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Russia's Energy Diplomacy in the Baltic States

by Zachary Hanson

Estonia, Latvia, and Lithuania, or, “The Baltic States,” are unique in that they are the first and only former Soviet Republics to join institutions aligned with the West, joining both the European Union (EU) and the North Atlantic Treaty Organization (NATO) in 2004. This move was a reflection of clashing cultural and political values that had been present before their integration into the Soviet Union during the Second World War as a result of the Soviet-Nazi non-aggression Molotov-Ribbentrop pact. Additionally, after years of Soviet repression, the Baltic States developed a distinctly anti-Russian stance, as Russia was the most dominant country of the Soviet Union and after its dissolution in 1991 (Dudziska, 2011). In the two decades since the Soviet Union fell and the Baltic States gained their independence, Russia has been asserting both soft and hard power in nearby nations. Additionally, Russia's energy policy towards their neighbors has significantly affected their relationship with European Union countries through their role as the primary supplier of natural gas.

According to Dudziska (2011), the Baltic States were a unified force leading up to their independence. They were the first republics to take advantage of the apparently weakened Soviet state. Starting in 1987, protests spread throughout Estonia, Latvia, and Lithuania, at which patriotic songs taken from folklore were sung. These protests came to be a symbolic head when a massive protest was held in 1989, in which millions of people linked arms connecting the capital cities of Tallinn, Riga, and Vilnius. This event, held on the fiftieth anniversary of the Molotov-Ribbentrop pact, would eventually be known as the Baltic chain. Later, in 1990, Lithuania declared their independence, soon to be followed by Latvia and Estonia, though it was not recognized until the Soviet Union was officially dissolved in December 1991. Estonia was the first of the Baltic countries invited to discussions involving their EU ascension, followed by Latvia and Lithuania in 1998. Although not traditionally a significant force in Western European politics, a variety of aspects began to take route that provided for the ascension of the Baltic countries to the European Union. According to Made (2002), the factors that allowed for the inclusion of

the Baltic States to the European Union were increased Nordic interest in the area, the relatively strong performance of their small economies, and a policy of the Russian government to not interfere with the Western governments, as they were still heavily dependent on them for aid.

Similar to the way Estonia, Lithuania, and Latvia sought to follow their own path in 1991, Russia was also searching for their national identity after gaining independence. Russia was unable to become a dominant figure in the international scene for several years because of reforms that did not immediately create an environment conducive to a market economy. In the last decade, Russia has transformed from a relatively weak, democratic country to an authoritarian country characterized by its strength in energy policy. However, despite the widely held belief that Putin singlehandedly brought Russia out of its depression, it is far more likely he benefitted from “being in the right place at the right time” (Aslund, 2008). According to Aslund (2008), Putin’s reforms came at a time when the Russian economy was already improving due to earlier reforms in the Yeltsin administration as well as the increase in the price of oil. Russia holds the distinction of having the world’s largest reserves in natural gas, the second largest coal reserves, and the seventh largest oil reserves. Since 2009, they have occasionally overtaken Saudi Arabia as the world’s largest oil producer (Lough, 2011).

According to Lough (2011), Russia benefitted from the overall rise in the price of oil from \$18 per barrel in 1999, when Putin was elected president, to nearly \$148 per barrel, just before the global financial crisis. In the last decade, not only has Russia been able to solve many of its internal problems, but it has risen again as one of the world’s strongest nations. Putin has shown himself to be one of the most educated world leaders in the areas of foreign policy and energy policy and has shown considerable skill in integrating Russia’s natural resources with his ability to personally influence other leaders (Lough, 2011).

