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Master Thesis

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***Efficiency of the Third Energy Package:
Gazprom vs. Lithuania, case study***

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Abstract

The Third Energy Package of the European Commission, enforced in March 2011, brought significant changes to the energy market of the European Union while implementing anti-monopolistic measure of unbundling. Most of all the measures will influence highly monopolised gas-dependent markets of Eastern Europe, especially Baltic States, who rush into implementing the measures hoping to gain energy independence. By studying a single case of a conflict between Lithuania and *Gazprom*, so far erupted around the new measures, via the analysis of recent events and previous actors' behaviour tendencies, the thesis concludes that, in a short-term perspective, Third Energy Package regulations are unprofitable and even dangerous to develop within the monopolized gas market of Lithuania taking into account the lack of alternative energy sources and gas suppliers as well as of financial reserves for energy infrastructure transformation. It is proposed, that factual de-monopolization of the energy sector should be realized before implementing relevant administrative regulations.

Introduction

On the 30th of June 2011 Lithuanian parliament adopted legislation restraining interest of its supplier of natural gas – Russian state-owned natural gas export monopoly Open Joint Stock Company *Gazprom* (*Gazprom*), that recently also took the position of a main energy supplier, due to the Lithuanian energy market factual restructurization and gas becoming the main energy source – by setting bounds to it owning and operating gas pipelines on the territory of the country, and, by that, initiated an international conflict over the gas infrastructure control. The new regulations require *Gazprom* to abandon ownership and control over the gas distributing pipelines on the territory of Lithuania and, thus, give up its share in Lithuanian gas distributing company *Lietuvos dujos*.

The initiative had derived from a piece of legislation aimed to reorganize European Union's (EU) common energy market – Third Energy Package¹ (TEP). According to the Directive 2009/73/EC of the TEP, that concerns common rules and states new requirements for the internal market of natural gas (repealing Directive 2003/55/EC), suppliers of natural gas to a market may not participate in the transportation network operations within the same market (i.e. own and simultaneously operate the pipelines within a single market – 'ownership unbundling'). The strongest resonance from the related parties to the new regulations is expected in the Baltic States' region due to the high monopolization of gas market by *Gazprom* - the sole supplier of gas to all the three republics with intensive gas consumption tendencies (gas being an important constituent of the local energy markets).

Despite *Gazprom* with the support of Russian government for many years had been expressing strong protest to the development of the Package as to one confronting its interests and breaking the conditions which previous bilateral agreements with the member-states are based on (Kristalinskaya 2011), the TEP was enacted and subsequent procedures started. Lithuania became the first country to initiate implementation of the

¹ European Union's TEP was adopted by the European Commission in 2009, came into force in March 2011 and has to be fully implemented by the member-states by 2014

new regulations in accordance with the TEP requirements. The officially stated aim of Lithuania implementing the Directive is to de-monopolize its' gas market (complying the primary aim of the TEP on the local level) and open access to the existing pipelines for the potential suppliers, other than *Gazprom*, by getting independent control over the pipeline system.

The given thesis analyses the correspondence of the aims pursued by the European Commission with the factual development of the TEP on the Lithuanian energy market and particularly its gas sector related Directive to the actual consequences of implementation already caused or initiated by the new regulations developed on a single-state level. On the example of Lithuanian case, it aims to prove the hypothesis that such radical actions in legal market structure transformation (by the means of intervention of new political regulations), that do not comply with a factual market development direction, establish a dangerous situation that threatens energy security of the country, casually causing economic loses, in the states, with a gas as a main energy source, highly dependent on gas imports from a monopolist supplier until alternative energy sources and prospect possibility to diversify suppliers are found.

To study the notion there is used a qualitative approach to the analysis of a single case study. The method of the study is rather inductive: in the result of a single case study to make a broader conclusion that might be applicable to other cases with similar characteristics, under similar circumstances. So, the qualitative explanatory analysis of a single case is made via the method of survey, data collection and analysis.

The first two parts of the following thesis are shaping the framework for the following study. The first discusses gas relations between the European states in general and Russian gas export-monopoly *Gazprom*. There are highlighted the perspective of EU integrating its energy market and taken a closer look at the aspects of EU-Russia 'interdependency' in the gas trade. Separately is given an overview on the relations of highly gas dependent energy markets of Baltic States with their only supplier of the fuel - *Gazprom*. The second part is dedicated to observation of the specifics of TEP and its most problematic gas market regulation – unbundling. It brings out how the radical

regulations of the TEP will influence the European gas market and states the concerns of the foreign suppliers over the new regulations.

In the third part there are brought out particular characteristics of the Lithuanian gas market and the country's behavior in relations with its main energy supplier, in the conditions of broader European energy market. Thereafter, it is analyzed what practical changes the implementation of the TEP brought to the state's gas market and how the *Gazprom*, as its main player, reacted on these developments of Lithuanian government. Deriving from the arguments of the first two parts it is concluded what risks the implementation of TEP causes for Lithuanian energy security and what alternative actions could be undertaken to minimize them. By that the chapter aims to answer the question if TEP regulations are generally profitable to develop within the monopolized gas markets of the Baltic States (on the example of Lithuanian case) under the condition of having no alternative energy sources or suppliers as well as no financial reserves to allow additional costs for factual energy sector transformation.

The framework of the thesis is built on the legislative initiative of the European Commission – Third Energy Package (Commission Directive 2009/73/EC) and the previous studies on the gas market structures and the phenomena of EU's gas market liberalisation (including 'unbundling'). In the theoretical part, that aims to stress the high dependency of the energy sectors of the Baltic States (as well as the entire Eastern European region) on the imports of gas from Russia and the lack of strategic support in relevant negotiations from other EU member-states, there are used two approaches to define specifics of bilateral relations of the representatives of the region with their partner in the sphere of gas trade. First framing theory that classifies states according to their approaches to energy security deriving from their characteristics (published in the paper of The World Bank Group in 2005) is used to define the common regional energy security priorities. It also allows defining priorities of Lithuania in its energy policy and analyse functioning of the market through the prism of those priorities. The classification of European states on their perception of the EU's strategic partner of energy supplies – Russia is conducted through the classification method proposed by Leonard and Popescu. Using the worked out classification the

differences in approaches are brought out and the lines of behaviour of the countries of the EU choose while dealing with their partner on the common questions of energy supplies are defined. It helps not only to analyse the specialties of Lithuanian political approach towards the supplier-country, but also to underline the impossibility of development of a common foreign energy policy approach due to the lack of common perceptions of the foreign policy target among the EU member-states so important for the energy security of the Baltic States.

Due to the lack of scientific materials on the particular issue of the discussed case of TEP implementation in Lithuania, as outcomes of the conflict are still not clear and thus not many scholars undertake studies on the phenomena, in the empirical part of the thesis the gas conflict is studied basing mostly on the current information on the issue emanating from press releases covering permanent situation on the gas market of Lithuania and relevant open sources to observe the current outcomes of the development of the initiative. Applying the constructed conditions to the theoretical framework of the two first parts and basing on the model of Lithuanian energy market proposed by Januliunas and Molis in their work on *Challenges and perspectives of energy security of Lithuania* there is constructed the general picture of Lithuanian energy market as a part of a the broader energy market arena and concluded how, in this conditions, under the influence of the EU policies, development of the TEP regulations influence energy security of Lithuania.

As in the near future other countries of the EU, and particularly of the Baltic States region, are planning to start development of the TEP regulations on their territories it is important to analyze the efficiency of the Package on a single-state experience to escape unwilling consequences in a vaster scale. By paying attention to the most problematic region in the sense of liberality of the gas market the given theses observes, up till now, the only case within the conditions of the particular region and concludes if TEP may be considered the best solution for transformation and liberalization of the gas market from the point of view of securing permanent energy supplies on a reasonable price to a single country, with an overall monopolized energy sector.

1 The EU–Russia energy relations

Over the last years energy became a universally important political issue because of its strategic importance to every nation's security. Gas is an essential energy source due to its economic efficiency and sustainability. Until recently the EU, being the biggest importer of natural gas from Russia, has been viewed as a balancing counter-power in negotiations over the gas questions and, thus, mutual dependence between Russia and the EU was believed to “hardly allow political blackmailing using the gas supplies as a political weapon“. (Göhl 2006, 15) In the following chapter it is shown, however, that the lack of a common political strategy within the EU puts under doubt the very existence of a unified European energy ‘counter power’, threatening mainly the security of smaller and economically weaker member states, that are in the energy dependency on Russian gas supplies, mostly of the Eastern European region.

1.1 Role of gas in the EU energy sector

As previously mentioned, gas plays an enormous role in the European energy sector. The share of natural gas in the energy consumption of the EU has increased significantly during the last decades, and the demand is projected to further increase mainly due to the European attempts to facilitate environmental-friendly energy sources, making natural gas ‘Europe’s fuel of choice for power generation’. (Goldthau 2008, 686, Lucas 2008, 164, Umbach 2010, 1236 in Helén 2010, 4; Belkin 2008, 6) Nowadays the share of natural gas in European energy consumption is 25% while imported is 63%, out of which the imports from Russia compose around 35% (i.e. 22,5% of the total gas consumption) (Appendix 1) which makes it a vital necessity and at the same time a strategic burden for the EU27 (Helén 2010, 2). Moreover, some EU member states (mostly the ones of Eastern Europe) are fully dependent on Russian natural gas for their domestic energy consumption (Table 1.1) (Belkin 2008, 6), which along with a large share of natural gas in primary energy consumption (Appendix 2), makes them vulnerable to any changes- or attempts of manipulation with gas supplies.

Table 1.1: **The countries of the EU with the highest gas import dependency rate**

Country	Dependence on imported gas in 2010	Total gas imports from Russia (<i>Gazprom</i>) * in relation to the total net supplies	Gas imports from other sources * in relation to the total net supplies
Estonia	100%	100%	0%
Finland	100%	100%	0%
Germany	87%	37.6%	46%
Latvia	100%	100%	0%
Lithuania	100%	145.6% (exports from storage)	0%
Poland	71%	61%	7%
EU 27	63%	22.5%	40%

* The data is rounded

Source: author's calculations on the data from Eurogas 2011, 8 (Appendix 1)

While demand for natural gas in the EU is constantly growing, its internal reserves and production are declining every year. This raises dependency on natural gas imports from foreign suppliers. (*Eurogas* in Zyuzev 2008, 1) Forecasters predict that, if trends continue, total natural gas consumption in the EU will double over the next 25 years, while European total gas imports are expected to reach slightly over 80% of total consumption by 2030. (Belkin 2008, 5-6; Helén 2010, 4; Kefferpütz 2009, 97) This situation is justified partly by EU's green policy and attempts to use cleaner fuel² and partly by its present inability to develop alternative energy sources in required quantities. (Grigoriev, Belova 2009, 81)

If to observe Europe as a whole, one may notice the growth of general dependency on the imports of gas from Russia. Hereby the main reason is the immobility of gas

² "Along the ecological dimension both the EU and the International Energy Agency (IEA) view natural gas as a transition resource on the way to less carbon intensive and more energy efficient economies using more renewable sources of energy. This should mean continued high demand for Russian gas in Europe until around 2035." (International Energy Agency (2011) in Aalto 2012, 8)

transporting infrastructure. Other important gas producing countries as Algeria, Libya and Iran in theory could supply gas here as LNG, but Eastern European states still lack terminals and relevant facilities to store LNG in a necessary quantity. (Göhl 2006, 1; Mankoff 2009, vii; *Eurogas* 2008, 11) Thus, due to the immobility of the pipeline infrastructure and costliness of the new constructions, the high dependence on Russian gas is likely to exist in the Eastern European member states in a long-time perspective.

