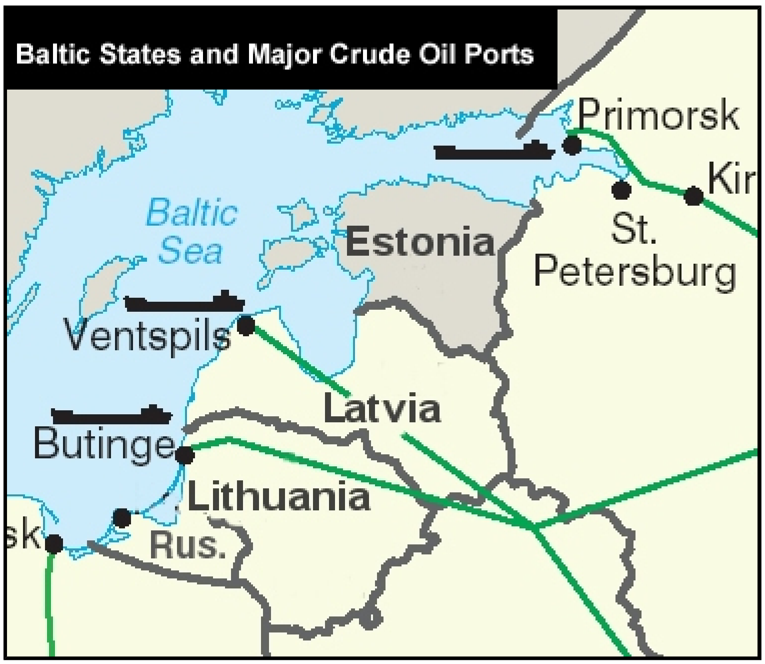
January 2004

Baltic Sea Region

Although only minor energy producers and consumers, the Baltic states--including Estonia, Latvia, and Lithuania--occupy a strategic location as transit centers for Russia's northern oil exports.

Note: Information contained in this report is the best available as of January 2004 and is subject to change.



GENERAL BACKGROUND

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 a centrally planned economy, including the Balkan region and southeastern Europe. Privatization in the Baltics is nearly complete, and in 2003, despite the slowdown in the global economy, the three countries posted an average 6.6% 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 are expected to join the North Atlantic Treaty Organization (NATO) as well as the European Union (EU). Membership in NATO and the EU has been a stated foreign policy goal in each of the three countries since they became independent.

REGIONAL ENERGY ISSUES

Although the Baltic states are not important energy consumers or producers, together they occupy 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 500,000 barrels per day of (bbl/d) of crude oil in 2002, or roughly 10% of Russia's net exports. Smaller quantities of crude oil are also distributed to other Baltic ports via rail as well as significant quantities of petroleum products.

With the completion and upgrades at Butinge and Primorsk, export capacity in the Baltic region has nearly doubled since 1999 (detailed below). 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 export route at Primorsk.

Baltic Sea Region: Major Crude Oil Ports

Ventspils (Latvia)		
Capacity (bbl/d)	**2003**	**Expansion 2004**
Crude Products **Total**	520,000 540,000 **1,060,000**	610,000 630,000 **1,240,000**
Throughput (bbl/d)		
Crude Products **Total**	66,000 149,000 **215,000**	-----------
Ice-Free Days/Year	365	
Access By:	Pipeline, Railroad	

Ventspils (Latvia)
Before the recent expansion of export capacity in the Baltic region --led by 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 2002, the Russian pipeline monopoly, Transneft, stopped deliveries of crude oil to Ventspils following the completion of its own port of Primorsk. Having been left starved for oil, authorities at Ventspils undertook an effort to increase shipments of crude oil and petroleum products delivered by rail. Over the course of 2003, this effort has reportedly served to mitigate some of the losses owing to the absence of Russian crude oil, and in 2003 the port exported roughly 215,000 bbl/d of oil (total), roughly one-third less than pre-embargo averages. Ventspils has, however, lost significant market share, and has exposed its balance sheet to greater risk as petroleum products and rail-borne crude oil are more expensive than crude delivered via pipeline and carry slimmer profit margins.

The future of Ventspils is still uncertain. The two primary owners are the Latvian government and a private concern, Latvijas Naftas Tranzits. 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, Kazakhstan's Kaztransoil, and the U.S. investment company BroadStreet Group. The ability of the Ventspils shareholders to secure a reasonable selling price and award a tender will be largely determined by the future of Russian pipeline deliveries to the port.

