

# INTERNATIONAL RELATIONS: RUSSIA AND THE BALTICS

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## MAJOR INFRASTRUCTURE PROJECTS AND THE FOREIGN POLICY OF THE BALTIC STATES IN 2010—2014

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*At the current stage of social development, particular attention is drawn to studies that assess major infrastructure — and thus political — projects aimed at a qualitative breakthrough in the socio-economic development of the countries under investigation. The scheduled multi-billion investments into energy sector are of political rather than economic nature. The projects to develop alternative power grids and high-speed railways can result in large-scale economic downturns diminishing the prospects of balanced social development. The author addresses the classical concepts of the theory of regional economy and new economic geography and their interpretation of the interconnection between political and economic factors. The article aims to demonstrate the inconsistency between political and economic objectives of the development of the Baltics. The study contributes to a broader set of research into the issues of post-Soviet economic and political development. The Baltic States follow their own political and economic ways. The study proves the hypothesis of low efficiency of large infrastructure project and their political motivation. It is concluded that the disregard of the factor of mutually beneficial economic cooperation with Russia destabilizes the development of national economic of the Baltic States. The author believes that modern infrastructure projects in the Baltic Sea region should be integrated into both western and eastern dimensions.*

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When addressing the participation of political forces in promoting and implementing major infrastructure projects, one should emphasise that the political system of the Baltic states differs significantly from the Russian one, and this difference lies not only in their proportions. However, the thesis that small states — due to their size — exhibit qualitatively different characteristics of the ruling class is erroneous. Indeed, a large territory, population and volume of distributed resources characteristic of China and Russia suggest a more complicated model of the alignment of interests of politicians and businesspeople. The government budget is so limited that the EU funds become virtually the only source of possible redistribution. Moreover, the control system of the EU and the Baltics is geared to strict regulation of direct governmental subsidies. Traditionally, the funds allocated to European infrastructure projects are an optimal tool for political elites to intercept resources. Businesses lobby their interests as to infrastructure projects not only in the Baltics and in Russia — it is a worldwide practice.

In Estonia and Latvia, the relationship between politics and business has been following the “Nordic” or “Scandinavian” model since the 1990s.

The Baltic Sea region is characterised by strong political and economic cohesion within the ruling class. Politicians and businesspeople study at the same schools, participate in the same student organisations, graduate from the same universities, and they maintain these connections throughout their entire lives. Of course, the emergence of an influential political group whose members built their careers outside the Baltics — in the USA or Canada — has changed this situation. However, the above conclusions hold true. In the Baltics, scandals and conflicts of interests are of the same nature and scope as in the rest of the post-Soviet space [1]. Estonian political scientists have coined an interesting term — *seemukapitalism* — which translates as “capitalism of bros”. A total of 18,000 signatures [2] collected for Charter 12 indicate that its authors were right to formulate the thesis that “those in power feel no need to pay attention to the public anymore. The general opinion is that the end justifies the means. People in power mock the rules of democracy. Authorities are corrupt. In the name of power, one resigns themselves to lies” [1].

In Lithuania, examples of large corrupt projects based on the consolidation of political power and business projects include the closing of Ignalina NPP [2], the selling of Mažeikiai oil refinery to Americans and its reselling to the Polish, and the construction of a national stadium in Vilnius [3].

A unique example of political lobbying in Lithuania is the law on establishing a national investor — Leo Lt [4]. The Leo Lt company was founded in May 2008 through a merger of two state-owned companies, Lietuvos energija and Rytu skirstomieji tinklai (RST), and a private-owned company, Vakarų skirstomieji tinklai (VST), managed by NDX energija at the time. The government had 61.7% shares of Leo Lt and 38.3% shares of NDX energija. In 2009, the Lithuanian government and NDX energija reached a compromise and signed an agreement on the dissolution of Leo Lt. NDX energija was granted a restitution compensation of 68m litai [5]. The company did not manage to complete any significant project in the field of energy and

went down in history as Lithuania's Panama Canal. The right-wing party, Homeland Union, and its leader Andrius Kubilius as well as the ex-president V. Adamkus are responsible for its initiation and failure. However, this or that scheme of channelling budget assets to friendly companies was used by all politicians in the ensuing period. There is evidence of a connection between conservative leaders and business structures involved in the concept and design development of the port of Šventoji.

