

ESTONIA, LATVIA, AND LITHUANIA

By Chin S. Kuo

ESTONIA

The Estonian economy continued to grow with an increase of 5.4% in the gross domestic product (GDP) in 2001. Inflation declined modestly to 4.8%, but the unemployment rate remained high at 12.6%. The country's mineral industry consisted mainly of production of oil shale, peat, and industrial minerals, such as clays, limestone, and sand and gravel. Estonia, which is nearly energy independent, supplied more than 90% of its electricity needs with locally mined oil shale but still imported petroleum products from Western Europe and Russia for its requirements. Estonia was a major trade center and transshipment point of mineral products between Russia and Europe. Its ice-free port of Muuga, near Tallinn, is a modern facility that features good transshipment capability with brand-new oil tanker off-loading areas. The country's liberal foreign trade policy contains few tariffs or nontariff barriers (U.S. Department of State, 2002^{§1}).

As part of its negotiation for entry into the European Union (EU), Estonia requested special treatment to permit the continued use of its oil shale. The country asked for funds for research on technology to reduce the environmental effects of using oil shale. This would benefit the northeastern Ida-Virumaa oil-shale-mining region. Estonia needed the EU's support to develop more efficient and environment-friendly technologies for its oil-shale-based energy sector. The country also sought the support from the EU to finance solutions to social problems related to opening its market for electricity. Estonia wanted the larger part of electricity generated in the country to continue to come from oil-shale-fueled powerplants in the future (Estonian Review, 2001[§]).

In the first half of 2001, Estonia imported 500 metric tons (t) of nickel scrap from the United States. Estonia's purchases of scrap picked up after Norilsk Nickel of Russia, which was the world's largest nickel producer, reduced nickel exports (Metal Bulletin, 2001). This activity appeared to reflect speculative purchases given Estonia's lack of metallurgical facilities for processing the scrap.

Estonia's limestone quarry in Tallinn switched from conventional blasting to mining with hydraulic hammers directly from the quarry face in 1995. A hammer could break from 240 to 300 t of limestone in an 8-hour shift. In 2000, the quarry produced 300,000 t of limestone, of which two-thirds were mined by hydraulic hammers (World Cement, 2001).

LATVIA

Latvia's real GDP grew by 7.6% in 2001 with strong gains in forestry, business services, financial intermediation, and

¹References that include a section twist (§) are found in the Internet References Cited section.

manufacturing. Less capital-intensive and foreign direct investment contributed to an increase in production capacity and competitiveness of its manufacturing base. Latvia had a small mineral industry that produced such industrial minerals as gypsum, limestone, and sand and gravel. It also was engaged in peat mining and cement and steel production. Although the country has not produced oil and gas commercially, offshore, the Baltic Sea was being explored. Latvia had onshore oil and gas pipeline networks and transshipped large volumes of Russian crude oil and petroleum product exports through the port of Ventspils. It also transshipped such mineral products as potash and other fertilizers. The Government planned to issue the first onshore licenses beginning in 2003. In the past, Latvia had several small onshore discoveries, which included Kuldiga, 75 kilometers northeast of Liepaja (Oil & Gas Journal, 2001a).

Latvia and the EU concluded the energy chapter of their negotiations on Latvia's entry to the EU in December 2001. It was agreed that Latvia could not immediately open its gas market to non-Russian suppliers owing to a lack of alternative pipelines. The Latvian Parliament agreed on the need to liberalize the country's energy market. Latvia was one of 12 nations that were negotiating their entry into the EU by 2004 (Alexander's Gas & Oil Connections, 2002).

