Energy Information Administration www.eia.doe.gov

COUNTRY ANALYSIS BRIEFS

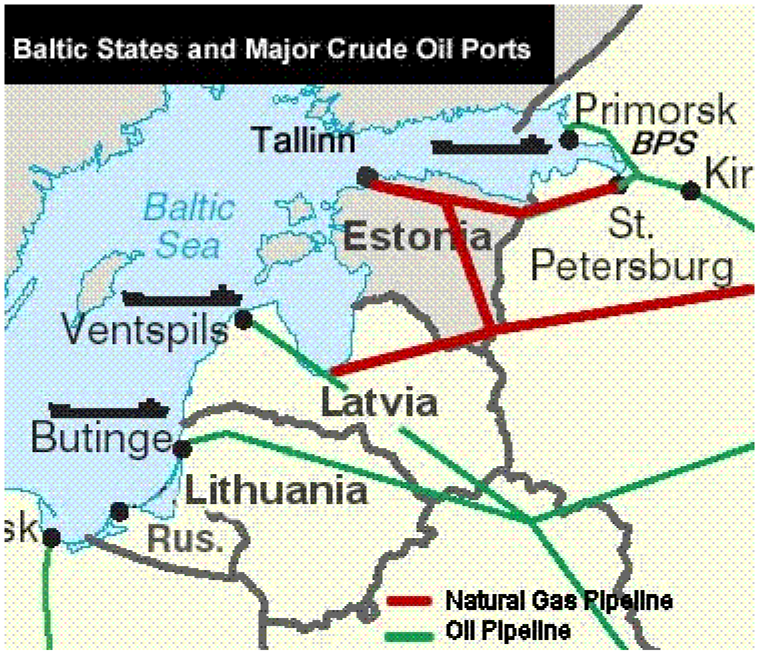
Baltic Sea Regional Factsheet

Last Updated: July 2006

Background

The Baltic Sea Region is an important transit point for Russian oil exports.

Alone among the former Soviet republics, the Baltic Sea region states of Estonia, Latvia, and Lithuania were quick to adopt market economies and to implement democratic reforms. As a result, they largely have avoided the economic and political crises that have beset other regions in transition from centrally planned economies, including the Balkan region and southeastern Europe. Privatization in the Baltics is nearly complete, and in 2005, despite the continuing slowdown in the global economy, the three countries posted an average 9.2 percent increase in their real gross domestic product (GDP).



With a combined population of only 7.2 million people, Estonia, Latvia, and Lithuania have achieved greater presence in the international community by joining forces in a number of political and economic arenas. In 2004, after years of preparations, Estonia, Latvia, and Lithuania joined the North Atlantic Treaty Organization (NATO) as well as the European Union (EU). Originally planned for 2007, adoption of the common European currency has been delayed until 2009, as all three Baltic states' average inflation levels remain above the Maastricht inflation criterion.

Oil

The important crude oil ports in the Baltic Sea are Ventspils, Butinge, and Tallinn, and Primorsk

Although the Baltic states are not significant energy consumers or producers, they serve as a key transit location for Russian oil exports. The Russian crude oil pipeline system is connected to three ports on the Baltic Sea: Latvia's port of Ventspils (completed in 1961); Lithuania's port of Butinge (completed in 1999); and the Russian port of Primorsk (completed in 2002). These three ports transited roughly 1.3 million barrels per day (bbl/d) of crude oil in 2005, or roughly 24 percent of Russia's net crude oil exports. Smaller quantities of crude oil, as well as significant quantities of petroleum products, are also distributed via rail to other Baltic ports, such as Tallin or Kaliningrad.

With the completion and upgrades at Butinge in Lithuania and Primorsk in Russia, export capacity in the Baltic region has nearly doubled since 1999. Because virtually all of the oil exported through these ports comes from the Russian pipeline system, competition among the regional players has been fierce, and the distribution of market share has changed dramatically in recent years. As a result, Latvia and Lithuania have been compelled to compete with Russia's own Transneft-operated export route at Primorsk.