The inclusion of Estonia, Lithuania, and Latvia to the EU and NATO significantly reduced Russia’s ability to influence these countries’ domestic policies, which have been a source of concern for Moscow (Grigas, 2012, p. 2). This strategy is determined through national interest, which is in turn determined by self-sufficiency and security. In other words, it is not necessarily bad that Russia is trying to influence its neighbors, as it is only natural for them to seek ways to ensure the stability of their country

through the creation of networks to serve their business interests, create a sense of national unity by underlining threats from the near abroad, and create a way to compete with the leading countries of the world: the United States, France, England, Germany, and Japan (Laurila, 2003, p. 28). However, their methods for regaining influence in their traditional sphere should be a cause for alarm for the governments of Estonia, Lithuania, and Latvia (Grigas, 2012). According to Grigas (2012, p. 2), “Russian influence in the Baltics aims to constrain their independence and undermine the political, economic, and civilizational choices they have made.” Russia’s tactics to gain influence in the Baltic region are often covert and coercive and seek to combine their hard power, through their role as principal energy supplier, and soft power, through extensive networks of ethnic Russians living in the Baltics and Kremlin-loyal public sphere and private sphere figures. However, despite Russia’s ability to use their foreign policy to gain influence, it would not be possible without conditions within the Baltic countries that make them vulnerable to Russian influence. This paper will first discuss the political conditions that allow Russia to influence Baltic policy: the fragmentation and commercialization of policy, as well as the large minority of ethnic Russians living there. The paper will then discuss the lack of energy resources in these countries that have made them energy-dependent on Russia for oil, gas, and nuclear power.

The success of Estonia, Latvia, and Lithuania in their transformation to apparently democratic states with a market economy has been prevented to a full transition by a political system characterized by fragmentation, commercialization of politics, and a large minority of ethnic Russians (Grigas, 2012). These weaknesses create corruption and open the door to Russia’s ability to influence their politics, as well as their ability to create networks of ethnic Russians that can ultimately threaten the home-rule of the Baltic States. According to Geddes, fragmentation caused by the party system limits a legislature’s “ability to pursue its own aggrandizement at the expense of the presidency and contribute to the accretion of presidential powers” (Meleshevich, 2007, p. 146).

Estonia has become associated with the most positive image of a post-Soviet successor state and has led their fellow Baltic States in their transition to democracy. One way they have built this image has been through their ability to limit fragmentation. Estonia was the first among the former Soviet republics to reject the Soviet political structure they inherited and have

the most “consistent and coherent policy” (Meleshevich, 2007, p. 187) in regards to party structure. One 1994 law raised the minimum membership for a party from 200 to 1,000 (Meleshevich, 2007). On the other hand, Latvia and Lithuania have been less successful in preventing fragmented governments, though Latvia has been considerably less so since the late 2000s (Grigas, 2012). While the Baltic countries may not be significantly more fragmented than other Western European governments, other factors, including a lack of professionalism, low standards of responsibility and accountability, and poor institutional framework in both the private and public spheres, make third parties particularly susceptible to degrees of Russian influence. Additionally, the fragile nature of new countries tends to make it easier for Russia to influence these countries. According to Meleshevich (2007), the Pederson Index, which indicates the degree of electoral stability in a party system, shows that Estonia currently has the highest level of party stability among the Baltic countries.

The commercialization of politics, or the increased ability for businesses to penetrate government and to influence its policies, is another source of concern for the Baltic States. It occurs when businesses lobby governments to create policies that are favorable to Russian interests. It not only includes Russian businesses that have invested in these countries, but also local businesses that export and import goods to and from Russia. The Baltic States are particularly vulnerable to the commercialization of politics because they are new states with small economies and are highly dependent on Russia for natural resources (Grigas, 2012). One way that Russia has exploited this weakness is by exporting Russian business culture to the Baltics and creating networks of ethnic Russians by encouraging them to become active in the public and private spheres. Russia has employed a number of soft power tactics to capitalize on Baltic governments’ susceptibility to be influenced by commercial means. Ways that Russia has done this include lobbying from pro-Russian businesses and encouraging a non-transparent political structure.