Butinge (Lithuania)		
Capacity (bbl/d)	**2003**	**2004 Expansion**
Crude Products **Total**	280,000 --------- **280,000**	Increasing Storage Capacity
Throughput (bbl/d)		
Crude Products **Total**	230,000 ---------- **230,000**	260,000 ------- **260,000**
Ice-Free Days/Year	365	
Access By:	Pipeline, Railroad	

Butinge (Lithuania)
Although considerably smaller in terms of capacity, Lithuania's port of Butinge exported slightly more oil in 2003 than the port of Ventspils. This is because Butinge has enjoyed considerably better relations with its Russian suppliers than has Ventspils since 2002 when Russian oil major Yukos became the port's largest shareholder. In 2003, Butinge underwent significant expansion and exported roughly 230,000 bbl/d of crude oil. Port authorities plan to increase throughput to 260,000 bbl/d next year while also increasing storage capacity, thereby ensuring a stable supply of crude oil during inclement weather.

The port of Butinge is one part of a larger Lithuanian oil and gas complex controlled by the company Maizekeiku Nafta which operates the port, as well as Lithuania's only oil refinery, Mazeikiai, and a pipeline system connecting the complex to Russia and to Latvia. Maizekeiku Nafta's two main shareholders are the Russian oil major Yukos (53.7%) and the Lithuanian government (40.66%). Butinge was designed with both import and export capabilities, giving the Latvians the option to import oil should Russian supplies be disrupted.

Primorsk (Russia)**		
Capacity (bbl/d)	**End 2003**	**Expansion 2004**
Crude	600,000	1,240,000
Products		
Total	**600,000**	**1,240,000**
Throughput (bbl/d)		
Crude	600,000	----------------
Products		
Total	**600,000**	
Ice-Free Days/Year	210	
Access By:	Pipeline, Railroad	
**Because of significant expansion at the Port of Primorsk over 2003, figures represent end-of-the-year estimates.		

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. Significant expansion took place over the course of 2003, and by the end of the year throughput had reached approximately 600,000 bbl/d, making Primorsk the Baltic region's busiest port.

Primorsk is wholly owned and operated by Transneft, Russia's state pipeline monopoly. Accordingly, 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)

Oil: Market Dynamics
The countries of the Baltic region are net oil importers, depending on Russia for approximately 90% of their supply. In 2002, regional domestic production totaled roughly 10,000 bbl/d with Lithuania and Estonia each producing roughly 5,000 bbl/d. Most of Estonia's oil production comes from oil shale. Lativa produces no oil domestically and is entirely dependent on imports.

The Baltics region has only one oil refinery, Lithuania's 263,000-bbl/d Mazeikiai refinery, which sells its products in Lithuania and Estonia and is jointly owned by the Lithuanian government and Russia's Yukos oil company. The refinery underwent modernization in September 2003 enabling the refinery to produce higher grade gasoline compliant with EU standards. The region also imports petroleum products from Russia and is heavily populated by filling stations branded by Russian oil major LUKoil.

Natural Gas: **Market Dynamics**
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 2001 while consuming a total of 202 billion cubic feet (bcf). Natural gas imports come mostly from Russia and are handled by Russia's natural gas monopoly Gazprom and its subsidiaries. Gazprom holds long-term supply agreements with each of the Baltic states.

Gazprom is also increasingly becoming an owner of natural gas utilities in the Baltic region. Gazprom holds a 25% stake in Latvia's Latvian Gaze and a 37% stake in Estonia's Eesti Gaas (along with other major foreign shareholders, Germany's Ruhrgas and Finland's Fortum). Most recently, in

January 2004, Gazprom finalized its acquisition of a 34% stake in Lithuania's natural gas company, Lietuvos Dujos. With the three Baltic states scheduled to join the European Union in May 2004, Gazprom's growing influence in the Baltics could serve as a staging ground for greater exports to the countries of the European Union.

