EXPLAINING THE POLICIES OF THE BALTIC STATES TOWARDS RUSSIA, 1994-2010

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99,645 words (Excluding the Bibliography)
To my mother,
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ABBREVIATIONS

CBSS – Council of the Baltic Sea States

CEE – Central and Eastern Europe

CIS – Commonwealth of Independent States (Содружество Независимых Государств)

CSCE – Conference for Security and Cooperation in Europe

EU – European Union

FFF – For Fatherland and Freedom Party of Latvia

FPA – Foreign Policy Analysis

IR – International Relations

KGB – Committee for State Security (Комитет Государственной Безопасности)

LNG – Liquefied Natural Gas

MN – Mažeikiu Nafta oil refinery

NACC – North Atlantic Cooperation Council

NATO – North Atlantic Treaty Organization

OSCE – Organization for Security and Cooperation in Europe
PfP – Partnership for Peace

UN – United Nations

US – United States of America

USSR – Union of Soviet Socialist Republics (Союз Советских Социалистических Республик)

VN – Ventspils Nafta transshipment company

WWII – Second World War
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ABSTRACT

EXPLAINING THE POLICIES OF THE BALTIC STATES TOWARDS RUSSIA, 1994-2010

Despite their similar size, material resources, shared geopolitical conditions and common history, the three Baltic states of Estonia, Latvia, and Lithuania have pursued remarkably different policies towards Russia in the 1994-2010 period. Complex patterns of differentiation are evident across issue areas and over time.

Given the static structural similarities between the Baltic states, how can we explain their divergent policies towards Russia and the change in these policies over time? This puzzle informs the central research question of this study: Why did Estonian, Latvian, and Lithuanian foreign policies towards Russia diverge in the 1994 to 2010 period?

This work analyses the foreign policy of the Baltic states using typologies based on two axes: cooperative/adversarial and pragmatic/principled. Relying primarily on the liberal approach to international relations, the theoretical framework identifies six independent variables: the left/right political orientation of the government, instrumental usage of principled policies, the ethnic factor, business interests, membership in the EU and NATO, and, finally, Moscow’s own policies. It suggests that these factors played causal roles in determining Baltic policy towards Russia. Three case studies on the oil and gas sectors, as well as historical tensions, provide the empirical evidence to trace and explain the differentiated pathways of Baltic foreign policies.

The empirical analysis provides evidence to argue that due to domestic political differences Lithuania pursued the most adversarial and principled policy towards Russia. Estonia, by way of contrast, pursued cooperative and pragmatic policies regarding energy issues. On political questions, however, it maintained a principled and adversarial stance, though this was less pronounced that that of Lithuania. Finally, Latvia pursued moderately principled and relatively adversarial energy policies placing it in between Lithuania and Estonia. With regard to history, Estonia’s and particularly Latvia’s policies experienced a notable evolution from adversarial and principled to more cooperative and pragmatic policies. In sum, this work demonstrates that the typologies of Baltic policies differed across sectors and experienced both divergence and at times convergence in rhetoric if not policies.
INTRODUCTION

Explaining the Policies of the Baltic States towards Russia, 1994-2010

Since the 1990s, Baltic-Russian relations have been amongst the most contentious on the European continent. Tensions revolved around the status of Russian-speaking minorities in the three states, Moscow's resistance to EU and particularly NATO enlargement, and energy security concerns. Meanwhile, the entry of the Baltic states into European and trans-Atlantic structures in 2004 made the foreign policies of these small states on the periphery of Europe relevant for both Brussels and Washington. Today, the policy of Vilnius or Tallinn towards Russia can have a direct impact on EU-Russian and NATO-Russian relations. As such, during the pre-accession period, Baltic-Russian relations were described by scholars and policy makers as a ‘litmus test’ of Russia’s willingness to leave behind imperialist ambitions towards its ‘near abroad.’¹ By the mid-2000s, many of the earlier tensions in Baltic-Russian relations had approached resolution.² Nevertheless, Baltic-Russian relations remain a test of the EU and NATO’s ability to constructively engage with Russia.

Baltic states share similar historical legacies, as well as the experience of new statehood. They have similar material resources and face similar geopolitical constraints, and all are dependent on Russia for energy. Today, they also have common institutional affiliation with the EU and NATO. This might lead an analyst to predict similar foreign policies. The three states experienced similar independence movements from Russia in the 1989-1991 period, and pursued common policies throughout the 1990s, namely pursuit of EU and NATO membership, which was achieved in 2004.³ Yet, from 1994 to 2010, the

¹ Carl Bildt ‘The Baltic Litmus Test: Revealing Russia’s True Colors,’ Foreign Affairs, September/October 1994.
² Russian troop withdrawals were successfully completed by 1994; Latvian and Estonian citizenship policies were approved by the EU and OSCE by the 2000s; the Kaliningrad transit was finalized in 2003.
Baltic states pursued quite different political and economic policies towards Russia. Generally, analysts have rather simplistically labelled Lithuania as being most the cooperative with Russia, Estonia as the most adversarial, and Latvia as inconsistent and oscillating between the two. These policy variations were typically accounted for in terms of a single major independent variable that differs amongst the Baltic states – the ethnic factor. Estonia and Latvia had a significant Russian speaking minority whilst Lithuania did not. As a result, the ethnicity factor as a source of tensions did not plague Vilnius as it did Tallinn and Riga. Lithuania was also the first to conclude negotiations over Soviet army withdrawal because there were no strategic Soviet military bases on its territory. Furthermore, Vilnius did not have any territorial disputes with Russia and it signed a border agreement with Moscow in 2004. This put it ahead of Riga in 2007, not to mention Tallinn which has yet to sign a border agreement with Russia. That said, most recent studies suggested that of the three states, Lithuania - which appeared to have the least tension with Russia since the mid 2000s - was actually the most ‘overtly hostile’ towards Moscow. Thus, despite similar constraints the relations of each of the Baltic states with Russia were markedly different.


5 The Soviet army withdrew from Lithuanian territory by August 1993 and from Latvia and Estonia by August 1994. The delayed troop withdrawal from Latvia and Estonia was due to Russian insistence on maintaining technical personnel at the Latvian nuclear radar base Skrunda. Skrunda was finally evacuated in 1998, as was the Estonian nuclear submarine training centre in Paldiski, which was evacuated in 1995. http://www.globalsecurity.org/wmd/world/russia/skrunda.htm.

6 Latvia and Estonia both lost territories to the Russian Federation during the Soviet era while Lithuania gained territories. In May 2005, the Estonian and Russian foreign ministers signed agreements on the land and maritime borders of the two states in Moscow, but later Russia refused to sign the treaty, arguing that the Estonian parliament had included a political clause – a reference to the 1920 Tartu Peace Treaty - which delineates different borders between the two states.

7 Lithuania has been labelled a ‘new cold warrior’ whilst Latvia and Estonia have been described as ‘frosty pragmatists’ in their relations with Russia. As evidence of such claims, pundits cited the efforts by Vilnius
Differences among the Baltic states in their policy toward Russia were most striking in issue areas where underlying structural factors are remarkably similar such as in energy and in debates over historical questions. Policy differences towards Russian investment in strategic energy infrastructure have been particularly marked. Lithuania generally favoured Western investors over Russian ones. Estonia, on the other hand, appears to have been the most cooperative of the Baltic states in its foreign economic policy towards Russia. Latvia came somewhere between the others, allowing Russian investment into its gas sector, but keeping major oil transshipment facilities under national control. Policy differences regarding Soviet occupation were also significant. Vilnius actively pursued compensation for Soviet occupation and refused to attend Moscow's anniversary celebrations of the Soviet victory in the Second World War. Riga initially sought compensation for the Soviet occupation but then stopped all efforts on this front. Latvia was also the only country that accepted two invitations from Moscow to celebrate Soviet victory in the Second World War. Here Estonia's policies fell somewhere in between the two; it engaged in a systematic study of Soviet occupation damages but did not seek compensation. Likewise it refused some but accepted other invitations for the Victory Day celebrations.

Thus, a comparison of relations between the three Baltic states and Russia in the period of 1994 to 2010, reveals complex differentiation across issue areas and over time. Given the static structural similarities between the Baltic states, how can we explain their divergent policies towards Russia and the change in these policies over time?

This puzzle informs the central research question of this study: Why did Estonian, Latvian and Lithuanian foreign policies towards Russia diverge in the 1994 to 2010 period?

More specifically, what factors contributed to this policy divergence?

To what extent did domestic factors such as party and governmental politics, executive agencies, public opinion, and business lobbies affect national policies towards Russia?

How did ethnic factors, notably the presence of sizable Russian speaking minority population in Estonia and Latvia and its absence in Lithuania influence policy towards Russia?

How did the energy dependence of these states on Russia affect their policies towards their large neighbour?

How did Moscow’s policies towards the Baltic states impact Baltic policy making?

Finally, what effect did EU and NATO membership have on Baltic policy choices?

Analytically, this enquiry is relevant not only for students of the region but also for the broader study of international relations. First, relations between the Baltics and Russia may throw light on those between other small states and their regional hegemons. Second, the study might contribute to our understanding of the dynamics of imperial legacies and the notions of ‘special spheres of influence’ in new states formulation of foreign policy towards their former imperial masters. Third, the Baltic case might shed light on dynamics at play when the newly independent states in question have minorities with organic links to a regional hegemon and/or a former imperial power.

A further area to which this study seeks to contribute is the growing body of work on energy ‘as both a foreign policy issue and a foreign policy instrument.’ With an increasing number of countries relying on imports of oil and gas (particularly from

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Russia) in order to meet rising domestic demand,⁹ the study will help shed light on the ways energy dependence effects foreign policy formulation for both energy importing and energy transit states. The analysis of both the oil and gas sector will allow for a comparative perspective and a more nuanced analysis of energy policy. The timeliness of such an investigation into the effects of Russia’s energy policy on neighbours is attested to by a recent study which notes that Russia has threatened or implemented energy cuts on importing states on 55 difference occasions from 1992 to 2006.¹⁰ The insights of this thesis could be of particular relevance for other new EU states such as Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia, as well as the countries of the Commonwealth of Independent States (CIS).

Finally, the study will bring added value to our understanding of the impact that membership in multilateral organizations such as NATO and the EU has on small states’ foreign policy. It will contribute to the ongoing debate amongst scholars regarding the EU’s ‘Europeanization’ effect on the foreign policies of new member states and the ‘Easternization’ effect on EU-Russian relations due to the entry of former Soviet satellite states into the EU.¹¹ Russia has emerged as one of the most divisive issues amongst EU members, contributing to the alleged split of the EU into ‘new’ and ‘old’ members states.¹² Because conflict or cooperation between the Baltics and Russia impacts EU-Russia and NATO-Russia relations, a study of the determinants of Baltic foreign policy towards Russia will facilitate our understanding of the potential sources of discord or

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concord in EU and NATO relations with Russia as well. This is of especial significance because the Baltics are the most recent and most contested (by Russia) countries which the EU and, above all, NATO have recently admitted as members.\textsuperscript{13}

\section*{Literature Review}

The literature on the subject of Baltic-Russian relations and Baltic foreign policies is sparse. One explanation for the dearth of literature may be the assumption amongst scholars of the region of ‘Baltic exceptionalism.’ The presumption is that the Baltics differ from other CEE states due to their former inclusion in the USSR (unlike other new EU and NATO members), and also from CIS states due to the Baltics’ recent integration with the West (unlike other former Soviet republics). As a result, the Baltic cases frequently have been excluded from comparative studies on CEE and CIS states, though post 2004 there has been a greater tendency amongst scholars to include the Baltics in studies concerning the new EU member states. Extant studies of Baltic-Russian relations are dominated by analyses of Russian foreign policy rather than Baltic foreign policy. These naturally focus on Moscow’s approach towards the Baltics, with little attention paid to policy choices originating in the Baltic capitals. First, the studies emphasize Moscow’s different strategic and economic interests in each of the Baltic states such as minority rights and border issues in Estonia and Latvia and transit concerns with regard to Kaliningrad via Lithuania.\textsuperscript{14} Second, it is often argued that Moscow strategically

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pursued ‘differentiated engagement’ in its Baltic policies by choosing ‘pet’ and ‘enemy’ states amongst the three at different time periods. Both treatments probably stem from underlying realist assumptions that the small and new Baltic states have little say in relations with their regional hegemon and former imperial power.

The literature on contemporary Baltic foreign policy and Baltic-Russian relations can be broken down into three categories based on the time period and issues covered. The first type is the most voluminous and examines the early to mid 1990s period of state building – particularly the independence movements, withdrawal of Russian troops, negotiations for border agreements with Russia, and citizenship policies for Russian minorities. A constructivist approach tends to dominate this literature which argues that Baltic foreign policies towards Russia have been similar - dominated by fear and mistrust due to comparable national identities which were formed by the negative historical experience of Soviet occupation. Romuald Misiunas characteristically generalizes Baltic foreign policies by asserting that, ‘Fear of Russia and of Russians clearly continues to constitute the dominant leitmotif in foreign and internal policies of the three Baltic nations’ which often lack realism and pragmatism. Grazina Miniotaitė qualifies this fear of Russia, stating that in Lithuania it stems from geography and depends on political and economic

15 Akerman and Herd in Ross, p.274.
18 Misiunas in Starr and Sharpe, p.95.
processes in Russia, the country’s international position, and national policies. Empirical studies of the early 1990s provide greater detail on Baltic-Russian relations and make more effort to distinguish between the relations of the different Baltic states with Russia. Estonian relations with Russia are viewed as most conflictual due to the minorities question and border disagreements; Latvia’s policies, driven by similar tensions, are perceived to fall in the middle. Lithuania's relations are labelled as the most congenial due to the absence of such sources of disagreement.

The second phase covered by the literature, namely, the period from the mid to late 1990s to 2004, focuses on the EU and NATO accession process of the Baltic states. Baltic policies in this regard are perceived as focused solely on two goals: integration with the West, and managing Russian resistance to Baltic NATO membership. The constructivist view also dominates the accession literature. It casts the Baltic states as ‘determined to escape history’ through Western integration. The NATO quest is driven by historical fear of Russia whilst EU membership is as much an escape from the Soviet past as the desire to join its natural place Europe. For some, the Baltic states’ fear of Russia is

unfounded, rooted in a ‘militarization of the mind.’

Realist accounts of the accession period, however, emphasize the Russian threat, arguing that Baltic vulnerability stems from the balance of power in the Baltic Sea region and a gap in resources between the small states and Russia.

Most realist and constructivist studies do not attempt to contrast Baltic foreign policies in the accession period sharing the view of Grazina Miniotaite:

Contemporary foreign and security policies of the Baltic states seem essentially similar: they share the same pro-Western orientation, they seek membership in NATO for the hard security it would provide, they are actively involved in attempts to join the EU for soft security, and finally they are cautious and distrustful in their relations with Russia.

The third subset of the literature - which covers Baltic-Russian relations in the period after EU and NATO accession in 2004 - is the sparsest. The view that enlargement brought an ‘end of history’ in the Baltics is a possible explanation. The ultimately successful but trying process of implementing the main foreign policy goals of EU and NATO seemed to resolve the main analytical and policy questions regarding the Baltic states. Nevertheless, a few recent works have started to examine Baltic foreign policy outside the frame of state building and the EU and NATO accession processes. They provide solid empirical information on domestic politics, the development of foreign and security policy, and key issues in relations with Russia. These works nevertheless share many of the shortcomings of the earlier literature on Baltic foreign policy and relations with Russia insofar as they fail to account for policy differences amongst the Baltic states and across issue areas – the driving concern of this thesis.


27 Miniotaite in Krupnick, p.264.
Turning to specific works, we see that one oft-cited study of the Baltics by David J. Galbreath, Ainius Lašas and Jeremy W. Lamoreaux posits that the security and cultural/ethnic dimensions of Baltic foreign policies following accession to the EU and NATO are driven by the ideational forces like historical memory and national identity. Meanwhile, economic policies are formulated with reference to cost-benefit analysis. However, ideational variables can trump instrumental calculations when there is overlap between the two sets of issues.\textsuperscript{28} The authors nevertheless suggest that the emphasis of Baltic foreign policies in the late 2000s has shifted from national security concerns to economic interests after enlargement.\textsuperscript{29} The study provides useful empirical information on domestic politics and various institutions of foreign policy making. It does not succeed, however, in offering solid analysis regarding the relative weight of the various institutions, factors, and issues in foreign policy formulation. It also does not address the question of differences in the foreign policies of the Baltic states and the causes of such differences.

Another work - a volume of articles edited by Heli Tiirmaa-Klaar and Tiago Marques - examines Baltic foreign and security policies since the 1990s. Baltic-Russian relations pre and post accession to the EU and NATO are not differentiated and perceived to have remained unchanged:

Baltic states continue to be the hostages of their troublesome history, objective geographic determinism and the self-inflicted geopolitical interpretation of their security situation. As a result there is a vicious circle of mutual securitization in Baltic-Russian relations. Both sides use history as a foreign and security policy tool.\textsuperscript{30}

Both Galbreath’s and Tiirmaa-Klaar’s works are structured in a similar way with each country covered in a separate chapter by a country specialist. Chapters covering all three

\textsuperscript{29} Galbreath, Lašas, and Lamoreaux, p.6.
states tend to offer generalizations and little effort is made to compare or contrast policies of Estonia, Latvia and Lithuania. In Galbreath’s work, policy differences amongst Baltic states are not denied, but are generally ignored in the analysis. This is rationalized with reference to ‘the similarity of structural conditions and recent historical experiences.’

In Tiirmaa-Klaar’s volume they are neglected altogether, since, the authors argue, ‘goals and challenges [of the Baltic states] are too similar to merit an extensive comparative analysis.’ The structure of the volumes, in which chapters are broken down by country rather than by issue basis prevents the authors from providing in-depth analysis of policy initiatives on, say, energy, historical questions, or European Neighbourhood Policy (ENP).

A third notable work is a volume of essays on Latvia edited by Nils Muižnieks. It covers domestic aspects of Latvia’s relations with Russia such as Slavic parties and public opinion. It also explores international aspects of Latvian-Russian relations such as border treaty negotiations, minority tensions, and economic and energy relations. However, the work is highly empirical without theoretical grounding, and does not offer analysis of which domestic factors have been most influential, or which issue areas have dominated Latvian-Russian relations. Muižnieks work is written from a national perspective with little attempt to compare or contrast either amongst the Baltic states or with other CEE states. Still, Muižnieks’ highly comprehensive work goes further in depth and scope than other single case studies in examining relations between a Baltic state and Russia.

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31 Galbreath, Lašas, and Lamoreaux, p.4.
32 Paulauskas, p.15-42.
Similar volumes on Estonian-Russian and Lithuanian-Russian relations and a comparison between the three would contribute greatly to our understanding of the region.

In terms of issue areas, the most recent analyses of Baltic-Russian relations continue to focus on many of the same topics as in previous periods. These include the role of identity in Estonia and Latvia’s Russian minority policies, and tensions over historical accounts of Soviet occupation between Russia and the Baltic states. A new issue area is the use by the Baltic states of EU institutions to secure their interests vis-à-vis Russia and promote democracy in Ukraine and Georgia despite Moscow’s objections. Energy relations have been highlighted by Moscow’s growing penchant for exploiting the dependence on Russian energy of CEE and CIS states for political influence and increased rhetoric on the part of Baltic political elites on the subject. However, Baltic-Russian energy relations have not received sufficient scholarly attention. Older studies documented the shift from Baltic-Russian energy interdependence towards Baltic energy dependence on Russia and Moscow’s use of energy as a political tool via economic sanctions. Meanwhile, a recent work edited by Andris Spruds and Toms Rostoks on energy in the Baltic region is highly valuable in providing empirical information on the energy conditions, interest groups, and national energy strategies of the Baltic Sea.


40 Drezner.
countries. An older but still recent work by Keith C. Smith demonstrates how Moscow influences Baltic domestic politics by creating vested business and political interests loyal to Moscow in Baltic energy sector. Baltic energy policies towards Russia in light of their energy dependency have remained unexamined.

The existing literature on the Baltic states, whilst providing a backdrop to understanding Baltic-Russian relations, is not sufficient to address the questions this thesis seeks to answer on contemporary Baltic foreign policy. First, the literature does not pay sufficient attention to Baltic policy choices towards Russia. Second, little effort is made to compare or contrast the three states. Third, there has been little distinction between periods of pre and post enlargement. Fourth, studies have focused excessively on the same issue areas which are now nearing resolution such as withdrawals of military personnel, citizenship policies, and border treaties. At the same time, little attention has been paid to issue areas such as tensions over energy or the legacy of Soviet occupation. Similarly, scant attention has been paid to Baltic diplomatic or economic initiatives, or the political role of Russian speaking citizens and groups in domestic politics or foreign policy. This study seeks to fill these gaps in order to shed light on the how the small Baltic states each set their own unique foreign policy agenda towards their regional hegemon in the face of energy dependency and historical tensions.

**Analytical Framework**

The study will draw on major theories of International Relations (IR) and Foreign Policy Analysis (FPA) to assess what factors determined the policies of the Baltic states

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42 Smith.
43 Valuable studies have been completed on economic and energy dependence between Russia’s other neighbours such as Ukraine. See, for example, Robert Legvold and Celeste A. Wallander, eds., *Swords and Sustenance: Economy of Security in Belarus and Ukraine*, MIT Press, Cambridge, 2004 and Paul J. D’Anieri, *Economic Interdependence in Ukrainian-Russian Relations*, State University of New York Press, Albany, 1999.
towards Russia in the years 1994 to 2010. The puzzle underpinning this study emanates from the realist assumption that similar resources and geopolitical conditions provide similar constraints and opportunities for states in their foreign policy. Accordingly, a realist perspective informs this study in that it recognizes the role of structural factors in shaping policy options. Neo-realists argue that foreign policies vary according to a state’s ‘power position’ in the international system, which is determined by its material power capabilities and the polarity of the system. Thus, states such as the Baltics with highly similar ‘power positions’ in terms of their small size, weak militaries, and energy dependence within the same international system would be expected to have very similar foreign policies towards Russia.