1.1.1 *Gazprom* as a ‘political tool’

As all Russia’s fossil energy sources are natural monopolies that provide a large part of the state’s GDP, interests of the country are highly merged to the agenda of the relevant companies (especially on economic issues³). (Christie 2007 in Losoncz 2009, 146-147) Also the natural gas monopoly *Gazprom* has always been run like a state-owned company. Having political actors (e.g. Dmitry Medvedev, before presidency) in the head of it and a limited participation of foreign investors (the largest foreign investor is the German company *E.ON Ruhrgas*, with a 6% stake) the company tends to promote national interests via its commercial policies. (Helén 2010, 11; Kefferpütz 2009, 101; Losoncz 2009, 146-147; Youngs 2010, 122) Being a trustworthy government-controlled company, *Gazprom* has been given an exclusive right for export of Russian gas⁴ (Pirog 2007, 7; Woehrel 2009, 3), warranting the government control over this important revenue item.

Gazprom’s monopoly over the export of gas allows Russian government to control the export price⁵. Profits from the sales of gas to European states are vital for the country’s economic growth, as the main income from the gas export is received from this region (~70% of the company’s total revenues). (Helén 2010, 11; Pirog 2007, 5-6) Due to the

³ *Gazprom*’s tax payments on profits account for more than 20% of the Federal budget. (Helén 2010, 11)

⁴ Russia’s *Duma*, with the support of the president of the country, provided the exclusive right to export gas to *Gazprom* when voted to approve the Federal Law ‘On Gas Export’ initiative on 5th of July 2006. (Федеральный закон «Об экспорте газа» N 30, 24.07.2006)

⁵ *Gazprom*’s exaggerated export prices allow supply of Russian population with the basic energy needs at subsidised prices. (Helén 2010, 11)

fact that Russian economy is highly dependent on the effective sale of natural resources and especially natural gas, it was believed, that it is dependent on the EU as a main consumer (Grigoriev, Belova 2009, 71-72) and, therefore, may not allow itself, or its companies, a risk to harm the interests of- or get involved into a conflict with any of the EU member states.

1.2 The EU-Russia gas trade interdependency

The perspective of common interdependency, however, has been proven wrong by the recent gas conflicts raised in several CIS countries, EU-Russia's common transit region, resulting in regional cuts of gas supplies and price growth and resonating in the gas supply cuts also to several European states in winters of 2006 and 2009 (both involving Ukraine – at that time a vital transit country for ~80% of Russian gas flowing to Europe (Helén 2010, 5)) that gained the name of 'Gas Wars'. (*ibid*, 31) Many scholars doubted these actions to be only measures undertaken by *Gazprom* to stand for its financial interest, but saw them as an attempt to exert political pressure on the decisions of the local governments in subsidiary questions and confirm the power of Russia in the disputed region. (Mankoff 2009, ix)

Thus, in the result of these political contentions *Gazprom*'s reputation as of a reliable supplier to European member-states was irreparably damaged. Some scholars noted the company to become 'an instrument of Russian foreign policy', rejecting economic motives and ready for sacrifices when following a strategic or political aims. (Göhl 2006, 6; Helén 2010, 3; Christie 2009, 10-11; Finon, Locatelli 2007, 5) "After the gas conflict of 2006, this type of Russian behaviour became the norm, rather than the exception, with the 'gas weapon' having been used to apply political pressure on the Baltic States, Belarus, Georgia, Moldova, and Ukraine". (Helén 2010, 6) Russia made it clear that it would not hesitate to use the energy cuts and price manipulation against any country or player trying to undermine its political power or threaten its energy security – security of demand, maintaining its positions as a main gas supplier to the 'near abroad' region and the EU. (*ibid*, 3)

Moreover, Russia is constantly looking for new commodity markets in other world regions to ensure the security of permanent gas demand. Development of LNG industry allows it to widen diapason of trade activities in new directions. Thus, it has been estimated that Asian region will absorb around 60% of Russian LNG production (from 2010 to 2018) while Europe will see only 20% of the new supplies. Moreover, the closure of Japan's nuclear reactors that prompted a large portion of the country's energy in the consequence of the ecological catastrophe made the region experience a heavy lack of energy and increased the gas demand for power generation may also draw the existing gas supply away from Europe. (Herron 2012)

Latest developments within the European energy market, on the other hand, highlighted the growing need for gas imports from Russia: several suppliers of gas (such as Libya) have recently stopped their import to Europe; Germany and Italy, important importers of Russian gas, had given up the use of nuclear power in the wake of the tragedy at the Fukushima Nuclear Plant and will additionally require a minimum of 16 billion cubic meters of natural gas as a replacement for its nuclear energy projects. (Mazur 2011)

Besides, EU still has no clear alternative to the pipeline gas (and other fossil fuels) on a large scale: few member-states are able to pay for the development of nuclear industry and not many are willing to use it as a main energy source, the elaboration of renewable energy sources is still not effective enough, LNG infrastructure is not fully developed, etc. These factors leave Europe stuck in an embrace with 'unreliable supplies' of gas from Russia, which is getting into an even stronger position on the global energy market. (Milov 2006, 12; Aalto 2007, 2011 in Aalto 2012, 1; Finon, Locatelli 2007, 5; Kristalinskaya 2011; Herron 2012)

Thus, as the ability of the EU to diversify its energy sources is still limited and some regular suppliers tend to leave the market, energy is likely to remain a key component of EU-Russia relations (Milov 2006, 12) in a long-time perspective. Meanwhile, "the need to ensure greater energy security and better regulation of energy supplies will eventually turn energy into a much more politicized issue. Energy, already an important security

concern, will continue to shape future military and political relations, especially if there is no other option other than oil and gas to satiate growing demand.” (Paillard 2010, 65)

Despite these tendencies, EU still lacks the common energy policy system and, therefore, cannot be concerned as a united actor, having no factual means to convert its vast gas imports from Russia into real political power. (Ishkauskas 04.06.2011; Mankoff 2009, ix) This keeps “asymmetry in dependence [that] is likely to provide sources of influence for [more powerful] actors” while dealing with their vulnerable partners. (Keohane, Nye 1989, 10-11 in Helén 2010, 32) Recognition of this fact resulted in the „intensified effort of the European Commission to unite the EU countries behind a common energy policy”. (Göhl 2006, 16)

1.2.1 EU common energy policy, necessity vs. factual perspective

Even though the idea of creating common EU market in the energy sector is not new the perspectives in this context remain vague. (Finon, Locatelli 2007, 15) “Within the institutional framework created by European treaties, management of gas and oil resources has always remained within the competence of states. ... There is no collective approach to the problem for gas. Each country developed its own gas market, relying on a national monopoly or a market leader to take charge of negotiating contracts for imports.” (*ibid*, 5)

Nowadays, the EU countries import gas and oil from different sources, some having diversified their import and others depending on a single supplier. This is a source of different interests towards supplier and sources of diversification among the EU states, defining different approaches to the development of energy security priorities. Countries of Eastern European region, dependent on Russian companies as the main suppliers of the consumed gas (Appendix 1: Figure 1), an important energy sources, believe that a common European energy policy would ensure them a better negotiating position, “increase the security of supply and reduce domination of Russian companies in the oil and gas markets”. (Janeliunas, Molis 2006, 217-218) Other member states that have negotiated good gas import conditions and do have a diversified energy market as well a

alternative energy suppliers remain sceptical in the question of statement of a common strategy rather looking for bilateral treaties to secure energy supply (e.g. Germany, Italy). (Janeliunas, Molis 2006, 221; Engelbrekt, Vasilev 2010, 187; Christie 2009, 5)

Thus, even though the term ‘energy security’ is commonly defined as an access to a sufficient amount of reliable energy at a reasonable price (Yergin 1988, 111 in Janeliunas, Molis 2006, 201) it has a different meaning in the context of every single country depending on the specific interests of a particular state. The World Bank Group (2005, 4) in its overview of energy security issues proposed specification of five different groups of countries “to which different interpretations of energy security (in respect of demand and access to energy resources) should apply:

1. Industrialized states, net importers of energy (e.g., USA, Germany, Japan)
2. Largest sovereign hydrocarbon exporters (e.g., Norway)
3. Largest emerging markets with a fast-growing energy demand (e.g., China, India)
4. Net importers of energy with medium incomes (e.g., Baltic States)
5. Net importers of energy with low incomes.” (in Janeliunas, Molis 2006, 201)
(Appendix 5)

Janeliunas and Molis (2006, 204) found that many of the EU states belong whether to the first or the fourth groups. Deriving from the characteristics of the states they defined three common priority tasks of the European states developing secure energy sector:

1. to ensure reliable energy supply and functionality of energy infrastructure;
2. to diversify energy supply sources;
3. to reduce dependency on energy resource import (by reducing energy intensity and switching to alternative or renewable energy resources).

Nevertheless, while the member states are still lacking a common approach to the foreign energy relations, despite having similar energy security priorities, the EU authorities can hardly agree on a common energy security strategy for the whole Union. (Youngs 2010, 129) Member-states continue to pursue divergent external energy policies. (Belkin 2008, 1) Russia – the main supplier of gas to Eastern and Central Europe, on its turn, also prefers its exporter to deal with all the European partners on a

bilateral basis, which allows controlling the conditions of the deals in accordance with the interests of Russian state and the exporting company (economic and strategic). (Smith 2008, 2 in Helén 2010, 23)

1.3 EU-Russian gas relations

Among European member-states, buying gas from Russia, there can be defined two general opposing concepts to approach the supplier-state: by the first, Russia is viewed as a partner (e.g. three of the European ‘Big Four’ France, Germany, Italy) – state for the preservation of bilateral energy long-term agreements, simultaneously trying to draw Russia into the inner energy market of the EU on the institutional level; while at the other extreme Russia is seen as a threat (particularly strong among the ex-soviet Eastern European states⁶ with the highest energy dependence on Russia, that have experienced the Russian use of energy disruptions for political needs). The second group advocates a stronger common EU policy on external energy security and states for exclusion of Russia from the European energy sector as well as main international organisations of the region. (Leonard, Popescu 2007, 2; Youngs 2010, 116, 122; Helén 2010, 13) On the very extreme of this group, according to classification proposed by the Leonard and Popescu (2007, 2), is Lithuania, along with Poland, having “an overly hostile relationship with Moscow ... willing to ... block any EU negotiations with Russia” (Leonard, Popescu 2007, 2).

For the smaller countries of the Eastern European region, with a low energy consumption rate (Kefferpütz 2009, 104), the “increasingly cordial bilateral relations between key member states [of the EU] and Russia are an additional source of frustration and of an increasing feeling of insecurity”. (Leonard, Popescu 2007, 2 in Helen 2010, 14) They see this approach to be blocking the development of a common coherent EU viewpoint and statement of a strategy for foreign energy policy.