In Latvia, political lobbying is not as intensive as in Lithuania. Examples thereof include the construction of the Southern Bridge in Riga and the purchase of Daimler AG buses by Riga City Hall. However, large-scale infrastructure projects and political initiatives rarely attract public attention in this country [6]. According to the State Control, the port of Riga spent almost 22.2m latu inefficiently; an almost 11.3-million-lats agreement on constructing a railroad on the island of Kundziņsala was concluded without a procurement procedure, and 10.7m latu was spent on channel dredging. With the connivance of the port manager L. Loginov, the Law on Ports was violated; the implemented 24.9-million-lats projects were not part of the Freeport of Riga Development Programme [7]. There is no information on political bias of the port management, nor is there any clarity as to how Latvia's policy towards Russia depends on such projects.

Today, any lobbying of infrastructure projects in the Baltics is possible only when they are given the status of a national project, which is always the case in promoting major infrastructure projects.

Corruption in the strict legal sense is not characteristic of the largest projects. National economies suffer from the implementation of economically unjustified projects catering for political motives.

### **Infrastructure projects in the electric power industry**

For Estonia, Latvia and Lithuania, splitting from the USSR did not result in a shortage of electrical power. The non-energy-intensive national economies of these countries easily adapted to changing price ratios and increasing actual cost of electrical energy. In many fields of economy, market relations co-existed with centralised electric power industries, which ensured a gradual and predictable increase in tariffs for small countries, whose own energy carriers were insufficient. Thus, "the influence of electric power industry on the current economic situation in the Baltic states and the industry's efficiency did not serve the key factors behind the launch of reforms" [8]. In the 1990s, the Baltics depreciated the Soviet 'inheritance' without any long-term planning. Politically, the division of the Soviet Union into independent republics was much simpler than the division of a common transport and energy infrastructure. There is a new generation of citizens (and non-citizens) who do not remember the Soviet Union but still plugs electric appliances into a common grid.

Therefore, the issues of Russia-EU cooperation stem from the fact that the Baltics are still connected to the energy system of Russia and Belarus; however, new connections to Northern Europe are being developed. The en-

ergy systems of the Baltics and Russia are connected in the framework of the BRELL (Belarus, Russia, Estonia, Latvia, Lithuania) Loop agreement concluded on February 7, 2001. As of 2013, the agreement brought together:

- Belenergo (Belarus);
- Federal Grid Company of Unified Energy System (Russia);
- System Operator of Unified Energy System (Russia);
- Elering OU (Estonia);
- Augstpieguma tikis (Latvia);
- Litgrig UAB (Lithuania).

The BRELL Loop is managed by the BRELL Committee that brings together representatives of system operators.

The key non-political problems of BRELL are as follows:

— the generating capacity structure is not homogenous;  
— not all energy systems of the region are balanced in terms of electric power;

— there is a lack of regulation capacities in some energy systems dominated by heat power plants;

— electrical grids have a meshed structure;

— the existing power generation structure may complicate energy system balancing in the Baltic states;

— energy surplus of the IPS North-West is not sufficient for maintaining a stable energy balance after the closing of Ignalina NPP and before the launch of Leningrad NPP II, Astravets NPP and Baltic NPP.

The expert community almost unanimously agrees that the region comprised of Germany, the Czech Republic, Slovakia, Belarus and Russia (without the Kaliningrad region) lacks generating capacities; this situation cannot be remedied without resorting to nuclear power. Partially, this situation is a result of the short-sighted policy of the EU, which simultaneously closed Ignalina NPP in Lithuania and hampered the development of Estonia's traditional shale energy industry (not to be confused with shale gas energy) [9].

Up to 50% of the power generated by Ignalina NPP was exported to the Kaliningrad region and Belarus [10]. Moreover, it is likely that all old generation units at Narva Power Plants will stop operating as not complying with the European emission standards.