In the realist view, a state’s foreign policy consists primarily of a drive for national security either by seeking autonomy in order to prevent or reduce its dependence on other actors, or by seeking influence through augmenting its resources and joining institutions which provide voice opportunities to express its voice. According to offensive realism, moreover, when security pressures are high (which is thought to be the norm), states pursue adversarial or non-cooperative foreign policies to safeguard their interests. Defensive realism, meanwhile, suggests that in situations where security pressures are low, cooperative foreign policies are possible. They will tend to unfold, however, in the economic, social, and cultural rather than military spheres.

In the realist view, sub-systemic factors such as the presence of ethnic minorities or the role of domestic institutions are less important than systemic factors in the drive for national

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security as well as in shaping foreign policy. Since this study aims to examine complex differentiation rather than similarities in Baltic foreign policies, and because it seeks to explain such differences with reference to sub-systemic factors, it is necessary to employ additional theoretical perspectives beyond realism.

Despite the fact that constructivism has been used extensively in the literature on this region, the constructivist perspective will not be relied upon in the bulk of the thesis but it has some relevance for the historiographical case (chapter V). The case study is based on the premise that the beliefs and perceptions of Baltic versus Russian policy elites and public were markedly different towards the Second World War. The views were different because they were constructed by different national identities, cultures, roles and norms. However, this work will not try to deconstruct the beliefs, perceptions or identities but will take them as given. Acknowledging the compatibility of realism and constructivism, the selection of theoretical approaches in this work is problem-driven.

Liberalism will be the primary analytical approach employed by this dissertation to address the complex differentiation between Baltic states’ foreign policies. From a liberal perspective, state behaviour is determined by preferences rather than capabilities. Unlike in realism, where states are perceived as unitary actors, liberalism allows for plurality in state actions. According to the liberal perspective, states are not the only relevant actors in international systems since international organizations, multinational corporations, and

49 Ethnicity matters only when the ethnic minority group is mobilized and seeks autonomy or independence or when a state seeks to exploit the ethnic divisions in another state. Will H. Moore and David R. Davis, ‘Transnational Ethnic Ties and Foreign Policy,’ in David A. Lake and Donald S. Rothschild, eds., The International Spread of Ethnic Conflict, Princeton University Press, Princeton, 1998, p.101.

50 According to constructivists, states’ interests are not given by nature but are constructed by ideational factors such as identity, culture, roles, and norms. Alexander Wendt, Social Theory of International Relations, Cambridge University Press, Cambridge, 1999, p.1; Emanuel Adler, ‘Constructivism and International Relations,’ in Carlsnaes, Risse, and Simmons.


transnational movements also play an important role.\textsuperscript{53} This study will focus on the domestic dimension of the liberal analysis which emphasizes the role of domestic politics in foreign policy making\textsuperscript{54} and considers the role of individual rights, domestic commercial interests, and republican institutions, as well as the role of international perspectives and preferences in shaping foreign policy.\textsuperscript{55} The view conceives of the state not as ‘a hypothetical single, rational national actor in a state of war (as with the realist ideal), but as a coalition … representing individuals and groups.’\textsuperscript{56} Thus, if according to the realist ‘rational actor model’ foreign affairs are more or less purposive acts of unified national governments\textsuperscript{57}, according to the liberal perspective various domestic actors have competing interests and all try to influence foreign policy.\textsuperscript{58}

There are several liberal approaches to foreign policy that focus on domestic factors. A state-centered approach views policy as constrained by domestic institutional relationships. It emphasizes the difficulties faced by state officials in realizing their objectives in light of both domestic and international constraints. A society-centred approach, on the other hand, views foreign policy as a function of domestic politics with policy outputs reflecting the preferences of the dominant group or class in society.\textsuperscript{59} This dissertation will make considerable use of the society-centred approach. An examination

\textsuperscript{53} Krasner; Keohane and Nye.
\textsuperscript{57} The society-centred approach has also been called the ‘governmental politics model’ according to which foreign policy is a result of bargaining games amongst players in the national government since ‘leaders who sit atop organizations are no monolith.’ Likewise, the state-centred approach has been classified by Allison as the ‘organizational behaviour model.’ Graham Allison and Philip Zelikow, Essence of Decision: Explaining the Cuban Missile Crisis, 2\textsuperscript{nd} edition, Addison Wesley, New York, 1999, p.4, 6, 255.
\textsuperscript{58} Graham T. Allison, The Essence of Decision: Explaining the Cuban Missile Crisis, Little Brown, Boston, 1971.
of competing interests in domestic politics can demonstrate how some groups favour more cooperative and others more adversarial policies towards Russia and under which circumstances and in which issue areas different interest prevail.

Liberal theoretical approaches also enable us to examine the impact of domestic actors in Baltic states such as political actors (i.e. the presidency, premiership, parliament, cabinet, political parties), political/bureaucratic actors (i.e. Ministry of Foreign Affairs and Ministry of Economics), economic/bureaucratic actors (i.e. Baltic national gas companies such as Eesti Energia, Latvenergo, Lietuvos Dujos), and civil society or private actors (i.e. lobby groups such as organizations of Russian speakers or private companies like Lithuanian gas distributor Dujotekana, oil refinery Mažeikių Nafta, and Latvia’s transshipment company Ventspils Nafta). According to liberalism, domestic actors’ foreign policy preferences are determined by rational utility maximization. As such, political actors seek to ensure their party’s incumbency, administrative actors aim to increase policy-making power, whilst private actors seek to increase their financial resources.  

Liberalism does not suggest that various sub-groups of domestic actors hold any inherent preferences for either cooperative or adversarial foreign policies. Therefore, the foreign policy preferences of Baltic domestic actors will have to be examined in specific cases across a range of issues. Furthermore, in common with realism, liberalism does not explicitly address the role of ethnicity in international relations. However liberalism assigns greater emphasis to sub-systemic factors particularly state-level characteristics such as the role of ethnic or religious groups. To some extent, liberalism suggests that the presence of ethnic minorities would prompt tensions as states may attend to the demands of interest groups who demand actions on behalf of ethnic brethren in other states.  

But a liberal theoretical approach also entails the assumption that

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61 While constructivism might shed light on such factors, this thesis takes the liberal approach to identity variables which are interpreted as a mediating assessment of interests but not as causal forces in their own right. Judith Goldstein and Robert O. Keohane, ed., *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*, Cornell University Press, Ithaca, 1993.
institutions or economic interdependence would constrain states from engaging in risky foreign policy.\(^\text{62}\)

Another strand of liberalism relevant for this study is neo-liberal institutionalism which views international institutions as an independent variable capable of altering state preferences and the conditions for states’ engagement with one other.\(^\text{63}\) Institutional liberalism suggests that membership in institutions increases the chances for cooperative foreign policy amongst member states. Since Russia is not a member of the primary institutions in which the Baltic states are involved – NATO and the EU - liberal institutionalism can provide only limited insights into the direct institutional impact of the Baltics’ membership to such bodies on cooperative or adversarial foreign policies towards Russia. The liberal assumption that institutional membership alters state preferences\(^\text{64}\) and thus a state’s foreign policy, begs an enquiry into whether EU and NATO membership has in fact altered Baltic foreign policies towards Russia.

The study of foreign energy policy can fit in within the framework of a wide range of theoretical approaches, but falls most comfortably in the liberal perspective, which acknowledges the importance of economic interests in foreign policy formulation. Energy has only recently been acknowledged as an important ‘foreign policy issue and a foreign policy instrument.’\(^\text{65}\) At the same time, energy factors are generally still not considered a structural feature of the international system, nor a central feature in major foreign policy clashes.\(^\text{66}\) A focus on energy politics permits us to examine political power and new forms of vulnerability from a broader perspective. A state’s natural resources influence its foreign policy options and concerns. Energy exporting states use their natural

\(^{62}\) Moore and Davis in Lake and Rothschild.


\(^{64}\) According to Robert Keohane: ‘Norms and rules of regimes can exert an effect on behaviour even if they do not embody common ideals, but are used by self-interested states and corporations engaging in a process of mutual adjustment.’ \textit{After Hegemony: Co-operation and Discord in the World Political Economy}, 1984, p.64.

\(^{65}\) Hadfield in Smith, Hadfield, and Dunne, p.322.

\(^{66}\) Hadfield in Smith, Hadfield, and Dunne, p.336.
resources as a foreign policy tool by threatening energy embargos or promising cheaper supply in return for political concessions. Importers or transit states also can use coercion to further soft power objectives through political sanctions, and economic embargoes. Both exporters and importers worry about energy security – i.e. security of demand and of supply. This fear can be understood both from a rationalist and a constructivist perspective. Energy dependence may or may not produce a sense of insecurity depending on the political relationship between the importing state and the energy exporter, the rhetoric and signals of political leaders in the energy exporting state, and media portrayals of what it means to be energy dependence in the importing state. In energy policy, a greater number of non-state actors are involved in foreign policy including both economic/bureaucratic actors (state energy enterprises) and private sector actors (private companies) than in other issue areas. An energy-oriented approach also emphasizes the clash of interests between the public sector, business groups and the state.67 As such, theoretical insights from energy studies will be drawn on extensively in this dissertation; as mentioned above, the emphasis will be on rationalist frames, though the relevance of constructivist perspectives may be alluded to in passing.

**Hypotheses and Argument**

Relying primarily on the liberal theoretical approach, this study will advance the main argument that: *despite having similar structural constraints and opportunities the Baltic states pursued distinct policies towards Russia due to their sub-systemic differences. Different domestic political scenes, partisan preferences, leaders, business groups, and ethnic compositions contributed to the variation in foreign policies.*

This study proposes a number of hypotheses, derived from the domestic liberal theoretical approach:

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67 Hadfield in Smith, Hadfield, and Dunne, pp.323-324.
1) Estonia’s and Latvia’s large Russian speaking minorities were a source of tensions in Tallinn’s and Riga’s foreign policy towards Russia due to the high levels of distrust by these governments of Moscow.

A study by William H. Moore and David R. Davis suggests that the ethnic composition of states has an impact on foreign policy behaviour and the presence of ethnic minorities is generally a cause of tensions.68 This hypothesis is supported by the experience of Baltic states with Russia during the 1990s. The presence of large Russian minorities in Estonia and Latvia appeared to create tensions between Tallinn and Riga on one hand, and in both countries’ bilateral ties with Moscow on the other. Clearly much depends on the conditions under which two states interact. Thus, minorities are likely to be a factor associated with tense relations when tensions already exist between the states in question. In the case of the Baltics, the Estonian and Latvian governments distrust Moscow and their Russian minorities. They also are concerned over Moscow’s ‘compatriot’ policies towards Russian speakers living in the Baltic states. Tallinn and Riga have therefore been fearful of enfranchising the large minority populations in Estonia and Latvia and as a result have been pursuing minority policies at odds with Moscow. The absence of a significant Russian minority population in Lithuania, as well as the absence of discriminatory policies removes some basis for tensions. As the following chapters will demonstrate, the ethnic factor is not the dominant factor in explaining Baltic foreign policy but just one of the sub-systemic factors contributing to policy differentiation. This thesis will also show that the presence of large Russian minorities in and of itself does not precipitate adversarial foreign policies. Evidence will be provided that countervening pressures from minorities were also present, such as pressure from large Russian minorities for conciliatory policies towards Russia.

2) Centre-right party rule in the Baltic states was associated with adversarial policies towards Russia; centre-left governments tended to pursue more cooperative policies towards Russia.

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As the subsequent case studies will show, the divergence between Estonian, Latvian, and Lithuanian foreign policies towards Russia and the variation in each of these states’ policies over time correlates to some extent with the partisan sensibilities of ruling parties. In the 1989-1990 period, all three Baltic states elected nationalist independence movement leaders who were confrontational towards Moscow in their quest for sovereignty. Following the independence movement period, the ideological orientations of the Baltic governments diverged. Every Latvian government since independence has been right of centre. Estonian government has also been dominated by rightist parties but has seen some left of centre governments (1995-1999) and some short-lived centre governments (2002, 2005-2007). Meanwhile Lithuania was predominantly on the left side of the spectrum, with only two governments composed of right-leaning political forces (1996-2000 and 2008-2010) during the period surveyed in this dissertation. During periods of centre-left rule in Estonia and Lithuania, the governments were more prone to cooperate with Moscow whilst during periods of centre-right rule there was a tendency for more confrontational policies. Latvia’s generally difficult relationship with Moscow could also be explained by this hypothesis given the prevalence of centre-right governments since independence. The detailed analysis of this work will demonstrate that in practice, centre-right governments did not necessarily pursue adversarial policies towards Russia and centre-left governments also often did not pursue cooperative ones. The policy choices depended on the issue areas and whether the policies were being pursued ahead of upcoming elections. The dissertation will also test the effects of the instrumental use of principled leftist and rightist policies and suggest that policies can sometimes run counter to partisan preferences as political actors may seek domestic political gains at the price of ideological consistency. The findings will show that instrumental policies were most often practised by political parties in opposition and by outgoing incumbent governments.

69 2008 Lithuanian parliamentary elections brought a centre-right government to power.
70 However this work will argue that it is difficult to test the hypothesis in the Latvian case as the domination of government by rightist ideologies makes it impossible to compare policies by leftist governments with rightist governments.
3) Baltic business interests played a highly significant role in policies (particularly energy policy) towards Russia. In many cases, these powerful interests groups sought more cooperative relations with Moscow and exercised a moderating influence on Baltic-Russian relations.

The hypothesis suggests that outside of the traditional foreign policy elite, business interests played an important role in foreign policy making and often lobbied for cooperative policies which went against the grain of the ideologies of the ruling parties. The evidence will show that the business lobby did not produce a singular effect on Baltic policies but a much more complex and multidimensional one. The case studies will demonstrate that some business interests acted as a force for cooperative relations with Moscow while other business groups lobbied for adversarial relations towards Moscow. Furthermore, business interests had a greater influence on government policies in the energy sector rather than in relations with Russia regarding the Soviet occupation. Lastly, the degree and nature of business influence varied across the three states.

The fourth hypothesis is derived from institutional liberalism and addresses the role of EU and NATO in the foreign policies of the Baltic states:

4) Baltic accession to NATO and the EU resulted in the convergence of Baltic foreign policies towards Russia.

The hypothesis focuses on changes in the political priorities of the Baltic states in their relations with Russia and the role of multilateral institutions in policy making following NATO and EU membership in 2004. Security and trade considerations vis-à-vis Russia remained at the forefront of all three Baltic states’ concerns (though their specific policies differed) until the strategic objective of integration with Western institutions was accomplished. The following chapters will demonstrate that after 2004 the Baltic states started focusing on other aspects of their relations with Russia – primarily energy security and Soviet historical legacies. Lithuania and Estonia, for example, have been the most vocal in their quest of energy dependence on Russia in the 2000s. However, while EU

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71 Latvia focused least on energy security. This could be due to its pre-occupation with traditional security concerns – such as ratifying its border agreement with Russia, an end accomplished only in 2007. More likely, however, and as will be shown in the ensuing chapters, it was because of the fact that domestic gas lobbies favoured ties with Russia.
and NATO membership brought some issue areas to the forefront of Baltic focus, the case studies will demonstrate that the EU and NATO’s influence on Baltic foreign policy choices was limited, indirect, and varied across the issues areas and across the three states. The evidence will show that EU and NATO membership did not result in a convergence of Baltic policies as ‘Europeanization’ literature would suggest. However, a convergence of rhetoric by 2010 among the three states in policies related to the Soviet occupation will be demonstrated.

Last of all, this study will test the realist perspective that the Baltic states had very limited ability to pursue an independent Russian policy due to their limited material power capabilities. This view would suggest that the variance in relations with Russia was simply a factor of differentiated Russian interests in each of the Baltic states. This, in turn, leads us to a hypothesis regarding the role of the external actor in foreign policy formulation. It proposes that:

5) The Baltic states responded in kind to increased assertiveness in Russia’s foreign policy following 2003.

Historically Russia long had strategic interests in the Baltic region. But President Vladimir Putin’s policies since his re-election in 2003 relied heavily on coercive pressure on the Baltic states using economic and energy instruments as well as local Russian speaking minorities. This hypothesis posits that rather than leading to concessions, Russian assertiveness elicited commensurate responses from the Baltic states as they opposed Russian expansion into their energy sectors and increasingly relied on the EU and NATO institutions in dealing with Moscow. Baltic tactics included lobbying in Brussels and Washington and threatening to veto the EU-Russia partnership agreement. It

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73 Russian Foreign Minister Andrei Kozyrev stated in 1994, ‘the CIS and the Baltics [constitute] a region where the vital interests of Russia are concentrated… We should not withdraw from those regions which have been the sphere of Russia’s interests for centuries.’ Drezner, pp.134-5.

must be noted that Putin’s second term coincided with Baltic accession to NATO and the EU and thus, it is more difficult to determine whether the greater confidence exhibited by Baltic states since 2004 stems primarily from membership in these international institutions, or due to reaction to Putin’s pressures, as both these factors appear to be mutually reinforcing. The case studies will demonstrate that there is insufficient evidence that Moscow’s assertive policies had a significant impact on Baltic policy preferences for adversarial policies. Instead this thesis will highlight the role of Moscow’s initiatives in spurring Baltic actions, especially in the energy sector throughout the 1994 to 2010 period. As a result of Moscow’s policy initiatives in the energy sector or commemoration of Soviet history elicited reactive policies from the Baltic capitals.

Methodology

Definitions
This thesis is a theoretically informed analysis of the differences in the policies of the Baltic states towards Russia. Methodologically speaking, the analysis falls within Van Evera’s historical explanatory category75 or the disciplined configurative case study of George and Bennett’s76 typology of political science dissertations. Relying primarily on the domestic liberal theoretical approach, I seek to explain the factors which shaped Estonian, Latvian, and Lithuanian foreign policies towards Moscow from 1994 to 2010. The primary purpose of the thesis is to provide a broader analytical understanding of the factors that influence foreign policy formation in small states such as the Baltics towards their regional hegemon, e.g. Russia, by using relevant theoretical tools and case studies.

This thesis defines foreign policy as government actions towards other states and external actors. The study does not treat a ‘government’ or a ‘state’ as a single uniform actor but rather as made up of various competing domestic players each with their own interests

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76 George, Alexander L. and Andrew Bennett, Case Studies and Theory Development in the Social Sciences, MIT Press, Cambridge, 2005, p.75
The foreign policy of the Baltic states will be analyzed using typologies based on two axes: cooperative to adversarial; and pragmatic to principled. *Cooperative foreign policy* is defined as a policy in which a state coordinates its policies in keeping with the actual or anticipated preferences of another actor. Policy coordination can involve bargaining or negotiations or simply adoption. A cooperative Baltic foreign policy towards Russia means that Russia is perceived as a potential partner in the economic, energy or potentially even political sphere(s). In the two energy case studies of this thesis, cooperative foreign policy will mean when the Baltic governments accepted Russian investment into their oil and gas sectors. For the historiographical case study, cooperative foreign policy will be when the Baltic governments accepted invitations to attend the Victory Day celebrations in Moscow and did not seek compensation from Russia for the Soviet occupation.

*Adversarial foreign policy*, on the other hand, entails a policy that challenges the preferences of the other state. Adversarial Baltic foreign policies towards Russia are understood as policies in which Russia is perceived as a potential threat. In the two energy case studies it will mean resistance to Russian investment, while in the historiographical case study it will describe a government’s refusal to attend the Victory Day celebrations in Moscow and pursuit of compensation for the damages incurred during the Soviet occupation.

*Pragmatic foreign policy* denotes a policy formed with reference to calculated costs of the benefits of cooperation versus non-cooperation. In practice, it often means placing

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80 In the oil study case, the episode examining Estonian policies in 2007 assess not Estonian policies towards Russian investment but rather Estonian policies towards the Soviet monument, which were the basis of the subsequent oil embargo issued by Russia.
economic interests ahead of political goals. In the subsequent case studies pragmatic policy will mean basing behaviour towards Russian investment or Soviet occupation on economic and political considerations rather than partisan preferences.

The opposite of pragmatic policy is principled foreign policy which is defined as a policy driven by the partisan preferences of political forces and is based on party dogma, beliefs, culture and values. In the Baltic states, it means that policy is influenced by the partisan preferences of the political right and the political left. In the energy case studies it will mean the left preferring a Russian investor and the right favouring a Western investor without taking into account commercial and political realities. In the historiographical case study, principled policies will mean the right arguing in favour of compensation and against attendance of Victory Day celebrations while the left automatically arguing against compensation and in favour of attendance.

*Foreign policy making* is understood to be a three-fold process involving domestic, regional, and multilateral actors who coordinate policy at each of these levels. This study will first examine the domestic politics of foreign policy making by contrasting domestic political developments as well as domestic foreign policy actors across the Baltics. A comparison will be made between the political parties in power, executive leadership, cabinet, relevant ministries, business lobbies and their influence on foreign policy formulation. Second, regional policy making will be studied, namely the role of cooperation between the Baltic states, with regard to constructing a regional approach towards Russia. Lastly, the multilateral dimension of foreign policy making will be considered to determine the role of Brussels and even Washington in Baltic-Russian relations. The strategic as well as bureaucratic impact of EU and NATO membership on Baltic foreign policy formulation will be weighted.

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81 Leonard and Popescu, p.2.
82 With regard to constructivist frames to understand these ideational variables of beliefs, culture, and values, this work will reflect the view that such subjective factors mediate our understandings of our interests, but for the purpose of this dissertation I will not engage in an intensive deconstruction of the role of those factors and instead bracket them to focus on the concrete outcomes at hand.
83 It is crucial to emphasize that by situating policies on *cooperative/adversarial* and *pragmatic/principled* axes, the thesis does not suggest one is preferable to the other. The terms are strictly descriptive referring to openness to collaboration or reliance on partisan principles.
When examining the factors behind cooperative or adversarial foreign policies, this study will use the categories of structural, process-based, and ethnic factors. Structural factors are understood as material power resources and geopolitical constraints and opportunities. Realist theoretical approaches traditionally focus on the military resources of states when examining their capabilities and relations. Whilst recognizing the military gap between the Baltics and Russia, this study will focus on the structural energy conditions such as the lack of energy resources in the Baltic states and their dependence on Russian oil and gas. Geopolitical conditions also include the strategic position of the Baltic states in the historical Russian sphere of influence, and their accession to the EU and NATO in 2004. Because this thesis argues that the structural factors with regard to material resources and geopolitical conditions are very similar in the Baltic states, the structural factors will not assist in answering the enquiry regarding the variation in Baltic foreign policies but rather will outline the similar constraints and opportunities faced by the Baltic states in their foreign policy formulation.