⁶ “Since then *Gazprom* has moved into the new EU member states – former Soviet republics (Baltic countries) or ex-Comecon (Poland, Hungary, Czech and Slovak Republics) – taking advantage of privatisation of the gas industry. Its objective is clearly to maintain its outlets in countries that are heavily dependent on its gas. ... It is building alliances by swapping assets in sales or distribution, on the one hand, and production, on the other.” (Finon, Locatelli 2007, 10)

(Helen 2010, 14) Bigger states of the EU, on the other hand, are not willing to give up a part of their sovereignty and decision-making power in gas sector to the responsible central authorities of the Union that are meant to govern energy relations and negotiate gas contracts with the third parties on behalf of the whole Union, aimed to counterbalance the market power of Russian seller as it is not profitable to them in any sense. (Helén 2010, 13-14)

Thus, the small states of Eastern Europe still remain strategically unprotected under threat of possible manipulation of gas supplies. As there is no factual collaboration within the European energy market it remains questionable “whether the EU would indeed rally to an individual member state’s aid in the case of an ambivalent and arbitrary shutdown of gas supplies, particularly when large gas consumers such as Germany and Italy would not want to jeopardize their own business relations with Russia”. (Kefferpütz 2009, 105)

Technically, both parties, Russian and the EU, realize the need for mutually agreed, common legal framework to control the gas market on the political level and provide common energy security: “security of demand for Russia (prices and long-term volumes); security of supply for EU (prices and permanent delivery)”.

(Grigoriev, Belova 2009, 76) However, “further institutionalisation of energy relations between the EU and Russia is inhibited by the conflicts of interest. The EU is interested in depoliticization of natural gas deliveries so that it could integrate natural gas imports from Russia into its competitive market, thereby maximise imports” (Losoncz 2009, 154) while Russia is interested in maintaining the present ‘asymmetric interdependence’ of politicised natural gas relations trying to avoid the depoliticization of gas trade. (Noël 2008, 2 in Losoncz 2009, 154)

The problem hereby is that the EU, despite not having a common energy policy, is attempting to institutionalise the EU-Russia energy relationship, and to align it with the market principles (Helén 2010, 2) one-sidedly. While having no valid common strategy for energy sector development it is developing legislative acts and tries to export the normative and political values of the Union. This institutional approach has met a strong

opposition from Russia. “A country reviving its lost power in the international arena and pursuing a realist foreign policy⁷, Russia refuses to embrace the EU’s values and to align its legislation with European norms” (Helén 2010, 32-33) especially when it is not profitable both economically and strategically, harming the sovereign interests of Russia.

1.4 Gas security in the Baltic States

When talking on the European energy security special attention should be drawn to the security of Baltic States (as well as the other post-soviet Eastern-European states) which, presently, are in exclusive dependency on the imports of gas from Russia (Table 1.1) and, at the same time, geopolitically remain on the periphery of the two conventional players. These countries, along with some European Eastern Partnership countries, are a target to the “Russian ‘energy diplomacy’, in terms of the post-imperial syndrome of the elite and the natural economic causes, such as critical dependence on Russian energy supplies”. (Milov 2006, 15) Therefore, “in the past few years, the main concern in the Baltic states has been Russian efforts to increase control over the energy infrastructure in their countries” (Woehrel 2009, 12), where *Gazprom* already owns a large equity stake in domestic natural gas companies. (*ibid*)

The concerns of the Baltic States are not groundless. The usage of gas as a mean for political influence was registered in the region already in the early 1990s, right after the collapse of the USSR, when Russia used energy supply cut-offs (gas and oil) in order to affect policy changes in the region (Smith 2004, 6 in Larsson 2007, 79; Elletson 2006 in Ciziunas 2008, 287) (e.g. gas cut to Estonia was registered on the 25th of June 1993 as a

⁷ “Geopolitical realism often predominates in Russian foreign policy thinking, especially when approaching bordering states, dominating in which is of a vital importance for the country’s national security”. (Light 2008, 15 in Helén 2010, 17-18) “The geopolitical nature of Russian realism with its need for a sphere of influence directly undermines the policies and interests of the EU. Firstly, the assumed Russian sphere of influence covers a number of EU member states in Eastern Europe. It also comes into direct conflict with the European Commission’s ‘Eastern Partnership’, the eastern dimension of the European Neighbourhood Policy (ENP) in a number of countries.” (EC 2010a, 2010b in Helén 2010, 18)

protest against discrimination of ethnic Russians on the territory of Estonia (*Russia cuts off gas supply to Estonia* 26.06.1993, 5)).

Nowadays, the Baltic States still apprehensively treat all the activities of Eastern neighbor that meets a corresponding response from the Russian side. Therefore, while supporting the image of Russia being a ‘threat’ and holding to the perception of the Eastern neighbor as the ‘Other’ (‘the East’) (Neumann 1999, 162-163; Jurkynas 2006, 252) in the structure of international relations (see part 1.3), Baltic States distanced themselves from any partnership with Russia and by that lost the profits gained of privileged position previously attempted as the ‘near abroad’. (Woehrel 2009, 12) By keeping up with this line of behavior Baltic States risk provoking another wave of gas cuts or price growth⁸. Meanwhile, instability in the gas import is highly unwilling in the situation when, in accordance with accession conditions of the EU, Estonia is obliged to reduce production and usage of its oil shale and Lithuanian power plant, that provided the country with most of the consumed energy (Maniokas 2009, 8), has been closed down.

The latest developments in the regional gas infrastructure – recently launched offshore North European Gas Pipeline (Nord Stream)⁹ providing straight connection between *Gazprom* and its biggest European consumers (Central and Western Europe) through the Baltic Sea – can be also considered as a sign of mistrust to the Baltic States as a partner. By choosing the project over the other economically more profitable and easier to develop onshore options (Appendix 3) Russia demonstrated having doubts over reliability of the Baltic States to be a transit path of its gas pipelines to Central Europe and, therefore, minimised their involvement into the transit space (planned to pass only Estonian waters), “denying them the economic windfall they would have enjoyed had the pipeline’s route passed through their territories”. (Baran 2006, 12)

⁸ The price for gas for Baltic States has been constantly rising and by now reached the world’s market level. (Woehrel 2009, 12)

⁹ As Russia’s natural gas exports are transported to European partners by pipelines built through transit countries, the security of supply is highly affected by the behaviour of the third parties. The Nord Stream, connecting Germany and Russia through the Baltic Sea, is aimed to “reduce risks related to natural gas transit by circumventing politically unreliable transit countries”. (Losoncz 2009, 147)

Moreover, with the implementation of North Stream Baltic region remained completely isolated from the common gas space of the EU. Consequently the region remained only a consumer of energy resources without any factual strategic background support, negotiating the energy supply conditions with a more powerful partner bilaterally, still being highly dependent on its supplies. (Janeliunas, Molis 2006, 200; Grabauskas in Whist 2009, 182-183; Liuhto 2009, 110; Maigre 2010, 7-8) Besides, this project secured *Gazprom* a possibility to maintain bilateral relations with the main European trade partners, escaping necessity of any transit. Thus, while Germany maintains that the pipeline will significantly enhance European energy supply and security, a number of eastern EU member states (of Eastern Europe) have protested the decision, restoring calls for a more coordinated European energy strategy towards foreign suppliers. (*Polish Press* 2005 in Belkin 2008, 4)

2 Impact of the Third Energy Package on EU's gas market

Third Energy Package (TEP) is one of the latest EU regulations (enforced on March 3, 2011), initiating substantial structural changes to the gas market architecture. (Komlev 2011, 1) One of the TEP's aims is to deepen internal market liberalization: create a free market in the sphere of natural gas trade and distribution.

(Youngs 2010, 111) Structurally, the Package consists of the two main parts:

1) 'Gas Regulation' on the conditions for access to the natural gas transmission networks and 2) 'Gas Directive' concerning common rules for the internal natural gas market. The purpose of the gas sector regulating part is to deliver all the consumers of the natural gas within the EU a choice of "new business opportunities and cross-border trade, so as to achieve efficiency gains, competitive prices, and higher standards of service, and to contribute to security of supply and sustainability."

(Commission Directive 2009/73/EC, 1; *Directorate General for Energy*, 2) The following section studies innovations the TEP brings to the European gas market and how it affects the relations with the main supplier to Eastern European states.

2.1 Unbundling

The stumbling stone for all EU gas market external suppliers became the requirement of the directive for the separation of transmission and distribution activities and production, as well as other activities related to gas supply of vertically integrated companies – request for 'unbundling'¹⁰. (*Directorate General for Energy*, 3; *European Commission 2009*) It was proposed as an anti-monopoly measure aimed to encourage development of full competition on the European gas market: "breaking apart national energy champions within Europe would make it harder for large non-European firms, such as Gazprom [that nowadays not only delivers gas to the European markets,

¹⁰ There are classified four types of unbundling: 1) Accounting unbundling – separation of accounts within one and the same operator; 2) Legal unbundling – activities integrated within a single firm should be separated and assigned to newly created enterprises, while their actions may remain in the ownership of the same shareholders; 3) Functional unbundling – separation of management units within an extant company; 4) Ownership unbundling – demerger of the activities into completely independent companies. (Cavaliere 2007, 7)

but also realizes control over the local pipelines], to negotiate their way into dominant positions simply through small number of bilateral deals” (Youngs 2010, 31).

The Directives grant Member States a choice between 3 possible models of unbundling:

- ownership unbundling (OU);
- independent system operator (ISO);
- independent transmission operator (ITO). (*Directorate General for Energy*, 5)

The **Ownership Unbundling** – separation of all the participants of gas transmission system operators – must take place, if up till now it had been concentrated in the same hands. In practice it means that the gas supplier to a market may not own or operate the pipelines in the same market, therefore large vertically integrated energy firms are being forced to give up the transmission assets such as pipelines to independent companies, which would exclusively operate these networks. “Supply and generation companies would no longer be allowed to exercise any direct or indirect control over the independent network operators.” (Pielow, Ehlers 2008, 4-5)

Scheme 2.1: **Ownership Unbundling**



Source: *Directorate General for Energy*, 6

Situation in some member states where OU is already in place gives „economic evidence that full OU is an effective means to ensure choice for energy users and encourage investment”. (Pielow, Ehlers 2008, 2) This approach is initially favoured by the European Commission. In the original proposal of the TEP, prevention of companies with stakes in transmission of gas from being involved in energy generation or supply at the same time was the only possible variant of unbundling for all member-states.

Nevertheless, it should be kept in mind that the energy market situation in different regions of the EU is not the same and, therefore, the effectively functioning in the UK, Denmark, the Netherlands and Spain (Cavaliere 2007, 8) OU may be not suitable for

markets of other member-states. Thus, the full OU had been blocked by a coalition of market-skeptical member states, led by France and Germany. Under their pressure, the Commission came up with assenting to a diluted package of reforms with the two other alternative softer schemes of market reformation. (European Commission, 2009)

The alternative model of **Independent System Operator** allows preservation of property of companies over pipelines under condition that management of networks should be given to independent company and there will be stiff control from the regulator; ISO would operate but not own transmission networks. According to this proposal, the network owners should follow decisions of the ISO to finance investments in transmission capacity and comply with a ten-year network investment plan proposed by it. ISO should be established in the member state and have power to intervene into the activities of the operating gas companies; its main function should be to fine the companies in case of anti-competitive behaviour. (*Euractiv* 2008 in Zyuzev 2008, 84)

Scheme 2.2: Independent System Operator



Source: *Directorate General for Energy*, 7

Establishment of ISO is expected to remove any incentive for network operator to favor their own affiliates and at the same time such structure could make an impact into regional market integration while networks of multiple transmission owners would be managed by a single ISO (so far such system operates in the UK and the US). (Moselle, Harris 2007, 1)

Like ISO **Independent Transmission Operator** model allows energy companies to retain the ownership of their transmission networks. ITO is aimed to compel integrated production, supply and transition companies to conform to certain rules to ensure that the different sections of one company operate independently (the example of

successfully operating gas ITO can be found in Belgium – *Fluxys* is the independent operator of both the natural transmission grid and storage infrastructure) (*European Parliament: Further liberalization of the EU electricity and gas markets; Fluxys web*).

