

Lithuania's parliament adopts a law to build an LNG terminal near Klaipeda

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On 12 June, the Lithuanian parliament adopted a law prepared by the government to build an LNG terminal near Klaipeda, which is to come online by December 2014. However, the left-wing opposition and some liberal MPs were disturbed by the government's decision to require importers of gas consumed in Lithuania to contract at least 25% of gas from this terminal. Lithuania currently imports all its gas from Gazprom; the main importer is the Lietuvos Dujos company, which monopolises the sale and transfer of gas, and in which Gazprom holds 37.06% of the shares. Despite protests from Gazprom, Lithuania is currently introducing the most radical version of unbundling into its gas sector; Lietuvos Dujos is to be split into two companies by 2014, one dealing with trade, and the second with transmission. The ruling right-wing government seeks thereby to deprive Gazprom of control over Lithuanian gas grid, so that Gazprom and the LNG terminal will have equal access to the transmission infrastructure.

Commentary

- The limit of 25% is intended to protect the profitability of the LNG terminal, now being constructed by the Klaipedos Nafta company, 70.63% of which is owned by the state. The decision to construct the terminal was not only motivated by economic factors, but also by the Lithuanian government's attempts to build up its energy security by diversifying its gas supplies and breaking the monopoly of Gazprom.
- The aim of creating the terminal was to make it possible to purchase raw materials at a lower price than that offered by Gazprom, which imposes tariffs on Lithuania which are higher than those it asks of other EU countries. Under the market competition between the Lithuanian company and the Russian group, without the 25% limit Gazprom could encourage importers to sign long-term contracts with it by means of price dumping, and so regain its position as the monopolist. In that situation, the terminal would not contribute to any permanent reduction in gas prices, and would still be a significant financial burden to the state (Lithuania will pay US\$690 million over 10 years to lease the re-gasification platform).

- The 25% limit does not accord with EU directives, which oblige EU member states to adhere to the principles of free competition and the consumers' right to freely choose their energy suppliers.. The EC, which is also under pressure from Gazprom, will probably criticise Lithuania,; the interests of Gazprom would be damaged both by the Lithuanian decision to launch an LNG terminal and by the unbundling process. Gazprom may transfer its dispute with Lithuania to the courts again (as it has done with the unbundling process), and could also exploit its informal influence on the Lithuanian political elite, mainly leftist and populist groupings which may soon take power in Lithuania. The current Lithuanian government argues that in the light of Gazprom's monopoly, unbundling alone will not be enough to create a normal market relationship.
- Government support for the LNG terminal also means limiting the competition on the Lithuanian market between those gas terminals which are planned for the Baltic region (Latvia, Estonia), but above all on possible competition from the planned Świnoujście terminal, if the gas connection between Lithuania and Poland which the European Commission has promoted comes into being.