The notion of policy process factors refers to the way foreign policy is formulated and carried out by the various foreign policy actors. Domestic actors include the president, prime minister, cabinet, parliament, political parties, and relevant ministries. Domestic political processes include election campaigns, instrumental use of policy towards Russia for domestic political gains, the behaviour of incumbent and opposition actors, and the negotiation and lobbying of interest groups and local business. It is process-based factors, favoured by the domestic liberal theoretic approach, which are subject to the most scrutiny in this study.

Ethnic factors refer to the presence of a large minority population with significant political ramifications. Though ethnic factors are a domestic matter, they may be analyzed as part of process-based factors, or as a structural factor because the ethnic minority is a fixed characteristic of Estonia and Latvia. Because of the importance of the ethnicity variable in this study, it will be treated separately as a sub-systemic factor.
ethnic factor is understood as the sizable Russian minority population in Estonia and Latvia and the absence of such a community in Lithuania.\(^8\)

**Sources and Timeframe**

This dissertation draws mainly on written and oral primary sources. It will examine, above all, national policy memoranda in order to understand the basic framework of the foreign policy making of the Baltic states towards Russia. Excerpts from the constitutions and laws on defence are complimented with official statements and speeches of high-level government officials. Articles in major newspapers and magazines authored by politicians and advisors to the government are utilized for their descriptive data and insight into the personal views of policy-makers.

Interviews with key officials who shaped and participated in implementing Baltic foreign policy such as former presidents, prime ministers, ministers, their staff members, and members of the diplomatic corps fill gaps in the literature, provide empirical evidence, and breathe life into the analysis. Particularly for the energy case studies, interviews with private sector leaders working in the energy sphere provide additional insight into the role of interests groups in foreign policy formulation. Interviews conducted for this study utilized the semi-structured or focused format in which ‘actual stream of questions in a case study interview is likely to be fluid rather than rigid.’\(^85\) This style of interviewing facilitates interaction with the interviewee and thus the obtaining of more information relevant to specific issues.

The difficulties posed by source selection stem from source availability and reliability. Because few official documents are made public, working only with the public documents may provide a biased perspective. Likewise, information obtained through interviews or public statements by primary participants in foreign policy formulation may

\(^8\) In Lithuania, there is also a small Polish community, which was politically salient in the early to mid 1990s. However, since 1994, the role of the Polish community in Lithuanian-Russian relations was too limited to warrant the attention of this study.

be unreliable. Officials may present biased information because of their personal involvement in events and their ideological leanings or because of their desire to paint the picture to suit their own agenda. However, questioning a broad number of sources and corroborating the different views can minimize such methodological problems. The desire for most of the interviewees particularly the diplomatic corps or staff members of the executive offices to remain anonymous also poses a problem of attributing the statements to particular actors. That said, their views offer insider perspectives which enrich the study.

The time frame analyzed is from Soviet troop withdrawal from Estonia and Latvia in August 1994 to the Latvian parliamentary elections of October 2010. The 1994 starting point is appropriate because the focus is on contemporary Baltic foreign policies since the Baltic states were independent, sovereign entities, whereas the pre-1994 agenda of the Baltic states dealt primarily with nation-building, i.e. eliminating the most obvious vestiges of Soviet power and ensuring sovereignty. As noted in the literature section, these developments have been sufficiently documented by other scholars of the region. The October 2010 cut off is used to coincide with the Latvian parliamentary elections of that year. It also enables the work, which is focused on contemporary Baltic foreign policy, to include the most recent events in the Baltic states such as the May 2010 decisions of the Baltic presidents to attend or not attend celebrations of the Soviet victory in the Second World War.

Case Studies
The thesis will consist of three case studies which will compare Baltic policy towards Russia in different issue areas. The first two are energy cases, examining oil and gas supply, which has emerged as the main arena for political tensions or cooperation in contemporary Baltic-Russian relations and even EU-Russian relations. Energy issues differ in some respects from cases with a more exclusive political thrust. As this study

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86 A private list of anonymous interviews and their identities exists but is not included in the public version of this work.
will demonstrate, economic and political motivations often played an equally important role in Baltic foreign policy considerations regarding energy. At the same time, it will reveal that energy questions have been securitized in the Baltic states to a degree that renders them characteristic of sources of tension and/or cooperation in relations with Russia.

Baltic-Russian energy relations first appear more illustrative of reactive Baltic foreign policy towards Russia rather than pro-active or Baltic-initiated foreign policy. It was Russia who dictated a policy of energy cuts or aggressively sought to acquire Baltic energy assets. However, the case studies focus on Baltic policy choices and do demonstrate some Baltic pro-activeness even in highly constrained circumstances when policy choices appeared limited. The Baltic states precipitated many of the Baltic-Russian energy tensions by either resisting Russian investment or initiating controversial domestic policies towards Russian minorities which reverberated in the energy arena. The Baltic states have not been passive observers but have influenced the turn of events in the way they responded to Moscow’s policies.

The first case study will examine Baltic policies towards Russia in the oil sector and analyze the systematic cuts of oil deliveries by Russia to Estonia, Latvia, and Lithuania. The analysis will compare specific episodes such as Moscow’s halt in rail deliveries of oil products to Estonia following political tensions in May 2007, and the permanent closures of oil pipelines supplying Latvia’s transshipment company Ventspils Nafta since 2003 and Lithuania’s refinery Mažeikiu Nafta since 2006. This case study tests the role of political process-based factors in Baltic policy making such as the role of rightist versus leftist governments, the importance of business versus government interests, and the role of EU and NATO membership. The case also considers the Russia factor, examining to what extent Russia’s new energy policy determined Baltic-Russian energy relations. More broadly the case study sheds light on the repercussions of energy dependence in foreign policy. This is significant due to the trend of rising tensions between Russia and its near abroad over energy issues as well as increasing European dependency on Russian energy.
The second case study will compare Estonia, Latvia and Lithuania’s policies towards Russian corporate expansion in their domestic gas sectors. The study will compare the circumstances of the acquisition on the part of Russia’s Gazprom of Estonia’s national utility, Eesti Gaas, in January 1993, Latvia’s Latvijas Gaze in April 1997, and Lithuania’s Lietuvos Dujos in March 2004. The difficulty this case presents is the difference in time periods between the three privatizations. As a result the three privatizations were conditioned by very different sets of geopolitical circumstances. Gazprom's Estonian acquisition occurred when the country was still immersed in the process of state-building. Four years later, at the time of the privatization of Latvijas Gaze, Latvia was already in the state consolidation stage. Finally, in the Lithuania case, the privatization was finalized in 2004, following EU and NATO enlargement. The geopolitical and structural conditions facing the state in question will be an important factor in explaining the reasons for the privatizations. The case study will demonstrate how process-based factors of ideologies of political parties in power, government leaders and institutions, and local business interests led Lithuania to resist until 2004 and Estonia to accept as early as 1993 Gazprom’s expansion. As in the first case, the study of the gas sector will weigh the role of Russia’s economic policies and business interests.

The third case on historical tensions is complementary to the previous two case studies on energy policy because it will enable an exploration of non-economic issue areas that are at the forefront of Baltic-Russian relations. The third case study will address the policies of the Baltic states towards the legacy of Soviet occupation. Two policies are particularly revealing: pursuit of compensation for Soviet occupation and attendance (or not) of anniversary celebrations in Moscow on Victory Day, the annual commemoration of Soviet victory in the Second World War. All three states perceived the Soviet occupation as detrimental to the state and its population and thus embarked on a project of calculating the material damage incurred. However, policies towards seeking compensation for the damages varied across the three states. There was comparable variation with regard to Victory Day celebrations with Latvia opting for attendance to two of the three events and Lithuania refusing all three invitations. Unlike the energy
cases which focus primarily on reactive policies on the part of the Baltics towards Russia, the compensation case examines pro-active policies. In fact, there is no international precedent for seeking compensation for Soviet occupation. Lastly, the historiographical case study also best exemplifies the instrumental usage of policy by political parties vis-à-vis domestic constituencies as much as it reflects Baltic foreign policy objectives.

During the period in question - 1994 to 2010 - there are number of other possible cases in Baltic-Russian relations that could but will not be examined because they have been covered by other studies, or because they do not provide sufficient insight into foreign policy making as a whole, or simply because they lie beyond the scope of this project. Some examples of potential cases in the political sphere include Baltic policies in signing border agreements with Russia. Lithuania concluded such an agreement in 2004, Latvia in 2007, and Estonia has yet to do so. However, the main difference in the ease or difficulty of concluding border agreements lies in the fact that Latvia and Estonia have territorial disagreements with Russia whilst Lithuania does not. Another possible case study would be Lithuanian policy towards the Russian enclave of Kaliningrad, specifically Russian military transit to the region or the visa regime for Kaliningrad inhabitants. Whilst the case offers interesting insights into the role of the EU (which negotiated on the part of Vilnius even before Lithuania’s accession) in Lithuania’s relations with Russia, there are no comparable cases in Latvia or Estonia.

Estonian and Latvian policies towards Russian speaking minorities would be an obvious case to examine the political and cultural side of relations with Russia. However, a number of studies have focused on Baltic citizenship policies and little added value could be contributed. The case is also problematic because tensions over minorities between the Baltics and Russia can be both the cause and the symptom of adversarial Baltic foreign policies towards Russia. Thus, it is difficult to determine whether minority issues serve as a dependent or an independent causal variable. Often tensions over minority issues between Baltic states and Moscow peak following other events when interests clash in areas such as energy policy, trade, and Baltic accession to NATO. On the other hand, minority tensions have also translated into tenser Baltic-Russian political, diplomatic, and
energy relations. Most often tensions result from instrumental and politicized use of policy towards Russian speakers by both the Baltic capitals and by Moscow rather than emanate from the minorities themselves which under different circumstances could act a force for cooperative policies towards Russia.

An examination of more pro-active Baltic foreign policies towards Russia since enlargement suggests another case: Baltic support for democratic change in former Soviet republics. Lithuania has sought a position of a regional leader with its Ostpolitik policy of spreading democracy and supporting regime change, i.e. the ‘colour’ revolutions in neighbouring Ukraine (2004-2005) and Georgia (2003). It has also reached out to opposition leaders and civil society activists in Belarus. Lithuania has coordinated its policies with Poland and been active through the EU’s Neighbourhood Policy, despite Moscow’s clear opposition to the emergence of new pro-Western regimes in its ‘near abroad.’ Estonia and Latvia, however, whilst supportive of EU’s greater role in the Eastern Europe have not taken a leading role in these initiatives. This lack of a comparative dimension on one hand, and the focus on concerns for neighbours rather than on bilateral relations with Russia are the reasons why this potential case remains unexplored in the present study.

Baltic policies towards the Russian-German Nord Stream gas pipeline project constitute another possible energy sector case study. The issue involves bilateral relations between the Baltic states and Russia and multilateral relations between Russia, EU institutions, and Western European states. All three Baltic states have been cautious about the pipeline which is set to bypass the three states and Poland but to varying degrees. In September 2007, Tallinn refused to grant Gazprom a license to conduct a survey of Estonia’s economic waters for the pipeline and have tried to use its influence in the EU to derail the underwater route plans citing environmental concerns. Latvia has been the most supportive amongst the Baltics of the project, because its natural caves could be used by Nord Stream for gas storage. However, this fascinating case study will be left for future students of the region since these ongoing events are too recent and are as of yet too nebulous to allow for serious analytical work.
Structure of Thesis
Following this introduction, a second chapter entitled ‘The Domestic Politics of Baltic Foreign Policy Making towards Russia’ examines the role of government actors and institutions as well as business interests in the formation of Estonian, Latvian, and Lithuanian policy towards Russia. The analysis will demonstrate that in the Baltic states, the ideology of ruling parties and leaders set the tone for relations with Moscow but that contradictions often emerged because of business interests, public opinion or instrumental use of Russian policy. It will show the differences in political ideology, ethnic composition, and the consolidation of business interests, which as the case studies will prove resulted in divergence in the foreign policies pursued by Tallinn, Riga, and Vilnius towards Russia.

The third chapter, ‘Pipeline Politics: Tensions and Cooperation over Russia’s Energy Supply to the Baltic States’ will compare the halts in oil supply to Lithuania’s refinery Mazeikiu Nafta since 2006, Latvia’s transshipment company Ventspils Nafta since 2003, and Estonia’s ports in May 2007. The case study will trace the Baltic policies that precipitated these oil cut-offs arguing that domestic political environment, government ideological leanings, the ethnic factor and business interests determined the cooperative or adversarial Baltic policies.

The fourth chapter, ‘Resisting Gazprom: Baltic Policies towards Russian Acquisitions in the Gas Sector’ will compare the government policies of Estonia, Latvia, and Lithuania towards Gazprom’s investment in their national gas companies. The case study will unpack which domestic political, ethnic, or economic factors motivated and enabled Lithuania to delay Gazprom’s acquisition until 2004 whilst Estonia was open to Russian investment from 1993. It will also demonstrate the role of partisan preferences and business interests that led to the eventual success of Gazprom's investment schemes in all three states.
The fifth chapter, ‘Reconciling History: Soviet Occupation and the Policies of the Baltic States towards Russia’ will examine Baltic policy in re-examining Soviet history and seeking recognition and address for the perceived Soviet wrongdoings from Russia. The two policies covered include initiatives regarding Soviet occupation damages and attendance of Victory Day celebrations in Moscow. The case will highlight the domestic political factors and their influence on Baltic policy choices for either cooperative and pragmatic or adversarial and principled policies.

The conclusion will assess the findings of this study and their implications for theoretical approaches, existing literature and future research on the region. Conclusions will be offered on which factors played the most important role in the capacity of these small states to formulate and implement foreign policy goals in the face of their regional hegemons. Lastly, the transferability of these findings for policy analysts will be considered.

CHAPTER II

*The Domestic Politics of Baltic Foreign Policy Making towards Russia*
The following chapter will elucidate the impact of domestic politics in Baltic foreign policy towards Russia in the period between 1994 and 2010. The main questions that this chapter will address are: What role did domestic politics play in the foreign policy making of the Baltic states? How did domestic political differences contribute to the distinctiveness of Baltic foreign policies towards Russia? Which domestic conditions (e.g. political system, political composition of government and parliament, ethnic minorities, public opinion) and agencies (e.g. the government, ministers and Ministry of Foreign Affairs, the presidency, business interests) tended to promote cooperative and pragmatic and which promoted adversarial and principled foreign policies towards Russia?

Since the mid 1990s, Latvian and to a lesser degree Estonian domestic politics were generally dominated by political parties, presidents and foreign ministers from the right of the political spectrum, whereas Lithuanian politics were generally dominated by political actors from the left. The political ideology of the right, which will be outlined below, was generally predisposed towards adversarial policies towards Moscow. The ideology behind leftist politics favoured cooperative policies towards Moscow. Principled policies pursued by both the left and right were based solely on partisan preferences while pragmatic policies weighed the costs and benefits and not always followed party ideology. To a great degree, rightist governments coupled with the presence of ethnic minorities did create an atmosphere more prone to diplomatic tensions rather than cooperation in Estonia and Latvia, whilst the absence of these elements in Lithuania made cooperation possible. The difference in the predominance of political ideologies between Estonia and Latvia on one hand and Lithuania on the other may reflect differences in the ethnic composition of these states. The existence of a large Russian speaking population in Estonia and Latvia was perceived by the Estonian and Latvian elites as a source of potential tension with Moscow and thus, the Russian presence piqued nationalist tendencies in each country’s domestic politics. That said, the impact of domestic politics on Baltic foreign policy towards Russia is not reducible to ideological differences in the leadership of the Baltic states. This is attested to by the fact that actual
political practice is often at odds with the ideologies political actors espouse.\textsuperscript{87} Such inconsistency stems from the instrumental use of the Russia question by parties for domestic political gain, pragmatism, and influence of various interests groups.

This thesis is based on the premise that policy towards Russia is the most controversial and politicized aspect of Baltic foreign agendas. In contrast to Baltic \textit{Westpolitik} over which there has been considerable consensus with political elites from all three states favouring EU and NATO membership\textsuperscript{88}, \textit{Ostpolitik} remains domestically controversial and agreement has proved difficult to reach. Policies towards Russia are often emotionally charged and marked by strong rhetoric that produces a great deal of noise in the domestic system. In addition to domestic ideological division and the instrumental use of policy, policy formulation towards Russia is marked by tensions stemming from the transitional aspect of domestic politics which one often finds in new states. The large number of foreign policy actors representing a diverse set of interests complicates matters further. Business interests are particularly active in foreign policy formulation due to their dependency on Russia for energy supplies, and because of the sizable profits stemming from involvement in Russian energy and goods transit through Baltic territories and ports. However, the impact of business interests has not been uniform – some local elements have resisted closer ties with Russia whilst others encouraged cooperation with Russia. In sum, the politics of interests – on the part of political parties, lobbies, and individuals – have had distinctive effects on foreign policy with some actors seeking cooperative and some adversarial foreign policy irrespective of the political forces in power.

This chapter provides background information on Baltic political systems and actors and serves as a basis for analysis in the later case studies. The first section will present a brief overview of the main features of Baltic domestic politics and discuss the effects of these

\textsuperscript{87} A more detailed analysis in this chapter and the case studies (chapter III, IV, V) will demonstrate that the political right does not always pursue adversarial policies towards Russia and the political left does not always pursue cooperative ones. For example, as will be shown in chapter V, debates over the legacy of the Soviet period have tended to compel the broadly cooperative Lithuanian left to pursue adversarial policies towards Moscow in order to validate their nationalist credentials to domestic audiences.

features on foreign policy making. The body of the chapter will focus on the actors and institutions of foreign policy making. To begin with, the substantive influence of political parties on foreign policy and their instrumental usage of the Russia question in domestic politics will be discussed. An analysis of the foreign policy executive including the presidency and the foreign affairs ministry of each country will follow. Last, the influence of economics ministries and the oftentimes key role of business interests in the sphere of foreign economic policy towards Russia will be examined.

**Domestic Political Conditions for Foreign Policy Making**

The domestic political environment and institutions of the Baltic states should be viewed within the context of the transitional, post-communist nature of Baltic politics which sets the conditions under which foreign policy is formulated. From the early 1990s, the domestic political systems of Estonia, Latvia, and Lithuania evolved from authoritarian, one-party, communist rule to parliamentary representative democratic republics with multi-party systems. The generally successful transformation culminated in accession to the EU and NATO in 2004. Yet, Baltic political systems continue to differ from those of Western European in terms of political ideology and practices, mirroring those of post-communist systems which are described by Vello Pettai as increasingly ‘individualized, fragmented and commercialized.’\(^{89}\)

This begs the question: How did these political conditions impact Baltic foreign policy? Given the individualized and personalized nature of Baltic political life, political parties are often created, destroyed, and dominated by charismatic leaders with little regard to ideology.\(^{90}\) This can make foreign policy rhetoric volatile, driven by the individual views and personalities of leaders without consideration for the official platform of their political party.

\(^{89}\) Pettai in Schartau, Berglud, and Henningsen, p.92.
\(^{90}\) This is particularly true in Estonia and Latvia where centre-right political parties differ little in their platforms but are led by different strong personalities.
The fragmentation of Baltic domestic politics also contributes to the fragility of foreign policy conceptions. A large number of parties vie for office and at least half a dozen gain representation in every parliamentary election. In Estonia 12 political parties competed in the 2007 parliamentary elections, in Latvia 20 political parties competed in the 2010 parliamentary elections, and in Lithuania 16 political parties competed in the 2008 elections. Furthermore, every Baltic government since independence has been a coalition government and few coalitions have been made up of less than five political parties. Due to the fragility of coalition governments and political parties, sensitive issue areas such policy towards Russia can induce government and party fragmentation or collapse. The propensity towards fragmentation resulted in divisiveness and inability to cooperate amongst the various political forces, a phenomenon that was particularly evident in rhetoric towards Russia. However, at the same time the threat of government collapse over the Russian question contributed to the ‘incumbent’ factor in party behaviour. Incumbent political parties pursued more moderate policies than when they were part of the opposition.

The fragmentation of domestic politics creates a wide range of views on Russia ranging from highly cooperative to openly adversarial. That said, foreign policy elites tend to exhibit more unity and consistency on key aspects of relations with Russia. Furthermore, as the incumbent factor suggests, in practice, foreign policy elites and political parties tend to be more consistent and pragmatic than in rhetoric. During Latvian border negotiations with Russia after 2005, for example, the Latvian political elite was highly divided. Some opposed and others supported Latvia’s claim on the Abrene region which currently belongs to Russia. In the end, Latvian foreign policy elites supported making territorial concessions to resolve the border issue with Russia even though they were

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91 The threshold to gain seats in parliament is 5 percent of the national vote in all three states.
92 The 12 parties had formed 11 blocks for the election.
93 The 20 parties had formed 16 blocks for the elections.
94 The more moderate policies pursued by political parties that are members of a government coalition versus the same parties when they are in opposition is defined in this thesis as the ‘incumbent’ factor which will be demonstrated in the case study chapters.
united by their ‘suspicions towards Russian intentions.’ In general, the Latvian and Estonian foreign policy elites are consistently cautious of Russia. In comparison, Lithuanian foreign policy elites who have been dominated by members of the political left tend to be more open to cooperative relations with Russia, but there is also less uniformity amongst Lithuanian elites than in the other two Baltic states. This means that partisan preferences can influence views towards Russia depending on which political party is in power at any given time.

Baltic politics can be described as commercialized with a high degree of penetration of business interests in politics. As a result, business interests often play a notable role in domestic politics and in foreign policy making, particularly in energy policy. Local companies in the transit and energy distribution sectors as well as Russian oil and gas companies, expend considerable resources in political lobbying given the significant interests at stake in Baltic-Russian economic and political relations. Business interests therefore can be a force for either a more cooperative or more adversarial relationship with Moscow. Generally, local business interests which export goods to Russia or import Russian energy seek a more cooperative relationship with Moscow. Other local businesses are against cooperation with Russia because they do not want competition from Russian investors entering Baltic markets. Likewise, some Western interests and companies lobby for closer cooperation with the West and access for Western rather than Russian investors. Business groups make their voices heard through financing political parties who then support policies preferred by the business groups in question rather than policies based on their political platforms. This often creates contradictions between party platforms and policy practices. Because of the prevalence of corruption and a lack of transparency in the financing of political parties, some business interests are believed to operate as agents of the Kremlin through their sponsorship of political parties or individual politicians.

