Increased FSRU Presence Key to Baltic Supply Concerns

Baltic states have been moving quickly to eliminate reliance on pipeline flows from their eastern neighbor Russia. The addition of floating storage and regasification units (FSRU) will be key to unlocking the bloc's LNG import potential.

Although at least two import projects are planned over the coming years in key Baltic states like Poland and Finland, there remains a huge reliance on existing infrastructure which has limited availability of capacity for new entrants seeking to avoid Russian gas. Baltic LNG imports have jumped in May as a result. Lithuania's demand in May was 0.31 Bcm, having increased from 0.21 Bcm from a year ago. Poland's demand was 0.61 Bcm, up from 0.42 Bcm last year.

Lithuania's Amber Grid recently declared full independence from Russian gas, with the Klaipeda LNG terminal able to satisfy the country's need for gas, leaving it reliant on cargo imports from Norway, the US, and other providers such as Egypt.

The two new Baltic projects are led by Finland's Gasgrid and Fortum, which want to place the Exemplar FSRU on a 10-year charter from Excelerate Energy at the port of Inkoo for the coming winter, and Poland's Gaz-System which is looking to bring an FSRU to the Gdansk region for the mid-2020s. There are also reports that the Polish government plans a second FSRU amid strong demand from neighboring Czechia and Slovakia, but nothing has been confirmed.

Lithuanian dependance

Market participants have expressed concerns over relying solely on the Klaipeda FSRU. Terminal operator Klaipedos Nafta has been chartering the Independence FSRU since 2014 from Hoegh LNG and will take ownership in 2024, guaranteeing supply to the region for 20 years. However, there remains limited scope for new importers to gain exposure to this terminal, with only six downstream players able to book capacity. The next round of auctions for winter capacity will take place in July.

Connectivity to land-locked countries reliant on Russian gas in Eastern Europe has also brought increased interest in the Klaipeda terminal, as Ukraine and others struggle to find supply from Northwest Europe or Eastern Mediterranean terminals.

While a project will be in place for the winter in southern Finland, this FSRU will satisfy only the needs of Estonia and Finland via the Balitcconnector, leaving others such as Ukraine and Latvia leaning towards Lithuania.

Estonia has other hopes in securing LNG supply in the Paldiski LNG terminal. At the end of May Estonia's Alexela announced it had completed dredging work at the site. Construction is likely to begin by September in two stages with the first being the connection with Balticconnector and the installation of an FSRU, and the second involving building a permanent onshore terminal. National transmission system operator Elering will be responsible for the pipeline connections.

In Latvia, the Skulte LNG terminal is also looking to source its own volumes. The project requires 21 miles of direct pipeline to connect with the Incukalns underground gas storage facility and does not require investment in LNG storage infrastructure, which typically accounts for 70-80% of a terminal's investment. Firm dates for completion remain unknown. Another proposed LNG terminal at Latvian capital Riga is back in conversation, although policy makers were unable to reach a final investment decision in previous years.

Poland access

With Polish transmission system operator Gaz-System having increasing interconnectivity to neighboring markets, the dominance of larger players in the Polish import market has created concerns. Gas Interconnection Poland–Lithuania (GIPL) started commercial operation on May 1, 2022.

Some Baltic players have concerns over state-owned energy company PGNiG having secured additional capacity at the Swinoujscie LNG terminal from 2024. This limits the ability of others to gain exposure to the Polish market, so an increased FSRU presence would help ease these concerns.

On April 26, Gazprom notified PGNiG of its intention to completely stop supplying gas under the Yamal contract as of the beginning of the April 27 contract day.

While Gaz-System has booked an FSRU for the Gdansk region for 2025-2026, sources close to the matter say it is likely there will be need for a second FSRU owing to heightened demand from neighboring markets. The current FSRU is set to have a regasification capacity of 6.1 Bcm/y.

Kaliningrad FSRU

With a lack of momentum in recent years regarding Gazprom's planned FSRU at Kaliningrad, market participants see the recent movements of a vessel into the port prior to the conflict between Ukraine and Russia as a strategic move. By moving the vessel into place, Russia would therefore be able to secure energy independence for the semi-exclave, which is located between Lithuania and Poland, amid sanctions from EU member states.

According to ship tracking data, Marshal Vasilevskiy returned to Kaliningrad on Feb. 2 from Zeebrugge. The FSRU had previously been moored in Kaliningrad, but it did not receive commercial cargo. It is now expected to be used for LNG imports. Kaliningrad also receives pipeline volumes from mainland Russia via Lithuania and Belarus. Tensions between Russia and Lithuania over Kaliningrad could increase on news of a blockade by Lithuania of railed goods into the Russian territory on June 21, following EU sanctions on Russian products such as coal and metals.