Finally, a third political factor that limits the Baltic States’ ability to advance is their large minority of ethnic Russians, especially in Estonia and Latvia, where they make up more than 30% of the population. At first, this was not a large problem because few were involved in the political process. Of the ethnic Russians living in Estonia and Latvia, only 15% had been granted citizenship. However, near the close of the last decade,

especially in Latvia, ethnic Russians began to make a larger impact in politics. For example, the Harmony Centre, a political party that represented the Russian minority came in first place in the number of votes collected. Estonia's Centre party has also gained significant inroads in the political spectrum, as it is currently the largest party representing Russian minority interests (Grigas, 2012). This is a striking turn of events for the Baltic governments, as Russian minority participation is increasing, as well as the efforts of the Russian government from abroad to protect the interests of ethnic Russians.

In addition to the poor political framework that characterizes the Baltic governments, Russia lacks energy resources, which limits their ability to influence politics and business. However, the Baltic States are at least partially to blame for their situation because of failed attempts resulting from political inadequacies to become more energy independent. Together, all three countries are 90% dependent on Russia for oil and nearly 100% for gas (Grigas, 2012). However, Estonia is less dependent on Russia's oil because they have been able to develop Baltic Shale as a viable alternative for energy. In 2006, a report by European Academies (Francu, Harvie, Laenen, Siirde, Veiderma, Collins, & Steiger, 2007), found that Estonian shale oil provides 55% of Estonia's total power consumption. Today, shale oil is considered Estonia's most valuable natural resource, perhaps because it gives it leverage against Russia's ability to exert hard power (Francu et al., 2007). Estonia's membership in the EU may have been detrimental to their ability to becoming fully energy independent. Under a law imposed by the European Union, Estonia is required to change their current ash disposal method to a newer, yet more costly environmentally friendly method (Francu et al., 2007). Currently, the Estonian parliament has been looking into new ways to provide a degree of energy independency, including new technologies and methods that would enable an effective manner of oil shale production. Still, Estonia is the exception to the rule, as Latvia and Lithuania do not have enough energy resources to become energy independent. As of 2010, Lithuania and Latvia import almost 50% of the energy that they consume, whereas Estonia imports less than 10% (Barrientos & Soria, 2011). Lithuania has been involved in mining for oil since 1958 and currently has 400 wells and 19 oil fields. Though Lithuania is able to extract a small level of oil domestically, albeit at a very small level, it is mostly dependent on oil imports (Pasukeviciute & Roe, 2005).

Latvia, however, has decreased their energy imports by nearly 40% since they gained their independence, though they also are heavily dependent on outside sources for energy (Barrientos & Soria, 2011). While the Baltic States may be at least partially independent of Russia for oil through their ability to import trade through terminals on the Baltic Sea, they are almost completely dependent on Russia for natural gas (Grigas, 2012). They are dependent on Russia for gas because they lack the resources to produce it domestically and are linked only to Russia from pipelines built during the Soviet Union.

In order for Latvia and Lithuania to become independent of Russian influence imposed through the latter's energy policy, they must find a way to become more integrated into the European market. According to Maigre (2010), the Baltic countries are currently only linked with Russia and Belarus through the existing infrastructure of oil pipelines and electric and gas grids inherited from the Soviet Union. They are neither linked to the Western European electric grid (UTCE), nor the Scandinavian grid (Nordel). The Baltic Energy Market Interconnection Plan (BEMIP) is currently the most significant effort to bring Estonia, Lithuania, and Latvia into the European electric grid. The first phase of this plan hopes to connect Estonia and Finland through a second electricity cable, called Estlink 2, which is supposed to supplement the first electricity cable, Estlink 1, by collectively delivering 1000 MW. Another part of the plan hopes to build a connection between Latvia and Sweden. Finally, the third part of the plan hopes to connect Lithuania and Poland. The success of these projects has not been guaranteed; corruption, a lack of political transparency, and other economic and technical problems has led to the failure of these projects, particularly the link between Lithuania and Poland. According to Maigre (2010), one reason for the lack of progress linking Lithuania and Poland is the lack of "political will" on either side to move ahead.

