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THE PROSPECTS
OF NUCLEAR POWER
DEVELOPMENT
IN THE EASTERN PART
OF THE BALTIC SEA
REGION AS A FACTOR
OF THE FORMATION
OF INTERNATIONAL
RELATIONS SYSTEM
IN THE REGION

*N. Mezhevich**



The current development of economic diplomacy in the world is determined by a combination of globalization and regionalization. In addition, it has an economic dimension. At the same time, the Baltic Sea region demonstrates large-scale politicisation of economic cooperation. The development of nuclear power in the eastern part of the Baltic Sea is indicative of the effectiveness of political and economic cooperation in the region. The author believes that Russia and the three Baltic States of Estonia, Latvia and Lithuania have the economic and technological opportunities for building up cooperation in the field of energy. This points to a question whether the traditional patterns of relations that developed among these countries in the past can be changed. A more pronounced international division of labour accompanied by the historically developed specialization of Russia makes nuclear power an important factor in Russia's economic diplomacy. The promotion of Russian energy projects in the region contributes to the development of a system of mutually beneficial ties. The increasing energy deficiency in the region can serve an economic prerequisite to this process.

Key words: energy, the Baltic States (Estonia, Latvia and Lithuania), Russia's economic diplomacy

After the energy crisis in the mid-70s, the energy factor began to play a role in world politics that was equal in its importance to that of the military one. This resulted in developing external energy policy and energy diplomacy by a number of influential states as they viewed them as important elements of their foreign policy and diplomatic activities.

Over the last three decades, energy has played an important role in international relations and global politics, and intergovernmental interaction in this sphere has strengthened significantly. It became especially evident in 1997—

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2000, when — following large fluctuations in oil prices — the world energy economy experienced a serious downturn, which gave rise to speculations about a new energy crisis and reshaped world energy politics, both globally and regionally. In a new geopolitical situation with a new set of threats to world security, the need for intergovernmental cooperation aimed at ensuring energy security at global and regional levels becomes increasingly pronounced.

When speaking of energy, one often faces a problem of political and economic aspects being closely intertwined. On the one hand, it is a highly profitable industry that ensures large and stable income and attracts a lot of private capital. On the other hand, energy is a problem rooted in the depth of sovereign interests of any country: it is a necessary condition of its survival and stable development of the economy so it attracts close attention of the government. H. Morgenthau and R. Aron mentioned energy in a list of the key components of state power. Today, energy resources are not just a commodity but also a tool of political and economic influence in international relations.

Russia's foreign policy incorporates a considerable economic dimension. In this sense, it hardly differs from the foreign policy of any other state integrated into the world economy. At the same time, one cannot but mention that Russian economic diplomacy has a distinguishing feature: it provokes an inadequate reaction of Russia's business partners.

The Eastern Baltic capitals strongly believe that the “energy integration” with Russia is one of the strategic threats to national security. If, in Brussels, this belief is clad in diplomatically correct garments, in Tallinn, it sports a vulgar mass-media outfit. The length of this article does not allow us to consider all reasons behind this phenomenon. However, one can mention that the situation is affected by complicated historical and political problems. These problems have existed, in the case of the Baltic States, over a century-long period and, in the case of Poland, over a period five times longer. A renowned Polish expert, Zygmunt Berdychowski, rightfully emphasises that “at the moment, the EU's eastern policy is of largely reactive, emotional character. In the case of Eastern Europe it is a product of the historical heritage” [1]. We can agree with Zygmunt Berdychowski only to some extent. In my opinion, the interpretation of the Baltic States' policy towards Russia as an irrational one is erroneous. In effect, all major prerequisites for the modern foreign policy of these states developed in the period of struggle for independence and are based on target setting and a scrupulous analysis of the balance of political and economic dividends, as well as that of the 20th century political history.

Mistakes are made quite rarely and, as a rule, relate to an incorrect analysis of long-term trends of national, regional, and global development. Let us provide several examples. The formal and informal discrimination of non-titular population is economically beneficial and politically justifiable in the medium-term perspective. It allows the national elite to fight off competition in the struggle for key political and eco-

conomic positions. In the long-term perspective, it decreases the quality of social capital, which will inevitably affect the prospects for the development of the mentioned states.

