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Estonia liberalises its gas market

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On 5 January, the Government of Estonia presented a draft amendment to the law concerning natural gas. The parliamentary committee on the economy has received it positively, and the approval of parliament should also be expected. The centre-right government is beginning the process of separating of the sale and transmission of gas, in accordance with the guidelines of the EU's Third Energy Package; this requires the entities involved in the production, transmission and sale of natural gas to be separated from one another (a process known as 'unbundling'). Estonia is to complete this procedure in 2015. Lithuania plans to implement similar legal changes as early as 2013, but Latvia has not yet taken such steps (the EU has made an exception for the Baltic states, so they can delay the unbundling process until their networks are connected to any other EU member state except Finland).

The changes currently being adopted in Estonia will apply to the monopoly gas company Eesti Gaas, in which Russia's Gazprom is the main shareholder (with 37.02% of the shares) and principal supplier. Other shareholders in the company are Germany's E.ON AG (33.6%), Finland's Fortum OYJ (17.7%) and Itera Latvija, a company registered in Latvia (9.8%). Eesti Gaas will be required to sell its transmission grid (which are valued at €120 million, a figure the shareholders deem a significant underestimation of their value); otherwise, it will face a fine of €1.2 million, and its pipelines may be nationalised.

Commentary

- The unbundling of ownership will create a basis for competition on the gas market, strengthen Estonia's energy security, and reduce its gas consumers' dependence on the suppliers. Competition may also help to reduce the high gas prices persistent on the Estonian market.

- As the main supplier of gas to Estonia (as well as Latvia and Lithuania), and the controller of the transmission network, Gazprom has blocked any diversification of supplies. The need to use the pipelines which Gazprom controls has made the governments' and private investors' initiative to develop local gas infrastructure – which would allow the supply of raw material from other sources (such as an LNG terminal or a pipeline to Finland) – a very risky proposition. Estonia is currently learning from Lithuania's experience; Lithuania has decided to start detaching the ownership of the national gas monopoly Lietuvos Dujos, which Gazprom also controls. This has allowed its government to initiate a project of a small LNG terminal in Klaipeda, and to apply for EU funds for a gas link between Lithuania and Poland.

- These changes mean that Estonia's government will come into dispute with the shareholders of Eesti Gaas. We should expect that, as in Lithuania, the Russian and German companies will argue that their positions on the gas market will not hinder competition. Gazprom would probably fight for its rights through the courts. In the dispute with Lithuania, it appealed for arbitration in Stockholm twice. On the first occasion, the court dismissed the action, but Lithuania's costs from participating in the legal dispute with Gazprom were high; the government assigned up to €4 million for that purpose.

- These changes to the gas market will force the existing monopoly companies in Lithuania and Estonia to strengthen their positions on the future gas market. In early January Eesti Gaas (as Lietuvos Dujos had done a month previously) made a deal with Finland's Gasum OY as a partner on creating a national a gas exchange and also developing the regional gas market covering the Baltic States and Finland . This may be an attempt to gain control over the upcoming liberalised sales market, which should compensate the monopolists' shareholders for any possible losses caused by the loss of the transmission networks.