Latvia and the Baltic "Energy Island": Catalyzing Integration via the REPowerEU Plan

Xinyuan Wu

Asia-Europe Institute, University of Malaya, Kuala Lumpur, Malaysia

Abstract

This paper examines how the EU's REPowerEU plan transformed the Baltic states' long-standing objective of energy decoupling from Russia into executable policy, using Latvia as a focal case. It asks how supranational intervention altered the constraints facing small states under acute geopolitical pressure. Drawing on policy analysis and recent scholarship, the study traces the interaction between EU-level instruments and national strategic assets. It argues that REPowerEU did not simply support integration, but restructured the domestic cost-benefit calculus by combining financial transfers, legal authority, and political justification, thereby enabling accelerated grid synchronisation and market reorientation. The findings show that Latvia has emerged as a regional security infrastructure provider, particularly through gas storage, while remaining constrained in renewable expansion by administrative limits and local resistance. The paper concludes that decoupling was not a market outcome, but a politically mediated shift in state capacity.

Keywords

Energy Decoupling; REPowerEU; Baltic Integration; State Capacity; Latvia.

1. Introduction

Over the last decades, the Baltic states: Latvia, Estonia, and Lithuania have remained as a gap in the European Union's geopolitical map. They went through a rapid political and economic integration with the West, becoming members of both EU and NATO in 2004. However, their energy infrastructure continued to be dependent on the Soviet one. Physically, they were connected to the Russian-controlled BRELL (Belarus, Russia, Estonia, Latvia, Lithuania) electricity grid and mostly supplied with natural gas from Russia. Therefore, they were described as an "energy island": politically Western but energetically Eastern [1]. This imbalance resulted in a structural weakness, and the Russian Federation took advantage of it by manipulating the energy supply as a tool for coercive statecraft and thus making the pipelines and power lines a means of apolitical influence.

It was the Russian massive invasion of Ukraine in February of 2022 that really exploded the Europeans' naive belief that energy interdependence could serve as a guarantor of peace. The following energy security crisis made it necessary to turn interdependence, based on the market, into sovereignty and solidarity. Therefore, the European Commission introduced the REPowerEU plan a few months later in May 2022, which is essentially a grand strategic roadmap aimed at "rapidly reducing our dependence on Russian fossil fuels by fast forwarding the clean transition and joining forces to achieve a more resilient energy system" [2].

This paper is driven by two research questions: How has the EU's REPowerEU plan accelerated the energy integration of the Baltic region (the "Energy Island") and its decoupling from Russia? What specific role has Latvia played in facilitating this regional

integration, particularly concerning the sharing of key infrastructure (e.g. the Inčukalns gas storage facility) and the pursuit of joint renewable energy projects (e.g. ELWIND)?

Taking Latvia as a representative case, this paper examines the interplay between supranational frameworks and national strategic assets in the transformation of regional security. My argument is that REPowerEU was the pivotal intervening variable that actually enabled the geopolitical decoupling desire to be converted into an operational capacity. Namely, the plan canalized political will into concrete action by three ways: provision of money, political justification, and legal authority.

2. Literature Review

To get a clear picture of the Baltic energy transition, we should consider multiple perspectives rather than just one. This review reveals that the supranational spillover from Brussels mainly collides with the region's desperate quest for security. At the same time, it questions how these expensive decisions are being justified to the public and who finally foots the bill.

2.1. From Interdependence to the "Three Ss"

In the past, the EU had an energy policy that fit the perspective of liberal institutionalism, assuming that energy trade across borders would promote peace. According to LaBelle, such an era of energy interdependence has come to a definite end. In fact, the use of gas supply as a political weapon by Russia showed that interdependence coupled with the absence of shared political values results in one being vulnerable [3]. LaBelle introduces a conceptual triad to replace the old model: Security, Sovereignty, and Solidarity. He argues that "energy solidarity requires a pooling of energy sovereignty based on values" [3].