As of today, the IPS North-West includes energy infrastructure objects operating in Saint Petersburg, the Murmansk, Kaliningrad, Leningrad, Novgorod, Pskov and Arkhangelsk regions, and the Republics of Karelia and Komi. The IPS ensures synchronous parallel operation of Russian UPS and the energy system of the Baltics and Belarus, as well as non-synchronous operation (through a converter) with the energy system of Finland and electric power export to the countries of NORDEL (East Denmark, Finland, Norway, and Sweden). On July 1, 2009 NORDEL was dissociated, and all operations were delegated to the European Network of Transmission System Operators for Electricity (ENTSO-E).

To accommodate the increasing demand for electric power, it is planned to introduce new NPP generating capacities (Leningrad NPP II, Kola NPP II

and the Baltic NPP) and hydropower plants (Kola Tidal Power Plant, Volkhov HPP VO and Lesogorsk HPP VI).

The Northwestern Federal District participates in implementing Russia's policy on electric power export/import. It is planned to further increase the volume of power exports to Finland.

Before the second unit of Kaliningrad CHPP II came into operation at the end of 2010, power shortage in the Kaliningrad region had been overcome through supplying 200 MW from the UPS of Russia through the electric grids of Belarus and the Baltics as well as the use of solid fuel CHPPs in the Kaliningrad energy system. However, there is a need to reduce the region's dependence on a single power source — CHPP II. The danger associated with such dependence became evident after a blackout that occurred on August 8, 2013.

In view of the possible unification of Lithuania's and Poland's energy systems, it was planned to create a 400 kV double-circuit power line connecting the Kaliningrad and Polish energy systems. This will make possible power interchange and surplus transmission to other European countries. However, similar to other aspects of Russian-Polish relations, the level of trust in the field of energy is rather low. So far, no agreement on Russian energy exports to Poland has not been reached. Also, certain adjustments need to be made in the Baltic NPP construction plans.

It is worth noting that today the Russian-Belarusian interconnection cannot accommodate the necessary power transit. A certain part of the Kaliningrad NPP-Belarus current crosses the territories of Estonia and Latvia. The secession of these countries from BRELL is a considerable threat to the Kaliningrad region and Belarus.

As to the 2001 BRELL Agreement, it is worth stressing that it does not contain provisions regulating the key aspects of cooperation, namely:

- centralised coordinated planning;
- real-time supervision;
- financial tools to rectify discrepancies between the actual and planned power transfer.

The key problem is that the corporate nature of the BRELL Agreement does not solve the problems arising from the fact that the parties are in different jurisdictions [11].

Today, the Baltics set out to separate themselves from the Russian and Belarusian energy system. The Estonian minister of Economic Affairs and Communications, Juhan Parts, emphasised on many occasions that the secession of the Baltics from the BRELL system was inevitable and necessary for the development of the European energy market [12].

The Russian authorities, being convinced that a unilateral decision on the division of the energy system is impossible, strongly criticise the plans of the European Commission on the secession of the Baltics from the unified energy system that brings together North-West Russia and Belarus. Upon an agreement of all parties, on April 8, 2002, the energy systems of Latvia, Estonia and Lithuania, as well as the Kaliningrad region and a part of Belarus, were disconnected from the energy system of North-West Russia for a per-

formance test. The disconnection was managed by the coordination centre DC Baltija located in Riga. The test showed that the Baltic energy system was capable of independent functioning; the obtained data will be used to regulate the frequency of the energy system of the Baltics and the UPS, which function in parallel operation, and later to ensure the synchronous operation with other European energy systems [13].

However, the positions of the parties changed significantly due to mutual distrust. In August 2012, the Lithuanian minister of energy, Arvydas Sekmokas, disclosed that Russia was preparing for the disconnection of the Baltics from the IPS/UPS energy system (it brings together the energy systems of Latvia, Estonia and Lithuania as well as the CIS countries with the exception of Armenia and Turkmenistan). According to the minister, on August 1, 2012, the Kaliningrad region tested the preparedness of the regional power system to operate after the disconnection from the other systems. "Such tests suggest that, realising the strategic objective of the Baltics to ensure synchronous operation with the continental European grid, Russia is getting ready to desynchronise the power systems of the Baltics from the Russia IPS/UPS system" [14]. This raises a question on the nature of Vilnius's concerns. Is Lithuania alarmed by the fact that Kaliningrad power engineers do not rule out a possibility that the Baltics could "leave" the unified power system? The aspiration of the Baltics to secede from the BRELL without consultations and coordination with Russia and Belarus is fraught with potential problems for the latter. Up to 40% of transfer capacity between the energy systems of Russia's Centre and North-West depends on the grids of the Baltic states. The BRELL project was aimed at facilitating the development of electrical power transmission and gas supply infrastructure from the Russian Federation to the European Union as well as ensuring joint operation of the power systems of the Russian Federation and the European Union [15].

