

Lithuanian President Says Russian Gas Policy Self Defeating

By [The Moscow Times](#)

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OSLO — Russia must stop using its gas resources as a tool to pressure its neighbors on political issues or it will lose market share to competitors, the president of Lithuania said in an interview.

The Baltic state, which will chair the rotating presidency of the European Union from July for six months, has long complained that it is paying Russia's Gazprom higher gas prices than other nations because it clashes with Moscow on several policy issues.

Lithuania for now is completely dependent on piped gas imports from Russia, but it is building a liquefied natural gas terminal to help diversify its sources of supply.

"Russia links reduction in gas prices with political demands. ... That's such an absolutely outdated, 30-year-old method," President Dalia Grybauskaite said in an interview during a visit to the Norwegian capital.

"Russia is shooting itself in the foot. ... If Russia does not change its gas export policies, it could lose a lot. ... Its market share could shrink significantly."

Negotiations are complicated when Moscow makes political demands that Vilnius must first meet before discussing prices, the president said.

Moscow wants the Baltic state, an ex-Soviet republic, to relax the visa regime with Russia's Kaliningrad exclave on the Baltic Sea, which is sandwiched between Lithuania and Poland, she explained.

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Dalia

Grybauskaite

President of
Lithuania

Russia also wanted guarantees on gas transit to Kaliningrad, Lithuania Prime Minister Algirdas Butkevicius said last week after meeting with Russian counterpart Dmitry Medvedev to discuss gas prices.

Russia must pipe gas through Lithuania to Kaliningrad, which almost totally depends on gas-fired power generation. Last year, gas transit to the Kaliningrad region totaled 2.2 billion cubic meters, according to Lithuanian gas utility Lietuvos Dujos .

Unbundling Dispute

Moscow's concerns about Kaliningrad transit are due in part to Lithuania's plans to restructure Lietuvos Dujos to force Gazprom, which owns 37.1 percent, to give up control of the main pipelines.

Lithuania has said its plan is in line with EU regulations banning dominant gas and power suppliers from controlling distribution grids to prevent them from impeding competitors.

"It's a test case for Europe. We need to have a competitive market as soon as possible," Grybauskaite said.

Last year, Lithuania called a tender for the supply of 750,000 cubic meters per year of LNG to a floating regasification and storage terminal, which it has leased from Norway's Hoegh LNG to start taking gas from end-2014.

"Norway is one of the possible suppliers, and Statoil is one of the participants in the tender to supply LNG," President Grybauskaite said.

She met with Norway's Prime Minister Jens Stoltenberg on Monday to discuss energy cooperation.

Lithuania media previously reported that U.S.-based Cheniere Energy, Inc., which has recently signed a deal to supply LNG to Britain's Centrica PLC, was among the bidders in the tender.

Grybauskaite said Russia should acknowledge the gas market "revolution" taking place in Europe and globally, referring to increased competition from LNG and moves to link prices in contracts for piped gas to spot gas prices rather than to crude oil prices.

A number of EU gas importers managed to renegotiate prices last year with Gazprom last year to get retroactive discounts of 10 to 20 percent on existing contracts, European Commission (EC) said in its latest quarterly report on gas markets.

"But it appears that Gazprom's strategy has been limited to offering retroactive discounts in its existing contracts, rather than fundamental changes in the terms of its contracts," the report said.

In contrast, Norway's Statoil has agreed to increase the share of gas indexed to spot prices in its supply contracts. It sold just under half of its gas at oil-indexed prices last year compared with about 70 percent in 2009.

That helped Norway boost gas sales to the European Union by more than 14 percent to a record 107.6 bcm last year, or 21 percent of total EU supplies, compared with Gazprom's share of 23 percent, EU gas association Eurogas said.

Lithuania paid one of the highest prices for Russian gas, 39.6 euros per megawatt-hour, in the third quarter last year, the EC report said. Only Bulgaria and the Czech Republic paid more.

Britain and Belgium paid 27 euros a MWh for gas imported from Norway, the data showed.

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