The second example relates immediately to the issue explored in this article. The anti-Russian rhetoric presented as concerns over energy security and the so-called “third package” can yield short-term political effects, such as parliamentary seats, European grants, and governmental sinecures. In the long-term perspective, energy independence from Russia will inevitably transform into dependence on other partners and result in a qualitative growth in energy and heating charges. The Bulgarian scenario [2] can be repeated in the countries that exit cheap nuclear energy in favour of subsidised “green energy”. Moreover, the whole EU’s system of energy development regulation is built in such a way that electricity charges cannot but rise.

For Estonia, Latvia, and Lithuania, the secession from the USSR did not result in energy shortages. The energy-non-intensive local economies easily adapted to changes in price proportions and an increase in real electricity costs. In many sectors of the economy, market relations coexisted peacefully with totally centralised energy supply, which ensured a predictable and gradual increase in charges for small countries with insufficient energy resources. Thus, “the impact of the power industry on the current economic standing of the Baltic States and the efficiency of the sector did not serve as key factors for the reforms to commence” [3].

One must also emphasise that, from the technological point of view, there is a single “post-Soviet energy space”, which still brings together the whole territory of the former USSR and Mongolia. At the beginning of 2002, the CIS Electric Energy Council (CIS EEC) expressed its interest in the synchronous connection of the energy systems of the CIS and the Baltic countries (IPS/UPS) to the energy systems of the UCTE (Union for the Co-ordination of Transmission of Electricity) member states. Baltic politicians also stressed on numerous occasions the need for integration with the UCTE. At the same time, there is an agreement between the energy companies of Belarus, Russia, Estonia, Latvia, and Lithuania (BRELL), whose electrical networks form a single electrical network, on the parallel operation of energy systems of February 7, 2001. At the moment, the Baltic States actively discuss the secession from BRELL and synchronisation with the UCTE. This issue became relevant after the accession of these states to the EU.

The situation in the field of energy started to change at the economic, technological, and political levels after the Baltic States’ accession to the EU. Let us consider the case of Estonia. The Eesti Energia chairman, Gunnar Okk, emphasised, when speaking to journalists in 2003, that there would be no increase in electricity charges after Estonia’s accession to the EU [3]. In 2007, the new Eesti Energia chair stressed that the organisation made everything possible not to depend on Russian gas in electricity generation and was seeking for the ways to diversify its production through using renewable energy and nuclear energy [5]. Diversity had been reached, and Estonian elec-

tricity prices were set by NORD POOL. However, since the Estonian energy market started operating (January 1, 2013), night electricity prices have risen by 127 %, the day charge has increased by 48 %. Earlier, the Estonian Ministry of Economics had promised that an increase would not exceed 20 % [6]. One should take into account the degree of the law-abidance of Estonian citizens in order to assess the significance of a rally against rising electricity prices that took place on February 18, 2013 in Tallinn at the building of the Ministry of Economics and Communications. However, Estonia is limitedly dependent on Russian energy resources and hardly classifies as an energy deficient state.

The situation in Latvia is almost similar. Latvia's current electricity generation policy can result in a 63 % increase in average electricity charges [7].

In the Lithuanian Republic, pricing problems relate to the fact that on December 31, 2009, the second (and the last) reactor of the Ignalina NPP was shut down as part of the country's accession agreement to the EU. Up to 50 % of the electricity generated at the NPP was exported to Belarus and the Kaliningrad region of the Russian Federation [8].

The situation resulting from the closure of the Ignalina NPP catalysed the discussion of a common energy policy. The Baltic Prime Ministers signed a Declaration on the Security of Supply in the Baltic States and a Common European Energy Policy on February 27, 2006.

On December 8, 2006, a communique of the Prime Ministers' Council of the Baltic States pertaining to joint expert consultations between the three Baltic States and Poland on the construction of a NPP in Lithuania was signed. It is worth noting that, as early as summer 2008, at the 198th International Economic Forum in Poland during the workshop discussion on the prospects of development of nuclear energy in the Baltic Sea region, the head of Eesti Energia AS emphasized that Estonia had certain doubts of political and economic nature regarding the Lithuanian nuclear project. So, since 2008, the political and business elites, as well as the expert community in the Baltic States have been trying to persuade each other that there is a consensus over the nuclear energy issue. However, these assurances have been accompanied by mutual accusations. In November 2012, another meeting on nuclear energy took place, this time at the presidential level. The nature of comments published by the mass media of the three countries, as well as the official comments, indicated that the parties made a decision to withhold information on the event and avoid public attention to the failure of the common Baltic energy policy. The ensuing statements and the policy of the Baltic States proved that the meeting had been far from a success.