"The creation of an open competitive market in the Baltics is justified only if it brings together all three Baltic states. Developing an energy market in each country is not reasonable due to its limited scope" [11]. In theory, Tallinn, Riga and Vilnius are aware of this circumstance. However, in practice the electric power market is characterised by tough competition. The unsuccessful Visaginas NPP can serve a proof of that. The history of this NPP project has been analysed in the works of experts from Saint Petersburg State University and the Immanuel Kant Baltic Federal University [16].

After the accession of the Baltics to the EU, a number of coordination plans were developed. In 2007, Lithuania, Latvia, and Estonia produced a draft joint strategy for ensuring energy security [17]. However, as of 2013, a coordinated energy policy remained at the "paper" stage. As the press service of the Lithuanian Government reported, a meeting of the Baltic Council of Ministers that took place in Riga on November 8, 2013 approved Lithuania's proposal to create a joint strategic commission for the electric power industry in the Baltic states. "On an initiative of Lithuania, the Committee of senior officials of the BCM was commissioned to develop propositions re-

garding a joint project on power generation, synchronisation with unified grids and power market.” The Visaginas NPP project was revisited; however, certain issues still remained unresolved [18]. There is no clarity as to the nature of these issues. The President of Latvia stressed in her interview with the Baltic News Service (BNS): “I think that continuation of the earlier project is probably impossible. There was a referendum, and people gave their opinion. Therefore, unless there are some modifications, the project is certainly “buried”. Perhaps we could build one reactor with the Japanese, if there were political will and understanding that we needed this” [19].

On October 22, 2013, the Lithuanian minister of energy, Jaroslav Neverovič, met Vice President of Hitachi Ltd, Koji Tanaka, to discuss the updated proposal on the Visaginas NPP project and the prospects of further cooperation. The minister named the synchronisation of the Baltics’ energy systems with the European one as one of the key areas of development. On the same day, a memorandum of understanding was signed by Lietuvos energija and Hitachi Ltd. The memorandum suggests cooperation in the fields of energy supply, heat production, power storage, “smart” grids and other non-nuclear projects. At the same time, Director General of Lietuvos energija, Dalius Misiunas, stressed that, in view of the new conditions, the cost of power generated by VNPP could drop from 21.5 to 19.5 cents. However, it is still unclear whether this price will be lower than the market one. According to forecasts, in 2022—2025, cost of power may vary from 15.6 to almost 30 cents [20]. It remains unclear how one can forecast prices for power generated at a plant whose preliminary design is not developed yet. Obviously, the key objective is to draw additional EU funds for the purpose of energy infrastructure development and to ensure their diversified application. The resources required for energy projects — estimated today at 6,000m-6,500m euros — will not be easy to find in the Baltics, Europe and Japan in the current situation. If it does happen, the construction will threaten Russia’s economic and other interests.

At the moment, a number of interconnections are being designed or constructed with the EU’s support.

The LitPol Link, NordBal and Estlink systems, and the already functioning Poland — Sweden energy bridge are planned to form the new Baltic energy ring.

In May 2008, the LitPol Link joint company was established to construct an energy bridge between Poland and Lithuania. It was planned to build a 400 kV transmission line between Alytus (Lithuania) and Elk (Poland). Its designed transmission capacity is 600—1,000 MW. The direction of transmission will be determined by the energy needs of each country. The project is to be completed by 2015. The connection of Lithuanian and Polish transmission lines is one of the strategic projects of the Lithuanian energy industry. The system connection will cross the three Baltic states and reach western Europe, which will create conditions for the integration of electric power markets.