TABLE 1: MajorBaltic SeaPort Oil Shipments

Terminal	Country	2005 Capacity (bbl/d)	2005 Flows (bbl/d)	Type	Ice-Free Days	Expansion
TALLINN,MUUGA	Estonia	700,000	537,000	Fuel Oil	365	During 2004 added extra rail links, jetties
VENTSPILS	Latvia	360,000	143,000	Crude/Products	365	New Rail terminal in 2004 allowed it to expand from 300,000 bbl/d
BUTINGE	Lithuania	280,000	121,900	Crude/Products (at Klaipeda)	365	Klaipeda expansions for crude oil export planned
PRIMORSK	Russia	1,200,000	988,000	Crude (considering light petroleum products)	210	Expanded from 2001 level of 240,000
Sources: Reuters, WMRC, EIA, NEFTE Compass, Transneft.ru						

The countries of the Baltic region are net oil importers, depending on Russia for approximately 90 percent of their supply. In 2005, regional domestic production totaled roughly 16,000 bbl/d with Lithuania producing roughly 9,000 bbl/d and Estonia producing around 7,000 bbl/d. Most of Estonia's oil production comes from oil shale. Latvia produces no oil domestically and is entirely dependent on imports.

Mazeikiai Refinery

Lithuania’s 300,000 bbl/d Mazeikiai refinery is the only refinery in the Baltic region, and it is the country’s largest revenue generator. The Mazeikiai refinery sells its products in Lithuania, Poland and Estonia. In September 2003 the refinery underwent modernization, enabling it to produce higher grade gasoline compliant with EU standards. It is run by Mazeiku Nafta Co., which operates a system of crude oil pipelines to the Mazeikiai refinery and the Butinge Terminal, two pump stations near Birzai and Joniskis, and crude oil and products pipelines leading to Ventspils. The Russian oil company Yukos acquired a controlling interest in Mazeiku Nafta in September 2002 and ran the operation of the Mazeikiai refinery. In May 2006, Yukos agreed to sell its 54 percent stake in Mazeiku Nafta Co. to Polish oil refiner PKN Orlen and in June 2006, the Lithuanian government agreed to sell 31 percent of their stake to PKN Orlen for more than $2 billion. After analyzing the different scenarios for oil supplies to Mazeiku Nafta, PKN Orlen decided to continue the flow of crude oil from Russia via the pipeline to Mazeikiai. The deal is also said to include a commitment for $950 million on upgrading and expanding the plant over the next five years. PKN Orlen has stated that it is eager to develop upstream business and has also expressed interest in acquiring Geonafta, Lithuania’s leading oil production company. The Baltic region also imports petroleum products from Russia and is heavily populated by Russian oil major LUKoil’s filling stations.

Major Crude Oil Ports

Ventspils (Latvia)

Before the construction of Russia's Primorsk facility (see below), Ventspils was the largest port in the Baltics and the second largest oil export terminal for Russian crude after the Black Sea port of Novorossiysk. In late 2003, the Russian pipeline monopoly, Transneft, stopped deliveries of crude oil to Ventspils following the completion of its own port at Primorsk. Having been left without a source of oil, authorities at Ventspils undertook an effort to increase shipments of crude oil and petroleum products delivered by rail. While this temporarily mitigated some of the, recent hikes in Russian export taxes have caused rail shipments to Ventspils to steadily decline. The future of the port is still uncertain; rerouting of oil products to Russian ports such as Primorsk, and Transneft's intention to halt deliveries to the port in 2007 are severely weakening Ventspils’ market share.

The Latvian government has announced plans to sell its stake in Ventspils on the Riga Stock Exchange in late 2006 after failing to reach an agreement with the controlling shareholder, Latvijas Maftas Tranzits, to offer their joint shares for a controlling 51 percent stake. Several firms from around the world have expressed interest in acquiring a stake in the port's management, including Russia's Transneft and Rosneft, the Russian-UK joint venture TNK-BP and Kazakhstan's Kaztransoil. Kazakhstan has been attempting to increase its energy independence from Russian by bidding on companies in the Baltic region and China, The Latvian state has stated that it will sell its stake for no less than 1.81 lats per share, which equates to approximately 72 million lats ($126 million) total.