The President of Estonia, Toomas Hendik Ilves, expressed his confusion and concern about the changed position of Lithuania on the construction of the Visaginas NPP. On the same day, the Prime Minister of Lithuania, Algirdas Butkevičius, responded that he had different information, specifically, that Estonia and Latvia had not provided any written statements regarding the project's return on investment. He also expressed his surprise at the comment. The position of the President of Estonia is representative. It is not

possible to admit the failure of the Baltic energy integration plans, nor is it possible to show any success.

In February 2013, the President of Estonia criticised the Lithuanian authorities for delays in the implementation of the Visaginas NPP project. He emphasised that, since the signing of the Declaration on the Security of Supply in the Baltic States and a Common European Energy Policy (February 27, 2006), nothing had been done [9].

Thus, alongside the objectives for the common energy market development set in 2003—2004 for all accession countries, Lithuania was deprived of 80 % of its energy capacities. In these conditions, it would be logical to combine the efforts of at least the three Baltic States and to consider the possibility of economic (energy) cooperation with Russia. However, neither took place.

Discussions on the energy issue among the Baltic States and, at certain stages, Poland have continued over ten years. The central topics — a financing mechanism and a construction site — have not been settled. Three years ago, the situation was as follows: “The first unit of the Baltic NPP in Kaliningrad is expected to be launched in 2016, the second one in 2018. Belarus is planning to complete phase 1 within the same time framework. The Visaginas NPP is expected to be put into operation in 2018—2020” [10]. Now the situation is different. One can say with complete assurance that the competitors of the Baltic NPP are 3—4 years behind as far as the project implementation is concerned. The Visaginas NPP project includes the construction of a power generating unit on the basis of a Hitachi-GE’s ABWR reactor of a capacity of more than 1,300 MW, which is to be put into operation in 2022—2023, provided that the construction begins in 2014. Thus, if the plan comes to fruition, it will be the fourth completed project after the Leningrad NPP-2, the Baltic NPP, and the Astravyets NPP. Therefore, its implementation, which already raises concerns, seems to be economically irrational. The issue of expenditure or, more precisely, return on investment is rather acute and explains the situation around the construction of the Visaginas NPP. In May 2012, the previous government of Lithuania approved a concession agreement, according to which, the strategic partner — the Japanese company Hitachi — owes 20 %, Lithuania 38 %, Estonia 22 %, and Latvia 20 % of the shares of the new NPP [11]. The precise cost of the project has not been made public; however, Lithuanian mass media reports that the minimum cost is 5bn euros. It means that the expenditure of each state ranges from 1bn euros in the case of Estonia and Latvia, and 2bn euros in the case of Lithuania. According to the calculations of the Estonian Ministry of Finances, the country’s state budget revenue amounted to 6.1bn euros in 2012, i. e. Estonia’s contribution constitutes almost 20 % of the state’s budget revenue.

Moreover, it is worth noting that the situation around the energy security of Lithuania and Latvia changed dramatically after a referendum that took place in Lithuania in October 2012: 62.68 % of the republic’s citizens objected to the idea of the construction of the NPP. However, the referendum was of consultative nature and its results are not legally binding for the authorities. A work group was set up within the Lithuanian Parliament, which

was commissioned to prepare and put for a vote a draft decision on the construction of the Visaginas NPP. The Lithuanian referendum is a benchmark event on a long path paved with fruitless attempts to coordinate the energy policy of Estonia, Latvia, and Lithuania; its results indicate that the citizens are reluctant to pay for politically charged projects that lack any economic rationale.

As to possible energy cooperation with Russia, the Baltic States cultivate a critical attitude towards energy integration with Russia. This approach seems to be ill-grounded. The only case, when Russia acted harshly when defending its position, was that of putting the oil pipeline stretching to the Mažeikiai refinery across the territory of Latvia out of operation. However, the economic and political context of this incident — a ban on Russia's participation in the bidding to purchase the Mažeikiai refinery — is often forgotten.