On the other hand, even though LaBelle is right in his identification of the political value shift, he is in danger of overstating the amount of rupture. He pays no attention to the fact that the EU countries are still physically united and hence dependent on each other. Thus, the change is not from interdependence to autonomy, but from an asymmetric dependency on a hostile actor (Russia) to a structured interdependence within a friendly bloc (EU). Accordingly, this paper employs the "Three Ss" to signify what the Baltic states want to become, but at the same time, admitting that their real independence is still constrained by the physical infrastructure.

2.2. Potential and Limits

Neofunctionalism is based on the idea that integration in one sector generates spillover for integration in related sectors. The disconnection of the Baltics from the Russian grid is an example of such a dynamic. As Fang et al. show, the technical interconnection with the Russian grid led to a geopolitical vulnerability in which Moscow could manipulate the control of grid frequency [4]. The technical requirement of stabilizing the grid after the disconnection from Russia is the source of a functional pressure to physically and regulatorily integrate with the Continental European Network (CEN).

It goes along with the neofunctionalist idea that technical cooperation results in political entanglement which, in turn, is sped up by REPowerEU's financial instruments. Nonetheless, recent studies applying neofunctionalism to energy infrastructure point out that spillover can still be sectorally limited and institutionally incomplete, especially, in areas that depend on the creation of new assets rather than on repurposing existing ones. Spillover effects might help to open the way for integration of old assets (gas storage) but fail to serve as a tool for the automatic and successful launch of new green infrastructure (offshore wind) in situations where there are domestic administrative bottlenecks.

2.3. Rational Choice under Duress

Liberal Intergovernmentalism (LI) convincingly accounts for the timing of the Baltic decoupling. LI claims that integration results from the rational decisions of states reflecting their domestic preferences. In the Baltic case, the domestic preference changed substantially from economic optimization (buying cheap Russian gas) to existential security.

Fang et al. employ a game-theoretic model to examine this coordination and predict that rational actors will give precedence to security rather than economic efficiency when confronted with a coercive hegemon [4]. Latvia is not using the EU to dictate its policy; rather, it is using the EU as a tool to accomplish its main national interest: survival. Nevertheless, while LI can account for the time aspect well, it overlooks the internal politics. It does not uncover the method of the government persuading the people to go along with these security measures. It takes for granted that preferences are determined by material threats and thus neglects the discursive work needed to make the public politically agree to very high inflation and energy poverty.

2.4. The Power of Narratives

Constructivism points to the influence of ideas and discourse in policy-making. The transformation of Latvia's energy policy is thus, at least partially, the result of a changed strategic story. Kleinberga discusses this in terms of the "Energy Trilemma," noting that the 2022 invasion led to the "sustainability dimension got overshadowed by securitisation of energy" [5].

In the securitization of energy, the government managed to establish the energy issue as a threat to people's very existence so as to justify the emergency measures. By doing this discursive move, the Latvian authorities were able to quickly carry out the decoupling without the usual bureaucratic hurdles. Nonetheless, constructivism comes with certain limitations in its functions. It helps a great deal in explaining why people agree to certain things (drivers of tolerance to high prices), but it falls short in explaining the material aspects of integration (who is going to pay for the infrastructure).

2.5. The Material Reality of Green Growth

Vezzoni cautions that the REPowerEU plan "may be paradoxically yoking the continent into raw materials dependency and lock-in investments in fossil fuel infrastructures" [6]. Vezzoni, through his analysis, demonstrated that achieving REPowerEU targets necessitates a significant expansion of raw material extraction, which can result in shifting dependency from Russian gas to Chinese supply chains. This view provides a basis for examining if REPowerEU is a real structural transition or just a reshuffling of dependency patterns.

3. REPowerEU: Operationalizing the Break from Russia

For the Baltic states, Russia's invasion of Ukraine in 2022 meant that they had to break away from the market-based form of cooperation to that of decoupling very quickly. It was the invasion that acted as the geopolitical shock and REPowerEU turned this urgency into a set of measures. Not only by EU funding making the transition economically feasible, the plan also gave the government the power to get around the veto players and it successfully portrayed the high costs as the right price for national security.