Butinge (Lithuania)

Although considerably smaller in terms of capacity, Lithuania's port of Butinge exported more oil in 2005 than the port of Ventspils. This is because Butinge has enjoyed considerably better relations with its Russian suppliers than Ventspils since 2002, when Russian oil major Yukos became the port's largest shareholder. The port of Butinge is one part of a larger Lithuanian oil and gas complex controlled by Maizeiku Nafta which includes the Mazeikiai refinery and a pipeline connection to Russia and Latvia. It is likely that the 2006 sale of the Lithuanian petroleum concern Mazeiku Nafta to Polish oil refiner PKN Orlen will also affect operations at Butinge. The government sold 31 percent of its 41 percent stake in Mazeiku Nafta for nearly $880 million. PKN Orlen also signed an agreement in May 2006 to buy a percent stake in Mazeiku Nafta from Russia's Yukos for $1.49 billion, making it the majority stakeholder.

Butinge was designed with both import and export capabilities, giving the port the option to import oil in case of a Russian oil supply disruption. In 2003, Butinge underwent expansion that significantly increased its crude oil storage capacity from 160,000 bbl/d to 280,000 bbl/d

In 2005, Butinge transported 121,900 bbl/d of oil and oil products, a 15.5 percent decrease from the previous year. Total throughput volumes have fallen 37.5 percent since 2003 and further declines are expected as Russian pipeline operator Transneft continues to increase the amount of Russian oil sent to Primorsk. Transneft announced plans to reduce the amount of crude oil sent to Butinge by more than 30 percent in 2006, down to 111,000 bbl/d.

Tallinn (Estonia)

The Estonian port of Tallinn depends on rail routes for all of its crude oil and product receipts. The port of Tallinn is the third largest in the Baltic Sea/Gulf of Finland region and manages 12 percent of the cargo traffic in the area. The port increased total oil flows to 537,000 bbl/d in 2005, despite growing competition from the Russian ports of St. Petersburg and Primorsk. The Baltic Sea port's main export terminals, Estonian Oil Services (EOS), Pakterminal and Eurodek, all added extra rail links and jetties in 2004, providing a greater outlet for Russian fuel oil exports. The Tallinn port complex incorporates four large ports: Muuga, Stary Gorod (Old City), Palyasaare and Paldiski, all of which remain ice-free year round. In 2006, the chairman of the state-owned port announced that the company will pay $159 million for a majority stake in the Estonian Railway company in order to further expand the export capabilities of the port. Tallin also exports coal from Russia, with exports rising 18.4 percent to 3.7 million short tons (mmst) in January 2006 compared to 3.0 mmst in January 2005. This is mainly due to the July 2005 launch of a new $120 million coal terminal at the Muuga Port.

Primorsk (Russia)

The port of Primorsk came online in December 2001 along with Russia's Baltic Pipeline System (BPS), which carries oil from Russia's West Siberian and Timan-Pechora oil provinces westward to the Russian Gulf of Finland. The port has a throughput capacity of 1.3 million bbl/d of oil. Significant expansion took place in 2003, making Primorsk the Baltic region's busiest port. In 2005, further expansions increased its crude oil export capacity from 1.0 million bbl/d to1.3 million bbl/d. Primorsk increased oil exports in 2005 by 28.7 percent to 1.15 million bbl/d, up from 888,334 bbl/d in 2004. Transnefteproduct, the state owned Russian crude oil pipeline operator, and Russian oil company Lukoil agreed in 2006 to construct a pipeline between Primorsk and Vysotsk that will enable Lukoil to ship 69,712 bbl/d of diesel fuel annually.

Since Primorsk is wholly owned and operated by Transneft, the state monopoly, Russian crude oil which traditionally moved through the Baltic states has been re-routed to Primorsk. Russian authorities have stated publicly that, when allocating the country's exports, precedence will be given to sea ports in which Russia has a stake over foreign ones; in other words, Primorsk over other Baltic ports. (For more information on Russian oil exports see EIA's Russia Country Analysis Brief)

Natural Gas

The Baltic Sea region depends entirely upon imports for its natural gas consumption.