* * *

The development of nuclear energy in the eastern part of the Baltic Sea region is not a technological or even economic issue. We are facing a situation, which can reveal the real rather than declarative possibilities for the development of relations between the Baltic States, Poland and Russia. It relates not to the competition between the Visaginas and Baltic NPP projects, but rather to a more serious issue of the prospects of Russian-Baltic relations, and the actual and imaginary dependencies relating to these countries. It is worth noting that, in the philosophical and methodological framework, the category of “dependence” suggests mutual harmonisation of interests and opportunities. In the case of the new energy facilities in the eastern Baltic region, the situation will not be different. The completion of the Baltic NPP project will result both in a greater dependence of electricity consumers on the seller and that of the seller on the consumer.

For the first time, Russian economic diplomacy has a chance to achieve notable success in one of the most problematic areas — the Baltic States. Thus, today, the relations between Russia and its immediate neighbours have an opening for a breakthrough, which can contribute to pragmatism of intergovernmental relations. There are sufficient political and economic prerequisites for this outcome.

Firstly, the expert community is almost unanimous in the opinion that the region delineated by Germany, the Czech Republic, Slovakia, Belarus, and Russia without the Kaliningrad exclave experiences a deficit in generating capacities, which cannot be overcome without the use of nuclear energy. Partially, this situation has developed as a result of the short-sighted policy of the European Union, which simultaneously closed the Ignalina NPP in Lithuania and curbed the traditional shale energy in Estonia (it is not to be confused with shale gas energy) [12].

Secondly, in the conditions of economic growth in Poland and the Kaliningrad region, which is suggested by almost all forecasts, these territories might also experience a deficit in generating capacities.

Thirdly, being guided by different considerations, both Russia and the Baltic States analyse the prospects of new energy bridges to Finland, Sweden, and Poland. Probably, one should consider the Belarus and Kaliningrad NPP construction plans in this context.

Fourthly, energy is inevitably affected by the globalisation trends contributing to further integration in the fields of economy and technology. There is also economy of scale. Larger energy systems are more technologically reliable and ensure the interchange of surplus and peak power, and solve the problem of auxiliary emergency capacities. In this context, the integration of energy systems is logical and economically efficient, whereas their division is counterproductive.

Fifthly, one must take into account that, as of today, no project suggesting Baltic energy integration has been implemented. At the same time, the situation around the LNG terminal construction follows the path of the discussion about the NPP construction.

The meeting of the Presidents of Latvia, Lithuania, and Estonia, which took place on November 28, 2012, triggered a new surge of consultations in the Baltic States and new attempts to secure the EU's financial support. Neither the former nor the latter is likely to prove successful. All of that resulted in a situation quite rare for Russian diplomacy, which gives room to hope for a successful implementation of Russian foreign economic plans in the Baltic region. One might say that Russian energy experts staked everything when they commenced the construction of the Baltic NPP without a safety net of export agreements and in an uncertain situation in foreign politics. However, the scale of problems associated with the development of a common energy policy in the Baltic States proved to be insurmountable.

Let us make some conclusions. In 2012, the "nuclear projects" in the eastern part of the Baltic Sea region were divided into two principal groups: those of "political illusions" and "economic circumstances". In this context, one should quote the symbolic thesis of the Prime Minister of the Republic of Lithuania, A. Butkevičius, who supported the idea of domestically generated electricity emphasising that analysts should "submit the calculations for the generation and transmission of electricity, as well as the final selling price in view of return on investment" [13]. Probably, it was the first time when a senior politician admitted the need for an economic rationale in energy projects.

Expert evaluations are also changing. Of special interest is the position of the head of the Latvian Institute of International Affairs, Andris Spruds, who emphasised in January 2013: "Our cooperation with Russia has been rather constructive... however, in the field of energy, Russia poses certain risks for the Baltic States..." [14]. Nevertheless, today, even this pragmatic approach is not a dominant trend.

In the current conditions, Russian diplomacy faces a task to coordinate the efforts of all stakeholders within the Ministry of Foreign Affairs and to formulate a new balanced agenda for the Baltic States. This agenda should take into account all aspects of relations between Russia and the Baltic States in the field of energy, including nuclear energy.

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