In addition to plans of building an integrated power grid, the European Union also seeks to connect the Baltic States via new gas pipelines that would help them become independent of the old Soviet-era infrastructure. However, plans to create gas pipelines also seem to be stalling. A plan that seeks to build a connection between Estonia, Latvia, and Finland, called the BalticConnector, has faced considerable difficulties, making the process move forward very slowly. The biggest reason why this plan has not yet been implemented is that it is believed that the source of Latvia's

gas reservoirs being Russian in origin will not contribute to the diversification of the market. Another reason for the slow movement in finalizing this project is that Gazprom, a private company, in which the Russian government is the largest shareholder, controls a majority of Finnish and Estonian gas companies, making the feasibility of the politically reality of this project very low (Maigre, 2010).

However, despite the political problems that the Baltic countries still have and Russia's ability to increase its "political power... and international prestige" (Lough, 2011, p. 2), the biggest reason for Russian influence in the Baltics has been a shift in foreign policy based on nuclear weapons to capitalizing on their vast energy reserves. During the Soviet Union, it would have been unthinkable to use oil and gas reserves to maintain influence throughout the communist world because it would have destroyed their economy, which was already based off the production of nuclear weapons. It would have also destroyed the Cold War security structure that was also based off the threat of nuclear weapons (Lough, 2011). However, following the end of the Soviet Union, Russia has become the inheritor of a majority of the former's natural resource wealth. Several other countries that were formerly republics of the Soviet Union also have significant reserves, most notably Kazakhstan, Ukraine, Armenia, and Turkmenistan, but they lack the infrastructure and financial capital, that Russia also inherited from the Soviet Union, to export oil and gas to Western Europe and North America (Wood, 2012).

In addition to the structural weaknesses and resource deficient nations of the Baltic region, Russia has also used hard power and soft tactics to influence their neighbors' domestic and economic policy. According to Grigas (2012), there are three ways that Russia has used hard power in the energy sector as a means of influence: oil sanctions, gas isolation, and nuclear energy. While Russia uses various different methods to display their hard power in the energy sector, they use a variety of different subtle tactics, such as creating networks and diplomacy, to conceal the nature of the more overt methods (Grigas, 2012).

Russia has used the energy sector as a source for their hard power through oil sanctions. According to Grigas (2012), Russia cut off oil exports around 40 times to its neighbor, mostly to the Commonwealth of Independent States (Ukraine, Belarus, and Kazakhstan) and the Baltic States. The most recent examples of Russia cutting of energy exports to

the Baltics occurred at Ventspils Nafta (VN), Mažeikiu Nafta (MN), and all rail transit to Estonia briefly in 2007. The MN incident, which occurred in 2006 in Lithuania, is a clear indicator of the extent that the Russian State is willing to go to punish a state not acting in line with its interests. Russian authorities claimed that the pipeline was experiencing technical difficulties, although they were reported shortly after the finalization of a sale of the MN refinery from Yukos, a Russian company, to PKN Orlen, a Polish company. According to Trenin (2008), Russia's behavior was punitive as Lithuania authorized the sale to the Polish company, instead of Russia's choice, Lukoil. However, Lithuania has been able to resist the efforts by Moscow, and have not yet backed down (Grigas, 2012).

A similar incident occurred in Latvia during the privatization of the Latvian Port Authority Ventspils Nafta in 2003, when the Latvian government resisted investment attempts by Russian companies, including Transneft and Lukoil. In response, the angered Russian authorities simply cut off the supply of oil to this plant. Latvian authorities, however, also refused to back down, and to this day, Russian oil does not come to this port (Grigas, 2012).

In May 2007 in Estonia, protestors tore down a monument commemorating the Soviet defeat of Nazi Germany in World War Two. This event occurred just days before Russia's national holiday and greatly angered the Russian government. In response, they cut off all energy exports to the country by rail. In contrast to the incidents that occurred in Latvia and Lithuania, the May 2007 halt in energy exports to Estonia was more of an attempt to alter public policy, rather than an attempt to protect economic interests. In addition to cutting off exports to this region, it is believed that Moscow organized and supported several riots and cyber-attacks against Estonian websites in the ensuing weeks. However, following many months of negotiations between Estonian and Russian leaders, oil exports were returned to pre-crisis levels (Grigas, 2012).