Scheme 2.3: Independent Transmission Operator



+ heavy regulation and permanent monitoring

Source: Directorate General for Energy, 8

The unbundling is a compulsory part to fulfill to all the member states in the framework of the TEP. Many states have already unbundled ownership unilaterally.

(Youngs 2010, 113) An exception has been made for the states with the closed monopolised markets that get all the consumed gas from a single external supplier: the EU TEP grants them a delay – they are not obliged (but, they may) to implement regulation and undertake actions to implement ‘unbundling’ until they manage to create conditions for open markets: to diversify their gas suppliers or work out ways for gaining alternative energy sources (e.g. Lithuania, Latvia and Estonia).

(European Commission 2007; RAPSI 01.03.2012)

The European Commission sees the new regulation as key to both - internal efficiency and external security, hoping that it will encourage diversification of suppliers, by laying equal opportunities for competition on the gas market, and open the European market for a wider competition, implying to the security of free, non-discriminatory access to all interested parties. (Zyuzev 2008, 38; Youngs 2010, 111;

European Commission, 2007) Moreover, as the Commission is assessed that investments directed into the transmission network are insufficient when vertically-integrated companies have dominant positions in the market, along with raising competition, the unbundling is expected to stimulate investment in the infrastructure. (*Directorate General for Energy, 5*).

2.2 Problematic aspects of unbundling for external suppliers

Energy companies of third countries, however, are unwilling to allow accomplishment of unbundling. Furthermore, they are not interested in granting mandatory third-party access to their energy infrastructure because this can make project financing more difficult or even inhibit it, but they insist on negotiated third-party access as it was the general practice prior to the adoption of the Second Gas Directive in 2003.

(Konoplyanik 2008, 110)

“Producer states complain that the EU preaches mutually beneficial, market-based solutions, but then urges policies that reduce political dependence on these ‘partners’.” (Youngs 2010, 114) The TEP is one of such regulations. EU authorities pass new legislation that influences the interests of the third parties unilaterally, not taking into account interests of its partners. While talking on the desire to ‘harmonise’ its legal system with that of third countries, in particular neighbouring ones, on practice it means by that “the ‘export’ of EU internal legislation (*acquis communautaire*) to third countries.” (Konoplyanik 2008, 109)

While, this approach might be reasonable for some transit states and certain energy producers that regard the EU as a model for economic development, the big gas suppliers, as *Gazprom*, are willing to remain outside the EU’s legal influence and continue to develop and manage their resources independently, maximising the collected rents. They neither wish to unbundle their vertically-integrated companies, nor to grant mandatory third-party access to their energy infrastructure as it may complicate project financing. (*ibid*, 110)

Out of all the gas suppliers the TEP regulations will mostly affect the interests of *Gazprom*. Out of the northern region suppliers “Norway soon is likely to lose its status as a major gas supplier due to its slumping gas reserves, while Algeria and Qatar are mostly in the business of supplying LNG rather than pipeline gas and, as a result, they are not so closely tied to the pipeline infrastructures” (Kristalinskaya 2011) and, due to the lack of relevant storage infrastructure in the region, are currently not able to export gas to most of the Eastern European states.

Gazprom, on its turn, characterised the new regulations to be “legally incompatible with the EU-Russia partnership and cooperation agreement provisions on non-discrimination.” (Youngs 2010, 113) Representatives of the company state that “applying TEP principles may have negative consequences for the company’s execution of its long-term gas-supply contracts and for the prospects of attracting investments into construction projects for new gas pipelines in Europe.” (Kristalinskaya 2011) At the moment *Gazprom* foresees “at least three risks stemming from the systemic model change: 1,2) demise in property and operational rights, 3) risks of loosing revenues due to pricing model adjustments.” (Komlev 2011, 1) Therefore, “*Gazprom Group* and the Russian Government are closely monitoring the implementation of the TEP ... to make sure that the damage caused by this process to the Company's interests will not go beyond the bare minimum”. (Komlev 2011, 4)

As the only country that buys gas exclusively from *Gazprom* that has so far started the implementation of the proposed regulations is Lithuania, the case is seen as a test of the TEP efficiency. Therefore, *Gazprom* tries to stand for its interests in this case, aiming to restrain further development and factual implementation of the TEP regulations.

3 Lithuania energy market transformation

“Without having much freedom for manoeuvring in bilateral relations with Russia, most of the hopes in Lithuania ... are related to [development of] the EU Common Energy Policy.” (Janeliunas, Molis 2006, 215) Therefore, since becoming a part of the EU, Lithuania has been diligently restructuring different aspects of its policies in accordance with relevant regulations of the Union. (Maniokas 2009, 1-2) In the framework of the European green energy policy Lithuanian energy market also had to overcome several radical changes.

Most important of these changes was the informal condition for Lithuanian membership in the EU for closure of *Ignalina* NPP, which previously provided the country with 80% of the consumed energy. (Maniokas 2009, 8) Closure of *Ignalina* NPP (Unit 1 in 2004 and Unit 2 in the beginning of 2009) became a turning point in Lithuanian energy sector that ended its nuclear energy period. Hence, gas became the most important energy source in the country and, therefore, the most vulnerable energy topic. “After being a net exporter of electricity for more than two decades ... Lithuania has changed its status to importer overnight” (Sekmokas 2010), which rose the question of Lithuania’s energy sector insecurity.

Hoping to secure its gas market Lithuania took a supportive position contributing to the implementation of TEP regulations that have a function of gas market liberalisation. (Ishkauskas 04.06.2011) Lithuania became the first EU country that receives a 100% of its gas demand from a single supplier (*Gazprom*) to implement the TEP, directed against the functioning of monopolies. Moreover, it chose the most astringent way of market transformation – ownership unbundling – which radically contradicts with the interests of *Gazprom* on the local market.

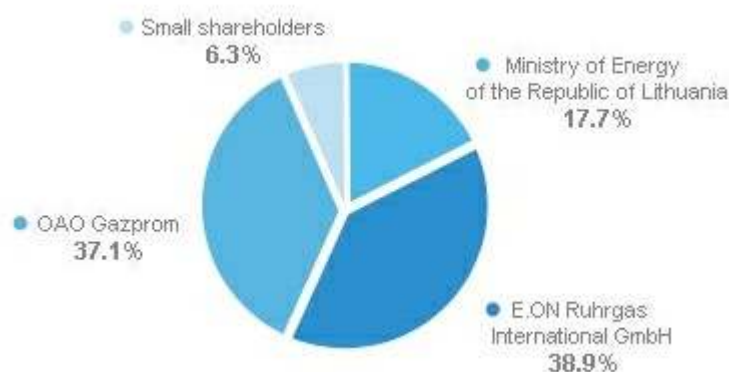
Before turning to the analysis of the impact of TEP on the Lithuanian energy market and the reasons for eruption of a certain case it is necessary to look at the question broader and study the specifics of the local gas market. The following chapter first observes the specialties of Lithuanian energy sector and thereafter turns to the

Lithuanian behaviour as of a member of the European energy market and relations with its only gas supplier (*Gazprom*), as well as studies difficulties emerged under the influence of market restructurization. Finally, the conflict that emerged between Lithuania and *Gazprom* due to the implementation of TEP's requirement for unbundling¹¹ is analysed. Thus, the following chapter discusses Lithuania's priorities in maintaining energy security and concludes if the TEP regulation became a successful development for the Lithuanian energy security of the nearest future.

3.1 Lithuanian gas sector and energy security

One of the important complications of Lithuanian inner gas market is that a large share of the biggest gas importer and distributor, controller of country's gas transportation system *AB Lietuvos dujos* belongs to *Gazprom*. (Janeliunas 2009, 212) Combining the role of gas supplier with that of pipeline system co-owner and operator *Gazprom* owns a share of 37,1%, enjoying an the rotating board chairmanship (38,9% belong to German ally *E.ON Ruhrgas*, 17,7% to the Ministry of Energy of Lithuania, and 6,3% belongs to some smaller shareholders) (Picture 3.1). This makes *Gazprom* also an important player on the inner gas market of Lithuania giving it an essential control over the whole sector. (Fedorov 7.04.2011)

Picture 3.1: The structure of *AB Lietuvos dujos* shareholders (as of 31.12.2011)



Source: *AB Lietuvos dujos* web (<http://www.dujos.lt/>)

¹¹ Lithuania drives to fully implement new rules on 'unbundling' by the end of 2014 (Comte 27.02.2012)

Gas that Lithuanian *Lietuvos dujos* buys from *Gazprom* at the moment takes 80% share on the country's inner heating market (20% is taken by eco-fuel) and, therefore, the price of Lithuanian electric energy and heating is in a direct dependency on Russia. The price for gas for Lithuania has been constantly growing, since 2005 it grew in four times. (Fedorov 7.04.2011) In compliance with the theory of Boulding (1959, 124) who stated, that the hostility demonstrated by one country invokes corresponding reaction from the other part in the bilateral international relation, such a price change is in the direct dependency on evolution of Lithuanian development of "an overly hostile relationship [towards] Moscow" (Leonard, Popescu 2007, 2). Nowadays, the price for gas for Lithuania is the highest in Europe. (Jakniunite 2012, 133) *Gazprom* recently once again refused Lithuania in a discount for gas (received by Estonia and Latvia) for required 15% as Lithuania, on its turn, was not willing to buy pre-crisis gas quantities (common offer to the Baltic States), considering requirements of *Gazprom* to be an economic intimidation. (Topalov 30.08.2011)

Meanwhile, general economic state of Lithuania, that is still trying to overcome the consequences of the economic crisis of 2008 (e.g. by cutting social subsidies, salaries etc; rising taxes), has been constantly worsening. On the level of a private consumer: Lithuanian citizens, having the average salary of about 580 euro and pensions of 230 euro, pay for the heating in winter between 50-200 euro per month (the older house, the higher price). Thus, by gaining a discount for gas, Lithuanian government would higher the level of wellbeing of the country's population and in general seriously raise the economic situation of the consumers. (*Energy Expert Centre* 28.03.2012)

Traits of Lithuanian economy and energy sector¹² suggest that according to the energy security schemes classification theory of the World Bank, in detail brought in the Appendix 5, it can be also, as the other countries of the region, "ranked among the

¹² Lithuania's characteristics: "GDP per capita is under \$10,000, energy consumption in 2001 was 2300 kg of fuel equivalent per capita annually, i.e. below 3000 kg." (Janeliunas, Molis 2006, 204)

countries of the first or fourth group” (Janeliunas, Molis 2006, 201), to face two principle challenges to its energy security (concerning gas issues):

1. dependence on external sources of energy - gas supplies from Russia;
2. growing ‘energy isolation’ due to the Nord Stream construction. (Baran 2006, 33)

Hoping to maintain its energy security independently from the monopolist supplier of its main energy source, Lithuanian government rushed to develop further market transformation implementing new pan-European anti-monopoly measures for the gas market proposed in the TEP (Socor 07.07.2011; Fedorov 7.04.2011), radically protested by *Gazprom* with the support of Russian government. (Youngs 2010, 113)

3.1.1 Dependence on *Gazprom* for gas supplies

As stated previously, nowadays, gas became the most important energy source in Lithuania. At the same time, Lithuania’s gas sector is 100% dependent on the imports of gas from Russian only exporter – *Gazprom*. Therefore, the closure of *Ignalina* NPP puts under test the very Lithuania-Russia political relations, as makes Lithuania overwhelmingly dependent of Russia in its energy security issues and making gas and energy a dominating question in the bilateral relations. Until a suitable alternative to *Ignalina* NPP is secured, Lithuania is forced to rely on imported oil and natural gas for its electricity. Thus, present geopolitical and economic situation leaves Lithuania no choice, but to deal with an ‘unreliable’ energy supplier. (Janeliunas 2009, 197-198)