3.1. How EU Funding Enabled Acceleration

From a Liberal Intergovernmentalist perspective, the acceleration of the Baltic synchronisation timeline to February 2025 represents a rational adjustment of state preferences, yet this adjustment was contingent upon external financial intervention. While the Baltic states shared a converged threat perception post-invasion, their economic

capacities to respond were asymmetrical. A hard exit from the Russian grid carried prohibitive costs that threatened to fracture the regional consensus, with smaller economies like Latvia facing the highest relative burden.

REPowerEU functioned as the essential side-payment mechanism that prevented this fracture. Estimates for the second phase of synchronisation indicated capital costs of roughly €1.2 billion [1]. Had the EU not stepped in, a budget-constrained Latvia choosing a rational strategy would most likely have been to resist or at least delay the accelerated timeline and instead go back to the 2028 schedule for the purpose of spreading the cost over a longer period. The reputational costs of delay, it can be argued, would have been outweighed by the domestic fiscal strain. However, the Connecting Europe Facility (CEF), which was mobilized under the REPowerEU plan, basically covered 75% of these costs [7]. Besides that, Latvia has taken advantage of the Recovery and Resilience Facility (RRF) to obtain a dedicated REPowerEU chapter with a value of about €135 million, earmarked exclusively for grid modernization [8].

Without having to worry about infrastructure costs, such as those for synchronous condensers necessary for inertia, REPowerEU has essentially changed the cost-benefit equation. It made the very high price of independence politically acceptable by reducing it to a level that facilitated Baltic Prime Ministers' agreement on the declaration in August 2023. Therefore, the speeding up of the process was not only a matter of political will but also a direct result of the financial viability that Brussels had created.

3.2. Managing the Costs of Spillover

The decision made by the political leaders to separate at once brought about a functional crisis. This situation is a demonstration of Neofunctionalism where integration in one sector (geopolitics) requires deep integration in another sector (technical grid physics). Just by removing the stabilising inertia of the Russian BRELL system, Latvia revealed how fragile its domestic generation profile was.

Latvia depends on hydro energy to cover roughly 56% of its electricity needs. The country is faced with an annual production deficit of around 1 TWh. The hydro generation is mostly of the run-of-river type in Latvia which means that the generation is dependent on the flow of the river and thus there is a large seasonal variation [9]. To amplify the dependence on external balancing for frequency stability without Russian input, Latvia had no other option but to become a more intimate part of the EU's single market by unitarily integrating its balancing mechanisms with Poland through LitPol Link and adopting the Nord Pool spot pattern.

However, while joining Europe physically was inevitable, it was a whole different story when it came to keeping voters happy. The change resulted in sharp price rises which risked the government's public support disappearing. That is where REPowerEU came in to give the right spirit to the policy selling.

The government of Latvia presented the synchronisation as not only the technical improvement but as the price of freedom. The EU's identification of the project as a Project of Common Interest (PCI) strengthened this story. The government trusted this external approval enough to implement the prohibition of Russian gas imports from January 1, 2023, even though inflation was over 20% at mid-2022. Without the political protection of REPowerEU, the huge public discontent with inflation would have been so strong that the government would have had no choice but to give up the fast-forward plan.

3.3. Forcing out Hostile Interests

REPowerEU managed to break the long-standing political deadlock in Latvia. For nearly two decades, the energy sector was virtually frozen due to the influence of powerful incumbents, notably Latvijas Gāze (LG). LG was partially owned by Gazprom and Itera Latvija which is a

Russian enterprise and a subsidiary that is effectively controlled by Russia's energy giant Rosneft. Thus, it had a strong lobby that prioritised commercial ties with Russia over regional integration.

Though the unbundling of the transmission operator Conexus Baltic Grid took place in 2017, Russian capital still had considerable influence, thus complicating the option to utilize the Inčukalns storage facility. The crisis in 2022, supported by REPowerEU, forced the energy sector to operate in an emergency mode. Thus, the government was able to make decisions with far-reaching consequences, which normally would have been considered borderline authoritarian.