In the case of oil, the Russian government built the Baltic Pipeline System (BPS), completed in 2001, to bypass the Baltic States to reach Western Europe. The BPS has given Russia a considerable advantage by allowing Russia to cut the supply of oil to the Baltics without threatening the supply to Western Europe. However, oil sanctions do not threaten the Baltic economies. In contrast to oil sanctions, Russia's use of gas isolation is much more effective. While the Estonians are able to use shale oil to act as a

replacement to traditional oil, and all three countries' ability to import oil from other sources, all three countries do not have a viable source of gas, so they are wholly dependent on the pre-independence gas grids built during the Soviet Union. Additionally, Russia is not as dependent on the Baltic States for the transfer of gas as they are for oil. According to Grigas (2012), there are four reasons why Russia does halt the transfer of gas to these countries:

1. Many Russian businesses hold a controlling share in the three largest gas companies in Estonia, Latvia, and Lithuania (Eesti Gaas, Latvijas Gaze and Lietuvos Dujos)
2. There are many local providers loyal to Moscow, which can be used to lobby the Baltic governments as a means of soft power.
3. Russia can force the Baltic countries to pay full price.
4. By stopping gas from going to Latvia and Lithuania, Russia is preventing the transfer of gas to its enclave, Kaliningrad, located on the Baltic Sea (Grigas, 2012).

One policy in particular that Russia has sought to influence in the Baltic countries is their support of the EU's Third European Energy Package, which calls for the unbundling of the transfer service and the distribution system. If implemented, this would protect Baltic interests by increasing competition in the area. The Russian response has resisted on a stipulation in the law that allows each country to adopt its own "unbundling package." For example, Lithuania has adopted a policy that can significantly reduce Russian influence in the gas sector by requiring that the sale of transfer systems in the power grid go to someone not associated with the power company. In response, Russia has threatened Lithuania with higher gas prices. However, as of May 2012, they have failed to alter the course the Lithuanian government has chosen.

In contrast, the Latvian and Estonian governments have requested an exemption that would last until 2014. In the meantime, they decided to unbundle using the least stringent package. Grigas (2012) speculated that through networks of ethnic Russians and local companies loyal to

Moscow, Russian soft power has affected their ability to make a decision truly reflective of national interests. For example, “insiders in the Latvian government believe Latvijas Gaze together with the largest Latvian consumer of Russian gas, the national electricity producer Latvenergo, played a significant role in the government’s energy policy and position on unbundling” (Grigas, 2012, p. 7). As a reward to creating policies in line with their expectations, the state-controlled Gazprom gave gas discounts to Estonia and Latvia in response to their support of the least stringent unbundling package (Grigas, 2012).

Kaliningrad is an enclave of the Russian Federation, separated from Russia by Lithuania and Latvia. This gives Lithuania a small advantage because any cut in the gas supply would mean a cut in supply to Kaliningrad. However, since the early 2000s, Moscow has been planning to build a gas pipeline from Russia to Germany, called the Nord Stream, which would completely bypass the Baltic countries. The construction of a second pipeline off of the main one to Kaliningrad would allow Russia to cut off gas exports to Lithuania without consequence.

A third way Russia has achieved a manner of hard power in the Baltic States is in their superiority of nuclear power. Although there has been an attempt to build the nuclear industry in Lithuania, the project is unlikely to be finalized because of the apprehension of German and French investors to invest in a region that they do not deem profitable. Grigas (2012) believes that the investors may have been dissuaded from bidding by Putin’s efforts to attract them to invest in a Russian nuclear power plant in Kaliningrad. According to Klevas & Antinucci (2004), the issue of nuclear power is very important, especially to the Baltic States. Klevas and Antinucci (2004) believe that because nuclear power can be used as a renewable resource, it is much more valuable to European investors. However, because it is valuable, the investors are more likely to invest with Russian projects because they have shown more experience than their Baltic counterparts (Klevas & Antinucci, 2004, p. 351).