The first Latvian bidding round, which comprised 73 offshore blocks in the Baltic Sea, was officially announced in November 2000 and opened in April 2001. Each block covered 382 square kilometers. The Government offered 7 permits for exploration and drilling with the deadline for application on January 25, 2002 and 66 blocks for preinvestigation licenses by October 31, 2001. The exploration and drilling permits would be granted for 30 years inclusive of a 5-year maximum exploration phase, and the preinvestigation licenses would be for 2 years with a 5-year extension option. The Government would retain a 10% stake in all awarded licenses; the licensees would be subject to a 25% corporate tax and an oil royalty of 2% to 12%. Of the more than 50 wells that have been drilled in the entire Baltic Sea, 35 had shows of mostly oil (Oil & Gas Journal, 2001b).

The Government planned for the sale of its remaining 3% share in Latvijas Gaze for privatization. The company was a monopoly importer with business in storage and distribution of gas in Latvia. Ruhrgas and E.ON. Energie of Germany proposed to buy the state ownership at a price higher than that on the Riga Stock Market. The Government also supported the gradual liberalization of the domestic gas market. Domestic gas suppliers would set fees. The measure was to avoid large distortions on the market and the possibility of a single supplier occupying a dominant position on the market (Interfax Petroleum Report, 2001).

Itera Latvija (a subsidiary of Itera Group of Russia) was one of the major importers and suppliers of natural gas to Latvia

from Russia. In 2001, the company planned to deliver 400 million cubic meters of natural gas, which represented 25% of Latvia's total imports. It intended to participate in the gasification of Latvian cities and villages and in the building of new industrial plants and electric powerplants. Itera Latvija was a major shareholder of the Latvian gas company Latvijas Gaze (25%) and a shareholder of the Estonian gas company Eesti Gaas (10%) (PR Newswire, 2001§). The company successfully executed a long-term contract with Latvija Gaze on gas fuel supply up to 2005.

LITHUANIA

Lithuania has been slowly recovering from the 1998 Russian financial crisis, but high unemployment at 12.5% in 2001 and weak consumption have held back its recovery. The real GDP growth rate was estimated to be 4.8%. With a low inflation rate of 1.3% the country reached a GDP per capita of \$7,600. Industrial production including petroleum refining and fertilizer manufacturing grew at 15%. Mineral output was limited to peat extraction and limestone mining for cement production. Privatization of the large state-owned utilities, particularly in the energy sector, was underway. Lithuania conducted the most trade with Russia and increased trade volume with Europe. Mineral products in transshipment accounted for 21% of its exports and 23% of its imports in 2000 (the latest year for which data are available) (U.S. Central Intelligence Agency, 2002§).

Lithuania's state-owned oil company Mazeikiu Nafta comprised the Mazeikiu refinery, the Butinge oil terminal, and the Birzai pipeline system. The Government was considering selling a one-third stake in Mazeikiu Nafta to LUKOIL of Russia. The Government owned 59% of Mazeikiu Nafta with Williams International Co. of the United States holding 33% and operational control. Williams International took its holding in 1999 for \$150 million with an option to double its stake. The sale to LUKOIL was to secure long-term stable oil supplies for the refinery (Reuters, 2001a§).

In a new development, YUKOS of Russia beat LUKOIL to land an equity and supply deal with Mazeikiu Nafta's refinery pending Government approval. YUKOS would invest \$75 million in the refinery for a 26.85% stake, thereby diluting

Williams International's 33% share to 26.85%. The Government's 59% stake was down to a slight minority. YUKOS also would provide a \$75 million credit line to finance the modernization of the refinery and raise throughput to design capacity of 300,000 barrels per day (bbl/d). The refinery's current capacity was 140,000 bbl/d. YUKOS pledged to supply 35 million barrels per year of crude oil, which was one-third of the refinery needs, for 10 years. LUKOIL would remain an important supplier for Mazeikiu Nafta's refinery (Reuters, 2001b§).