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96 Ozolina and Rikveilis, p.97.
Populism is another feature of Baltic politics that became pronounced after 2000. In the 2000s, Baltic parliamentary elections saw the emergence of new political parties with every election - sometimes by the half dozen. The phenomena of populist parties reached its apex in the Lithuanian parliamentary elections of October 2008 when a newly formed party of actors and showmen, the National Resurrection Party, came in second with 15 percent of the vote and became members of the coalition government. Populism in the Baltics is an appeal to issues important to the common people but also favours emotional rhetoric and slogans, whilst also displaying a dearth of concrete policies, platforms, or even ideologies. Fragmented domestic politics and the ability to form coalition governments favours extreme, populist parties rather than catch-all parties. These conditions encourage parties to engage in populist initiatives such as controversial rhetoric designed to win votes even on issues of foreign policy. This drives greater divisions between political parties and sets a negative tone and climate in relations with Russia. As such, populist initiatives such as the removal of the Soviet era statue in Tallinn in 2007, or resolutions in the Lithuanian and Latvian parliament which seek compensation for Soviet era occupation have become a source of tensions with Moscow.

The last structural feature of Baltic domestic politics, with possibly the most significant implications for Baltic-Russian relations, is the sizable Russian speaking minorities residing in Estonia and Latvia. In 2008, Russian speakers made up one-third of

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99 The 2007 parliamentary election in Estonia saw the Reform party promise to remove a statue of the Soviet Bronze soldier before the 9 May celebrations of Russian victory in World War II, an important commemorative day to the Russian speaking minority. Other examples include the 2000 parliamentary elections in Lithuania when a number of parties called for neutrality and opposed EU and NATO membership.

100 Russian speakers consist of Slavic populations such as Ukrainian and Belarusian and other smaller ethnic groups in addition to Russians (generally, studies of the minority exclude the Poles). There is considerable and politicized debate on how to refer to the Estonian and Latvian minorities. Galbreath argues that the ‘Russian’ label is ‘largely misleading and incorrect’ and prefers ‘Russian speakers’ or ‘Russophones.’ Other labels include ‘Soviet era migrants’ often used by Estonian and Latvian governments and scholars, or ‘Russified settlers’ according to Neil Melvin. Russia prefers to use the label of Russian ‘diapora’ or ‘compatriots.’ See David J. Galbreath, Nation-Building and Minority Politics in Post-Socialist States: Interests, Influences and Identities in Estonia and Latvia, Ibidem-Verlag, Stuttgart, 2005. Also Janis
Latvia’s 2.3 million people with the figure rising to around half the population in the capital, Riga. Russian speakers made up around a fourth of Estonia’s 1.3 million people and only 7 percent of Lithuania’s 3.4 million people. Because roughly 20 percent of Estonia and Latvia’s Russian speaking minorities are not citizens and therefore do not vote, their influence on domestic politics is reduced (See Table 2.1).^101

Table 2.1: The Baltic Electorate: Russian Speaking Citizens Versus Total Population

<table>
<thead>
<tr>
<th></th>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>1.3m</td>
<td>2.3m</td>
<td>3.4m</td>
</tr>
<tr>
<td>Russian speakers (% of total pop.)</td>
<td>377,000 (29%)</td>
<td>782,000 (34%)</td>
<td>238,000 (7%)</td>
</tr>
<tr>
<td>Russian speaking citizens (% of total pop.)</td>
<td>301,600 (23%)</td>
<td>625,600 (27%)</td>
<td>238,000 (7%)*</td>
</tr>
</tbody>
</table>

*In Lithuania, all Russian speakers were automatically granted citizenship, so figures of Russian non-citizens are not available and the Russian speakers’ and Russian speaking citizens’ figures should be roughly equivalent.


The correlation between the sizable numbers of Russian speakers in Estonia and Latvia and the prevalence of rightist ideology in their political system is notable. Arguably, the sense of vulnerability felt by ethnic Estonians and Latvians who claim to feel like a minority in their own country encourages more conservative and nationalist ideological leanings. It may seem counterintuitive that a Russian minority population of approximately 30 percent and one that is not fully enfranchised would pose a threat to the political life in such a way as to make the titular nations feel vulnerable. Nevertheless, these perceptions are salient. They stem from the fact that Russian speakers were in a position of power during the Soviet time and that Russia - still the regional hegemon -

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^101 Latvia and Estonia have opted for restrictive citizenship policies, meaning that only residents of pre-WWII states and their descendants automatically received Latvian and Estonian citizenships. Russian migrant workers who arrived in Latvia and Estonia in 1994-1990 period had to apply for citizenship. Among the requirements for citizenship, is demonstrated knowledge of basic Estonian and Latvian, which has precluded many Russian speakers from applying for and receiving citizenship.
appears intent on having an influence in the region via ‘compatriot’ policies. Meanwhile, it is possible that the lack of a sizable minority and accompanying sentiments in Lithuania does not favour rightist parties and potentially bolsters the bid of left-of-centre parties to successfully compete for the national vote.

Due to the small size of Lithuania’s Russian speaking population and the lack of tensions over citizenship policies, the minority question has not had the same resonance in Lithuanian foreign policy as in Estonia or Latvia. Lithuania has a considerable Polish minority in the Vilnius region, which totals 6 percent of the national population. Lithuanian political elites used to equate Polish speakers with local Russian speakers particularly during the 1990s. Some analysts still group the two together as ‘Slavic speakers’ because Russian and Polish minority parties have often formed blocks during parliamentary elections, voted for leftist political parties, and opposed Lithuania’s independence in the early 1990s in light of the belief that the two groups are ‘united not only by ethnic but also by ideological bonds.’

Since the 2000s however, political parties associated with Lithuania’s Polish minority have not been active on foreign policy issues although they have been an important player in the local politics of the Vilnius region. The domestic relations between the Polish minorities and the Lithuanian majority have been closely related to Polish-Lithuanian relations, which evolved from a tense relationship in 1991 to rapprochement in 1994 after the signing of a Treaty of Friendship and Cooperation between Warsaw and Vilnius. Following EU and NATO accession, Poland and Lithuania have developed a strategic cooperation and Polish minorities have ceased to be a significant source of tensions domestically or with Warsaw. Because of the small size of Russian speakers and the limited role of Polish minorities in Lithuanian-Russian relations, this study is focused on the causal role of Estonia and Latvia’s Russian speaking minority in foreign policy making.

Surprisingly, despite the large numbers of Russian speakers, Russian political parties had a limited effect on the foreign policy of Estonia and Latvia. Political parties representing

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minority interests have never participated in coalition governments in Latvia. In Estonia, parties representing solely Russian interests such as the Constitution Party and the Russian Party have never been in government coalitions. That said, more mainstream leftist parties, which are sympathetic to Russian voters such as the Estonian Centre Party and People’s Union of Estonia, have participated on single occasions government coalitions. In general, the foreign policy preferences of Russian parties were sidelined because, as opposition parties, they had little opportunity to influence foreign policy.

Notably the foreign policy views of Russian voters were diametrically opposed to those of many ethnic Balts. The division of foreign policy views along ethnic lines was illustrated by public opinion surveys. A 2005 survey demonstrated that there was a significant relationship between ethnicity and one’s views towards Russia and that distrust of Russia persisted amongst the ethnic Latvians. In Latvia, 37 percent of ethnic Latvians agreed with the statement that ‘Russia can be seen as threat against Latvia’s independence’ whilst 83 percent of non-Latvians and 51 percent of Latvians disagreed.

In Estonia, there are similar divisions in policy preferences amongst Russian speakers and ethnic Estonians. In 2007, 66 percent of Estonians shared the opinion that government’s moving of the Soviet monument from the Tallinn centre was positive, and only 5 percent believed it negative. In contrast, only 5 percent of Russian speakers supported the move and 56 percent considered the action to be deplorable. The opinion of Russian speakers did not have a major impact on policy decisions by the Estonian and

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103 In the October 2010 Latvian parliamentary elections, a political party representing minority interests, Harmony Centre, came in second in terms of the number of votes garnered. They were not invited to join the government coalition, but it is possible that they will be invited to support the government and may possibly gain a minister’s portfolio.

104 Aivars Tabuns, ‘Attitudes Towards the State and Latvian Foreign Policy,’ in Nils Muižnieks, ed., Latvian-Russian Relations: Domestic and International Dimensions, Latvijas Universitāte, LU Akademiskais apgads, Riga, 2006, p.32. The same opinion was expressed by senior Latvian diplomat in Moscow during an interview on 11 April 2008.

105 Ikstens in Muižnieks, p.51.


Latvian political elites but did have a moderating effect on the more nationalist policies pursued in the 2000s as will be demonstrated in chapter V on historical tensions

Though Russian political parties or voters had little direct means to influence foreign policy domestically, Russian speakers were the indirect source of quite intense tensions in Latvian-Russian and Estonian-Russian relations. From Moscow’s perspective, Estonia and Latvia’s discriminatory domestic policies towards Russian speakers were one of the key sore points in their bilateral relations with Moscow. Tellingly, the *Concept of National Security of Russia* of January 2000 declared Moscow’s intent to protect the legitimate rights and interests of Russian citizens abroad through political, economic, and other means. Since the early 1990s, Moscow has repeatedly called for greater rights and autonomy, easing of language requirements, automatic citizenship, and education reforms for the Russian speakers living in Latvia and Estonia. Moscow has also linked its minority agenda to other issues in Estonia and Latvia such as Soviet army withdrawal, border agreements, and energy supply. *Russia’s National Security Strategy to 2020* released in May 2009 (and replacing the 2000 *Concept of National Security of Russia*) remains consistent regarding Russian speakers in the near abroad albeit cloaking it in new humanitarian language. It states, moreover, that united Russian compatriots are Russia’s tool in achieving its foreign policy aims.108

Russia’s stance in the name of its ‘compatriots’ did not elicit conciliatory policies; rather, it spurred Estonia and Latvia towards more confrontational attitudes vis-à-vis Russia. This was partly due to their fear of Russia’s influence on local Russian speakers and partly due to populist policies intended to appeal to nationalist voters. Thus, Tallinn and Riga adopted narrow citizenship policies and tried to consolidate the position of their ethnic language through education policies. This vein of reaction was most notable in Latvia. According to Nils Mužnieks, ‘inter-ethnic and inter-state relations are also clearly linked, with … every new development in Latvian minority policy creeping onto

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the bilateral agenda.’¹⁰⁹ In sum, Russian minorities had limited influence on foreign policy but their mere presence has proved a source of tension and debate in Estonian-Russian and Latvian-Russian relations.

**Domestic Institutions and Processes for Foreign Policy Making**

In comparison to the majority of EU member states, foreign policy making in the Baltic states is officially driven by a relatively small number of actors in tight-knit bureaucracies with power concentrated amongst the few. Using Christopher Hill’s definition, the structure of Baltic states’ foreign policy making is *executive dominated*¹¹⁰ and thus driven by a few key institutions such as the presidency, the government, and the foreign ministry. According to David J. Galbreath, Ainius Lašas, and Jeremy W. Lamoreaux, foreign policy making in the Baltic states should be understood as the foreign policy making of small states, marked by ‘closer cooperation among various political elites, and more intensive and direct participation of top political figures in daily foreign policy affairs’ in comparison to many other states.¹¹¹ However, as subsequent sections will demonstrate, in practice there was a greater number of foreign policy actors with business interests and lobbies also playing a role in influencing foreign policy.

In all three states, the primary role of carrying out and shaping national foreign policy is delegated to the president who is also the ceremonial head of state. Foreign policy is also formulated by the government, which is led by the prime minister and supported by his cabinet of ministers. Generally, the prime minister does not play a direct role in formulating foreign policy, but nominates the minister of foreign affairs and other key actors. Thus, she or he can set the tone for the government’s foreign policy direction. Outside of the foreign policy executive, institutions such as the ministries of defense and economics, as well as indirect actors such as political parties and business interests, also

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influence foreign policy making. The national unicameral parliaments – the Estonian Riigikogu, the Latvian Saeima, and the Lithuanian Seimas represent the power structure of the national political parties and serve as fora for foreign policy debates, particularly through Foreign Affairs Committees. The parliaments use their legislative power, passing laws and resolutions that can also influence foreign policy. In the following sections, each of main foreign policy actors and institutions will be analyzed in greater detail.

Foreign Policy Actors: Political Parties
In the Baltic states, political parties and their members play a greater role in foreign policy formulation than in most medium sized and larger states. The small national bureaucracies enable participation of top political figures in daily foreign policy affairs.112 As a result, domestic party politics are closer to and more relevant for foreign policy making than in larger states. This section will outline how political party members become foreign policy actors and how political parties seek to shape foreign policy based on their ideology and domestic political objectives. An analysis of the main cleavages in foreign policy ideology and the main Baltic political parties and their views will follow.

Political Party Members as Foreign Policy Actors
Political parties act as building blocks of domestic and foreign policy because their members form the basis of the parliament, the executive government, and the foreign policy elites. Parliamentary elections, through which public opinion is expressed in favor of certain political parties and their ideologies, are the first, indirect step of creating the foreign policy executive. Following elections, the resulting composition of the parliament – i.e. the number of seats gained by Members of Parliament (MPs) representing specific political parties – sets the direction of foreign policy and shapes the climate in which foreign policy decisions are made for the next four years.

The political parties which secure the greatest number of seats in the parliamentary elections form the government. In the Baltic states, coalition governments have been the rule as a single party has never gained a majority of seats. The finely balanced and often

112 Ibid.
fragile nature of coalition governments allows for considerable voice for junior coalition member parties, the parliament, and opposition parties in foreign policy making. This is particularly the case for highly sensitive issues like foreign policy towards Russia. As a result, parliamentary debates and resolutions on Russia can influence governments and foreign ministries insofar as governments seek to satisfy MPs to keep coalitions intact.

The head of the winning political party in parliamentary elections generally takes the post of prime minister, who appoints fellow party members to his cabinet. The appointments of important foreign policy agents such as the ministers of foreign affairs, defense, energy, and economics are political rewards for ruling party members as well as members of parties who constitute the government coalition. As such, ministers with these portfolios are rarely non-partisan technocrats. Rather, they tend to represent the ideologies and interests of their political parties.

Presidential elections are also greatly influenced by party politics. Political parties endorse certain candidates either through the process of parliamentary election of the president as in Estonia and Latvia, or through direct national elections of the president as in Lithuania. There has been, however, a rising tendency in the 2000s towards non-partisan candidates in Latvia and Lithuania, and moderate compromise presidents in Estonia.

*Political Party Ideology and its Instrumental Usage*

Because relations with Russia are perceived to be an important and sensitive issue, it constitutes a considerable part of the platforms of political parties. Party policies towards Russia are driven by at least two major factors: 1) the general stance towards Russia, and 2) the instrumental use of foreign policy issues for domestic ends. The party’s stance towards Russia is a reflection of the views of the electorate and the political party members. The ideology is exported from the political party to the foreign policy executive by party members who become foreign policy actors. The political composition of the parliament, the government, and the ministries, accentuates possibilities for either adversarial or cooperative relations depending on the ideologies represented and
depending if political actors opt for principled or cooperative policies. The instrumental use of foreign policy for domestic purposes often has very little to do with party platforms or stances towards Russia. Politicking with foreign policy is done in order to appeal to voters or to differentiate one’s political party from others. This is achieved through rhetoric, policy initiatives, and laws which appear to be directed at Russia but which, as often as not, are aimed at domestic audiences. That is, tarring a politician or political party with a pro-Russian label, is an effective tactic and may serve to keep politicians in check who might otherwise pursue conciliatory policies towards the East. There is also the instrumental usage of the ‘Russia-phobe’ label for politicians that demonstrate caution towards Russia. A common approach in this vein is to warn voters that a fallout with Moscow could result in energy price hikes.

The instrumental use of policy towards Russia clearly increases the politicization of foreign policy, a phenomenon that is all the more pronounced because of the populist, fragmented, corrupt, and business influenced domestic political environment. A Lithuanian political commentator, Artūras Jonkus, has aptly summarized the instrumental and politicized use of foreign policy and the difficulties it creates in formulating policies towards Russia:

‘Every day a large part of political rhetoric states that Russia is a threat. As a result it is not surprising that among the political parties there have emerged two poles: there are those who do not want any relations with Russia; there are the other political forces who want friendly relations with Russia, however they are surrounded by a veil of suspicion, implying that something sinister lies behind this friendship… In the background of this paranoid situation, I cannot name a single political party, which would come out in favour of friendly relations with Russia, and for which no one would have doubts whether these relations are “clean.”’

Jonkus’ observation demonstrates that because relations with Russia are so sensitive and/or connected with shadowy interests, it is difficult for political parties to formulate

clear policies towards Russia. As a result, parties either avoid formulating a policy towards Moscow which prevents cooperative relations or seek closer ties but without transparency.

The instrumental use of foreign policy towards Russia differed across the three states due to ideological variation across the major political parties and the political spectrum as a whole. In Lithuania, there were greater differences amongst the major parties in their political views towards Russia and thus the greatest instrumental use of foreign policy as parties competed with one another. In Latvia and Estonia, the major political parties that form government coalitions have tended to be more uniform in their stance towards Russia with most taking a fairly cautious view. Thus, instrumental use of foreign policy was less frequent in Latvia and Estonia than in Lithuania.

However, if we take all of the many parties across the political spectrum into account rather than mainstream political elites, it becomes clear that there are greater differences in views of Russia in Estonia and Latvia than in Lithuania. The political parties representing Russian speakers in Estonia and Latvia call for close relations with Russia and major concessions in foreign policy. Their views are almost diametrically opposed to the views of the major political parties that have composed the Latvian and Estonian governments. The views of Russian parties are met with great suspicion because of the non-transparent relationship that these parties have with Moscow. They are, accordingly, almost never incorporated into official policy. In Lithuania, there are no parties representing Russian speakers and therefore no parties which openly call for close ties with or foreign policy concessions to Moscow. Furthermore, though links between certain Lithuanian political parties and Russia are criticized, they tend to be perceived as less of a threat to the state because of the lack of official parties representing the interests of Russian speakers – an assessment that may not be accurate.

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114 See the charts in the Appendix. As noted there were 12 parties in Estonia in the 2007 elections, 20 parties in Latvia in the 2010 elections, and 16 parties in Lithuania in the 2008 elections.

115 For an argument along similar lines see Galbreath, Lašas, and Lamoreaux, Continuity and Change in the Baltic Sea Region, p.136.
There are numerous examples of domestically-oriented instrumental foreign policy initiatives. For example, all three states have passed resolutions compelling the government to calculate damages incurred under the Soviet occupation. Lithuania has even issued a law calling for compensation of occupation damage from Russia. However, little action has followed these mostly rhetorical initiatives.\textsuperscript{116} The Lithuanian Parliament has also passed numerous resolutions regarding the murder of civilians committed by Soviet soldiers on 13 January 1991 and attacks on border guards at Medininkai on 31 July 1991.\textsuperscript{117} Similarly, initiatives such as that of the Estonian government to remove a Soviet era monument in May 2007 were based on a nationalist appeal to ethnic Latvians in anticipation of parliamentary elections without serious consideration of the consequences for Estonian-Russian relations. On the other hand, political parties in favour of greater political cooperation with Russia tend to sow seeds of fear in the public by claiming that a non-cooperative policy towards Russia will be detrimental to domestic standards of living as Moscow will raise energy prices or cut off energy supply completely.

\textit{Baltic Left/Right Cleavages and Foreign Policy}

Despite their evolving nature and unique features in each state, the ideologies of Baltic political parties can be analyzed using the left/right spectrum commonly used by political scientists to characterize broad ideological positions representing opposite poles in a political system. Whilst there is no contemporary consensus on the meaning of the words,\textsuperscript{118} in the U.S. the ‘left’ and ‘right’ are associated with the ‘liberal’ politics of the Democrats and the ‘conservative’ politics of the Republicans respectively.\textsuperscript{119} In Western Europe, to which the Baltics and CEE are more comparable, the left has become

\textsuperscript{116} See chapter V for a detailed analysis.
\textsuperscript{117} On 31 July 1991 Soviet troops attached a new customs office of newly independent Lithuania killing seven customs officers.
\textsuperscript{118} The concept of the ‘left’ and ‘right’ originates in the French Legislative Assembly of 1791, when the radical Montagnards sat on the left and the moderate royalists Feuillants on the right. See Norberto Bobbio, \textit{Left and Right: The Significance of a Political Distinction}, Polity Press, London, 1996.
\textsuperscript{119} The Democrat Party supports government regulation of business, commerce, and industry, as well as government intervention on behalf of minorities and the poor. The Republican Party is broadly defined by opposition to governmental regulation and income redistribution.
associated with labour interests whilst the right is linked to capitalist interests. Another aspect of the right which is arguably more salient in Europe and the Baltics is the association of the right with more nationalist policies. The main foreign policy dimensions of Baltic political left and right are summarized in Table 2.2.