In contrast to Russia’s sources of hard power, which include oil sanctions, gas isolation, and superiority in nuclear energy, they have also used soft power as a means of creating influence. According to the definition of soft power put forth by Joseph Nye (in Grigas, 2012, p. 8), “[soft power] is the ability to attract based on a state’s culture, political values and foreign policy, which must be perceived as legitimate and having moral authority.”

Another definition stipulates that soft power is a way of influencing policy decisions of a nation based off of their ability to create a “long-term relationship.” In the context of Russia and the Baltic States, Russia has used soft power in a number of ways, but the most notable is their advocacy for the minority of ethnic Russians, which has increased the appeal of Russian culture among non-ethnic Russians. Russia has been quite successful in this regard, through the creation of Russian advocacy groups located in all three states. The most notable of these groups are the Harmony Centre, which is a pro-Russian political party, and the House of Moscow, in Latvia. The purpose of the House of Moscow is to promote Russian culture, not only to ethnic Russians but also to ethnic Latvians. Another way that Russia seeks to promote Russian culture is by encouraging athletes in Estonia, Latvia, and Lithuania to come to Russia, where they can earn much higher wages (Grigas, 2012). Additionally, Russia seeks to increase awareness of Russian culture by offering scholarships to students in these countries, though this method is much less successful, as many students decide to study at home or in other universities in Europe. According to Grigas (2012), one of the most invasive methods that Russia has implemented in the last decade is by offering ethnic Russians automatic Russian citizenship. However, despite the efforts of Russian authorities to import Russian culture to the Baltic countries to create a base of power as means of increasing influence, they have been less successful than before. In the last decade fewer students have been selecting Russia as their second language, opting instead to study German, French or English (Grigas, 2012).

Russia has implemented soft power in the Baltics through the importation of Russian business culture to the region. Russia has accomplished this goal through creating Russian-friendly contacts over the last twenty years. By tying in the motives of the business and political elites, Russia has been able to influence the policy decisions at the top (Wood, 2012). One example that testifies to this result is the case in Estonia, in which the mayor of Tallinn was charged with accepting 1.5 million Euros to finance Russian Railways (Grigas, 2012). This incident, along with others that are undocumented serve to show the extent to which Russian businesses have been able to influence Baltic policy makers through bribes.

In sum, Russia’s use of soft power often blends together with its hard power, making it difficult to consider Russia’s soft power “moral.” According to Wood (2012), Russia’s ability to influence its neighbors through soft

power is also affected through conditions at home that are not prime for investment. To counter the lack of investment at home, Russia attempts to implement soft power and hard power that aims at influencing the policy of their neighbors.

The Russian government uses both soft and hard power to achieve influence in the Baltic countries. This reflects what many consider Russia's desire to restore the power it had under the Soviet Union. Russia has an advantage over their Baltic neighbors stemming from their significant energy resources and their ability to extract them with their greater financial resources. Another reason that Russia has been able to influence their neighbors is that the infrastructure of oil pipelines and gas and electric grids, inherited from the Soviet Union, connect the Baltic States only to Russia. However, conditions within the Baltic States themselves also enable Russia's ability to influence Baltic policy. The Baltic countries' governments are corrupt and slow moving, which prevents the completion of projects that would help to alleviate themselves from the Russian yoke. However, underlying structural flaws in the government that have been created through the fragmentation and commercialization of politics cause the corruption and ineffectiveness of government. The high levels of Russian minorities in the Baltics allow Russia to exploit their influence and be used as source of soft power. Finally, Russia is able to influence these countries to a high degree because they have something the Baltic countries need: energy. Without the huge amount of energy natural resources Russia owns it would be impossible for Russia to have the degree of influence they have among their neighbors. This would not be possible without their ability to capitalize on weaknesses and take advantage of Soviet-era infrastructure. Until the Baltic countries are able to solve their weaknesses and cooperate to build better linkages with the European Union, it will be impossible to escape Russian influence.

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