The Lithuanian-Polish interconnection is expected to transmit up to 500 MW by 2015 and 1,000 MW by 2020 [21]. The project cost is estimated at

1,281m litai [22]. In view of inflation and unexpected expenses, one can assume that the total cost of the project will amount to 2,000m litai. Lithuania and Poland expect that the construction of the LitPol Link interconnection will receive financial support of approximately 200m litai from the EU. The management of the Lithuanian-Polish company believes that the available financing tools will attract from 50% to 75% of the required investment [23]. However, this assumption is not based on any legally binding agreements. The Estlink submarine power cable — the first joint project of the Baltics and Finland with a budget of 110m euros — came into operation in December 2006. In particular, the cable was designed to provide the Nordic countries with electric power generated in the Baltics. The submarine cable connects the 330 kV Harku converter station situated in the environs of Tallinn and the 440 kV Espoo converter station in the environs of Helsinki. The operation of the 250 MW cable is controlled from the specialised centres in Harku and Espoo. The second Finnish-Estonian submarine cable — Estlink 2 — of a designed capacity of 650 MW is being built at the moment. It is expected to come online at the beginning of 2014. The budget of the submarine cable installation project is approximately 320m euros. The EU will provide a 100-million-euro support [24].

Lithuanian and Latvian energy suppliers also signed a memorandum on constructing NordBalt power cable that will connect the Baltics and Sweden. Initially, the project estimated at 516m-738m euros was supposed to be managed by Latvia. The memorandum of understanding, which is necessary for the commencement of works, was signed on June 9, 2009 by the Central Project Management Agency, the Lithuanian company Lietuvos Energija, the Latvian company Latvenergo and the Swedish company Svenska Kraftnat. It is planned to connect the Lithuanian and Swedish energy systems with a 250 km submarine power cable until 2016. The project is estimated at 516m-738m euros and is part of the European Economic Stabilisation Plan. The European Commission allocated 175m euros for the project implementation. The 700—1000 MW Nord-Balt interconnection between Lithuania and Sweden is scheduled to become operational in 2016—2017.

All the above-mentioned projects require substantial spending and do not suggest an immediate economic effect — a decrease in electricity prices. The projects' authors do not explain at what cost energy independence will come. Lithuania's president Dalia Grybauskaitė stressed that "...as to power supply, the interconnection with Sweden, as well as Estonia and Finland, will have been built by 2015. Thus, we will become connected to the Nordic Energy Pool in 2014—2015" [19].

What will the situation look like if Dalia Grybauskaitė's plans come true? First, more than 2,000m euros will be spent. Secondly, as the experience of Estonia — a country that is already connected to Nord Pool — suggests, electricity will not become cheaper. As of June 24, 2013, the cost of electricity was 55.5 euros per MWh in Finland and 103.85 in Estonia, whereas in Sweden it was even lower than in Finland — 42 euros per MWh [25]. The best possible result is the levelling of prices in Finland —

Sweden and Estonia — Latvia. It means that industrial and household expenditures on electricity in the Baltics will increase by 1.9—2.3 times. It will make their national economies uncompetitive. As the president of the private company Itera Latvija, Juris Savickis, stressed, “the liberalisation of the Baltic gas market will not result in lower electricity prices, as the general public thinks. On the contrary, this will lead to higher prices. It is advantageous to me as a businessperson. But it is a negative situation for me as a resident of Latvia who is interested in the development of the country” [26]. The diversification required by the Third Energy Package has been partially achieved: Estonian electricity prices are established at Nord Pool. However, since the opening of the Estonian energy market (January 1, 2013), night electricity prices have increased by 127% and the daytime ones by 48%. Nevertheless, the Estonian Ministry of Economy assured that the tariff increase would not exceed 20% [27]. Only taking into account the fact that Estonians are very law-abiding citizens, one can comprehend the significance of a rally against growing electricity prices that took place in Tallinn, at the building of the Ministry of Economy and Communication, on February 18, 2013. It is important to note that Estonia is not largely dependent on Russian energy and is almost energy sufficient.

In Lithuania, an average electricity price can increase by 63% by 2020 under the current power generation policy [28].