REPowerEU merely expanded the political space where legal acts of coercion could be employed, but they did not create it. Taking advantage of the EU's call for energy sovereignty, the Latvian parliament enacted amendments to the Energy Law and National Security Law, effectively imposing the eviction of Gazprom and Itera from essential infrastructure management. This closed the gap between ambition and reality. For years, high-level goals were blocked by powerful insiders, but the government now used the EU's security mandate as a lever to force them to comply. Therefore, REPowerEU empowered the state to reclaim institutional control from hostile capital, suggesting that under conditions of existential crisis, supranational alignment can temporarily override entrenched domestic veto players.

4. Latvia: From Passivity to Action

What the specific role Latvia has played in facilitating Baltic energy integration? Latvia's primary role is that of a security infrastructure provider, leveraging its unique geological assets to supply a regional resource that approximates a public good. However, Latvia functions as a definitive keystone only in the domain of gas infrastructure, while its position in renewable integration is still emerging.

4.1. Inčukalns UGS: Where Commercial Interests Meet National Security

Latvia's most tangible contribution to regional security is the repurposing of the Inčukalns Underground Gas Storage facility. By having a capacity of 24.8 TWh, which is roughly equivalent to 2.3 billion cubic metres, the facility's size makes it capable of being a regional buffer supply [10]. Latvia's particular function in this context is as the infrastructure keystone, which makes it possible for the entire East-Baltic region to comply with the EU's demanding N-1 infrastructure standard without excessive national investments.

It is not to say that Latvia is the region's political leader. Instead, it is the logistical enabler, taking on the heavy regulatory burden for its neighbors just because it has the unique geology to do so. The "Solidarity Product" (2.23 TWh reserved for neighbours) created in the 2024 storage cycle was a direct implementation of EU Regulation 2022/1032, which required member countries to reach 90% storage filling targets [10]. Since neighboring Estonia and Lithuania do not have large storage capacities, the Latvian government, by means of regulatory changes controlling the operator Conexus Baltic Grid, has essentially fulfilled this responsibility for the entire region.

This setup reveals an essential merging of security and commercial interests. Latvia, by keeping Inčukalns as an open-access regional hub, has managed to turn its geology into a source of revenue in a post-Russian scenario. The reservation of 7.4 TWh via long-term bundled products guarantees that Conexus will be financially stable even after the end of the profitable Russian transit flows [10]. This monetisation ensures the facility's operation remains steady, thus the risk of commercial insolvency disrupting regional security commitments is minimized. So, Latvia has more agency in the gas sector than the other Baltic

states, but still, it is mainly through EU regulatory compulsion rather than genuine autonomous leadership.

4.2. ELWIND: The Next Frontier of Regional Integration

ELWIND shows Latvia moving towards a more ambitious, capital-intensive way of integration. This Latvian-Estonian offshore wind project (700-1,000 MW) jointly funded by both countries is going even further than simple cooperation by becoming a very complex integration [11].

Latvia's contribution in this matter is to make the sharing of risks into an international institution. The agreement is based on a Cross-Border Cost Allocation (CBCA) decision, an extremely complicated administrative procedure that sets out how the costs of investments and the sharing of tax revenues will be located between Riga and Tallinn. A Neofunctionalist would view this as a very limited functional spillover: the desire for a 1 GW project made it necessary to come up with a tightly binding cross-border fiscal agreement, though the scope was restricted to specific aspects of grid management and did not cover broader political integration.

By becoming a Cross-Border Renewable Energy Project (CB RES) and using Connecting Europe Facility (CEF) funds, Latvia is not making any move without Estonia to which it is profoundly committed. Whereas this initiative brings about a very strong relationship that barely can be broken, it is nevertheless very uncertain. If you want to carry out this vision, you must reach an agreement through the complex multi-year processes involved in its construction. Therefore, ELWIND brings about mutually dependent relationships but does not yet represent a keystone function as the security aspect of the project is still only a potential one rather than an actual one.

4.3. Facing Reality: The Limits of Domestic Power

Latvia's agency is limited by local tensions. Together, these domestic constraints fully explain why the main role of Latvia around the keystone is only consolidating existing assets and not extending to new ones. While the state pushes for integration at the intergovernmental level, the implementation is limited by constraints that echo Post-Functionalism: the gap between the ambitious goals and the few means to achieve them. This gap results in a vertical incoherence, where "friction points in policy coherence between the national-local governance levels feed back into the vertical policy mix, as EU-level policy strategies are not substantiated with corresponding policy instruments" [12].