The countries of the Baltic region are entirely dependent on natural gas imports to meet their domestic consumption needs. The Baltic countries produced no natural gas in 2005 while consuming a total of 230 billion cubic feet (Bcf). Latvia has natural gas storage capability at its underground facility, Inculkalns, which supplies gas to Estonia, Russia, Latvia and Lithuania. The underground facility is connected to Russia's main gas pipeline for filling after each pumping season, which lasts from November to March. Inculkalns has a 4,400 billion cubic meter capacity to store natural gas and is a joint venture with majority shareholders E.ON Ruhrgas International, OAO Gazprom and SIA Itera Latvija.

Natural gas imports come mostly from Russia, handled by Russia's natural gas monopoly Gazprom and its subsidiaries. Gazprom holds long-term supply agreements with each of the Baltic states and maintains a favorable relationship with them due to their importance as transit states. By late 2006, Gazprom plans to raise natural gas tariffs from the current price of around $3 per 1,000 cubic feet ($105 per 1,000 cubic meters) to $4 per 1,000 cubic feet ($135 per 1,000 cubic meters), more in line with Western European prices.

Gazprom also increased its mcf presence in the Baltic region by becoming an owner of natural gas utilities in the region. Gazprom holds a 34 percent stake in Latvia's Latvijas Gaze and a 37 percent stake in Estonia's Eesti Gaas. In January 2004, Gazprom finalized its acquisition of a 34 percent stake in Lithuania's natural gas company, Lietuvos Dujos. After the three Baltic states' entrance into the European Union in May 2004, Gazprom's growing presence in the Baltics has allowed the company to increase its exports to the countries of the European Union. Also, the development of the North European Gas Pipeline will give Gazprom an even larger role as the EU's dominant supplier. The natural gas pipeline running from Russia to Europe via the Baltic Sea began construction in 2005 and should be completed by 2010. (For more information see the EU brief and the Russia brief)

Market Liberalization

Some of the Baltic states have plans for or have already undergone natural gas market liberalization. Lithuania began a two-stage privatization program for its state-owned natural gas company that resulted in the partial divestiture of the utility in January 2004. The German consortium E.ON - Ruhrgas and Gazprom each own 40 percent stakes in the utility. Natural gas prices in Lithuania have been partially deregulated, although most transmission and distribution tariffs are set by the state and prices set for regulated consumers are based on their planned consumption levels.

Currently, Latvijas Gaze has a virtual monopoly on the import, transmission, and distribution of gas in Latvia; This situation will likely not change until market liberalization, which has been postponed from its original date of 2007 until 2010. Gazprom will remain the country's primary gas supplier because of a long-term supply deal between Latvian Gaze and Gazprom.

Electricity

EU membership could bring significant changes to the electricity sectors of the Baltic Sea region.

Estonia and Lithuania are net electricity exporters, sending their surplus electricity to neighboring Latvia and parts of northwest Russia. In 2004, Estonia generated 8.9 billion kilowatts (Bkwh) of electricity, the majority of which came from the country's Narva oil shale-fired power plants. During March 2005, the Estonian government proposed the initial public offering of its state electricity company, Eesti Energia, but the offering was withdrawn. While the other Baltic energy markets have opened their electricity markets, Estonia has been granted the ability to keep its market closed until 2013, mainly due to its high profitability for the government.

Lithuania generated 13.5 Bkwh of electricity in 2004, the majority of which came from the country's Soviet-era Ignalina nuclear power plant. Lithuania began a two-stage process of closing the plant in 2005, with final closure scheduled for 2009. Although Lithuania has agreed to the shutdown of its nuclear facilities under strong safety concerns from the EU and over $1.5 billion in foreign aid for closing the plant, the country has indicated its interest in developing a new nuclear facility. The prime ministers of Lithuania, Latvia and Estonia signed a political agreement in February 2006 that established a feasibility study for the building of a new nuclear facility to be completed by the end of the year. The proposal has received support from Estonia, which will see its environmentally hazardous oil shale-fired electricity generation decline over time under EU environmental policies. Importation of nuclear electricity from Lithuania would then serve as an alternative to imports of natural gas from Russia.

