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Lithuania is suing Gazprom

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On 3 October, the Lithuanian government decided to bring a lawsuit to arbitration in Stockholm against Gazprom. Lithuania claims that it has overpaid for Russian gas by about €1.45 billion since 2004. In that year, the ruling Social Democrats signed an agreement with Gazprom to privatise the Lithuanian gas company Lietuvos Dujos (LD) at preferential prices. Another shareholder in LD, the German company E.ON Ruhrgas, paid almost twice as much as Gazprom for shares in the Lithuanian company (Gazprom now owns 37.1% of LD, and E.ON 38.9%). The rationale for this form of privatisation was Gazprom's obligation to supply gas while maintaining the pricing formula set in 2004 (taking the price of heating oil into account). Lithuania had to pay US$84 per 1000 m³, while at the same time Poland was paying about US$126. Gazprom agreed that the price would not be raised significantly; it was supposed to be 'fair', that is, corresponding to market conditions. However, it soon began to rise. According to Lithuania, Gazprom violated the principles of the privatisation agreement by making changes in the pricing formula; these were validated by the board members of LD, who according to Lithuania were acting on Gazprom's behalf.

Commentary

- Vilnius's lawsuit against Gazprom is the result of the consistent policy of Lithuania's currently ruling right-wing government, which has been working for the last four years to reduce the monopoly's presence in Lithuania. This policy has caused a backlash from Gazprom, which is trying to prevent the Lithuanian government from depriving it of control over the transmission infrastructure (the pipelines are owned by LD), which guarantees it a monopoly on the Lithuanian gas market. Gazprom is mainly protesting against the government's decision to divide LD into two entities, one involved in gas trading and the second to operate the transmission network. The entity that controls the pipelines, according to the regulations of the EU's Third Energy Package, cannot be linked to the supplier of raw material, that is, Gazprom.

- Lithuania's policy towards Gazprom is not so much aimed at obtaining compensation for the inflated gas prices, as it is at forcing the company to negotiate new terms for its gas supplies to Lithuania. Although in recent years the Russian company has given discounts for Latvia and Estonia, it has avoided undertaking any negotiations with Lithuania. If the arbitration decides that the supplier did indeed violate the terms of the agreement, this would be an important argument in persuading Gazprom to negotiate.

- Although legal opinions in Lithuania are divided on the government's chance of obtaining a favourable decision in the arbitration – and if it loses, Lithuania will face financial losses (the costs of the legal proceedings, and the equivalent of 1% of the amount specified in the lawsuit) – the experiences of Gazprom's other European partners do give an incentive to take the risk. One example is the German company E.ON, which this summer won a retrospective revision of its gas contracts with Gazprom, which allowed the dispute in arbitration to be concluded.

- A threat to the government's plans for Gazprom are the parliamentary elections in Lithuania scheduled for 14 October. Polls indicate that the right will lose power; victory could be claimed by the left and the populists of the Labour Party – groups which in the past have lobbied to Gazprom's interests. The left has criticised the current government's case against Gazprom, and if they take power, they may possibly drop the confrontational attitude, and will try to encourage Gazprom to enter price negotiations, withdrawing from any government activities which would affect the company's interests.