Lithuania’s political plans, its extremely critical attitude to the BNPP and the absence of an energy contract with Poland might have entailed certain consequences. The 2013 guidelines for the Baltic NPP issued by the Rosatom State Atomic Energy Corporation describe two possible scenarios: the suspension of its construction or the introduction of some changes to the company’s plans [29]. At least, it means that the two 1,150 MW reactors will be replaced with a 640 VVER type pressurised water reactor and a 40 MW reactor (KLT-40S type used on submarines). According to the Russian PRoAtom information agency, it means that at first the possibility of launching low-capacity reactors should be considered, whereas high-capacity reactors will be installed in case any opportunities for selling electric power arise [30]. The currently discussed decisions on installing low-capacity units do not suggest the abandonment of the plan to construct a large first unit. However, they indicate that the project of a 2,300 MW NPP — that was originally meant for energy export — will be changed. The plans of Rosatom to construct low-capacity units and reach a decision on high-capacity units in view of the overall situation are fully justified [31]. The reasons behind the possible changes should not be sought for in the ineffective position of Lithuania [30]. Rosatom reasonably minimises risks associated with large-scale investment in the conditions of limited sales opportunities. Russian experts have also addressed the issue of potential risks. Here, special attention should be paid to the works of Yu. M. Zverev [32; 33].

It is worth noting that Lithuania’s policy does not exclude a possibility of the disconnection of the Kaliningrad grid from that of Belarus. It can be performed at Bitėnai 330kV substation [34].

## Railway infrastructure and the Rail Baltica project

The role of railway transportation in large infrastructure projects and economic development in general can be explained as follows: “alongside the immediate effects that are of significance for railway transportation per se, there is a wide spectrum of multifarious effects that spread throughout a country’s transportation system. Most external effects of the rail transport development are multiplicative in terms of their impact on the socio-economic development of a country” [35].

Taking into account the structure of the Baltic states’ economies and the scale of the countries’ domestic markets, one should admit that in this region railroads cannot be put to productive use without Russia’s participation. Transit is not possible without railways either. Despite the fact that the Baltic states have not referred to the notion of “transit bridge” for many years, in practice, railways remain a key industry of their economies. The Baltic states’ governments do pay significant attention to national railway infrastructure. Moreover, attempts at railroad reforms have been made more than once.

As the issues relating to the organisational structure are beyond the scope of this research, this article will focus on a major infrastructure project — Rail Baltica.

First of all, it is worth noting that two different projects are being discussed almost simultaneously. While the works on the first project have already commenced, the second one is at the stage of preliminary declarations. The second one is a high-speed project, whereas the first one is “classical” — a technical connection.

The main project initiator is Lithuania. In the late 1990s, plans for the development of high-speed transportation in Lithuania included the construction of a high-speed line from Kaunas along the Pan-European corridor IX to the Belarusian border and further through Minsk to Moscow. Later, this line could be extended from Kaunas to Klaipeda — one of the largest Baltic ports. This line was meant for freight trains. Thus, it was planned to develop terminals of cargo companies in Klaipeda as well as multimodal transportation via the port [36]. This project was designed as a long-term project rather than a mid-term one. However, the Russian vector of transport integration was removed from the agenda.

The key objective of Rail Baltica is a resumption of immediate connections between the Baltic states and the European railway network, and the development of regional integration. The integration of the Baltics’ railways into the EU transport system will increase the speed of trains and contribute to an increase in the passenger and cargo flows and profits.

The project of a railway with the standard European gauge embraces the Baltics, eastern (Poland) and western Europe. According to the project, the unified European gauge railway should connect Tallinn, Riga, Kaunas, Warsaw and Berlin (later, the route is to be extended to Venice), thus improving transportation between central and eastern Europe. Moreover, it is planned to construct an undersea tunnel between Tallinn and Helsinki or (in case the

project proves economically infeasible) to launch a railway ferry between the cities. Therefore, in theory, Rail Baltica (or Rail Baltica II) can connect Scandinavia and western Europe.