Dependence on Russian supplies represents a risk for Lithuanian energy security, especially taking into account Russia’s increasingly aggressive policy. Therefore, experts of different fields – politicians, economists, national security experts – all highlight the vulnerability of the gas question for the energy security of Lithuania. (Baran 2006, 3; Janeliunas 2009, 197-198) The advanced complicacy of situation is justified by the geopolitical position of Lithuania on the regional gas transport map (Appendix 4): the country is separated from the gas transit corridors and, acting only as a consumer of *Gazprom*’s gas, can be easily cut off the supplies. (Janeliunas, Molis 2006, 208) The start-up of *Nord Stream* pipeline brought up additional concerns for

Lithuania being cut off the transit completely by a possibility of building a spur to Kaliningrad bypassing Lithuania. Before its construction Lithuania was the only transit way to transport gas to Russia's separately situated territory, which was believed to give certain protection against usage of gas embargo¹³. (Janeliunas, Molis 2006, 215)

Thus, Lithuania's dependence on *Gazprom* can be determined by six main factors:

- 1) *Gazprom* being the only supplier of gas to the gas-dependent market of Lithuania;
- 2) Gas is transported to Lithuania through the only Minsk-Vilnius-Kaliningrad pipeline that is also controlled by *Gazprom* (Map 3.1.1);
- 3) as the system of Lithuania's gas pipelines is not integrated into the European network or other alternative extraction zones, there is no possibility to supply Lithuania with gas from alternative sources;
- 4) *Gazprom* is one of the biggest stockholders of the main Lithuanian gas operator *Lietuvos dujos*, which means that for Lithuania it is not rational or even impossible to implement any policy that would contradict the interests of *Gazprom*;
- 5) no gas storage facilities – Lithuania does not have capacities to store natural gas and use the reserves in case of necessity and even if such a gas storage facility would be built, in reality the main shareholders would be *Gazprom* and its German partner *E.ON Ruhrgas*;
- 6) Lithuania does not have possibilities to deliver, recast or store large quantities of liquid natural gas (LNG), except recently started talks with Norwegian company on the possibility of renting a floating LNG terminal. (Janeliunas 2009, 197-198; Janeliunas, Molis 2006, 209)

¹³ This approach is, however, more of a psychological self-trick, as “gas transit to Kaliningrad has never been a reliable instrument of Lithuanian energy security” (Janeliunas, Molis 2006, 215), which has been proven in February of 2004 when “*Gazprom* punished *Beltransgas* and simultaneously suspended gas supply to Lithuania and Kaliningrad”. (Janeliunas, Molis, 213-214)

Map 3.1.1: Gas pipelines on the territory of Lithuania



Source: OAO Gazprom web

Therefore, while many Western European states do not support the energy integration considering it to be unprofitable Lithuania has been actively supporting it and already started factual straightening of regional cooperation on the energy questions with its neighbor-states. Authorities of all the three Baltic States on different levels started to coordinate their actions of energy security, cooperating in initiating important developments. The main common projects in the sphere of energy sector development are dedicated to the creation of electricity bridges¹⁴ aimed to unite electricity systems of the neighbouring states, plans for construction of a new nuclear reactor (with an economic help from the EU) (Baran 2006, 18, 25; Maigre 2010, 5) and, in the gas sector, the need for natural gas- and LNG storages has been paid a lot of attention to, as a way for saving reserves and by that reducing dependency on permanent supply. The LNG storage was planned to be built with the financial support of the EU in Latvia to guarantee sustained gas supply to all the three Baltic republics. (Janeliunas, Molis 2006, 213-215)

¹⁴ At the moment, the country is completely disconnected from both the larger European electricity network (UCTE) and the Nordic electricity network (Nordel) (Baran 2006, 2)

3.2 Outcomes of TEP implementation

The latest developments of Lithuania on the way to market liberalization in accordance with the broader strategy of the EU became the adoption of the new TEP and the trials to implement it on the local gas market. Lithuania became the first Eastern European member state with the energy sector on a high extent dependent on *Gazprom's* gas supplies (Maniokas 2009, 10) that dared to apply the TEP regulations. The officially stated aim of Lithuania implementing the TEP regulations, as mentioned before, is to enhance energy security and to de-monopolize the market. Lithuanian representatives claim the TEP to be first of all “an instrument for the establishment of a competitive gas (and electricity) market”. (Ishkauskas 04.06.2011) With the help of such gas sector reorganization Lithuanian government hopes to establish “a transparent competitive market mechanism which will ensure free access to network and lowest consumer prices”. (Lithuanian energy minister Arvydas Sekmokas in Ishkauskas 04.06.2011) While Lithuania is not willing to tolerate the prices three times higher than for some other European states, *Gazprom* does not see reasonable argumentation on why it should lower prices for Lithuania. (Fedorov 7.04.2011; Ishkauskas 04.06.2011; *Energy Expert Centre* 28.03.2012)

Nevertheless Lithuanian effort to implement regulations of the TEP resulted in development of an international conflict with Russia. An intense conflict started between *Gazprom* and Lithuania right after the 30th of June 2011, when the Lithuanian Parliament approved the nationalisation of the *Gazprom's* pipeline situated on the Lithuanian territory in the framework of the TEP (Jakniunite 2012, 133) despite *Gazprom's* early notice of introducing gas cuts in case of Lithuania implementing the directive. (Savilov 20.09.2010) Moreover, “Russian gas monopoly has threatened to raise prices if it's forced to sell its stake”. (*Russia Briefing* 15.07.2011)

Gazprom sees TEP regulation-package directed contrariwise its interests. According to the requirements stipulated by TEP, the company is expected to divest itself of co-ownership and *de facto* control of the company *Lietuvos dujos*. The new law requires separating the existing gas transmission and distribution of pipelines from the *Gazprom*-controlled *Lietuvos dujos*, splitting company into a transport and a trade component.

“The latter will be able to continue as gas importer from *Gazprom*; but the transmission pipelines will pass under state control, and the distribution to the end consumers will be handled as a distinct business. The law is to take full effect by 2013.” (Socor 7.07.2011)

Besides the unbundling obligation, the TEP is aimed to force Russia to “review its natural gas exporting policies so that *Gazprom* has to start selling the delivered amounts of gas for one price along the whole border of the EU.” (Mäe 2012) This initiation, however, is not supported by the member states that have so far negotiated a good gas price and turn them against the unification of policies and Lithuania is risking remaining without the overwhelming support of other member states in implementing this regulation package as a part of constructing common energy policy. (*ibid*) This initiative already created further tensions with Russia (Jakniunite 2012, 133) and so far Lithuania has to deal with them on its own.

Gazprom proposes that by implementing the regulations Lithuanian government is only seeking an excuse to nationalize the *Lietuvos dujos* and by that gain control over the gas industry of the country (that is of a vital importance in the present conditions of the energy market, where gas takes the largest share of all the consumed energy sources). (Ishkauskas 04.06.2011) As a confirmation to such understanding Lithuanian government expressed an intention to abolish privatization of *Lietuvos dujos* if Russia will not agree with the conditions of Lithuania: to lower the price and pull through the OU requirements. Deputy Minister of foreign affair of Russia Mr. Titov named such plans to be a straight violation of liabilities of Lithuania on the bilateral governmental agreement on the common maintenance and support for relevant investments of 1999; according to him, restitution of the property of *Lietuvos dujos* shareholders would be a pure despoliation (in Fedorov 7.04.2011).

3.2.1 *Gazprom* turning to court

‘Negotiating process’ between the two countries turned into the systematic statements of recriminatory demands to each-other technically not really arriving to a constructive dialogue that would lead to reaching a compromise. The both sides seem to be unwilling

to make acquiescence. Therefore, while Lithuania, against all the odds, has been implementing regulations of the TEP, believing them to provide security from the Russian monopolistic behavior, *Gazprom* turned to court “seeking international arbitration against the Lithuanian government over EU gas market reforms implemented by the state” (RIA Novosti & The Moscow News, 01.03.2012) believing them to be illegal in the legal conditions shaping Lithuania’s gas market.

First, *Gazprom* turned to the arbitrary court of Stockholm against the Lithuanian Energy Ministry asking to declare actions of Lithuania illegal violation of the previously reached agreement of *Lietuvos dujos* shareholders, whose interests would be damaged in case of successful development of the new regulations. At the moment the case is under consideration, but the court already mentioned that the position of *Gazprom* is quite justified to win the case on the merits. (Topalov 01.03.2012)

Lithuania wasn’t expecting such reaction of *Gazprom* especially after reaching the agreement (with participation of the European Commission) on 28 February 2012 to continue talks on restructuring the country’s gas market in compliance with the TEP. (RIA Novosti & The Moscow News, 01.03.2012) What is not taken into account hereby, are the commentaries given by Lithuania’s representatives following the negotiating meeting, stating that in any case the TEP regulations will be developed on its territory by 2014, by which it one-sidedly drew a line under the negotiations stating its conclusive position on the dispute. Thus, Lithuania seemed to be supporting two overlapping strategies: while claiming its willingness to continue talks it systematically realises the requirements of the package keeping up with the stated deadlines. (Topalov 01.03.2012)

Therefore, in several days after the meeting (in March of 2012) *Gazprom* turned to the arbitrage court of the UN Assambly protect its investments into the *Lietuvos dujos* (where it still holds a share of 37,1%) and to stand for its rights to own the pipelines on the territories of other states, in particular, Lithuania. (Topalov 01.03.2012) The agreements on the investments were contracted on an intergovernmental level (besides Russia and Lithuania Germany was also participating while its company holding a share

of 38,9% of *Lietuvos dujos*) and, thus, become an intergovernmental issue. (Aliev 02.03.2012) Therefore, on the opinion of *Gazprom*, the question on the protection of investments is in the competence of UNCITRAL (United Nations Commission on International Trade Law) and should be appraised in the relevant authorities. (Topalov 01.03.2012; RIA Novosti & The Moscow News, 01.03.2012) Moreover, Russia has intentions to contest TEP at the WTO, when it becomes an active member, as it violates bilateral agreements concluded on the governmental level. (Penchuk, Adomaitis 01.03.2012)

According to the opinion of an expert on energy questions Bogdan Zikov (in Aliev 02.03.2012) *Gazprom's* resort to an international arbitration witnesses the wish to stand for its interest on an official, legal way not using its monopolist position, influencing the thwart partner with the economic 'countermeasures'. This behavior also stresses the wish of *Gazprom* to continue talks with Lithuania searching for compromise. At the same time, with its actions Russia already clearly demonstrated its willingness to stand for its property in Lithuania with all possible means. The concerns of Russia are reasonable as the outcomes of this 'trial case' will determine the future development of its gas relations with the EU as a whole. The results of this conflict will demonstrate effectiveness of the TEP in accomplishment of its main aim of market de-monopolisation and in case of success, if the court will recognise the right of Lithuania to implement constrained privatisation of the transportation system, the regulation will be implemented all around the Union and, thus, put under threat all the other infrastructural actives of *Gazprom* (as well as of other energy companies) on the territory of the EU. (Aliev 02.03.2012)

At the moment it is difficult to predict the outcome of Lithuanian-*Gazprom* trial negotiations. (Losoncz 2009, 155) Hereby, an important role is played by Russian government that is unwilling to accomplish relevant legal harmonisation with the EU. Partly that is because the Russian institutional and regulatory system is incompatible with that of the EU, partly because of political reasons (*ibid*). Within the so far erupted case it wishes to save its strategic influence in the Baltic States' region and is not ready to give up its positions. Lithuania, on its turn, is desperately struggling for energy

independence. Such radical counter-standing of interests is blocking maintenance of rational negotiations and is not likely to lead to a commonly profitable outcome.