Electricity: Market Dynamics
Estonia and Lithuania are net electricity exporters, sending their surplus to neighboring Latvia and parts of northwest Russia. In 2001, Estonia generated 7.9 billion kilowatts (bkwh) of electricity, the preponderance of which came from the country's Narva oil shale-fired power plants. Lithuania generated 14.6 bkwh in 2001, of which 11.4 bkwh came from the country's Soviet-era Ignalina nuclear power plant which is to be closed in two stages beginning in 2005 and ending in 2009. While Lithuania has agreed to the shutdown of its nuclear facilities under strong safety concerns from the EU, the country has indicated its interest in developing a new nuclear facility. 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. The country has some hydroelectric facilities, but in a dry year is estimated to be only 60% self-sufficient. Latvia is working with Estonia and Finland to develop the "Estlink" project, a 315-megawatt underwater cable linking the Baltic states to the Scandinavian and Nordic power grids. The cable is designed to reduce regional dependency on Russia, and is expected to be completed in 2005.

OIL	*million barrels*	*1,000 barrels per day*		
	1/1/2004 PROVEN RESERVES	2002E PRODUCTION	2002E CONSUMPTION	2002E IMPORTS
Estonia	Not Available	5	23	18
Latvia	Not Available	0	43	43
Lithuania	12	5	73	68
Total	**12**	**10**	**139**	**129**

NATURAL GAS	*trillion cubic feet*	*billion cubic feet per year*		
	1/1/2004 PROVEN RESERVES	2001E PRODUCTION	2001E CONSUMPTION	2001E IMPORTS
Estonia	Not Available	0	45	45
Latvia	Not Available	0	60	60
Lithuania	0	0	97	97
Total	**0**	**0**	**202**	**202**

COAL 2001	million short tons			
	RECOVERABLE RESERVES	PRODUCTION	CONSUMPTION	IMPORTS
Estonia	Not Available	0	1.56	1.56
Latvia	2	0	0.11	0.11
Lithuania	4	0	0.16	0.16
Total	**6**	**0**	**1.83**	**1.83**

ELECTRICITY 2001	gigawatts	billion kilowatthours	
	INSTALLED CAPACITY	GENERATION	CONSUMPTION
Estonia	3.2	7.9	6.2
Latvia	2.2	4.4	6.0
Lithuania	5.8	14.7	8.7
Total	**11.2**	**27.0**	**20.9**

Sources for this report include: 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, and World Markets Research Center.

LINKS
For more information from EIA on the Baltic Sea Region, please see:
EIA: Country Information on Estonia
EIA: Country Information on Latvia
EIA: Country Information on Lithuania

Links to other U.S. government sites:
U.S. Agency for International Development
CIA World Factbook
U.S. Department of Commerce, Central and Eastern Europe Business Information Center (CEEBIC)

U.S. Department of Commerce, International Trade Administration: Energy Division
U.S. Department of Commerce, Trade Compliance Center: Market Access Information
Library of Congress Country Study on the former Soviet Union
Radio Free Europe/Radio Liberty
U.S. State Department: Background Notes
U.S. Department of State: Northern Europe Initiative
U.S. Embassy in Estonia

U.S. Embassy in Latvia
U.S. Embassy in Lithuania

The following links are provided solely as a service to our customers, and therefore should not be construed as advocating or reflecting any position of the Energy Information Administration (EIA) or the United States Government. In addition, EIA does not guarantee the content or accuracy of any information presented in linked sites.

Baltic News Service
The Baltic Times
Central Europe Online
Central Europe Review
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
Interfax News Agency
Oil Shale: A Scientific-Technical Journal (Estonia)
Regional Environmental Center for Central and Eastern Europe
University of Texas: Russian and East European Network Information Center
United Nations Framework Convention on Climate Change and the Kyoto Protocol
The Washington Post

If you liked this Country Analysis Brief or any of our many other Country Analysis Briefs, you can be automatically notified via e-mail of updates. You can also join any of our several mailing lists by selecting the listserv to which you would like to be subscribed. The main URL for listserv signup is http://www.eia.doe.gov/listserv_signup.html. Please follow the directions given. You will then be notified within an hour of any updates to Country Analysis Briefs in your area of interest.

Return to Country Analysis Briefs home page

File last modified:

January 29, 2004

Contact: David Correll
David.Correll@eia.doe.gov
Phone: (202) 586-7057
Fax: (202) 586-9753

EIA Home
Contact Us

URL: http://www.eia.doe.gov/emeu/cabs/baltics.html#iss