Table 2.2: Foreign Policy Dimensions Characteristic of the Baltic States’ Left/Right

<table>
<thead>
<tr>
<th>Left</th>
<th>Right</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communism/Socialism</td>
<td>Capitalism/Anti-Communism</td>
</tr>
<tr>
<td>Anti-Independence</td>
<td>Independence</td>
</tr>
<tr>
<td>East</td>
<td>West</td>
</tr>
<tr>
<td>Past</td>
<td>Future</td>
</tr>
<tr>
<td>Minority Rights</td>
<td>Nationalism</td>
</tr>
<tr>
<td>Labour*</td>
<td>Capital*</td>
</tr>
<tr>
<td>Trade with former Soviet republics</td>
<td>Spreading democracy to former Soviet republics</td>
</tr>
<tr>
<td>Energy Cooperation</td>
<td>Energy Independence</td>
</tr>
</tbody>
</table>

*Dimension generally falls outside the scope of foreign policy

The left/right dimensions form the basis for the main ideological cleavage towards Russia amongst the Baltic political elites. In general terms, the right in Baltic countries is cautious of Russia or any cooperation with post-Soviet organizations such as the CIS. Meanwhile, Baltic parties of the left are open to political and economic cooperation with Russia and support the interests of domestic Russian speaking minorities. As can be seen from Table 2.2, the key dimensions of the Baltic states’ political left include support for socialism and minority rights, an emphasis on closer ties with the East, a broadly positive interpretation of the Soviet past, desire for energy cooperation and trade with former

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Soviet Republics; and if principled policies were followed would predispose left-leaning actors towards cooperative relations with Moscow. In contrast, characteristics of the right such as support for capitalism and nationalism, policies oriented towards strengthening relations with the West, and a focus on the future, as well as aspirations for energy independence and the expansion of democracy in the former Soviet Republics’ would predispose rightist political actors towards adversarial relations with Moscow if principled policies were followed.

Whilst generalizations about the Baltic left and right are useful to understand the broad parameters of party politics, in practice foreign policy by left- or right-leaning actors has been marked by evolution and contradictions. First, both the political right and the political left can opt for pragmatic policies towards Russia and base their decisions on the cost-benefit calculations and realities at hand. The importance of many of the noted dimensions in Table 2.2 has changed over time with dimensions such as communism, the East, and the past becoming less salient for the Baltic left in the late 1990s, and particularly after the dual accession to EU and NATO of 2004. That said, the communist/anti-communist cleavage as well as the anti-independence/independence cleavage was the main divide between the left and right in the 1990s.\footnote{Mindaugas Jurkynas and Aine Ramonaite, ‘Divergent Perceptions of Political Conflict in Lithuania’ in Mai-Brith Schartau, Sten Berglund, Bernd Henningsen, eds., \textit{Political Culture: Values and Identities in the Baltic Sea Region}, Berliner Wissenschafts-Verlag, Berlin, 2007, pp.183-201; Galbreath, Lašas, and Lamoreaux, p.26.} Once a Western course of Trans-Atlantic and European integration was adopted, issues of energy dependence, relations with Ukraine, Georgia, and Moldova, and the labour/capital divide in domestic policy emerged to the forefront. Furthermore, parties of the left and right do not consistently support all the dimensions outlined in Table 2.2. For instance, as an exception to the usual foreign policy preferences of the right, the populist far-right Lithuanian party, Order and Justice, led by an impeached former president, Rolandas Paksas, also upholds a nationalist, Euroskeptic and pro-Russian ideology.

The salience of the aforementioned dimensions varied across the Baltic states. The minority rights/nationalism dimension has consistently been the most potent cleavage in
Estonian and Latvian political ideology due to their sizable Russian speaking minorities. As such, Estonian and Latvian political parties have been divided between vying for Russian minority votes and supporting nationalist policies. During the 2000s, Lithuania’s most salient divide has been between leftist parties supporting labour interests and rightist parties supporting capitalist interests. Indicatively, in a 2008 political debate, a representative of the rightist Homeland Union, Irena Degutienė, stated that in Lithuanian politics the ‘left and right are different primarily through their tax policy – the rest [of the differences] are details.’ Still differences in foreign policy outlook persist. In the 2008 parliamentary election campaign, for example, the Lithuanian left sought a more pragmatic and cooperative relationship with Moscow whilst the right sought the role of a regional leader bent on spreading democracy in the former Soviet republics and rallying EU states against a revanchist Russia.

Baltic Political Parties and Foreign Policy Ideologies
Estonian and Latvian domestic politics as well as the majority of their parties are concentrated on the right of the political spectrum, whilst the majority of Lithuanian political parties fall to the left. Studying parties based on their left/right orientation enables easier classification and understanding of their foreign policy views. The left/right political spectrum for each of the Baltic states is provided in charts 1-3 in the appendix at the end of this chapter. The following section will outline the major political parties in the Baltic states, focusing on their foreign policy priorities and particularly on their ideology towards Russia.

Baltic far right parties originated in popular movements for independence called the ‘people’s fronts.’ Examples include Estonia’s Pro Patria Union, Latvia’s For Fatherland and Freedom, and Lithuania’s Homeland Union. These parties remain the watchdogs against any backward gravitation towards the Russian or post-Soviet space. An excerpt from the Homeland Union’s election campaign in 2000 sums up the right’s persistent occupation with independence and caution towards Russia: ‘We created the Homeland

Union so Lithuania would never return to the Soviet Union.” In Lithuania, the Homeland Union has been the preeminent party in foreign policy, serving as the originator of foreign policy ideas even when it was not in government. The three Baltic right parties are also proponents of nationalism and patriotism for ethnic Balts. Estonia’s Pro Patria Union has led the initiative to relocate a Soviet monument in Tallinn in May 2007 whilst Latvia’s For Fatherland and Freedom called for a referendum of existing citizens to try to thwart measures that would ease citizenship requirements in 1998. The three parties are also lead the initiatives to assess the damages of Soviet occupation. The nationalism and patriotism of the Baltic far right goes beyond social and political policy to advocating energy independence from Russia and an economic re-orientation of trade away from the East. For instance, the leader of Lithuania’s rightist coalition led by the Homeland Union, Andrius Kubilius, stated in 2008 that in fifteen years ‘patriot families will raise at least three children and just as today will not fill up on petrol in [Russian oil company] “Lukoil” gas stations.’

The left side of the Baltic political spectrum originates in the Communist party and the anti-independence political forces of the 1990s. In Lithuania, this elision is evident inasmuch as many members of the former Lithuanian Communist Party are now members of the Lithuanian Social Democratic Party (LSDP). From the mid-1990s, the LSDP were increasingly defined by their rhetoric in support of labour rather than communism and cautiously supportive of independence and integration into Western organizations. The LSDP have been by far the most influential party of the left in the region since independence – participating and generally leading coalition governments

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125 Other authors believe that since 1999, the Conservative Party along with its leader Vytautas Landsbergis have lost their preeminent position in foreign affairs when they lost the majority in parliament. Galbreath, Lašas, and Lamoreaux, p.94.
126 The events in Estonia will be outlined in detail in Chapter V. In Latvia in 1998, when the government was trying to pass measures to ease citizenship requirements (following pressure from the EU), the For Fatherland and Freedom party called a referendum in the hopes of preventing the measures. Philip John Davies and Andrejs Valdis Ozolins, ‘The 1998 Parliamentary Election in Latvia,’ Electoral Studies, Vol.20, No.1, 2001.
128 Formerly the LDDP (Lithuanian Democratic Labour Party).
after three out of the four parliamentary elections held since independence (1992-1996, 2000-2004, 2004-2008). The Latvian Social Democratic Party is also the direct heir of the Latvian Communist Party but unlike its Lithuanian counterpart has been a marginal party receiving support only from ethnic minorities. Its foreign policy platform is characterized by resistance to EU and NATO membership. Estonia is the only former Soviet state that did not have a modern party evolve from its Communist party. The Estonian Social Democratic party (ESDP), representing the interests of labour, has no links to the Communist party and has operated as a centrist party by participating in centre-right government coalitions and supporting a foreign policy based on Western integration.

The policy stance towards labour or capital by the political left and right also influenced foreign economic policy. Economic neo-liberalism has been most powerful in Estonia, and is represented by the Reform party. Since the mid-1990s, the Reform Party has participated in most of the government coalitions in Estonia, so it has greatly contributed to the creation of Estonia's conservative fiscal policy and low tax policies. In foreign policy terms, the political strength of neo-liberalism has assisted Estonia in its front-runner role in EU integration and re-orientation of Estonian trade towards the West away from Russia. The economic ideology of Estonia has also made it very open to foreign investment, including Russian investment. Thus, Estonia had a more pragmatic and cooperative view towards economic ties with Moscow including Russian investment in comparison to Latvia and Lithuania. Lithuania’s and above all Latvia’s less liberal economic ideology fuelled resistance to selling national companies to foreigners. The sensitivity has been particularly acute towards Russian investment due to the relevance of energy for security. As a result, the apparently cooperative Lithuanian left is in fact – and due to its very subscription to values which emanated from the ties with communist ideology – can be anti-Russian in the economic sphere. Likewise, the apparently adversarial Estonian left is cooperative towards Russia in the sphere of economic relations due to its economic values.

129 Ikstens in Muižnicks, p.48.
Unlike in Lithuania, the political left in Latvia and Estonia is primarily composed of parties serving the interests of Russian speaking minorities. It accordingly supports closer political and economic ties with Russia. In Estonia, leftist political parties such as the Russian Party in Estonia and the Constitution Party represent the interests of Russian speakers but remain marginal on the political scene. Since independence only one Russian minority party has gained representation in the Riigikogu - Our Home is Estonia! – which performed relatively well in the 1995 parliamentary elections. Mainstream Estonian left parties such as the Estonian Centre Party and the now-defunct Estonian Coalition Party - which typically appealed to a broader economically disadvantaged electorate - also spoke to moderate Russian interests. These parties play an important role in politics but not to the same extent as the Social Democrats of Lithuania. Both were members of coalition governments – the Estonian Coalition Party in 1995 and in 1996-1999, and the Centre party in 1995, 2002, and 2005-2007. Since non-citizens can vote in municipal elections in Estonia, the Estonian Centre Party has also become an important player in local politics. For instance, Edgar Savisaar head of the Centre party was the Mayor of Tallinn from 2001 to 2004, and 2007 to the present. In this role, he increasingly became an advocate of the Russian minority’s interests and maintained close ties with Russian President’s Vladimir Putin’s United Russia Party. This lost him the support of Estonian voters and positioned the Centre party as a Russian speakers’ party.

Latvia’s Harmony Centre and For Human Rights in United Latvia (FHRUL) parties represent the interests of Russian minorities exclusively. They have been more successful in domestic politics than similar parties in Estonia. They are solidly represented in the Saeima where they lobby for easing citizenship requirements and promoting warmer relations with Russia and CIS countries. Even though Latvian non-citizens do not have a right to vote in municipal elections, the success of their parties could be due to the fact that the Russian minority population is larger and more mobilized in Latvia, benefiting from sizable Russian business interests in Riga. Another reason for the vitality of Russian

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130 The study will refer to parties of Russian speakers or Russian-parties though a more accurate but unwieldy term would be ‘Eastern Slavic political parties’ as they often include people of Russian, Belarusian, Ukrainian descent as used in Ikstens in Muižnieks.

131 Meie Kodu on Eestimaa!
parties in Latvia stems from the fact that none of Latvia’s mainstream parties were successful in attracting the vote of Russian speaking minorities. However, according to Janis Ikstens, Latvian Russian speakers parties are ‘politically marginalized’\(^\text{132}\) because they have never been part of a government coalition. This was further reinforced in October 2010 parliamentary elections when Harmony Centre came in second in terms of the number of votes collected but was not invited to join the government coalition. The limitations of Harmony Centre were related to the fact that it failed to attract votes from ethnic Latvians and is perceived to represent the interests of Russian minorities.\(^\text{133}\)

The foreign policy orientation of Lithuanian political parties was not divided around Russian minorities. That said, parties on the left tended to attract the small Russian speaking electorate and have a number of Russian speaking representatives. Many leaders of Lithuanian leftist parties had personal ties to Russia, the Communist party, or the Soviet regime. Algirdas Brazauskas, former President of Lithuania (1993-1998) and head of the LSDP, for example, was secretary of the Lithuanian Communist Party during the Soviet era. Viktoras Uspaskich, the founder and head of the Labour party, is a former Russian citizen who sought political asylum in Russia following an inquest into his party’s finances in 2006. Kazimiera Prunskiene, head of the Lithuanian Peasants Party and a former prime minister also had strong personal and political ties to Russia stemming from her membership in the Lithuanian Communist Party, her alleged KGB ties, and her title - awarded by the Russian authorities - as Duchess of Russia. Rolandas Paksas, founder of the far right Order and Justice Party, was impeached as the president of Lithuania in 2004 for revealing state secrets and had alleged links to Russian criminal and state security elements.

\(^{132}\) Ikstens in Mužnieks.
Foreign Policy Actors

The Public
In comparison to the rather low levels of public interest in foreign policy and EU-Russian relations in other European states, especially old EU members, foreign policy and relations with Russia were a highly salient political issue for Baltic publics. This stems from the Baltic independence movements which were led by popular fronts with broad participation from the public. The post-independence policy priorities of integration with the West and a parallel policy of politically and economically distancing the new states from Russia left a strong imprint on the average citizen. Even following the acquisition of EU and NATO membership, foreign policy remains an important issue for the electorate. The public interest in Baltic-Russian relations can be seen from the extensive coverage accorded by the mainstream press and television to the subject, though a decline in the salience of this issue can be detected in the late 2000s.

Public opinion contributed to the climate in which foreign policy actors pursue their policies. The majority of ethnic Balts have remained rather skeptical and cautious of Russian intentions in the political and security sphere. In the economic sphere, however, publics were more open to cooperation because the Baltic economies were still dependent on Russia as a market for domestic production, as well as on Russian sources of energy. An important dimension of public opinion in Latvia and Estonia was also the local Russian speaking population as discussed in the previous section.

The Government
Baltic governments played amongst the most important roles in setting the direction of foreign policy. In Baltic parliamentary systems, governments are formed by a coalition of winning political parties each of which is represented by elected members of parliament. They include the prime minister and his cabinet of ministers. As the previous two sections outlined, the views of the electorate and political elites are filtered through parliamentary elections and incorporated into the agenda of national coalition governments. The prime minister does not have a direct role in foreign policy but appoints the heads of key ministries such as the ministers of foreign affairs, economics,
and defence. Moreover, as an executive in charge of domestic and specifically economic policy, the prime minister plays a role in economic and energy relations with Russia. The following section will trace the major ideological tendencies of the three Baltic governments from 1994 to 2010 focusing on moments of conflict and cooperation with Moscow. Subsequently, the roles of ministries of economics and foreign affairs in foreign policy making will be analyzed.

As can be seen from Timelines 2.1-2.3 in Appendix 2.1, the governments of the Baltic states were dominated by different political forces. Every Latvian government since independence was on the right of the political spectrum. Estonia likewise has been dominated by rightist parties but has seen some left-of-centre governments (1995-1999) and some short-lived centre governments (2002, 2005-2007). Meanwhile Lithuania was predominantly leftist, with only two governments led by rightist political forces (1996-2000, 2008-present). The foreign policy dimensions of right/left political parties outlined earlier suggest that rightist governments would be more adversarial towards Moscow and leftist governments more cooperative. Yet, despite Estonia and Latvia’s tendency towards rightist governments and Lithuania’s general preference for leftist governments, all three states have had a difficult relationship with Russia marked by episodes of crisis and tensions in both the economic and political front. This is highlighted in Timelines 2.1-2.3 found in the appendix of this chapter.

Each of the three states has had disruptions to its energy supplies, and most disruption occurred under the stewardship of centre-right government coalitions. This was the case in Estonia in 2007 (rightist government), in Latvia in 1998 (rightist government) and again in 2003 (rightist government), and in Lithuania from 1998 to 2000 (rightist government), as well as since 2006 (leftist and rightist governments). Yet the apparent correlation between conflict with Moscow and rightist governments is weak because all Latvian governments have been centre-right whilst Lithuania experienced energy halts under both centre-right and centre-left governments. The interruptions in Latvia and Lithuania stemmed from government resistance to Russian investment in its strategic assets such as Ventspils Nafta in 2003 (rightist government), Mažeikiu Nafta in both
1999 (rightist government) and 2006 (leftist government). Though it would be difficult to imagine a sale of a major strategic asset to a Russian investor under the Lithuanian rightist government, and though Lithuania’s leftist forces preferred a Russian investor in 2006, the sale of Mažeikiu Nafta under the Social Democrats to Polish PKN Orlen shows that government political orientation is not the only factor in Baltic-Russian economic relations. In fact, an apparently tense period in Lithuanian-Russian relations from 2005 to 2008 coincided with the Social Democratic government.

In the sphere of ethno-politics, Estonia and Latvia had more tensions with Russia than Lithuania. Rightist politics coupled with tensions with Russian speakers have produced outbursts such as the 2007 riots over the Bronze Soldier in Tallinn and the 1998 pensioner riots in Riga, as well as protests in 2004 over education reform in Latvia. In Estonia, a diplomatic crisis of 2007 which spilled over into halts in energy supplies was a function of a shift in government from centre to right as well as a decision to pass a controversial measure removing the statute of the Soviet soldier in an appeal to the nationalist vote (see Chapter V). Neither the dominance of leftist political parties nor the lack of a sizable minority population has protected Lithuania from diplomatic tensions with Russia. In fact, Lithuania is the only Baltic and post-Soviet state that has issued a law (initiated in parliament by the outgoing rightist Homeland Union) in 2000 that commits its government to seek compensation from Russia for the Soviet occupation. Likewise, Vilnius threatened to veto EU-Russian negotiations for a partnership treaty in 2008.

It appears that conflict emerges between the Baltic states and Russia at junctures when rightist government coincides with other factors such as instrumental use of policy towards Russia or similarly instrumental policies toward Russian speakers. Nor were episodes of Baltic cooperation with Moscow simply correlated with the tenure of leftist governments. Baltic sales of controlling shares of their national gas distributor to Russia’s gas monopoly Gazprom serve as an interesting point of comparison (See Chapter IV). Estonia was the first to strike this politically sensitive but economically pragmatic deal in 1992 under a rightist government. Latvia’s rightist government
concluded a similar agreement in 1997 during a brief détente when a border agreement was being drafted and the Russians were preparing to leave the Latvian Skrunda base by 1998. That said, the Lithuanian deal was finalized in 2004 under a leftist government. Despite the domination of Estonian politics by rightist parties, meanwhile, Tallinn appears to be the most cooperative and pragmatic of the Baltic states in its economic and energy policy towards Russia.\textsuperscript{134} Lithuania, on the other hand, and despite having been dominated by leftist governments, has been the least cooperative in energy and economic policy towards Russian investors.

In the sphere of politics and security, there is also inconclusive evidence to suggest that rightist governments are always likely to pursue adversarial policies with Russia. Latvian and Lithuanian border treaties with Russia were signed when rightist governments were in power in 2007 and 1996 respectively. The Latvian centre-right government led by nationalist People’s Party concluded border treaty ratification with Russia in December 2007. It is surprising that Lithuania concluded its border agreement under the rightist government since the previous government of 1992-1996 led by Social Democrats would appear to have been better suited for such negotiations. Likewise, Estonia and Latvia concluded Russian army withdrawals by 1994 during the tenure of rightist governments. Withdrawal of Russian troops from Lithuanian territory occurred in 1993 under a leftist government. As such, it appears that for Baltic-Russian cooperation to occur in the economic or political spheres a confluence of factors is necessary. Generally, cooperation seems most likely when economic interests coincide, local business interests are in favour of cooperation, and binding international legal agreements are in place (such as in the case of military withdrawals).

\textsuperscript{134} View also expressed by Latvian Ambassador to Russia, Andris Teikmanis, Moscow, 11 April 2008.
Ministries of Foreign Affairs

The Baltic ministries of foreign affairs (MFA) led by the minister of foreign affairs are the main government institutions charged with foreign policy making and implementation.\footnote{Galbreath, Lašas, and Lamoreaux, p.29, 52, 70.} In fact, the MFAs are nearly as important in the Baltics as the presidencies which are tasked with setting the broad direction of foreign policy that the foreign ministries implement. In practice, the foreign ministries have been most active in Western integration policies by coordinating the EU accession negotiation process and, since enlargement to the Baltics in 2004, coordinating policies with Brussels. EU membership has resulted in strengthening the role of MFAs in foreign policy making.\footnote{Ibid., p.94.} Currently, Lithuanian and increasingly Estonian MFAs use the EU arena for pursuit of policy or lobbying vis-à-vis Russia. Given the importance and sensitivity of relations with Russia, it is the government and its appointee, the minister of foreign affairs, which overseas political relations with Russia. However, tremendous attention is paid to Russia policy by the president, MPs, parliamentary committees on foreign affairs, and the media. Meanwhile, Baltic states’ economic policy towards Russia is implemented jointly by the MFAs and the ministries of economics. Security issues such as NATO membership have been managed by the ministries of defense, but decisions such as the preference for remaining aloof from any security organizations in the CIS space was formulated at top government levels.

As Table 2.3 demonstrates, Latvian and Estonian foreign ministers were generally from the political right whilst all but two Lithuanian foreign ministers (Algirdas Saudargas and Audronius Ažubalis of the rightist Homeland Union) were from political parties of the left. This is not surprising because it is in line with the political tendencies outlined earlier. In each of the three countries, the foreign minister is appointed by the prime minister and is generally a member of a political party that is part of the coalition government. In Latvia and Estonia, the foreign ministries have been dominated by the political right. In Latvia, where all the governments have been of the right, political forces from the left have virtually no influence in the foreign ministry. In Estonia, which did have periods of governments led by political forces of the left (1995-1999; 2005-
2007), the foreign ministry remained in the hands of centrist and rightist political forces. In Lithuania, meanwhile, the rightist Homeland Union has proved itself capable of influencing the direction of foreign policy even when it does not lead the government coalition and did not have a member of its party as foreign affairs minister.\textsuperscript{137}

The role of ministers of foreign affairs has varied greatly across the Baltic states in light of each minister’s competence, and personality. In Lithuania, the role of the foreign minister held considerable more weight and elected individuals had more long-term influence than in Latvia and Estonia due to the length of their terms in office. By way of contrast, in Estonia and Latvia, unstable coalition governments and frequent replacements of cabinet members has meant that foreign ministers have generally not retained their appointment for more than a year or two. In Lithuania, where governments have collapsed frequently, foreign ministers were nevertheless able to maintain their seats, even when prime ministers were re-appointed. As can be seen from Table 2.3 above, during the same time period nine foreign ministers served in Estonia and eight in Latvia whilst Lithuania had only six. However, in the late 2000s, Estonia started to demonstrate the greatest stability in its foreign ministers fielding the same figure since 2005. By way of comparison, in the last five years Latvia had three ministers and Lithuania had four.

