy dependence on Russia over the next few years. The source of the origin of natural gas, both for the terminal in Paldiski and, above all, in Skulte, will be mainly from the US, especially since the construction of new gasification terminals (third wave) is currently underway in this country.

Conclusions

- The Baltic states' withdrawal from natural gas imports from Russia is unprecedented. Such a decision is a consequence of solidarity in condemning Russia in connection with the attack on Ukraine (see "IEŚ Commentaries", no. 531) and an unequivocal position against the imposition of far-reaching sanctions on the aggressor, including energy sanctions (see "IEŚ Commentaries", no. 565). The adopted position is important because the share of natural gas supplies from Russia in these countries is still high.
- Filling the natural gas gap from Russia will be a big challenge, but the existing infrastructure (LNG terminal in Klaipeda) and the infrastructure which is under construction (GIPL gas pipeline, LNG terminal in Hamina port) will create the possibility of providing alternative supplies. However, the key will be to fully use the transmission capacity between countries (interconnectors).
- A challenge for the Baltic states will also be the lack of extensive underground storage infrastructure in the region (only one USG facility, located in Latvia). Under these circumstances, in the period of increased demand for natural gas (autumn-winter), an increase in the number of LNG carriers arriving at the LNG terminal in Klaipeda can be expected. The prices of the commodity at peak demand may be much higher than in the summer, which may lead to another price crisis.

- The situation in the region (the Russian-Ukrainian war) will accelerate work related to the expansion of the import infrastructure. This situation contributed to the intensification of regional cooperation (the terminal in Paldiski), which will have a positive impact on cooperation in the coming years. Under these circumstances, the Baltic states will have an even greater chance of becoming fully independent from Russia.