One of the examples of this tension is the rejection of the ELWIND project by locals. Due to community resistance (NIMBY), the research area was moved seven kilometres offshore. This event shows that even though the supranational level mandates regional integration, its execution depends on local approval, which is a vertical tension that REPowerEU cannot completely solve.

The government's administrative capabilities reveal certain bottlenecks. The bygone era's administrative legacy, characterised by a deeply entrenched reliance on the import of fossil fuels, resulted in the state's "lack of capacity" to manage the sudden ramp-up of renewables roll out, especially with Environmental Impact Assessments (EIA).

Hence, despite Latvian success in bringing about the regional security aspect of its geological assets, governance issues act as a brake on the country's evolution into a renewable energy powerhouse. In other words, it appears that the keystone role of Latvia depends on the level of domestic governance capacity rather than being just a matter of political resistance that will go away with time.

5. The New Reality: From Russian Dependence to Hybrid Threats

On February 8-9, 2025, the Baltic states successfully desynchronized from the Russian-controlled BRELL ring and synchronized with the Continental European Network (CEN) via Poland. This event effectively nullifies Russia's technical veto. For three decades, Moscow controlled the frequency of the Latvian grid; today, that control resides with the Baltic TSOs and ENTSO-E. The successful island mode tests confirmed that the grid can survive without Russian inertia, rendering the historical threat of a politically motivated blackout null and void.

However, Russia retains influence through a new vector: Hybrid Sabotage. The period between late 2025 and January 2026 witnessed a surge in maritime incidents targeting the "Energy Island's" new lifelines. The detention of the cargo vessel Fitburg by Finnish authorities on December 31, 2025, for dragging its anchor across the Elisa data cable [13]. Some days later after the BCS East cable near Liepāja was cut, it points to a deliberate Russian tactic to challenge the resilience of Baltic connectivity [14]. Geopolitical risks and subsea vulnerabilities are the reasons why it is necessary to consider ports and interconnectors as critical infrastructure that needs to be strengthened and protected [15].

Decoupling in the natural gas sector is legally finished, but commercially it is a difficult process. In November 2024, Gazprom divested its 34% shares in Latvijas Gāze by selling to a special purpose vehicle "Energy Investments LLC" led by local management [16]. From one point of view, this action nationalizes the stake, thereby severing Kremlin's direct control; however, the power is consolidated around a narrow circle of local elites rather than the ownership being diversified. Although Latvia has banned direct imports from Russia, the EU market has kept absorbing billions of euros worth of Russian LNG in 2025 through Belgian and French terminals [17]. It is after all, through the shared EU gas grid and virtual trading points that commercial laundering of Russian molecules, which indirectly financially supports Moscow, is still a possibility.

Latvia is implementing a strategy whereby it treats energy projects as defense assets. Such "securitization" can be observed through the delay of the Harmony Link interconnector that had to be rerouted on land and will be finished only by 2030 as a measure to avoid the vulnerabilities associated with the Baltic seabed. The ELWIND offshore wind project is similarly moving forward with an extra level of caution and the auction is scheduled for 2026. To remove the domestic resistance that has been pinpointed, the government is still using the Fast-track "Green Channel" project to provide a shortened time for the administrative process for high value-added investment projects [18].

Overall, Latvia has technically and legally isolated itself from Russia and has successfully recovered its sovereignty over grid frequency and corporate governance. However, the "Energy Island" is now moving to defend its new western connections against a campaign of hybrid maritime sabotage.

6. Conclusion

The synchronization of the Baltic electricity grids with the Continental European Network in February 2025 marked the definitive foreclosure of the post-Soviet energy era. This paper has demonstrated that the transition from the "Energy Island" to European integration was not an inevitable outcome of market forces, but a deliberate break catalyzed by the intersection of geopolitical trauma and supranational intervention.

Regarding the first research question, the paper confirms that REPowerEU functioned as the intervening variable that converted the geopolitical desire for decoupling into operational capacity. By providing the funds to absorb the €1.2 billion synchronization cost and the

justification to withstand domestic inflationary shocks, the EU framework altered the rational calculations of national governments. It proved that for small states facing an existential threat, true sovereignty is not found in autarky, but in the pooling of sovereignty within a solvent and solidified alliance.