Thus, even though Lithuania, as well as the other Baltic States, in their energy security on a large extent relies on the support of the European member states it has to be taken into account, that EU still does not have a well-constructed functioning common energy policy (as well as no common regulating organs) and, thus, cannot counter-stand the supply monopolies as a single consumer. Therefore, each member state takes all the decisions concerning energy relations with other countries independently on the bilateral basis and, therefore, has to take the responsibility for its actions itself, not counting on any support, in case of a relevant conflict, from the other states that are unwilling to gain neither economic, nor strategic losses and, therefore, will hardly be eager to get involved into any confrontation with important partners. Thus, also the current conflict, while having a decisive role for the whole Union, remains a bilateral conflict that threatens exclusively Lithuanian energy security (no straight involvement of the other states), and commercial interests of *Gazprom* (and consequently Russia as a whole (see part 1.1.1)).

3.2.2 Lithuania diversifying its energy market

Realising that the current conflict threatens the security of gas supplies Lithuania started looking for strategic diversification of the energy sector, searching for the alternative sources and suppliers that could replace *Gazprom*'s gas on its energy market and allow it a liberalised functioning. Nowadays, one of the most realistic, in the sense of development, and preferable projects is the rent of a floating LNG terminal from Norwegian company *Hoegh* that would allow providing Lithuania with a tangible amount of LNG. (Kulikov 05.03.2012; *rus.Delfi.lv* 28.03.2012) This project, however, contradicts with the previously developed project, supporting common intentions of the Baltic States, to build a relevant terminal in Latvia. Without the participation of Lithuania the terminal becomes unprofitable and will hardly be supported by the EU. Thus, in the long-term perspective the cooperation with Norway on LNG supplies, as currently proposed, threatens energy security of the whole region. (Kulikov 05.03.2012)

Moreover, the price for the support of LNG from Norway has not been yet negotiated and, thus, it cannot be clearly stated if importing of LNG from the new source would be more profitable than the current deals with *Gazprom*. Besides, *Gazprom* may demand penalties for breaking up the agreement and abandoning the gas imports. The long-term source of the LNG supplies also remains undetermined – due to the diminishing reserves of gas in Norway this source is rather short-term. On the other hand, if the costs for the LNG (terminal rent and imports) will be profitable it may become a serious argument in further negotiations with *Gazprom* over the gas prices.

(Kulikov 05.03.2012) But, in any case, in the nearest future perspective the possible supplies of LNG will replace only 1 bn out of required 3,5 bn cubic meters energy consumed per year, which is not enough to fully satisfy the demand for energy and, unless also the other alternative sources are rapidly developed, high dependency on natural gas imports from Russia remains. (Kulikov 05.03.2012)

Renewable energy resources are also not an option to replace natural gas on the local energy market. “Winds, solar, hydroelectric and geothermal power ... have little technical feasibility — let alone economic viability — in Lithuania” (Baran 2006, 22) Since Lithuania “is a relatively flat, low-lying country..., there is little potential for hydroelectric power. ... Nor is Lithuania a good candidate for wind power. According to EBRD, the average wind speed in most areas of the country is around 15 kilometres per hour (kph). This is insufficient, as most wind turbines in operation today require speeds of 10-15 kph as a bare minimum for power generation. ... Lithuania is an even less suitable candidate for solar and geothermal energy. The country’s high latitude and climate conditions are particularly unfavourable for solar power generation.” (Baran 2006, 22) Thus, at the moment renewables meet only 10% of its energy demands (Janeliunas, Molis 2006, 204).

Thus, the only practical possibilities to secure access to energy for Lithuania are fossil fuels, in particular – natural gas. Relatively secure gas reserves are assured by underground gas storage facilities. (Baran 2006, 29) However, in the only currently functioning storage of natural gas in the Baltic States in Latvia the majority of the gas is

owned by *Gazprom*. (*ibid*, 24-25) Therefore, relevant dependence on permanent gas supplies from Russia remains (at least until the new ecologically-friendly nuclear reactor is developed (*ibid*, 22, 25)).

Moreover, natural gas has superiority over other energy sources due to its specialties: “Natural gas has the highest energy to carbon ratio of any fossil fuel, making it cleaner to burn than coal or oil. It also possesses higher energy efficiency than most alternatives.” (Baran 2006, 24) As a large share of the country’s energy infrastructure is designed for the usage of gas, which, in compliance with the above mentioned, makes it practically and economically irrational (important argument in the conditions of current generally poor economic performance of the country (see page 28)) to re-orientate the country’s energy sector to other technically available sources. (Fedorov 7.04.2011)

Searching for a more profitable price offer Lithuanian government found an alternative, due to impossibility of supplier diversification, in buying Russian gas through the third Western European parties. They plan to build a pipeline from Poland to Lithuania and thus buy gas from the European country instead of dealing straight with the supplier, due to inability of Lithuania to negotiate reasonable price in the bilateral talks. (Borodin 13.02.2012)

3.3 Impact of the TEP on Lithuania’s energy security

Thus, the small Lithuania is convinced that it will reduce its vulnerability in energy supply if integrated into a bigger consumer-market. (Losoncz 2009, 149-150) Therefore, in the process of gas market de-monopolization in the questions of energy security Lithuania strongly relies on the support from the EU and the prospects of development of an integrated European energy market with a commonly coordinated foreign energy policy. Integration and compliance to the principle of solidarity in the energy sector as well as interconnection of pipelines and grids of all member states is expected to create opportunities for energy supply diversification and lead to reduction of dependency on a single supplier. (Janeliunas, Molis 2006, 200, 215-216; Losoncz 2009, 155-156) Bearing this in mind, Lithuania has been actively

implementing all the regulations proposed by the EU aimed at liberalization and inner integration within its energy market.

Implementation of TEP in Lithuania clearly took place in an inappropriate time in the conditions of an unstable situation on the market: shortly after the monopolization of the energy market and in the condition of poor performance of the economy. The country appeared to be simultaneously carrying off two conflicting processes: monopolization of the market by a single gas supplier in the result of EU's demand for closure of *Ignalina* NPP in the framework of its green policy and concurrently liberalization of the energy market on administrative level by developing new anti-monopoly TEP regulations also proposed by the EU. Both processes were initiated as a result of the attempts to support the EU energy market integration lead to the conflict of interest within the Lithuanian inner energy market.

As a result, nowadays, Lithuanian energy security turned out to be under the threat of vulnerability. By implementing measures clearly harming the interest of the only current supplier of the main energy source Lithuania itself put its energy security in a risky position: striving to maintain its positions on the market *Gazprom* may become eager to once again use the cuts of gas supplies as a mean for manipulation (which would be of a catastrophe for the energy sector of the country taking in account the share of gas on the local market). Thus, as stated by the Lithuanian *Seimas* deputy on economic questions Julius Veselka (in Parfenova 25.01.2012) that the TEP regulations nowadays cannot be effectively implemented in the small import-dependent gas system of Lithuania (as well as other states of the region with the similar characteristics) and are leading to the rise of prices for gas which at the moment is an indispensable energy source on the local market.

Conclusion

Thus, the thesis concludes that the hypothesis stated in the introduction is correct. In the present situation when Lithuania is going through the process of constrained energy market monopolization, where gas became the main energy source only several years ago, implementation of TEP, that initiates radical legal transformation attempting to liberalize gas market, causes the dual situation where two contradictory processes are simultaneously initiated by one and the same actor. It shapes a risky situation for the country's energy security, provoking the monopoly power to manipulate with the energy supplies to maintain its inflexible position on the market. Such a strategy is clearly inefficient and unprofitable while developed in the present conditions of very restricted availability of alternative energy sources.

The combined analysis of the previous tendencies of *Gazprom*'s behavior and the so far tendencies of the reactive actions to the Lithuania's case of gas market legal transformation process it became clear that the TEP regulations initiated by European Commission are currently inapplicable in the Baltic States due to the higher risk to their energy security. Dependency on gas as the main energy source and, therefore, also on Russian government-controlled gas export-monopoly *Gazprom* as the only gas supplier to the region causes the risk to be exposed to manipulative measures threatening energy security of the country. The unbundling may be implemented in an efficient way only in conditions if the local energy market will first manage to diversify the energy sources as well as find alternative perspective suppliers.

If to undertake the process in the other way around it may, not warranty, the long-term perspective stimulate energy market's diversification: faster search for alternative sources and suppliers; but, as one may observe on the example of Lithuanian case, on a short-term picture it may cause irreparable damage to the energy security as well as economic wellbeing of a monopolized consumer state.

Moreover, as it is concluded from the Lithuanian case, implementation of the TEP does not implicitly cause fulfillment of the primary aim – market liberalization, both, on a state-level and with the perspective to provide conditions for energy market liberalization over the Union. Due to the necessity for urgent diversification of energy sources the latest strategic developments and recent bilateral agreements of Lithuania with the third states undermine the common strategies with the neighbor-states for the straightening of regional energy security via common projects of energy infrastructure development (e.g. construction of LNG terminal in Latvia affected by Lithuanian agreement with the Norwegian company).

Thus, member-states should use the officially provided two years to effectively look for alternative sources and suppliers, restructuring energy market infrastructure before starting an active TEP implementation. Each country needs to carefully analyze its energy market on the subject of applicability of the TEP measures and thereafter choose the most appropriate method for gas sector unbundling. Even though the two years are not an enough long term for a deep analysis of the market and actualization of relevant undertakings Baltic States due to their geopolitical location, currently being the most vulnerable part of the EU in the sense of energy security, should take all the possible time for careful market observation and undertake trials for energy sources diversification. It is also important that the countries of the region would undertake the related actions in cooperation and simultaneously as a part of the common European regional energy strategy as only in that case they would be capable to compose a sufficient political counter-power to the Russian energy pressure in the face of its exporting gas monopoly – *Gazprom*.

Lithuania clearly rushed in with the implementation of the TEP regulations basing on the moods caused by the strong will for energy independence. Undertaking hasty decision to implement the regulations of TEP in the conditions of an unstable market it did not take into account real facts stating its complete dependency on a single supplier and present inability to provide alternative fuel sources to the consumers in case of eruption of a causal conflict. With its hasty legislative developments Lithuania itself initiated a conflict with the only supplier of the main energy source for the whole

country's operation causing threat to energy security (mainly price growth or instability of the supplies of necessary quantities of gas).

To conclude with, Lithuania needs to revise the strategy concerning international energy trades and begin with virtual demonopolisation of the energy market by finding and developing supplies of alternative energy sources on the reasonable conditions. After the country becomes capable to provide consumers with necessary amounts of energy from the other sources on the reasonable conditions it will minimize possible damage of gas cuts or the price growth. It will allow to accomplish also the legal market demonopolisation – implement relevant legislation (including measures of gas supply system ‘unbundling’), without fearing of the only supplier of the main energy source to use gas as a source of manipulation while attempting to protect its interests.