At the end of October 2006, Vilnius hosted the first presentation of the “final” account of feasibility studies conducted for the Rail Baltica railway project. In 2007, on the initiative of Lithuania’s Ministry of Transportation, the Lithuanian Railways company was appointed the project coordinator, and a special programme was devised. This programme aimed to accumulate budget funds and EU financial support, and to allocate them for project implementation.

In July 2007, Lithuania, Latvia and Estonia prepared and coordinated project schedules and applied for financial help for 2007—2013.

In June 2010, a declaration on cargo traffic along the Pan-European corridor VIII (Benelux — Germany — Poland) was signed. The Kaunas — Warsaw railway (part of Rail Baltica) was included in the railway corridor.

The first project of “western” integration — the Rail Baltic line (Warsaw — Kaunas — Riga — Tallinn — Helsinki) — was considered at first as an inseparable part of the Trans-European Transport Networks (TEN-T), which could contribute to the development of a competitive European railway network. This aspect was discussed in a declaration signed by the Polish, Lithuanian, Latvian, Estonian and Finnish ministers of transport, and the European Commissioner for transport in Vilnius on October 19, 2009.

During the “TEN-T DAYS 2010: Trans-European Transport Networks” conference, representatives of the Polish, Lithuanian, Latvian and Finnish ministries of transport signed a memorandum on the Rail Baltic project, thus expressing their political will to support its further development. The memorandum formulated responsibilities of the parties within the project. Despite the economic crisis, the parties agreed to search for new technological solutions to achieve a speed of 120 km/h within the Rail Baltic project [37]. This is Rail Baltica I. Today, a small stretch of railway is being constructed in Lithuania according to the Rail Baltic I requirements, i.e. the European gauge and a standard train speed of 120 km/h. Taking into account the pace of construction and the nature of negotiations between the Baltics, the Rail Baltica I project can be implemented by 2025.

The plans were undermined by the new Rail Baltic II project that suggests a changed route and the use of high-speed technologies. The high-speed railway through Lithuania, Latvia and Estonia should not be used solely for passenger traffic (as the population density in Lithuania, Latvia, and Estonia is rather low, passenger traffic will not be sufficient). This line is to be designed as a combination, or passenger-cum-cargo, railway, which should ensure payback. Cargo traffic is to be integrated in the passenger train plan.

The Rail Baltica II high-speed route was advertised as a project that will provide Estonia with a railway connection to Europe (Tallinn — Berlin). However, at the moment, it is an abstract expression of wishes.

Lithuania’s Prime Minister Algirdas Butkevičius believes that the implementation of the Rail Baltica II trans-European railway project will com-

mence only after 2020. In his opinion, the required research will be completed in 2016, so the construction will be underway only in 2021—2027:

We are convinced that the construction should continue after 2020... It is expected that, until 2016, only analysis and research will take place. It is not easy, there is a need for an environmental impact assessment. It should be a long-term project. Today [November 7, 2013], we had a more serious discussion, especially with Estonia, as to applying for financial support to European structures. A preliminary decision was made that the project should attract 85% of financing from the EU funds [38].

What happened? What did that “serious discussion” with Estonia focus on? In reality, Lithuania is building Rail Baltica I keeping in mind the proverb about birds in the hand and in the bush, whereas Tallinn is “constructing” Rail Baltica II.

Estonia’s Prime Minister of Economic Affairs and Communications Jühan Parts stressed that Lithuania does not adhere to the agreement with the neighbouring countries as to the implementation of the Rail Baltica trans-European railway gauge project.

Our Lithuanian colleagues have announced the commencement of works between Poland and Kaunas. However, they are not based on what we agreed many years ago. They say they are developing an infrastructure for a European railway between Kaunas and Marijampole. However, it is not the infrastructure that will allow trains to travel at a speed of 240 km/h; the speed will be twice as lower [39].

According to the minister, most of the time dedicated to the project implementation was spent on solving problems that were arising due to the actions of Lithuania. He stressed, “It is very important to have joint ventures for common infrastructure. It is a regular practice for projects of such a scale” [39]. In mid-September 2013, after difficult negotiations, the Baltic states, Poland and Finland signed a declaration on establishing a joint venture. Rail Baltic II aims to build a railroad from Helsinki through Tallinn and Vilnius to Warsaw, which will be extended to Berlin [39].