In addressing the second research question, the results show that Latvia has very well managed to ensure the territory's short-term survival by resorting to the use of old gas assets like Inčukalns. However, the country is still doubtful about its leading role in renewables as the ELWIND case exhibits that administrative stalemate and local resistance continue to hinder the region's future.

The Baltic region is in a state of fragile balance. On the one hand, the threat of Russian energy cutoffs has been removed; on the other hand, it has been replaced with the green growth reality where energy dependency on Moscow has been exchanged for dependency on the global supply chains of critical minerals. The "Energy Island" has been connected, but the new world is characterized by high prices, hybrid threats, and the necessity to handle complex interdependencies. Latvia's decoupling story means that energy security is no longer a fixed commodity to be saved but the ability to manage vulnerabilities through solidarity that is very deep, binding, and Europeanized.

References

[1] Information on https://energy.ec.europa.eu/news/estonia-latvia-lithuania-agree-synchronise-their-electricity-grids-european-grid-early-2025-2023-08-03_en.

[2] Information on https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52022DC0230.

[3] LaBelle, M. C.: Breaking the era of energy interdependence in Europe: A multidimensional reframing of energy security, sovereignty, and solidarity, Energy Strategy Reviews, Vol. 52 (2024), 101314.

[4] Fang, S., Jaffe, A. M., Loch-Temzelides, T. and Lo Prete, C.: Electricity grids and geopolitics: A game-theoretic analysis of the synchronization of the Baltic States' electricity networks with Continental Europe, Energy Policy, Vol. 188 (2024), 114068.

[5] Kleinberga, V.: Green, affordable, or secure energy? Energy trilemma in the Latvian strategic narrative after Russia's invasion of Ukraine in 2022, in: M. Kalis (Ed.), The Energy Trilemma in the Baltic Sea Region: Security, Equity and the Environment (Routledge, 2024), p.201–227.

[6] Vezzoni, R.: Green growth for whom, how and why? The REPowerEU Plan and the inconsistencies of European Union energy policy, Energy Research & Social Science, Vol. 101 (2023), 103134.

[7] Information on https://cinea.ec.europa.eu/news-events/news/inea-signs-eu720-million-grant-agreement-baltic-synchronisation-project-2020-12-14_en.

[8] Information on https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/latvias-recovery-and-resilience-plan_en.

[9] Ferrucci, G. and Ugur, C.: Modernizing Latvia's electricity sector through closer EU integration: Republic of Latvia, IMF Selected Issues Paper No. 2025/136, International Monetary Fund (2025).

[10] Information on https://www.conexus.lv/circle-data.

[11] Information on https://elwindoffshore.eu/elwind/#impacts-and-gains.

[12] Zepa, I. and Hoffmann, V. H.: Policy mixes across vertical levels of governance in the EU: The case of the sustainable energy transition in Latvia, Environmental Innovation and Societal Transitions, Vol. 47 (2023), 100699.

[13] Information on https://www.reuters.com/world/finland-suspects-ship-causing-undersea-cable-damage-president-says-2025-12-31/.

[14] Information on https://www.datacenterdynamics.com/en/news/bcs-east-subsea-cable-connecting-latvia-and-lithuania-damaged/.

[15] Kosek, W., Chamier-Gliszczynski, N., Krześniak, M. and Zgorzelski, R.: Baltic Sea and Polish ports as key elements in energy transition and security, Energies, Vol. 18 (2025) No.21, 5806.

[16] Information on https://eng.lsm.lv/article/economy/business/09.11.2024-latvijas-gaze-buys-back-shares-from-gazprom.a575814/.

[17] Information on https://www.reuters.com/business/energy/eu-countries-give-final-approval-russian-gas-ban-2026-01-26/.

[18] Khorishko, L. and Rudnieva, A.: Latvian renewable energy policy in the context of EU initiatives, Baltic Journal of Economic Studies, Vol. 9 (2023) No.2, p.211–215.