The longest serving Baltic foreign ministers have been Lithuanian Algirdas Saudargas and Antanas Valionis both of whom held the post for a total of six years. Saudargas, representing the centre-right Lithuanian Christian Democratic Party, was crucial in maintaining Lithuania’s Western orientation and increasing distance from Russia in the 1990s. Similarly, and in spite of being nominated by leftist parties, Antanas Valionis presided over Lithuania’s accession to the EU and NATO and its forays into spreading democracy in the region, particularly in Ukraine, Moldova, and Georgia.

\textsuperscript{137} The success of the Homeland Union in influencing foreign policy can be explained by the fact that the party prioritizes foreign policy. Homeland Union members, moreover, are perceived to have foreign policy expertise, and they have numerous sympathizers among the diplomatic corps, academics, and analysts.
Table 2.3: Baltic Foreign Ministers since 1994

<table>
<thead>
<tr>
<th>Country and President</th>
<th>Years</th>
<th>Party Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estonia:</strong></td>
<td></td>
<td>(Left/Right/Centre)</td>
</tr>
<tr>
<td>Trivimi Velliste</td>
<td>1992-1994</td>
<td>Pro Patria (Right)</td>
</tr>
<tr>
<td>Jüri Luik</td>
<td>1994-1995</td>
<td>Pro Patria (Right)</td>
</tr>
<tr>
<td>Siim Kallas</td>
<td>1995-1996</td>
<td>Reform Party (Right)</td>
</tr>
<tr>
<td>Raul Mälk</td>
<td>1998-1999</td>
<td>Non-partisan</td>
</tr>
<tr>
<td>Kristiina Ojuland</td>
<td>2002-2005</td>
<td>Reform Party (Right)</td>
</tr>
<tr>
<td>Rein Lang</td>
<td>2005</td>
<td>Reform Party (Right)</td>
</tr>
<tr>
<td>Urmas Paet</td>
<td>2005-present</td>
<td>Reform Party (Right)</td>
</tr>
<tr>
<td><strong>Latvia:</strong></td>
<td></td>
<td>(Left/Right/Centre)</td>
</tr>
<tr>
<td>Georgs Andrejevs</td>
<td>1992-1994</td>
<td>Latvian Way (Centre-Right?)</td>
</tr>
<tr>
<td>Valdis Birkavs(^{138})</td>
<td>1994-1999</td>
<td>Latvian Way (Centre-Right)</td>
</tr>
<tr>
<td>Indulis Bērziņš</td>
<td>1999-2002</td>
<td>Latvian Way (Centre-Right)</td>
</tr>
<tr>
<td>Sandra Kalniete</td>
<td>2002-2004</td>
<td>Non-partisan, nominated by New Era (Right)</td>
</tr>
<tr>
<td>Rihards Pīks</td>
<td>2004</td>
<td>People’s Party (Right?)</td>
</tr>
<tr>
<td>Artis Pabrikas(^{139})</td>
<td>2004-2007</td>
<td>People’s Party (Right)</td>
</tr>
<tr>
<td>Maris Riekštins</td>
<td>2008-2010</td>
<td>People’s Party (Right)</td>
</tr>
<tr>
<td>Aivis Ronis</td>
<td>2010-present</td>
<td>Non-partisan, nominated by Unity (Right)</td>
</tr>
<tr>
<td><strong>Lithuania:</strong></td>
<td></td>
<td>(Left/Right/Centre)</td>
</tr>
<tr>
<td>Povilas Gyllys</td>
<td>1992-1996</td>
<td>LDDP/Social Democrats (Left)</td>
</tr>
<tr>
<td>Antanas Valionis</td>
<td>2000-2006</td>
<td>New Union (Left)</td>
</tr>
<tr>
<td>Petras Vaitiekūnas</td>
<td>2006-2008</td>
<td>Social Democrats (Left)</td>
</tr>
<tr>
<td>Vygaudas Ušackas</td>
<td>2008-2009</td>
<td>Non-partisan, nominated by Homeland Union (Right)</td>
</tr>
<tr>
<td>Audronius Ažubalis</td>
<td>2010-present</td>
<td>Homeland Union (Right)</td>
</tr>
</tbody>
</table>


In Latvia and Estonia, the foreign ministers that have been considered the most influential are also some of the longest-serving. Latvia’s Artis Pabriks and Estonia’s Toomas Hendrik Ilves often served as political representatives of their state – a role normally reserved for the president. The role of Pabriks has been particularly pronounced in Latvia and he is considered ‘the primary author of Latvia’s foreign policy since dual enlargement.’ His foreign policy agenda has focused on NATO, economic integration with Europe, and human rights. Noteworthy results have included the 2006 NATO Summit in Riga and the Council of Europe’s decision to close their human rights monitoring mission in Latvia in November 2005. Ilves was an important figure in Estonian politics since independendence, served twice as minister of foreign affairs, and since 2006, has been president.

Ministries of Economy
Ministries of economy play a considerable though indirect role in foreign policy, particularly in economic and energy relations with Russia. As part of domestic policy, economic policy is the main concern of governments and certainly a major preoccupation of prime ministers. Foreign economic policy is often a derivative of policy towards Russia and vice versa with policy towards Russia influencing foreign economic policy. Due to the high transit volumes of goods from West to East and energy products from East to West, Russia remains an important economic partner of the Baltic states though its significance decreased after the Russian financial crisis of 1998 and EU membership in 2004. The most significant aspect of the Russian-Baltic economic relationship is that fact that Estonia, Latvia, and Lithuania remain dependent on Russian sources of energy – specifically oil and gas. Since energy falls under the framework of the Ministry of Economy in all three states, foreign policy issues such as energy independence and energy relations with Russia are often handled by this ministry as well as by the prime minister. As in the case of the foreign ministries, ministries of economics implement

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140 Galbreath, Lašas, and Lamoreaux, p.31.
141 Ibid., p.71.
142 Ibid.
143 In Lithuania, there was a separate Ministry of Energy until 1996.
rather than set the direction of foreign economic policy towards Russia. Yet, whilst foreign ministries are composed of career diplomats and technocrats with little individual influence, ministries of economy are close to powerful business interests groups that do influence policy.

Presidencies
The political affiliation of presidents has tended to mirror the predominant ideologies in domestic politics. As Table 2.4 demonstrates, presidents of the centre-right have served more terms in Estonia and Latvia, whilst Lithuania has had more centre-left presidents. Most recently, in Latvia and possibly in Lithuania there is a growing tendency to elect non-partisan candidates that can be acceptable to the whole of society such as Vaira Vike-Freiberga, Valdis Zatlers, Valdas Adamkus, and Dalia Grybauskaite; similarly, in Estonia, the present president is of the moderate, centrist Social Democratic Party. The three Baltic presidents have similar constitutional powers – they head their respective armed forces, convene foreign and security policy committees, and serve as the spokesperson for the state. The role of the Baltic presidents in foreign policy making has been varied due to personalities, political circumstances, stronger versus weaker public mandates stemming from their popularity ratings, and length of term in office. The Lithuanian presidency arguably carries more weight and legitimacy due to direct national elections for the president.

144 Galbreath, Lašas, and Lamoreaux, p.29.
Table 2.4: Baltic Presidents 1992-2012

<table>
<thead>
<tr>
<th>Country and President</th>
<th>Years</th>
<th>Party Affiliation (Left/Right/Centre)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estonia:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arnold Rüütel</td>
<td>2001-2006</td>
<td>People’s Union (Left)</td>
</tr>
<tr>
<td>Toomas Hendrik Ilves</td>
<td>2006-2011</td>
<td>Social Democrats (Centre)</td>
</tr>
<tr>
<td><strong>Latvia:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valdis Zatlers</td>
<td>2007-2012</td>
<td>Non-partisan (Right)</td>
</tr>
<tr>
<td><strong>Lithuania:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algirdas Brazauskas</td>
<td>1993-1998</td>
<td>Democratic Labour (^{145}) (Left)</td>
</tr>
<tr>
<td>Rolandas Paksas</td>
<td>2003-2004</td>
<td>Liberal Democratic (Populist) (^{146})</td>
</tr>
<tr>
<td>Dalia Grybauskaite</td>
<td>2009-2014</td>
<td>Non-partisan (Centre)</td>
</tr>
</tbody>
</table>

There appears to be an even less clear relationship between more cooperative policies towards Russia during leftist presidencies and more conflicting policies during rightist presidencies than exists between government political orientation and relations with Moscow. The Baltic presidents, whether they were from the political right or left have been more oriented towards the West rather than Russia in their policies – in part because of the foreign policy elite consensus in all three Baltic states on the main goals of EU and NATO integration. As a study of select individuals below will show, presidents coming from the political right and centre have been more successful in carrying out their foreign policy mandate. It has been demonstrated that presidents of the political left have not

\(^{145}\) Lithuanian Democratic Labour Party, the predecessor of Lithuanian Social Democratic Party.

\(^{146}\) The Liberal Democrats, later renamed Order and Justice, is officially considered a far right political party due to its ultra-nationalist slogans. However, in foreign policy the party acts similarly to a leftist party due to its affinity with Russia and Euroskepticism. It is best described as a populist party because of its inconsistent and populist agenda.
always pursued more cooperative policies with Russia because - like Lithuanian President Brazauskas or Estonian President Rüütel - they were concerned about being branded as pro-Russian or unpatriotic by the opposition, the public and the media.\textsuperscript{147}

Arguably, Estonian President Lennart Meri (1992-2001) along with Latvia’s Vaira Vike-Freiberga, has been the most influential Baltic President in terms of foreign policy. As a former foreign minister (1990-1992), Meri came to the presidency with strong set of beliefs regarding foreign policy. Foreign policy during Meri’s presidency, which lasted nearly a decade, was marked by caution towards political and economic links with the East and focused on integration into the West. The Western trajectory was decidedly a turn away from Russia. Toomas Hendrik Ilves, the present Estonian president (2006-2011), has the potential to become as influential in foreign policy as Meri. Raised in the US, Hendrik Ilves is unsurprisingly a proponent of Western oriented foreign policy. As president he has been openly critical of the Putin administration, promoter of the trans-Atlantic community, and defender of states in the eastern neighbourhood.\textsuperscript{148} He stood firm in the Estonian-Russian tensions regarding the Soviet monument relocation in May 2007, renouncing any concessions to Russia or Russian speakers.\textsuperscript{149} Formerly an MP from the rightist People’s Party but elected as the Socialist Democrat candidate for president, he represents the centre or centre-right political ideology. His two-term experience as former foreign minister (1996-1998, 1999-2002) makes him a confident player in foreign policy.

Latvian President Vaira Vike-Freiberga (1999-2007) used her popularity to take a pro-active role in foreign policy during her two consecutive terms in office.\textsuperscript{150} Vike-Freiberga, a non-partisan Canadian émigré, took a Western orientation in her foreign policy by actively supporting EU and NATO membership. She is known for her tough stance towards Russia which was often marked by negative rhetoric between Riga and

\textsuperscript{147} Interview with Rimgaudas Sidlauskas, Lithuanian Ambassador to Russia, in Moscow on 9 April 2008.
\textsuperscript{148} Galbreath, Lašas, and Lamoreaux, p.51.
\textsuperscript{149} For a detailed discussion see chapter III.
\textsuperscript{150} Latvian President Guntis Ulmanis 1993-1999 of the Farmers Union not only served a shorter term but was also less popular and internationally less active than the non-partisan Freiberga.
Moscow. Nevertheless, her term coincided with both ‘a period of frozen relations’ between the two states from 1998 to 2004, and an improvement in relations in 2005 which has lasted to the present. Indeed, in what is considered a watershed moment, Vike-Freiberga was the only Baltic president to attend the Russian celebrations of the Soviet victory in the Second World War in Moscow on 9 May 2005. This has been deemed an important symbolic factor in paving the way for improved Latvian-Russian relations.

As will be shown in the subsequent chapters of this thesis, as a rightist politician she was better able to pursue cooperative policies towards Moscow. This counterintuitive phenomenon was due to the fact that her credentials as pro-Western and tough on Moscow made it easier for her to accept the invitation without being accused by political opponents of capitulating to Russian demands.

Lithuanian President Valdas Adamkus (1998-2003 and 2004-2009), an American émigré and arguably Lithuania’s most popular head of state since independence, played a similar role in foreign policy as Meri and Vike-Freiberga by advocating Western integration. Unlike Vike-Freiberga, Adamkus did not attend the Moscow celebrations of Soviet victory in the Second World War. Instead, Adamkus took a high profile role in regional politics due to his active promotion of democracy in former Soviet republics Ukraine, Georgia, and Moldova. The strategic partnership formed with Poland during Adamkus’ terms and the good relations enjoyed between Adamkus and Polish President Lech Kaczyński further increased his foreign policy stature. As a result, the Office of the President comprised of Adamkus and his team of advisors became an increasingly

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151 Vike-Freiberga showed a certain coolness towards Russia, stating that ‘she owed her politics to her forced exile from Latvia as a child in 1944, when the Soviet Union invaded the country.’ In ‘Baltic Iron Lady’ stands up to the Kremlin,’ International Herald Tribune, 14 December 2005. See also Galbreath, Lašas, and Lamoreaux, p.70.


153 For a detailed discussion see Chapter V.

154 Interview with the Latvian Ambassador to Russia, Andris Teikmanis, Moscow, 11 April 2008. The senior diplomat considers Vike-Freiberga’s visit to be one of the turning points of Latvian-Russian relations. Other analysts view her trip in a different light since it was used ‘not only to present Latvia’s perception of past relations with Russia, but to lambast Russia’s own version…It also resulted in increasing negative rhetoric with Russia.’ Galbreath, Lašas, and Lamoreaux, p.70.

155 Adamkus’ successor Dalia Grybauskaitė has also been highly popular. However, with just a little over a year in office under her belt, it is difficult to predict the success of her term.
important institution in foreign policy formation. Adamkus was perceived as highly pro-American and thus strongly anti-Russian. However, as a non-partisan trying to satisfy both the left and right in Lithuania, Adamkus has been constrained by the political forces on both sides and pursued centrist policies.

It is also interesting to examine presidencies which underperformed in their foreign policy role. The first Lithuanian President, Algirdas Brazauskas (1993-1998), came from the left of the political spectrum and arguably had an opportunity to take a more cooperative approach towards Russia. However, Brazauskas led very limited initiatives in both Eastern and Western foreign policy. To some extent, he was checked by the parliament which during the 1996 to 2000 period was dominated by the rightist forces of Homeland Union. Brazauskas was also constrained by the fact that he was already perceived as pro-Russian by the opposition. This meant he was viewed with caution by some political elites and the public who were concerned that Brazauskas and his Democratic Labor Party may lead the country back to Russia’s sphere of influence. A similar constraint was arguably experienced by Estonian President Arnold Rüütel (2001-2006) of the leftist party People’s Union who in fact pursued policies in line with rightist politics. For example, Rüütel did not attend the Second World War celebrations in Moscow in May 2005 and like Brazauskas supported Western integration, presiding over the country’s entry into the EU and NATO. Neither Brazauskas nor Rüütel had the broad public and political support enjoyed by presidents who were more successful in their foreign policy. This may be because Brazauskas and Rüütel were deemed less impartial vis-à-vis relations with Russia. As noted, three of the four successful presidents such as Hendrik Ilves, Vike-Freiberga, and Adamkus are considered centrist or non-partisan politicians.

Lastly, the highly controversial Lithuanian President Rolandas Paksas (2003-2004), who was impeached following revelations that he was selling state secrets and accusations of

156 Galbreath, Lašas, and Lamoreaux, p.95.
157 Veidas, Vilnius, 2008.
158 Lithuanian Democratic Labor Party (LDDP) later renamed the Social Democratic party.
159 Interview with Rimgaudas Sidlauskas, Lithuanian Ambassador to Russia, Moscow, 9 April 2008.
involvement with Russian criminal and security apparatus, did not stay in power long enough to significantly influence foreign policy though he had expressed scepticism at EU and NATO membership and displayed a conciliatory position vis-à-vis Moscow.

**Business Interests**

Baltic business interests have significant influence over foreign policy, particularly over economic and energy relations with Russia. Influence is achieved indirectly through a manipulation of domestic politics through campaign financing and thus through influence over politicians once they are in power. Baltic businesses with ties to Russia have been a topic of controversy amongst analysts and observers. Whilst many Baltic politicians and diplomats try to downplay the political influence of businesses with Russian ties in the Baltics, several episodes have demonstrated that corporations and individuals seek to manipulate foreign policy in order to obtain concessions or promote more cooperative policies towards Russia. Former American Ambassador to Lithuania from 1997 to 2000, Keith C. Smith has described these local business players as members of the former Soviet nomenklatura who remain loyal to the Kremlin out of economic interest. However as Smith describes, the lack of transparency makes it difficult to fully document the ties between local businesses with Russian interests and Baltic domestic politics:

'It is difficult for an outsider to chart the flow of energy money into politics, particularly in countries that lack enforcement of tough campaign finances. Close connections among Russian energy companies, intelligence services of former Communist countries, and current political figures also impede information gathering. In addition, Russian embassies in former Communist countries are sometimes channels for funneling energy money into politics. Almost every member of the political and business elite in the five countries studied here [Baltic

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160 According to the Lithuanian Special Commission Paksas was financed by Yuri Borisov, an arms dealer and a Russian citizen residing in Lithuania who reputedly has ties to the Russian military intelligence. Paksas also was assisting LUKOIL in taking over energy facilities in Lithuania. Smith, p.39.
161 Interviews with senior Lithuanian and Latvian diplomats, Moscow, April 2008. Interview with Lithuanian MP Egidijus Vareikis.
162 A report by Lithuania’s National Security Department (Valstybes Saugumo Departamentas- VSD) suggests that these conditions exist in Lithuania.
163 Smith.
164 *Nomenklatura* is a Soviet-era term used to refer to the members of the Soviet elite who were close to the Communist party and were key administrators in the Soviet state enterprises and bureaucratic system.
states, Poland, Ukraine] can recite specific instances of individuals taking bribes or illegal campaign financing from Russian companies.\footnote{Ibid., p.39.}

The major energy companies are amongst the most powerful domestic players with a capacity to influence foreign policy and potentially those with the most direct interest in Baltic-Russian relations. Baltic national gas companies and local companies trading gas are primary examples since they are owned by Russia’s state gas monopoly Gazprom (see Table 2.5). Since the 1990s, Gazprom along with its daughter companies has acquired a controlling stake in national gas companies and strategic infrastructure across the Baltics. It has done so by purchasing shares directly and through another party – typically Itera, a gas distribution company close to Gazprom. Local Russians often run local subsidiaries of Itera and retain ties to the Kremlin. For instance, Itera Latvia is headed by Juris Savickis, a former KGB officer with no previous experience in the energy sector.\footnote{Ibid., p.38.} Local Baltic companies that are in fact controlled by Gazprom are significant players in foreign policy serving as a lobby for closer economic and energy cooperation with Russia. These companies are not obviously foreign actors, yet neither do they represent purely local business interests. They differ from other local companies in the Baltics such as a locally owned Dujotekana, an intermediary supplying Lithuania with Russian gas. Dujotekana’s most visible shareholder is Lithuanian businessman Rimantas Stonys (34 percent of shares) who is a highly influential behind-the-scenes player in Lithuanian politics. Indeed, some claim that he previously sat at the table when the Social Democrat government (2004-2008) appointed the Cabinet of Ministers.\footnote{Interview with member of the Homeland Union, Vilnius, March 2008. Jurga Tvaskienė, ‘Grėsmės šaliai grimzta užmarštin’, Lietuvos žinios, 21 January 2009; ‘Dujotekanos’ ėjimui susidariusių korupcijos sąlygos Lietuvos valstybės piramidė, www.alfa.lt, 2007.} Other shareholders include an alleged former KGB officer Petras Vojeika (40 percent of shares), member of Parliament, Russian-born Vladimiras Orechovas (6.8 percent of shares) of the Labour Party, and other members of Leftist New Union Social Liberals party, whom Dujotekana has supported financially.\footnote{Algimantas Sindeikis, ‘Kas sieja VSD, "Dujotekaną" ir Kremlį?’ Veidas, No.42, 2006, http://www.veidas.lt/lt/leidinys.full/45387c8f58aa9.}
Table 2.5: Gazprom Activities in the Baltic States

<table>
<thead>
<tr>
<th>Country and Firm</th>
<th>Ownership of firm</th>
<th>Main activity of firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estonia:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eesti Gaas</td>
<td>37% Gazprom, 33%</td>
<td>Gas trading &amp; transport</td>
</tr>
<tr>
<td></td>
<td>Ruhrgas, 10% Itera</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Latvija, 18% Fortum, 2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Latvia:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latvijas Gaze</td>
<td>47% E.ON Ruhrgas, 34%</td>
<td>Gas trading &amp; transport</td>
</tr>
<tr>
<td></td>
<td>Gazprom, 16% Itera, 3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Lithuania:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stella Vitae</td>
<td>30% Gazprom</td>
<td>Gas trading</td>
</tr>
<tr>
<td>Lietuvos Dujos</td>
<td>39% E.ON Ruhrgas, 37%</td>
<td>State gas monopoly for gas</td>
</tr>
<tr>
<td></td>
<td>Gazprom, 18% state, 6%</td>
<td>distribution</td>
</tr>
<tr>
<td></td>
<td>Other.</td>
<td></td>
</tr>
<tr>
<td>Kaunas Electric Power Plant</td>
<td>99.5% Gazprom</td>
<td>Electric power production</td>
</tr>
</tbody>
</table>

Source: Company Websites.