The Rail Baltica II project is dubbed as “Helsinki — Berlin”. However, the preliminary design “embraces a territory from Tallinn to the Lithuanian-Polish border, whereas Poland remains a blind spot. It is still unclear whether there will be a railway in its territory and how much it might cost. There is no information in relation to Berlin either. Therefore, those, who speak of a high-speed railroad from Tallinn to Warsaw or from Tallinn to Berlin, can hardly say anything for sure. We just don’t know what there will be further than the Lithuanian-Polish border” [40].

Moreover, even a preliminary design has not been developed for the Tallinn — Helsinki stretch. Another problem is that the high-speed project connecting Tallinn and Berlin includes two changes in Kaunas and Warsaw.

Finally, the general problems of the European transport policy have not been solved in the region. For Europe, a connection between Tallinn and Riga is not a priority. At the same time, competition for the EU funds is increasing [41; 42].

If the Lithuanian government accommodates Estonia's requests, a high-speed stretch will connect Kaunas and the Lithuanian-Polish border. As a result, three routes will run from Kaunas:

- 1) the existing Russian gauge railway;
- 2) a new European gauge railroad (under construction) with a speed of up to 120 km/h;
- 3) Rail Baltica II for trains travelling at a speed of 240 km/h.

In autumn 2013, Polish media announced the reconstruction plans for the stretch between Warsaw and the Lithuanian-Polish border so that it could accommodate trains travelling at a speed of 160 km/h. Thus, Polish experts indirectly confirmed that they gave little interest to the new direct route but preferred the old bypass one via Białystok instead.

Since Rail Baltica II is a project of the three Baltic states, Poland has no official obligations in its framework. We believe that any Polish government — especially the one formed by the Law and Justice party — will come up with a proposal to build a railroad on the Polish territory at the expense of the EU. Only a combination of strong external pressure and compensations from the EU funds can make Warsaw participate in financing Rail Baltica II, i. e. the construction of the Kaunas — Berlin railroad.

At the moment, it is not possible to discuss the cost of the project. However, mass media announced a budget of 3,600m euros. In my opinion, in case of the Lithuanian border — Tallinn stretch, it will be three-four times as great. The cost of the whole Helsinki — Berlin route may amount to 45—50 billion euros.

The payback periods for high-speed railways between the largest European capitals within the Paris — Berlin — London triangle will last for decades. International experts are right to emphasise that there is a need for an objective financial analysis. Our calculations suggest that the payback of the standard gauge will require eight return trains a day. There are other figures to illustrate the financial aspect of the project: the company that manages the Polish railway infrastructure — Polskie Linie Kolejowe S. A. — will receive approximately 1,300m zlotys from the EU (311.3m euros) for the *modernisation* of a 70-kilometre stretch that constitutes part of the designed Rail Baltica I railroad with the European gauge. Therefore, the modernisation — but not new construction — of a 70-kilometre stretch requires a 300-million-euro subsidy, alongside Poland's own investment.

Let us draw some conclusions. All major infrastructure projects implemented in the Baltic states have a significant political component. They are aimed at achieving adversely understood geoeconomic independence. Furthermore, they ignore objective market laws and the logic of international division of labour. It is worth noting that the transport and energy integration of the Baltic states into the rest of the EU is part of the EU strategy for the Baltic region rather than an initiative of these countries. Hypothetical implementation of all developed transport and energy projects will require 25—35 billion euros. It is hardly worth noting that this sum goes far beyond the capacities of the national economies of the Baltic states. One of the major EC projects aimed at the innovative development of transport, energy and

the Internet — Connecting Europe — received only partial support for 2014—2020 (29 billion instead of 50 billion euros) [43]. In other words, theoretically, the Baltics are ready to use all funds associated with that budget item “on their own,” however, they will not be given such an opportunity.

The development of relations between the Baltic states and Russia should be dominated by a focus on real economic cooperation (and, even broader, on the opportunities offered by the Customs Union market), the creation of an atmosphere of trust in a narrowing corridor of opportunities and the abandonment of excessive politicisation. Today, it is not Russia that needs it. Today, it is necessary for our Baltic neighbours, as it is a question of their survival.

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