Latvia is the region's only net electricity importer, buying from other Baltic states as well as from Russia. Latvia is working with Estonia and Finland to develop the "Estlink" project, a 90 mile underwater cable and a 40 mile land-based cable linking the Baltic states to the Scandinavian and Nordic power grids. Estlink will be a direct current cable between the Harku 330kV substation (in Estonia) and the Espoo 400 kV substation (in Finland). ABB was selected in February 2005 to design, build, and lay the high-voltage cable. Eesti Energia, the Latvian power company Latvenergo, Lietuvos Energija of Lithuania and the Finnish companies Pohiolan Voima and Helsingin Energia are the main stakeholders in the project. The cable is designed to reduce regional dependency on Russia, and is due to be operational by the end of 2006.

Profiles

Table 2: Baltic Region- Energy Statistics (2005)

OIL

Country	Reserves (million barrels)	Production (th. bbl/d)	Imports (th. bbl/d)	Consumption (th. bbl/d)
Estonia*	0	7	22	29

Latvia	0	0	32	32
Lithuania*	12	9	87	95

*Estonia's production is in the form of oil shale, Lithuanian crude oil production = 7.8 th. bbl/d

NATURAL GAS

Country	Reserves (Tcf)	Production (bcf)	Imports (bcf)	Consumption (bcf)
Estonia	0	0	52	52
Latvia	0	0	66	66
Lithuania	0	0	112	112

*COAL (mmst)**

	Recoverable Reserves	Production	Imports (Prod'n = 0)	Consumption
Estonia	0	15	1	16
Latvia	0	0	0	0
Lithuania	0	0	0	0

*ELECTRICITY**

Country	Capacity (GW)	Generation (Bill. kwh)	Consumption (Bill. kwh)
Estonia	3.3	9.9	7.2
Latvia	2.2	4.6	6.0
Lithuania	4.6	13.5	9.3

* Denotes 2004 values; Source: WMRC, Oil and Gas Journal

Links

EIA Links

EIA: Country Information on Estonia
EIA: Country Information on Latvia
EIA: Country Information on Lithuania

U.S. Government

U.S. Agency for International Development
CIA World Factbook
U.S. Department of Commerce, Central and Eastern Europe Business Information Center (CEEBIC)
Library of Congress Country Study on the former Soviet Union
Radio Free Europe/Radio Liberty
U.S. State Department: Bureau of European and Eurasian Affairs - Country Briefs
U.S. Embassy in Estonia
U.S. Embassy in Latvia
U.S. Embassy in Lithuania

General Information

Baltic News Service
The Baltic Times
BBC: Estonia Country Profile
BBC: Latvia Country Profile
BBC: Lithuania Country Profile
Central Europe Online
Interfax News Agency
Port of Kaliningrad
Regional Environmental Center for Central and Eastern Europe
University of Texas: Russian and East European Network Information Center
Central Europe Review

Foreign Government Agencies

Central Statistical Bureau of Latvia
Embassy of Estonia: United States, Mexico, Canada
Embassy of the Republic of Latvia in the U.S.
Embassy of the Republic of Lithuania in the U.S

European Bank for Reconstruction and Development

Oil and Natural Gas
Oil Shale: A Scientific-Technical Journal (Estonia)

SectionTitle

Agence France Presse
Baltic News Service
The Baltic Times
BBC Former Soviet Union Monitoring Unit
CIA World Factbook
US Department of Commerce's Central and Eastern Europe Business Information Center
Deutsche Presse-Agentur
Dow Jones
US Department of Energy
US Energy Information Administration
Environment News Service
Estonian News Agency
The Financial Times
FSU Oil and Gas Monitor
Global Insight
Interfax News Agency
ITAR-TASS
Nefte Compass
PAP Polish Press Agency
PR Newswire
Radio Free Europe/Radio Liberty
Reuters
RosBusinessConsulting Database
Russian Business Monitor
Russian Economic News
Russian Oil and Gas Report
Stratfor
US Department of State
The St. Petersburg Times
World Markets Research Center.

Contact Info

cabs@eia.doe.gov
(202)586-8800
cabs@eia.doe.gov