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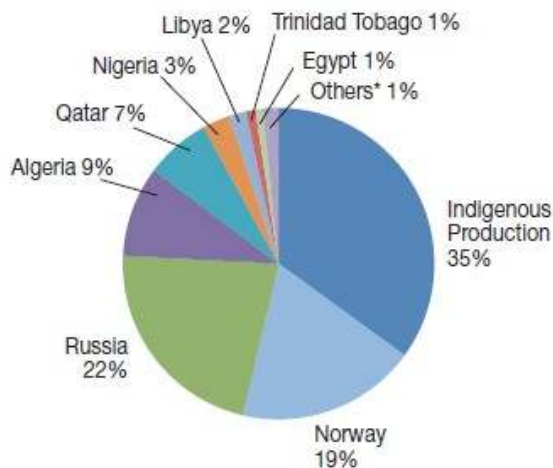
Appendix 1. Natural gas supplies to Europe

Figure 1: Natural gas supplies to Europe by state

TWh - GCV	Indigenous Production	Russia	Norway	Algeria	Qatar	Other sources*	Changes in stocks**	Other balances	Total Net Supplies
AUSTRIA	19,2	61,9	15,1	0,0	0,0	2,8	7,9	-4,9	102,0
BELGIUM	0,0	5,1	68,7	0,0	64,2	74,6	2,2	-0,4	215,2
BULGARIA	0,6	27,6	0,0	0,0	0,0	0,0	1,3	-1,8	27,7
CZECH REPUBLIC	1,5	57,8	11,2	0,0	0,0	21,2	7,7	-4,1	95,1
DENMARK	85,4	0,0	0,0	0,0	0,0	-35,1	1,2	-6,8	44,7
ESTONIA	0,0	6,6	0,0	0,0	0,0	0,0	0,0	0,0	6,6
FINLAND	0,0	49,6	0,0	0,0	0,0	0,0	0,0	0,0	49,6
FRANCE	8,3	77,1	176,6	73,9	27,0	156,6	30,3	0,0	549,7
GERMANY	123,6	351,2	312,1	0,0	0,0	113,5	46,5	-13,9	933,0
GREECE	0,0	21,9	0,0	8,1	0,4	10,4	-0,1	0,3	41,1
HUNGARY	30,3	70,7	0,0	0,0	0,0	27,5	-1,9	0,0	126,6
IRELAND	4,1	0,0	0,0	0,0	0,0	56,7	0,0	0,0	60,8
ITALY	87,8	238,0	39,3	295,7	74,9	147,8	-5,5	0,0	877,9
LATVIA	0,0	18,9	0,0	0,0	0,0	0,0	0,0	0,0	18,9
LITHUANIA	0,0	46,6	0,0	0,0	0,0	-14,7	0,1	0,0	32,0
LUXEMBOURG	0,0	3,7	8,0	0,0	1,9	1,8	0,0	0,0	15,5
NETHERLANDS	820,3	37,4	119,4	0,0	0,0	-470,1	0,0	0,0	507,0
POLAND	47,7	101,4	0,0	0,0	0,0	11,4	3,0	2,6	166,1
PORTUGAL	0,0	0,0	0,0	26,6	0,0	24,0	-0,2	1,2	51,6
ROMANIA	116,8	25,2	0,0	0,0	0,0	0,0	1,3	3,6	146,8
SLOVAKIA	1,1	66,0	0,0	0,0	0,0	-8,9	1,3	-0,1	59,4
SLOVENIA	0,0	5,2	0,0	3,6	0,0	1,6	0,0	0,1	10,5
SPAIN	1,2	0,0	37,7	122,0	65,5	173,3	-2,6	3,0	400,1
SWEDEN	0,0	0,0	0,0	0,0	0,0	18,9	0,0	0,0	18,8
UNITED KINGDOM	665,1	0,0	285,7	11,5	160,0	-44,1	15,3	-0,3	1 093,2
EU 27	2 012,9	1 271,8	1 073,7	541,5	394,0	269,2	107,7	-20,7	5 649,9

Source: Eurogas 2011, 8

Figure 1.1: Total natural gas supplies to Europe by the source states (%)

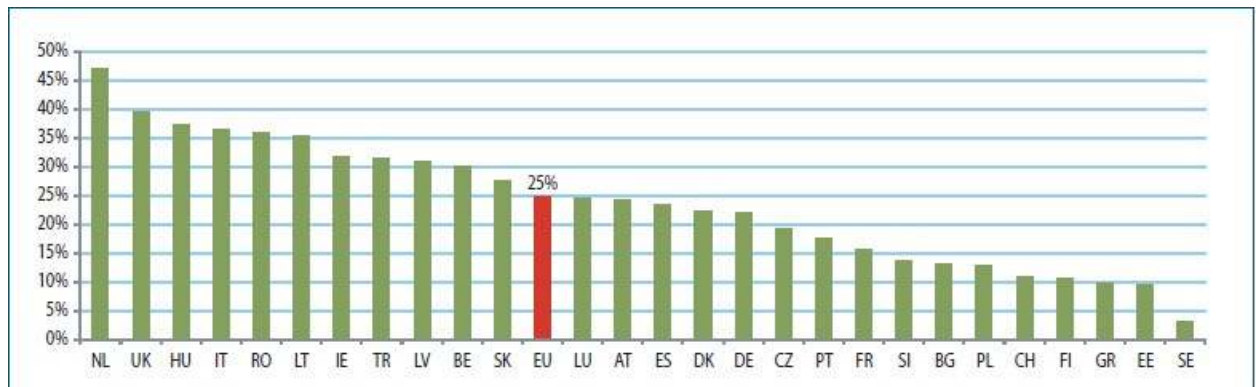


*Including supplies from sources which can not be identified.

Eurogas 2011,8

Appendix 2. Primary energy consumption in the EU

Figure 2.1: Share of natural gas in primary energy consumption in 2010



Source: Eurogas 2011, 5

In 2010, primary energy consumption in EU has increased by 3% compared to 2009 and the share of natural gas in primary energy increased slightly to 25%.

Lithuanian energy sector is based on gas for 36%

Figure 2.2: Primary energy consumption by fuel (EU)

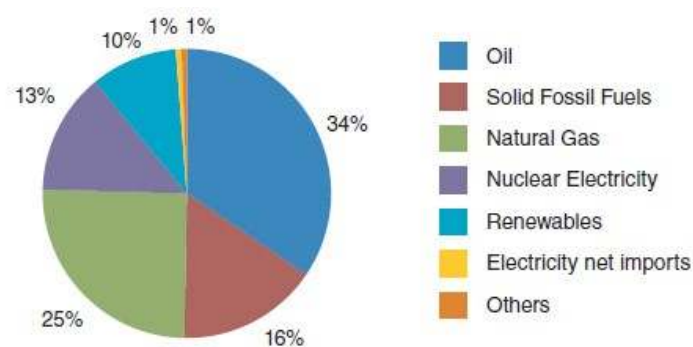
Natural gas remains on the second position among the energy sources used in the EU.

“In 2010, natural gas consumption increased by 7% and renewables by 11% compared to 2009. This observed positive parallel trend is expected to continue and to illustrate the role of a natural gas as an enabler of the penetration of renewable energy sources.

Coal and nuclear each increased by 3%, whereas oil decreased by 1%.” (Eurogas 2011,

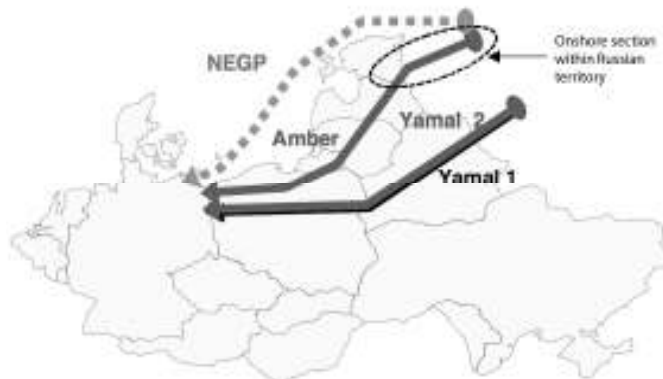
5) Over the EU the natural gas demand increased by 7.3% over a year. (Eurogas 2011,

7)



Source: Eurogas 2011, 4

Appendix 3. Baltic region alternative pipeline routes



Source: Janeliunas, Molis 2006; 219.

The Yamal I pipeline currently brings natural gas from Russia via Belarus and Poland to Germany, and when the question for an additional pipeline rose – the Yamal II was proposed to be built along the same route as an alternative to the North Stream. It was expected to be considerably cheaper than the offshore pipeline in the Baltic Sea (in addition to the fact that onshore construction, Yamal I was constructed in a way to allow adding a second pipeline at a later stage). (Murd in Whist 2009, 182) Nevertheless, the energy disputes with the transit countries and emerging transit complications brought to willingness of both the suppliers (Russia) and consumers (the EU) to become independent of politically unstable transit states and therefore agreed on the need for route diversification. (Nord Stream 2006b in Whist 2009, 183)

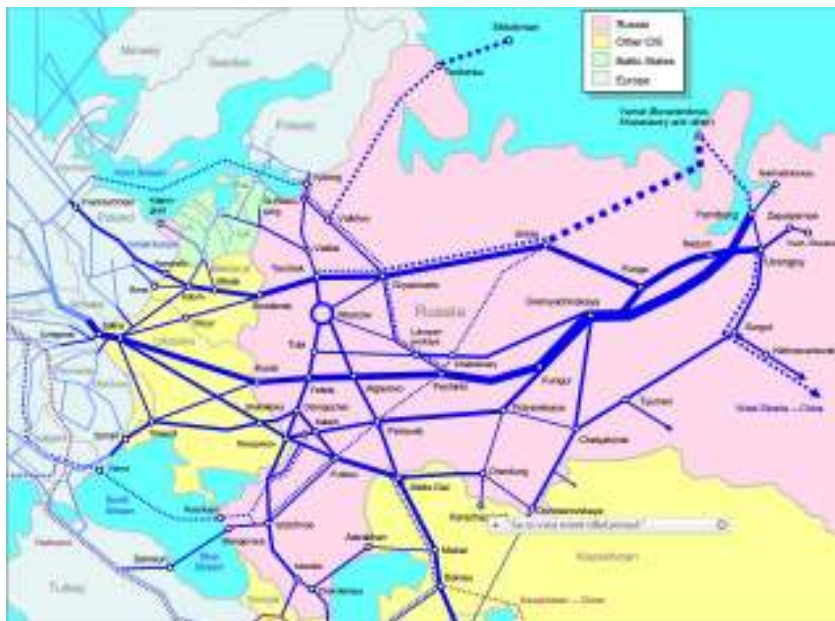
But this, on its' own, does not automatically imply a need for an expensive and politically controversial sub-sea pipeline. (Whist 2009, 183) Therefore, in 2004 “Poland and the Baltic States proposed a third alternative, Amber, which would bring Russian gas through Latvia and Lithuania to Poland, where it would join the Yamal route to Germany” (Götz 2006, 13 in Whist 2009, 183). The Amber pipeline would thus contribute to route diversification and bring Russian gas to Germany and the EU passing no non-EU transit states. (Whist 2009, 183) Nevertheless, this pipeline would lie through the three EU member states that officially stated the adherence to the perception of Russia as a political threat and therefore became unreliable partners for the Russian side.