Campaign contributions from companies and individuals associated with the Russian energy sector are commonly cited by the media and political analysts as anecdotal evidence, though few such claims have been seriously researched or proven. In Lithuania’s parliamentary elections of 2000, parties of the left such as the Social Democrats, New Democratic Party, and the Russian Union\(^\text{169}\) were reportedly funded by Vaizga, a shell company set up by Ivan Palechek, manager of LUKOIL Baltija. Vaizga is suspected of having contributed funds to Latvia’s left wing parties\(^\text{170}\) such as the National

\(^{169}\) Smith, p.42.
\(^{170}\) Ibid., p.39.
Harmony Party,\textsuperscript{171} and FHRUL,\textsuperscript{172} as well as to campaigns of the mayor of Ventspils, Aivars Lembergs. In Lithuania, a number of high profile politicians such as former president Rolandas Paksas, former ministers of the economy Victor Uspaskich and Eugenijus Maldeikis have not only been known to have close ties to the Russia but Paksas and Uspaskich have also been prosecuted for such relationships. In Estonia, Mayor of Tallinn Edgar Savisaar and his Centre Party are amongst the few reputed to receive funding from Russian sources.\textsuperscript{173}

Latvia is often perceived as the Baltic state that is most penetrated by Russian commercial interests.\textsuperscript{174} However, Estonia and Lithuania have broadly similar tendencies. That said, a senior Latvian diplomat has suggested that the role of Russian business influence in Latvian-Russian relations is ‘over valued’, noting that Russia has invested only $500m in Latvia and remains only the fifth largest investor in the country. Yet Russian investment often enters the country through local individuals serving as intermediaries and is therefore difficult to track. Lithuania, on the other hand, has been described by Smith in 2004 ‘as close to a Russian-dominated energy economy as exists anywhere outside the Ukraine.’\textsuperscript{175} The label, however, suited Lithuania only at that particular moment, under the Social Democrat-led government (2004-2008). Vilnius was in fact rather successful in resisting Russian investment in the energy sector until the early 2000s, as exemplified by the sale of Mazeikiu Nafta to Polish PKN Orlen rather than to Russian oil major in 2006. Estonia’s strategic infrastructure and the energy sector are also perceived as highly penetrated by Russian interests because most of the port infrastructure - the terminals that handle Russian energy product exports and imports - remains in the hands of Russian investors and business run by Russian speakers. When Moscow issued the energy blockade on Estonia in May 2007, it was primarily at the expense of Russian businesses that manage the ports. However, in Lithuania, the lack of

\textsuperscript{171} The National Harmony party had failed to notify financial contributions from Russian sources according to Latvia’s Corruption Combating and Prevention Bureau’s finding in April 2003. Smith, p.39.
\textsuperscript{172} The party was consolidated from various political factions by Moscow Mayor Lushkov in 1998. Ikstens in Muiznieks, p.51.
\textsuperscript{173} For a detailed discussion on the practices of these companies see Chapter III and Chapter IV.
\textsuperscript{174} This perception is partly related to a Russian money laundering incident using Latvian banks that emerged at the Bank of New York in 1996.
\textsuperscript{175} Smith, p.38.
transparency and greater corruption in party financing often creates greater concerns about the influence of Russian interests in Lithuanian politics than they do in Estonia.

**Conclusion**

This chapter outlined the various domestic political actors and domestic political conditions which influenced the formulation of Baltic foreign policy towards Russia. The political orientation of parties in power and the ideologies espoused by governments, presidents and foreign ministers colored the atmosphere for foreign policy making. Some actors favored cooperative and some favored adversarial foreign policy trajectories. In the Baltics, the political left was generally predisposed to cooperation with Moscow whilst the right was cautious of Russian intentions and generally favoured adversarial policies towards Moscow. However, economic and political considerations often trumped party ideology. Also governments and leaders not always pursued principled policies based on their partisan preferences but instead opted for pragmatic policies based on the realities at hand. Policy toward Russia was also used instrumentally by political interests in order to gain the support of the electorate or to pressure their political opponents. For these aims, rightist parties often used nationalist rhetoric in relation to Russia, whilst leftist parties engaged in fearmongering as to the consequences of non-cooperative policies towards Russia. Local business lobbies sought either cooperative or conflicting relations with Russia based on their business interests and were willing to fund political parties to support the necessary strategies. Foreign policy leaders were at times cautious to follow policies based on the ideologies of their party, trying instead to follow the sentiments of the foreign policy elites and the public. There was also a clear ‘incumbent’ factor at play, which will be demonstrated in the subsequent case studies. Political parties and individuals once in government often demonstrated moderation and constraint in pursuing their most radical partisan preferences. On the contrary, when in opposition, parties and leaders called for the most extreme policies based on their party ideology. This tactic was a measure to critique and contrain the incumbent government from departing radically from the national foreign policy consensus.
Russian minorities in Estonia and Latvia had several effects on domestic politics of the respective states. First, the simple presence of this minority population created domestic policy concerns and served as a source of political and diplomatic tensions with Moscow. Second, though the Russian minorities did not directly influence foreign policy, their opinion and presence served to a limited extent to moderate policies towards Russia. In Lithuania, where there was a small Russian speaking population this factor was not highly significant. However, as cases canvassed in the following chapter will demonstrate, ethnic Russians business interests played a disproportionately important role in the Lithuanian energy sector and sought to influence Lithuanian energy policies towards Russia.

In addition to the various domestic actors that drove foreign policy in competing directions, conflicting foreign policy trajectories arose in different spheres of the Baltic-Russian relations. The actors and thus interests and policy preferences in the economic sector differed from that of the political and security sector. The contrasting and competing aspects of domestic policy makes it difficult to consistently label the foreign policy of any of the Baltic states as either cooperative or adversarial. Thus, the tendency to portray Estonia as the most conflict-oriented Baltic state in its relations with Russia need to be qualified – in what domain? During which time period? Likewise, similar qualifications are needed for Latvia and Lithuania’s foreign policy. The findings from the subsequent case studies will provide such qualifications and address these questions by demonstrating how domestic political factors and actors influenced foreign policy in particular sectors such as gas relations, oil relations, and historical tensions.
APPENDIX

Appendix Chart 1: Estonian Domestic Political Spectrum (Based on Major Political Parties in Power, 2007-2011 Parliament)

(# Seats in 2007-2011 Parliament)

Bolded – political parties in ruling coalition
Appendix Chart 2: Latvian Domestic Political Spectrum (Based on Major Political Parties in Power, 2010-2014 Parliament)

Union of Greens and Farmers (Zaļo un Zemnieku savienība) (22)

For Human Rights in United Latvia (Par cilvēka tiesībām vienotā Latvijā) (0)

Harmony Centre (Saskaņas centrā strādnieku partija) and Social Democratic Party (29)

For a Good Latvia: Latvia's First Party (Latvijas Pirmā partija) and Latvian Way (Latvijas Ceļš) and People's Party (Tautas partija) (8)

Unity: New Era (Jaunais Laiks) and Civic Union and Society for Other Politics (33)

(# Seats in 2010-2014 Parliament)

Bolded – political parties in ruling coalition
Appendix Chart 3: Latvian Domestic Political Spectrum (Based on Major Political Parties in Power, 2006-2010 Parliament)

Latvian Social Democratic Labour Party (Latvijas Sociāldemokrātiskā strādnieku partija) (0)

Union of Greens and Farmers (Zaļo un Zemnieku savienība) (18)

People's Party (Tautas partija) (23)

For Fatherland and Freedom (Tēvzemes un Brīvībai/LNNK) (8)

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For Human Rights in United Latvia (Par cilvēka tiesībām vienotā Latvijā) (6)

Harmony Centre (Saskaņas centrs strādnieku partija) (17)

Coalition of Latvia's First Party (Latvijas Pirmā partija) and Latvian Way (Latvijas Ceļš) (10)

New Era (Jaunais Laiks) (18)

(# Seats in 2006-2010 Parliament)

**Bolded** – political parties in ruling coalition
Appendix Chart 4: Lithuanian Domestic Political Spectrum (Based on the Major Political Parties in Power, 2008-2012 Parliament)

- **Social Democratic Party of Lithuania** (Lietuvos socialdemokratų partija) (25)
- **Election Action of Lithuania's Poles** (Lietuvos lenkų rinkimų akcija) (3)
- **National Resurrection Party (Tautos priskėlimo partija)** (16)
- **Homeland Union (Lithuanian Conservatives)** (Tėvynės sąjunga/Lietuvos konservatoriai) (45)
- **Order and Justice** (Tvarką ir Teisingumas/ Liberalai demokratai) *

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<thead>
<tr>
<th>LEFT</th>
<th>CENTER</th>
<th>RIGHT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Party (Darbo partija) (10)</td>
<td>Lithuanian Peasant Popular Union (Lietuvos valstiečių liaudininkų sąjunga) (3)</td>
<td>New Union Social Liberals (Naujoji sąjunga (socialliberalai)) (1)</td>
</tr>
<tr>
<td>Liberal and Centre Union (Liberaly ir centro sąjunga) (8)</td>
<td>Liberal Movement (Liberalų Sąjūdis) (11)</td>
<td></td>
</tr>
</tbody>
</table>

(# Seats in 2008-2012 Parliament)

**Bolded** – political parties in ruling coalition. In this case – minority government.

*The ‘Order and Justice’ party a highly arbitrary construct ideologically due to its populist nature. Though classified as an extreme right party due to its rhetoric it also could be viewed as a leftlist party due to its support for redistributive policies.*
Appendix Chart 5: Lithuanian Domestic Political Spectrum (Based on Major Political Parties in Power, 2004-2008 Parliament)

Social Democratic Party of Lithuania (Lietuvos socialdemokratų partija) (30)

Election Action of Lithuania's Poles (Lietuvos lenkų rinkimų akcija) (2)

Liberal Union (Liberālų Sajūdis) (9)

Homeland Union (Lithuanian Conservatives) (Tėvynės sąjunga/Lietuvos konservatoriai) (24)

Order and Justice (Tvarka ir Teisingumas/Liberālai demokratai) * (11)

LEFT | CENTER | RIGHT

Labour Party (Darbo partija) (24)

Lithuanian Peasants Party/Civic Democracy Coalition (Lietuvos valstiečių partija/Pilietines Demokratijos Frakcija) (20)

New Union Social Liberals (Naujoji sąjunga (socialliberalai)) (10)

Liberal and Centre Union (Liberālų ir centro sąjunga) (9)

(# Seats in 2004-2008 Parliament)

Bolded – political parties in ruling coalition. In this case – minority government.

*The ‘Order and Justice’ party a highly arbitrary construct ideologically due to its populist nature. Though classified as an extreme right party due to its rhetoric it also could be viewed as a leftist party due to its support for redistributive policies
Appendix Figure 1: Estonian Domestic Politics and Relations with Russia, 1992-2010
Appendix Figure 2: Latvian Domestic Politics and Relations with Russia, 1992-2010
Appendix Figure 3: Lithuanian Domestic Politics and Relations with Russia, 1992-2010
CHAPTER II

Pipeline Politics: Tensions and Cooperation over Russia’s Oil Supply to the Baltic States

Energy policy emerged as one of the main sources of tensions between the Baltic states and Russia from the early 1990s. At that time, the Baltic states were focused on gaining independence and establishing political and military security. By the 2000s, and especially after EU and NATO accession, ‘energy security’ and ‘energy independence’ from Russia become the most often-articulated state security priorities of the Baltic governments as a result of the fact that the Baltic-Russian energy interdependence was replaced with total Baltic dependence on Russia.\(^{176}\)

This brief introduction provides the background for this and the subsequent chapter on the oil sector, demonstrating that Baltic-Russian energy relations can serve a gauge of Baltic-Russian bilateral relations as a whole. Baltic-Russian energy relations reflect the dependency, vulnerability, and fears inherent in other aspects of the relationship. As such, a comparison of energy relations between each of the Baltic states and Russia offers unique insights into the determinants of the policies of these states towards Russia. A comparative approach is promising because structural energy conditions in all three states are nearly identical. All these states are roughly 90 percent dependent on Russian oil and

nearly 100 percent dependent on Russian gas. From Moscow’s perspective, the three Baltic states are also comparable in at least two other respects. First, all three are energy transit states for Russia’s oil deliveries to the West. Second, the Kremlin is willing to use oil cuts as a foreign policy tool towards the Baltics as it is with other former Soviet republics. However, Moscow’s willingness to use cuts is constrained by an anxiety to avoid tarnishing its image as a reliable energy supplier to its major clients in Western Europe. Nevertheless, all three Baltic states experienced repeated disruptions to their crude oil and oil product supplies since the independence movements of the early 1990s. The main domestic difference amongst the Baltic states – i.e. the presence of a large Russian minority in Estonia and Latvia and lack thereof in Lithuania – was not of great relevance to Baltic energy policy.

As this chapter will demonstrate, energy cases differ in essence from cases of a purely political or security nature. This and the next case study will show that economic and political interests often play an equally important role in the realms of energy whereas in the political realm economic motives are often secondary. The high dependence on Russian energy obviously magnifies the impact of energy questions on foreign and domestic policy. Energy security, which is increasingly recognized as a component of national security in the study of international relations, is particularly salient in the Baltics where there is a high degree of energy vulnerability. Energy independence from their former imperial power was considered the most sensitive unresolved aspect of national security – second only to NATO membership. The range of Baltic actors involved in energy policy is also broader than the traditional foreign policy elite outlined.

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177 Lithuania and Estonia’s total gas consumption is entirely supplied by Russian gas. Latvia reliance on Russian gas is at 88 percent, and 100 percent of its gas imports come from Russia. Keith Smith, *Russian Energy Politics in the Baltics, Poland and Ukraine: A New Stealth Imperialism?*, CCIS, Washington DC, 2004, pp.10, 11

178 On 31 December 2008, Russia cut off gas supply to Ukraine which also affected gas supply to EU member states. The gas crisis lasted into January 2009, which resulted in all EU countries agreeing that a diversification of routes and sources of gas supply to EU is necessary.

179 However, as this case study will show, minority policies have been an indirect source of energy tensions between Estonia and Latvia in their relations with Russia.

in chapter II. Business actors and energy interest groups play a far more visible role than in other fields of foreign policy formulation.

This case study will examine the role of domestic politics in Baltic foreign policy making towards Russia, demonstrating that the political orientation of the government influenced the choice of policies. Governments led by the political right generally pursued adversarial policies towards Moscow while governments led by the political left opted for cooperative policies. The analysis will also highlight the instrumental usage of policies towards Russia for domestic political gains, which generally resulted in more politicized and adversarial policies. The selected episodes will show that there were tensions from the various political forces and the business lobbies regarding which policies to pursue. Policies also differed in issue areas, particularly in the case of Estonia that was cooperative in the economic sector but adversarial in political policies which had consequences in the energy sector.

This case study will focus on three critical episodes in Baltic energy relations with Moscow – the interruption to supply of oil products via Russian Railways to Estonia in May 2007, the closure of the crude oil pipeline supplying Lithuania’s Mažeikiu Nafta refinery since July 2006, and the cut off to the crude oil pipeline of the Latvian transhipment company Ventspils Nafta which commenced in 2003. These three episodes lend themselves to comparative analysis and are revealing of Baltic state policy. In all three episodes, the Baltic states were willing to risk an energy halt by pursuing adversarial policies towards Moscow such as resisting Russian investment in Ventspils Nafta and Mažeikiu Nafta and removing the Soviet era war monument in Tallinn in 2007. In all three episodes, Moscow officially denied that Baltic policy choices were the cause of cut-offs and instead cited economic reasons or technical difficulties in providing energy. Timing was another comparable factor. Though Moscow had used energy as a political tool on several occasions since Baltic independence, the episodes covered by
this study occurred in security conditions changed by accession to the EU and NATO in 2004.\footnote{Whilst the blockade of VN started in 2003, it continued well after Latvia’s accession to the EU and NATO was finalized.}

The differences in Baltic policies towards Russia can be best observed by examining government policies that precipitated Moscow’s halts of oil supply. The events in Latvia and Lithuania bear the greatest resemblance in that pipeline shut downs appear to have been permanent and precipitated by the resistance of Riga and Vilnius to Russian investment. The oil blockade in Estonia by rail was different from the pipeline closures in Latvia and Lithuania and was precipitated by Estonian policies towards Soviet heritage. Significantly, the halt in Estonia was of a temporary nature – lasting for most of May 2007.\footnote{Energy shipment to Estonia subsequently resumed, albeit at lower volumes.}

The case study on pipeline politics in this chapter also sheds light on the reactive dimension of Baltic foreign policy towards Russia. In Baltic-Russian energy relations, Moscow was in part the driving actor because it actively sought to acquire Baltic companies and decided when to cut off oil supplies via the Druzhba pipeline branches or Russian railways. These episodes shed light on the hypothesis about the impact of Russian policy changes on Baltics. The case will demonstrate that Baltic governments had considerable impact on their energy relations with Russia either by resisting Russian investment in their energy sectors or by pursuing domestic social policies at odds with Moscow’s preferences. Despite the reactive nature of Baltic policy we will show that the foreign and domestic policies of the Baltic states often directly and indirectly precipitated energy stoppages.

The Baltic policy decisions that precipitated Russia’s halts to oil supply will be used as indices to locate national foreign policies on the two axes outlined in the introductory chapter: cooperative / adversarial; and pragmatic / principled.\footnote{See introduction for a detailed discussion and definitions of the terms.} This case is predominantly concerned with Baltic policies towards Russian investment in local energy
assets. Policies on foreign investment can range widely from those prohibitive towards foreign investments deemed to affect national security\textsuperscript{184} to those that pro-actively engage in investment promotion.\textsuperscript{185}

When comparing policies amongst the three Baltic states in the oil sector using the cooperative/adversarial and pragmatic/principled indices, a clear divergence of Baltic policies can be discerned. Lithuanian policies towards Russian investment in the oil sector were relatively adversarial and highly principled. Latvian policies were adversarial and moderately principled. Estonian policies towards Russian investment in the oil sector were cooperative and pragmatic. Nonetheless, Estonia also experienced a halt in oil supplies, which was precipitated by Tallinn’s highly adversarial and highly principled policies in a different issue area, that of historical legacy. A graphic illustration of Baltic policies that led to Russia’s oil halts (rather than towards Russian investment) are presented in Figure 3.1 below. The similarities of Baltic policies stem from the fact that the episodes selected dealt with Moscow halting of oil supplies. It is unsurprising that adversarial and principled policies would have resulted in tensions with Moscow and thus energy embargos rather than cooperative and pragmatic policies.

\textsuperscript{184} Most states reserve the right to refuse certain investments or mergers and acquisitions for national security reasons either under international investment agreements or under their national laws. In the context of blocking foreign investments, national security exceptions relate mainly to economic activities in the military sector, infrastructure projects, nuclear energy, and broadcasting. World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development, United Nations, New York and Geneva, 2006.

\textsuperscript{185} FDI promotion is a widespread economic development strategy amongst developed and developing countries. Nathan M. Jensen, Nation States and the Multinational Corporation: A Political Economy of Foreign Direct Investment, Princeton University Press, Princeton, 2006, p.35.
Before plunging into the analysis, the chapter will first describe the inheritance of Soviet era energy interdependence conditions and infrastructure, which sets the parameters of Baltic-Russian energy relations. The second section will outline the evolution of Russian energy policy since pipeline politics have been driven primarily by Moscow and Baltic policy responses. Having thus established the internal and external conditions, an analysis of the three most significant instances of energy cut offs in Lithuania in 2006, Latvia in 2003, and Estonia in 2007 will follow. Comparisons to previous instances of Russia’s energy sanctions towards Latvia in 1998 and Lithuania in 1998-2000 will also be made.

**Baltic Energy Sector: Dependency and the Legacy of Soviet Infrastructure**

Limited domestic energy resources, geographic proximity, and the legacy of Soviet era infrastructure are the main reasons why Estonia, Latvia, and Lithuania remained heavily

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186 The values are based on qualitative analysis. Level 3 on the X and Y axis represents highly principled and highly cooperative policies, while Level 1 represents moderately principled and moderately cooperative policies. Level -3 on the X and Y axis represents highly adversarial and highly pragmatic policies while Level -1 represents moderately adversarial and moderately pragmatic policies.
dependent on Russian sources of energy following independence in the 1990s. Though the three states face very similar realities, the perceptions of Tallinn, Riga, and Vilnius of these realities and thus government policies and debate have varied across the three states. Lithuania was most aggressive whilst Riga was most ambivalent in its line regarding reducing energy dependency on Russia. However, despite these broad differences in perceptions and rhetoric, none of the Baltic states was successful in reducing dependence on Russian energy and Soviet infrastructure. This section will first present an overview of the objective facts of Baltic energy conditions, focusing on the oil sector. It will then examine perceptions of Baltic politicians and commercial actors regarding energy issues.

The internal and external environment of the Baltic states set the context and conditioned Baltic policy making towards Russia. The internal and external environment can be disaggregated into three spheres characterized primarily by timing. The first stage of 1990 to 1995 was one of sovereignty building in which goals included international recognition of independence, Soviet military withdrawal, and the delineation of borders. All such aims were circumscribed by immense vulnerability vis-à-vis Russia. The second stage of 1995 to 2004 was one of state building focused on consolidating the achievements of the previous period and improving the geopolitical positioning of the states through EU and NATO membership. The third stage of 2004 to 2010 was one in which EU and NATO membership had been achieved and when statehood and the international positioning of the states was secured. In this context, the Baltics were in a significantly stronger position towards Russia than ever before.

In the Baltic capitals, meanwhile, the attention afforded to energy dependence evolved over the period covered. With independence, the Baltic states embarked on a new energy relationship with Russia that differed from the previous condition of being a Soviet republic regulated by Moscow. In the early 1990, conditions of interdependence between the Baltics and Russia persisted, with the Baltics relying on Russia for energy supplies whilst Russia relied on the Baltic ports and territories for transit of its energy products to Western markets. In the 2000s, energy security came to the forefront of Baltic agendas.
Membership of European and trans-Atlantic organizations in 2004, as well as stronger economic performance, supported greater (though mostly rhetorical) assertiveness in managing the last of the outstanding issues inherited from the Soviet Union – energy infrastructure and ongoing energy dependency on Russia.

During these years, the Baltic states have not improved their energy security and in fact, energy conditions and resources deteriorated. The Baltic states lacked any significant or accessible domestic sources of oil or gas. Estonia’s domestic energy resources are limited to oil shale deposits that are used in power plants for electricity production. Until now, Latvia’s only source of domestic energy has been three hydroelectric power plants on the Daugava river: Keguma HES, Plavina HES, and Rigas HES. Lithuania relied on its Soviet-era Ignalina nuclear power plant for electricity production but due to EU regulations closed its first reactor in 2004 and its second reactor in 2009.