References Cited

- Alexander's Gas & Oil Connections, 2002, Latvia concludes energy negotiations for EU access: Alexander's Gas & Oil Connections, v. 7, issue 2, January 23, p. 1.
- Interfax Petroleum Report, 2001, Latvian government requests option for sale of remaining Latvijas Gaze state shares: Interfax Petroleum Report, v. 10, issue 44, October 26-November 1, p. 9.
- Metal Bulletin, 2001, Low prices boost US nickel scrap exports: Metal Bulletin, no. 8603, August 30, p. 10.
- Oil & Gas Journal, 2001a, Operators show interest in Latvia's Baltic blocks: Oil & Gas Journal, v. 99, no. 39, September 24, p. 55.
- Oil & Gas Journal, 2001b, Quick takes: Oil & Gas Journal, v. 99, no. 20, May 14, p. 8.
- World Cement, 2001, Hydraulic hammer for limestone mining: World Cement, v. 32, no. 8, August, p. 8.

Internet References Cited

- Estonian Review, 2001 (November 5-11), Special status of oil shale means EU funds, accessed December 13, 2001, at URL http://www.vm.ee/eng/kat_137/298.html.
- PR Newswire, 2001 (November), Company Itera Latvija is now 5 years old, accessed November 15, 2001, via URL <http://www.prnewswire.com>.
- Reuters, 2001a (April), Lithuania mulls Mazeikiu stake sale to LUKOIL, accessed April 6, 2001, at URL <http://biz.yahoo.com/rf/010406/106104669.html>.
- Reuters, 2001b (June), Russia's YUKOS to take share in Lithuanian refinery, accessed June 15, 2001, at URL http://biz.yahoo.com/rf/010615/115210725_2.html.
- U.S. Central Intelligence Agency, 2002 (January), Lithuania, World Factbook, accessed September 19, 2002, at URL <http://www.cia.gov/cia/publications/factbook/geos/lh.html>.
- U.S. Department of State, 2002 (January), Estonia, Country Background Analysis, accessed September 17, 2002, at URL <http://www.state.gov/r/pa/ei/bgn/5377.htm>.

TABLE 1
ESTONIA, LATVIA, AND LITHUANIA: PRODUCTION OF MINERAL COMMODITIES 1/

(Metric tons unless otherwise specified)

Country and commodity	1997	1998	1999	2000	2001
ESTONIA					
Cement	422,500	321,000	357,700	329,100	404,600
Clays:					
For brick thousand cubic meters	66,500	96,600	107,100	97,200	119,800
For cement do.	25,500	33,000	38,400	37,700	25,700
Limestone e/	280,000	290,000	290,000	300,000	300,000
Nitrogen, N content of ammonia	153,000	175,000	145,500	127,500	135,000
Oil shale thousand tons	14,383	12,463	10,685	11,727 r/	11,837
Peat do.	1,002	365	1,299	760 r/	844
Sand and gravel thousand cubic meters	1,109	1,411	1,063	1,247	1,325
Silica sand, industrial do.	22,500	23,000	18,300	39,600	31,600
LATVIA					
Cement	246,377	365,629	W	W	W
Gypsum	116,916	119,096	W	W	W
Limestone	372,660	363,347	W	W	W
Peat	554,700	171,700	956,353	456,456 r/	555,003
Sand and gravel	90,551	480,609	787,317	790,257 r/	688,904
Steel:					
Crude	464,529	468,500	483,744	500,292	W
Products	NA	516,400	520,000	525,000 e/	W
LITHUANIA 2/					
Cement	714,000	788,300	666,000	569,500	529,100
Limestone	250,000 e/	250,000 e/	1,077,900	783,300	857,500
Nitrogen, N content of ammonia	467,300	407,300	401,300	509,900 r/	540,100
Peat	295,200	202,000	390,100	245,500	262,700
Petroleum:					
Crude	160,000	200,000	250,000 e/	317,900 r/	471,400
Refinery products	5,029,400	6,433,900	4,506,700	4,658,200	6,543,500

e/ Estimated; estimated data are rounded to no more than three significant digits. r/ Revised. NA Not available. W Withheld by the Latvian Government to avoid disclosing proprietary data.

1/ Table includes available data through September 2002.

2/ Lithuania produces other industrial minerals including clays and sand and gravel; consistent data are unavailable for deriving a multiyear production series.