Appendix 4: Gas pipelines of the Baltic States



Source: East European Gas Analysis (EEGA) , 2.04.2012

Gazprom pipelines (general view)



Source: East European Gas Analysis (EEGA) , 2.04.2012

Appendix 5: Approaches to energy security in different groups of countries

	Defining characteristic	Energy security priorities
Industrialized nations, net importers of energy	<ul style="list-style-type: none"> • Per capita GDP is above \$10,065 (1) • High level of per capita energy consumption: above 3,00 kg of fuel equivalent annually (2) • Trend to reduce energy consumption (3) • The gap between domestic energy supply and demand is increasing: the demand growth rate is lower than the world's estimated annual average (1.7%) till 2030 • Developed energy infrastructure (i.e, almost all population is supplied with electricity) (4) • Fluctuations of energy prices have a relatively weak influence on the economy and households (e.g., a \$10 price hike of a ton of oil will reduce GDP by just 0.5%) (5) 	<ul style="list-style-type: none"> • Ensuring reliable energy supply • Diversification of energy supply sources • Ensuring security of energy infrastructure • Introduction of new technologies to reduce dependence on energy imports
Largest sovereign hydrocarbon exporters	<ul style="list-style-type: none"> • Per capita GDP varies from \$260 in Chad to \$52,000 in Norway • A huge difference in per capita energy consumption, from 262 kg of fuel equivalent annually in Congo to 6,888 kg in Qatar • Different trends of energy consumption • Sufficient reserves of energy resources (usually hydrocarbons) for the foreseeable 	<ul style="list-style-type: none"> • Securing positions on strategic markets with reasonable prices • Diversification of energy export market; • Ensuring capital and investments in infrastructure and field development

	<p>future</p> <ul style="list-style-type: none"> • Usually, energy export infrastructure requires development • The economy is susceptible to cycles of wanton growth and decline depending on global energy prices (e.g., a \$10 price hike on a ton of oil pushed Angola's GDP up by 30%) 	<ul style="list-style-type: none"> • For less developed nations in the group: meeting the population's basic energy needs, creating active demand for the energy sector's services
<p>Largest emerging markets with a fast-growing energy demand</p>	<ul style="list-style-type: none"> • Different per capita GDP, from \$620 in India to \$6,770 in Mexico • A difference in per capita energy consumption from 514 kg of fuel equivalent annually in India to 2,425 kg in South Africa • Different trends of energy consumption • The demand growth rate is higher than the world's estimated annual average (1.7%) till 2030 (e.g., 57% of the population in India and 34% in South Africa do not have) • Fluctuations of energy prices have a fairly significant influence on the economy and households (e.g., a \$10 price hike of a ton of oil will reduce GDP by more than 0.5% depending on the country's size and energy consumption) 	<ul style="list-style-type: none"> • Ability to meet the growing demand for imported energy • Diversification of energy supply sources • Ensuring capital and investments in infrastructure and field development • Introduction of new technologies to reduce dependence on energy imports • Meeting the population's basic energy needs, creating active demand for the energy sector's services
<p>Net importers of energy with medium incomes</p>	<ul style="list-style-type: none"> • Different per capita GDP, from \$826 to \$10,065 • In most countries, per capita energy consumption is close to the world's average of 1,631 kg of fuel equivalent 	<ul style="list-style-type: none"> • Ability to meet the growing demand for imported energy • Ensuring capital and investments in

	<p>annually</p> <ul style="list-style-type: none"> • Different trends of energy consumption • The demand growth rate is higher than the world's estimated annual average (1.7%) till 2030 • Underdeveloped energy infrastructure • Fluctuation of energy prices have a fairly significant influence on the economy and households (e.g., a \$10 price hike of a ton of oil will reduce GDP by more than 0.5% depending on the country's size and energy consumption) 	<p>infrastructure and field development</p> <ul style="list-style-type: none"> • Meeting the population's basic energy needs, creating active demand for the energy sector's services
Net importers of energy with low incomes	<ul style="list-style-type: none"> • <i>Per capita</i> GDP is below \$826 • <i>Per capita</i> energy consumption is about or below 500 kg of fuel equivalent annually • Energy consumption tends to grow • The demand growth rate is higher than the world's estimated annual average (1.7%) till 2030 • Poorly developed energy infrastructure • Fluctuations of energy prices have a fairly significant influence on the economy and households (e.g., a \$10 price hike on a ton of oil will reduce GDP by more than 0.75% on the average) 	<ul style="list-style-type: none"> • Ability to meet the growing demand for imported energy • Ensuring capital and investments in infrastructure and field development • Meeting the population's basic energy needs, creating active demand for the energy sector's services

Source: World Bank (cited in The World Bank Group 2005, 4)

Notes: (1) In 2004, based on World Bank Atlas Method, (2) In 2001, according to World Resources Institute; (3) World Energy Outlook 2004, IEA, (4) In 2000, according to World Resources Institute, (5) World Bank estimates

Kolmanda energiapaketi efektiivsus: Gazprom vs. Leedu, juhtumianalüüs

Resüme

Euroopa Liidu kolmas energiapakett (The European Union's *Third Energy Package*), mis jõustus 3. märtsil 2011. aastal, toob koos monopolivastase gaasi ja elektri tarnimise ja tootmise ülekandest eraldamise meetmetega kaasa märkimisväärsed muudatused Euroopa Liidu energiaturul. Kõige enam mõjutavad antud meetmed gaasist tugevalt sõltuvaid Ida-Euroopa turge, kus *Gazprom*-il on gaasitarnimise monopol. Eriti tugev on kolmanda energiapaketi muudatuste mõju olukorrale Balti riikides, mis lootes saavutada energiaalast sõltumatust kiirustavad, vaatamata *Gazpromi* vastasseisule, meetmeid rakendama. Juba 30. juunil 2011 võttis Leedu Vabariigi Seim vastu esimesed kolmanda energiapaketi regulatsioonid ning asus neid kohalikul tasemel rakendama, tekitades sellega koheselt konflikti gaasi tarnijaga.

Antud uurimistöö on selgitav juhtumianalüüs, kus analüüsitakse Euroopa Liidu kolmanda energiapaketi rakendamise põhjustatud energiakonflikti Leedu ja *Gazpromi* vahel, selgitades selle tagamaid ja tehes selle põhjal järeldusi. Püstitatud uurimisprobleem lahendatakse töös kasutades peamiselt kvalitatiivset uurimismeetodit (mõningal määral esineb ka kvantitatiivset analüüsi). Uurimistöö puhul on tegemist induktiivse lähenemisega kuna üksikjuhtumit analüüsidest tuuakse välja erinevaid leide ja tehakse üldisemaid järeldusi, mida on võimalik sarnaste muutujatega ning sarnastes tingimustes olevatele juhtumitele laiendada. Juhtumiuuringut tehes kasutati selliseid meetodeid nagu vaatlus (method of survey), andmete kogumine (data collection) ning selgitav analüüs.

Käesolev väitekiri uurib üksikjuhtumina konflikti Leedu ja *Gazpromi* vahel, eesmärgiga vaadelda kolmanda energiapaketi rakendamise mõju ühe riigi energiajulgeolekule Ida-Euroopa regioonis. Väitekiri vastab küsimusele: Kas kolmanda energiapaketi määrusi on tulus rakendada Balti riikide kõrgelt monopoliseeritud energiaturgudel (Leedu üksikjuhtumi näitel), tingimustes, kus puuduvad alternatiivsed energiaallikad või –tarnijad ning piiratud majanduslikud ressursid ei võimalda lisanduvaid kulutusi

radikaalseks energiasektori ümberkujundamiseks? Vastates küsimusele, tõestab väitekirja püstitatud hüpoteesi, et kolmanda energiapaketi rakendamisega põhjustatud radikaalsed energiaturgu muutvad seadusandlikud meetmed ei vasta energiaturu tegelikule arengule, vaid on vastuolus selle arengusuunaga ja loovad olukorra, kus riigi energiajulgeolek satub ohtu. Lisaks põhjustavad sellised muudatused riikides, kus gaas on põhienergiaallikas ning mis on tihedas sõltuvuses ühest monopolistlikust gaasitarnijast, majanduslikku kahju kui neid rakendada enne kui on leitud alternatiivsed energiaallikad või võimalused energiatarbijate mitmekesistamiseks.

Töö on jaotatud kolmeks osaks. Esimesed kaks osa kujundavad neile järgnevale uuringule raamistikku. Defineeritakse Euroopa Liidu ja Venemaa energiaalaste suhete põhijooned ja arutletakse nende üle. Tähelepanu pööratakse seejuures eriti Euroopa Liidu püüdlusele luua ühtne energiaturg ning Euroopa Liidu - Venemaa energiaalasele vastastikusele sõltuvusele. Iseloomustatakse *Gazpromi* kui Venemaa riikliku gaasimonopoli mõjukust gaasiimportist tugevas sõltuvuses olevate riikide energiaturgudel ühise Euroopa Liidu energiaturu puudumisel. Erilise vaatluse all on seejuures olukord gaasist väga sõltuvates Balti riikides, mille puhul antakse ülevaade nende bilateraalsetest suhetest *Gazpromiga*, kui nende ainsa gaasi tarnijaga, ajalooliselt kujunenud Venemaa - Balti riikide poliitiliste suhete raames. Teine osa on pühendatud kolmanda energiapaketi olemuse lähemale uurimisele, seejuures on tähelepanu pööratud enim kõige problemaatilisemale 'eraldamise' põhimõttele ja selle mõjule Euroopa Liidu energiaturu edasisele struktuurile ja toimimisele. Selgitatakse kuidas äärmuslikud kolmanda energiapaketi regulatsioonid hakkavad mõjutama Euroopa gaasiturgu ning kirjeldatakse regulatsioonidega seonduvaid energiatarbijate peamisi muresid.

Väitekirja empiirilises osas vaadeldakse kolmanda energiapaketi mõju energiaturule üksikriigi raames, Leedu näitel. Selles vaadeldakse Leedu energiaturu spetsiifikat ning iseloomustatakse riigi suhteid selle energiaturu põhienergiaallika tarnija *Gazpromiga*, võttes arvesse riigi kuulumist suuremale Euroopa Liidu energiaturule ning sellega kaasnevaid asjaolusid. Samuti analüüsitakse kuidas *Gazprom* põhienergiaallika ainsa tarnijana reageeris Leedu valitsuse vastavatele sammudele. Tuginedes töö kahes esimeses osas esitatud argumentidele ja teoreetilisele raamistikule ning Leedu

energiaturu arengutendentsidele, võetakse arvesse järgnevate konfliktide tõenäosust ning järeldatakse milliseid riske kolmanda energiapaketi rakendamine Leedu energiapaketi põhjustab.

Uurimistööst järeldub, et Leedus, kus tuumaelektrijaamade sulgemise tagajärjel sai gaasist põhienergiaallikas, millega algas energiaturu paratamatu monopoliseerumise protsess ja kus kolmanda energiapaketi rakendamine algatab radikaalseid seaduspõhiseid turumuudatusi, eesmärgiga gaasiturgu liberaliseerida, toimub sama riigi poolt kahe smaaegselt algatatud vastanduva protsessi kokkupõrge. Provtseerides monopoli omavat Gazpromi kasutama erinevaid manipuleerimisvahendeid oma turupositsiooni kaitsmiseks seab selline vastuoluline situatsioon ohtu riigi energiapaketi.

Arvestades hiljutisi sündmusi ja võttes aluseks varasemad käitumistendentsid on gaasitarnijapoolsed manipuleerivad võtted tõenäolised. Alternatiivsete gaasitarnijate, -energiaallikate ja energia-taristu ümberkorraldamise ressurside puudumist arvesse võttes, leiab autor, et kolmanda energiapaketi regulatsioonide täideviimine seab lühiajalises perspektiivis ohtu Leedu energiapaketi ning ohustab riigi majandust. Autor jõuab järeldusele, et gaasi ja elektri tarnimise ja tootmise eraldamist ülekandest (*unbundling*) saab tõhusalt teostada vaid juhul kui kohalik energiaturg suudab monopoli-poolse manipuleerimise vältimiseks esmalt leida mitmekülgseid energiaallikaid ja alternatiivseid tarnijaid.

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