Baltic reliance on Russian energy in the post-independence period is based not only on the lack of domestic resources but also reflects the legacy of the Soviet era infrastructure. The Russian oil pipeline Druzhba, which brings crude oil from southeast Russia to Central and Eastern Europe, has branch pipelines feeding into Latvia’s port facility at Ventspils and Lithuania’s Mazeikiai Nafta refinery, which stopped supplying oil in 2003 and 2006 respectively. Instead, Lithuania now receives crude oil by tankers to its Būtingė terminal on the Baltic Sea and pipes the crude oil to Mazeikiai Nafta. Unlike Latvia and Lithuania, Estonia is not connected to the Russian crude oil pipeline system, but receives crude oil, oil products and other energy products by rail that are later sent to Estonian ports. Estonia’s ports of Tallinn and Muuga, Latvia’s port of Venstpils, and

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187 Latvia and Lithuania also have an estimated 300 million barrels of untapped offshore oil reserves in the Baltic Sea. However, disagreements between the two states over the Baltic offshore boundary have hampered exploration of even these minimal reserves. As estimated by the Energy Information Administration, http://tonto.eia.doc.gov/country/country_energy_data.cfm?fips=LG.

188 However, EU environmental regulations require that the Estonia’s national energy company, Eesti Energia operating oil shale firing power plants lower its sulphur dioxide (SO2) emissions by 2012. As such, this source of energy will be further constrained.

189 Prior to closure, Lithuania exported some of the electricity produced by Ignalina to Latvia and Estonia. The closure of Ignalina coupled with restrictions on Eesti Energia will increase dependence on Russian sources of energy in all three states.

190 The Latvian branch is called the Polotsk-Ventspils, the Lithuanian branch is the Polotsk-Mazeikiai.
Lithuania’s ports of Būtingė and Klaipėda are important outlets for shipping Russian energy products westward on the Baltic Sea.

In addition to oil sector infrastructure such as Ventspils Nafta and Mazeikiu Nafta, which were designed to operate using Russian crude oil and were connected to the Russian pipeline system, other strategic energy assets such as Soviet-era gas-powered plants\(^{191}\) and the Ignalina nuclear power plant also relied on Russian technology and raw materials. Lastly, the three Baltic states remain connected to Russian gas and electricity grids whose operations are controlled out of Moscow.

Despite the shared features of their energy sector, the Baltic states sought energy security in different ways. Vilnius was perhaps the most vocal domestically and on the international arena in its quest to reduce Lithuania’s and even the EU’s dependency on Russian energy. It actively lobbied in favour of the Nabucco gas pipeline, which would bring Central Asian gas to Europe. In September 2008, Lithuanian European Parliament member, Vytautas Landsbergis called for the creation of a subcommittee on energy security in the European Parliament.\(^{192}\) In the power sector, Vilnius planned a 1000mw power link to Sweden and a 1000mw link to Poland. Both connections were named as part of the EU’s top energy priorities, but little progress was achieved on either. The first line of the Lithuanian-Poland connection is scheduled for completion by 2012 and the second by 2017.\(^{193}\) The Swedish-Baltic connection will receive Euro 170million of funding from the EU’s Economic Recovery plan of December 2008.\(^{194}\) Lithuania was also seeking to build a new nuclear power plant with the help of Poland, Estonia, and Latvia to replace the old Ignalina plant and to meet rising regional electricity demand. However, the project stalled due to domestic political disagreements in Lithuania and

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\(^{191}\) For a detailed discussion see chapter IV.


\(^{193}\) Progress has been limited since Poland has little incentive to connect its system to that of Lithuanian. Rather, Poland has been more interested in its connections to Western European states.

\(^{194}\) The Economic Recovery Plan totalling Euro 5 billion was confirmed by the European Commission in December 2008. Following extended disagreements between Latvia and Lithuania, both of which hoped to have the link placed in their territory, the decision was reached that the interconnector would terminate in Lithuania.
Vilnius-Warsaw negotiations, which link the nuclear power plant and the power connection, and the lack of interested investors by 2010. In reality, diversification projects dithered and Russian oil and gas remained the primary sources of Lithuania’s energy.

Latvia and Estonia also pursued similar projects aimed at decreasing dependence on Russia, such as participation in the Ignalina nuclear power plant, power links with other European countries, and the Nabucco pipeline. However, their tactics and results have been different. Unlike Lithuania, both Latvia and Estonia rarely initiated multilateral proposals in energy security. Estonia did so only after 2007, following the interruption of rail deliveries of oil by Moscow. At that juncture, Estonia led a campaign in the EU against Russian plans to build the Nord Stream gas pipeline that would bypass the Baltic states. Although it has displayed less rhetorical flourish than Lithuania regarding energy diversification, Estonia has been able to achieve some results by establishing Estlink, a power link with Finland, which is the only power linkage to outside the region in the Baltic states.

Generally, Tallinn’s stance appeared less politicized and more pragmatic than the position of Vilnius on energy independence. Estonia did not call for grand projects or for energy independence from Russia. The policy divergence can be explained by both domestic preferences and the importance of external factors. Estonia’s success in establishing a power link with a neighbouring country is due to its close relationship with Finland. Meanwhile Lithuania’s relationship with Poland was often turbulent and the bonds between Lithuania and Sweden or Latvia and Sweden were much weaker than those between Estonia and Finland. In the last decade, Latvia was the most ambivalent in altering its existing energy relationship with Russia. In 2008, the Latvian government sought to establish an energy link with Sweden. Competition between Vilnius and Riga emerged over EU funds for the Swedish-Baltic link as both states sought for the power

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195 Before the political tensions, Estonian government officials even hinted at being involved in the project.
link from Sweden to end in their territory. In contrast to Lithuania’s and Estonia’s vehement position on Russia’s Nord Stream project, Latvia has given subtle signals that it would cooperate with the project by making available its natural caves for gas storage to Nord Stream.

In sum, even though all three Baltic states shared near identical conditions of energy dependence on Russia, perceptions and aspirations differed as to how to manage this dependency. Great rhetoric and multilateral lobbying marked Lithuania’s policies. Latvia displayed little enthusiasm for energy independence, while Estonia demonstrated some efforts towards altering its energy predicament. Such differences, however, have proven mostly rhetorical because strategies to achieve greater energy independence were not developed and not implemented. Both Estonia and Lithuania took some small steps to reduce energy dependence on Russia, despite the evident interest of all three of these small and vulnerable states to try and do so. This failure was due primarily to four domestic political factors. The first was weak executive capacity. In the Baltics, low political stability stemming from frequent collapse of governments resulted in a low policy capacity to devise long term strategies of any kind. A second factor was that under conditions of political instability, political parties preferred short term populist initiatives to long term strategies. In this regard, Estonia differed, displaying the greatest political maturity and least tendency towards populism. Third, political elites were discouraged from pursuing policies to alter energy conditions by the economic costs involved. Policies of diversification of energy routes and sources would have resulted in a budgetary load and political parties chose instead social spending to keep voters satisfied. Lastly, complex lobbying commercial interests with a link to the major Russian energy players played a powerful role in keeping the status quo in the Baltic energy sector. In the

196 By 2010, Lithuania appears to have won and the link is planned to terminate in its territory. However, there has been little progress in building the link.
197 Estonia has completed a power interconnector, Estlink, between electricity markets in Finland and Estonia in 2007.
198 Lithuania built its Būtingė terminal on the Baltic Sea which can receive crude oil by tankers from the international market, though to date with an exception of a few shipments of Venezuelan oil still relies on Russian oil.
199 See chapter II on domestic politics outlining the weak and fragmented political systems and its implications.
context of inconsistent and incoherent energy policies, interest groups had an even
greater capacity to influence decision makers than they would have under more stable
and mature domestic political conditions. In this aspect Estonia differed, benefiting from
the most transparent and least corrupt political and economic system in comparison to
Latvia and Lithuania. Despite the limited successes of Estonia and Lithuania, all three
states have generally been unsuccessful in altering their predicament of energy
dependency.

Russia’s Energy Politics, Policies, and Priorities
To set the context for our discussion of Baltic policy responses, this section will outline
the evolution in Russian energy policy from the 1990s to 2000s since Moscow was often
the driving forces in energy relations. In comparison to the 1990s, during the 2000s three
tendencies emerged in Russian energy policies. These new tendencies reflected the
Kremlin’s recognition of the strategic importance of the energy sector and its aim to gain
control over the sector and use it to influence both domestically and abroad. Russia’s
three-pronged energy policy had a particularly strong impact on relations with its Baltic
neighbours as well as with other neighbouring states.

Arguably, the first tenet of Moscow’s new energy policy was that the Kremlin did not
hesitate to use energy to as a tool of the state’s geopolitical influence abroad. In fact
this aspect of Russia’s energy policy has been described as ‘new stealth imperialism.’
This view is somewhat controversial inasmuch as it is denied by Moscow and some
authors argue that Russia’s energy policy is driven above all by economic incentives
rather than by political considerations. Amelia Hadfield, for one, argues that the
remote causes of energy cuts are often political but the proximate causes are

200 Exemplified by Estonia’s Eestlink and Lithuania’s Butinge.
201 Keith C. Smith, Security Implications of Russian Energy Policies, CEPS Policy Brief, No.90, Center for
European Policy Studies, Brussels, January 2006; Isabel Gorst, The Energy Dimension in Russian Global
Available at: <http://www.rice.edu/energy/publications/docs/PEC_Gorst_10_2004.pdf>
203 Mark A. Smith concludes that ‘business interests rather than geopolitics have primacy in Russia’s new
foreign policy. Mark A. Smith, Russian Business and Foreign Policy, Conflict Studies Research Centre,
Defense Academy of United Kingdom, May 2003; See also Stern, The Future of Russian Gas and
Gazprom.
commercial.\textsuperscript{204} However, in the politics of energy, political and commercial motives are closely intertwined. Baltic-Russian energy relations were highly politicized and policy choices were driven by hybrid motives. The following Baltic case studies will demonstrate that when Moscow’s economic priorities coincided with political concerns Kremlin’s energy halts have been long-lived whilst cuts precipitated by political considerations alone have been temporary.

Though Russia has used energy as a tool of influence since the early 1990s, the administration of Russian President Vladimir Putin since 2000 and particularly since his second term from 2004 to 2008 has seen energy become a consistent means to implement foreign policy strategy as outlined in the 2003 Russian government’s white paper.\textsuperscript{205} Until 2006, Russia cut off energy exports on around 40 occasions.\textsuperscript{206} In 2006, U.S. Vice President Dick Cheney described this emerging trend as a tool of ‘intimidation or blackmail’ vis-à-vis its neighbours.\textsuperscript{207} Energy halts to uncooperative states have been most pronounced in the Baltics and the CIS as demonstrated by oil supply interruptions to Latvia since 2002, Lithuania since 2006, Estonia in May 2007, Belarus in January 2007, and gas interruptions to Ukraine in March 2005, March 2008, and December 2008 to January 2009. The first tenet of Russia’s new energy policy is not waning. In May 2009, Russian President Dmitry Medvedev approved Russia’s National Security Strategy covering the period of 2009-2020. The new strategy also highlighted the importance of energy security and recognized that Russia’s influence internationally stems from Moscow’s political use of its natural resources.\textsuperscript{208}

The second aspect of Russia’s energy policy was the purposeful re-orientation of energy transit flows (to western clients) away from old routes via the Eastern European states to new direct routes to Western Europe through Russian territory and ports.\textsuperscript{209} Cutting

\textsuperscript{204} Smith, Hadfield, and Dunne, eds., \textit{Foreign Policy: Theories, Actors, Cases}, p.336
\textsuperscript{206} The Swedish Defence Research Agency Report, March 2006.
\textsuperscript{207} Cited in Andrew E. Kramer, ‘Lithuanians are Given a Taste of How Russia Plays the Oil Game,’ \textit{New York Times}, 28 October 2006.
\textsuperscript{208} С Т Р А Т Е Г И Я национальной безопасности Российской Федерации до 2020 года, [Russia’s National Security Strategy], Russian Federation, No.537, 12 May 2009.
\textsuperscript{209} Currently Russia exports 31 percent of its petroleum products through neighbouring states.
transit states out of Russia’s energy flows decreased Russia’s dependence on transit states, increased Russian leverage, and amplified Moscow’s willingness to use this leverage on energy-dependent transit states such as the Baltics. The strategy becomes apparent with an examination of two different phases of Baltic-Russian energy relations. In the first phase of the early 1990s, which were marked by energy interdependence between the Baltic states and Russia, there were limited commercial possibilities for Russian companies to export energy westward through other channels than the Baltic territories. Due to Russia’s dependency on Baltic port infrastructure for exports, in the 1990s and early 2000s Moscow’s energy cut offs to the Baltics were of a temporary nature.

In the second phase of Baltic-Russian energy relations starting in the 2000s, Moscow reduced its dependence on Baltic ports but the Baltic states remained solely dependent on Russia for their oil and gas consumption. Russia reduced its dependence by first improving its own energy export infrastructure and then increasingly relying on Russian ports on the Baltic Sea. The Russian port of Primorsk started operating its first oil terminal since 2006 and completed the second terminal in 2008. The Baltic Pipeline System (BPS) carrying crude oil by a branch of the Druzhba pipeline to Primorsk (rather than to Lithuania and Latvia) was launched in 2001. In May 2007, the Russian government approved an expansion of the BPS - the Baltic Pipeline System-2 (BPS-2), which will completely bypass Belarus and the Baltic states to carry crude oil directly to Primorsk. In July 2007, Russian Transportation Minister Igor Levitin revealed that Moscow aims to boost the capacity of Russia's northwestern ports of Ust-Luga, Primorsk, Vysotsk, Kaliningrad, and Murmansk by 30-40 percent between 2008 and 2015. Under these new conditions, Russia increasingly was able to divert energy flows away from transit states. Permanent cuts of energy shipment via the Baltic states have therefore become ever more commercially feasible for Moscow. Moscow’s willingness to impose long-lived cuts of energy flows only after Russian ports were available as alternatives for Russian companies demonstrates that political motivations did not suffice in Russia’s energy strategy towards the Baltics. Economics considerations prevailed in Moscow’s

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willingness to use permanent cuts to energy flows via the Baltics. However, Moscow’s policy of creating new infrastructure to make these permanent cuts possible commercially was driven by both political and economic considerations. As these case studies will demonstrate the timing of cut offs of energy deliveries or permanent re-routing of energy transit was driven by political tensions with the Baltic states.

The third feature of the new energy policy was the Kremlin’s focus on securing full control over the Russian energy sector. This was most apparent during Putin’s second presidential term and has continued under his leadership as prime minister. Private companies such as Yukos in 2004 and TNK-BP in 2008 came under pressure from the Kremlin. Furthermore, Russian state and private energy companies were employed to carry out foreign policy. In the oil sector, the main energy players carrying out the Kremlin’s foreign policy were state-owned monopoly pipeline company Transneft and state-owned Russian Railways which handles energy cargo. Even privately owned oil companies LUKOIL and Rosneft211 often behaved as state-owned enterprises rather than commercial ones. For instance, LUKOIL president Vagit Alekperov stated in November 2001: ‘We in the company Lukoil consider ourselves a national Russian company, and we do not accept the ideology of the division into state, private and other companies.’212 Other companies such as Rosneft, Transneft, LUKOIL and Gazprom were also used by the Kremlin to enforce its energy policy abroad. It was therefore impossible to separate their commercial activities from Russia’s foreign policy objectives.213 Thus, LUKOIL’s efforts to privatize strategic energy assets in the Baltic states such as Mažeikiu Nafta and Ventspils Nafta or the frequent technical problems encountered by Transneft and Russian Railways in shipping oil to the Baltic states were viewed by the Baltic governments as actions dictated by Kremlin.

In summary, in order to understand Baltic energy policy, one has to appreciate the key influence of Russia’s new strategy on relations with the region. Moscow was often the

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211 Rosneft’s ownership is closely tied to state-owned monopoly gas major Gazprom
212 Mark A. Smith, Russian Business and Foreign Policy, Conflict Studies Research Centre, Defense Academy of United Kingdom, Swindon, 2003, p.2.
driver in Baltic-Russian energy relations and the policies of the Baltic governments were in many cases reactive. However, as this case study will demonstrate, the impact of Russia’s energy policy should also not be overestimated. The cases studies will demonstrated that the domestic political factors within the Baltic states and government policies often served as either the underlying or proximate causes of Moscow’s energy cut-offs.

**Episode 1: The Closure of the Druzhba Pipeline to Lithuania in 2006**
The Lithuanian government and analysts often cite Russia’s closure of the pipeline supplying Lithuania’s oil refinery Mažeikių Nafta (MN) as a prime example of Russia’s usage of the energy weapon to punish uncooperative states. Lithuania had experienced previous interruptions to supply of crude oil via the Druzhba pipeline but the case of 2006 was one of a prolonged stoppage. Lithuanian policies that led to the closure of the pipeline were principled and rather adversarial stemming from the politicization and resistance of Lithuania’s political right to a Russian investor.

The Russian halt of crude oil supply via the Transneft-operated Polotsk-Mažeikiai branch of the Druzhba (Friendship) pipeline to MN from 2006 through to the present has been the result of several factors. Above all, the halt was triggered by a conflict of Lithuanian-Russian economic interests during the sale of the Lithuanian refinery to a Polish rather than a Russian investor. Lithuania’s decision to sell its refinery to a non-Russian investor was motivated by both commercial and political considerations. The motives underlying Moscow’s decision to indefinitely suspend operations of the pipeline were also a hybrid of economic and political considerations. These considerations stem from Russia new energy strategy that sought to redirect energy flows directly to the West away from transit states. Whilst economic reasons predominated at the outset, political discord between the capitals served to reinforce the long-lived energy cut off. Consequently, the sale of MN and the closure of the Polotsk-Mažeikiai pipeline branch become a highly sensitive domestic political dilemma and a major source of tensions between Vilnius and Moscow, bilaterally and multilaterally.
Mažeikiu Nafta and the Political Economy of the Pipeline Closure

Initially the closure of MN was explained as a technical issue by Moscow. On 29 July 2006, the Russian pipeline operator Transneft halted oil flows to the Polotsk-Mažeikiai branch citing an alleged accident on the Druzhba pipeline in the territory of Belarus. Despite repeated requests from Lithuania and the EU as well as Transneft’s promises to make repairs, pipeline operation was not resumed. When asked in the summer of 2006 whether the pipeline would be repaired, Transneft’s CEO Sergei Vainshtok said the pipeline was 42 years old, had over 7,000 flaws, and would have to be rebuilt completely to be operational. Moreover, Vainshtok asserted, Transneft had other priorities.

The pipeline closure to MN is generally regarded by the Lithuanian government and outside analysts as an issue less related to technicalities but rather to geopolitical tensions between Lithuania and Russia. Even studies that insist Russian energy policy has been primarily driven by pragmatic economic considerations admit that the MN ‘does indeed constitute a case of using energy as a weapon.’\(^{214}\) The main reason why Moscow’s argument - that closure occurred because of technical difficulties - lacks credibility is because the Russian government reported the accident on the pipeline immediately after the Lithuanian government approved an ownership transfer of the MN refinery from Russian oil major Yukos to Poland's oil major PKN Orlen in May 2006. Vilnius and Warsaw perceived the alleged accident and subsequent halt as Moscow’s attempt to derail the sale to PKN Orlen in order to orchestrate a purchase of the refinery by a Russian company.\(^{215}\)

When MN experienced a mysterious fire at the time of the transfer of ownership to PKN Orlen suspicions were further roused. These were reinforced by the statement of Deputy Chairman of the Russian Duma, Konstantin Kosachov – a man known for controversial statements, who warned Vilnius that ‘instability will continue to plague the refinery until

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\(^{215}\) ‘The goal was to force Lithuania to reconsider the sale,’ said Tomas Janeliunas, deputy director of the country’s Center for Strategic Studies who followed the sale closely, in an interview. ‘They wanted a Russian company to buy the refinery, but for cheaper than the market price.’ Cited in Kramer, ‘Lithuanians are Given a Taste of How Russia Plays the Oil Game’.
the Lithuanians finally realize which partners one should choose’ only a few hours before the start of the blaze.\textsuperscript{216} Thus, the timing of the pipeline’s closure suggests a \textit{quid pro quo} reaction from Moscow for selling MN to a non-Russian investor. That said, the permanence of the halt of crude to the refinery arguably stems from Russia’s broader energy, economic, and political policies.

The Russia’s aforementioned three-pronged energy policy provided the context and set constraints for Baltic policy makers. The story of the MN sale begins with Russia’s domestic politics. It relates, moreover, to the first tenet of Kremlin energy policy which seeks control over Russia’s energy sector including its private companies. Before being sold to PKN Orlen, MN was owned by Russian oil company Yukos from 2002 to 2006. The Kremlin’s tensions with Yukos following the 2003 arrest of the company’s owner Mikhail Khodorkovsky translated into tensions with the Lithuanian government. Vilnius refused to surrender Yukos assets to the Russian government. Once bankrupt, Yukos decided to sell its Lithuanian assets - the MN refinery - in an international open auction. The Kremlin’s preferred buyer for the Lithuanian refinery was LUKOIL – the oil company with the closest and most cooperative relationship with the Russian government. LUKOIL was primarily interested in MN not for its refinery operations but as an entry mechanism to capture the local market since regional petrol stations operated by giant distributors such as LUKOIL, STATOIL, Neste rely on petrol products refined by MN.\textsuperscript{217}

Lithuanian government’s resistance - first to surrender Yukos assets to the Russian government, and second to sell them to a Russian investor - resulted in the halt of operation of the Druzhba pipeline. Here the second key tenet of Russia’s new energy policy played a role - the use of the energy stick in foreign policy towards an uncooperative state. However, the third and most important deep cause in the sustained non-operation of the pipeline has been Moscow’s long term goal to divert energy flows away from transit states. With Russia’s improved energy infrastructure by 2006 it was

\textsuperscript{216} Cited in \textit{Orlen i Możejki - final przejęcia}, Gazeta Wyborcza, 15 December 2006.
\textsuperscript{217} Interview with Chris Donnelly, Defense Academy Senior Fellow, Vilnius, May 2009.
commercially feasible to Russia to do so. In this case, the Kremlin chose to divert crude oil flows from the pipeline feeding MN to supply instead Russia’s BPS which feeds the Russian port of Primorsk.

For Lithuania the closure of the pipeline was a significant economic issue. Mažeikiu Nafta was and remains the sole oil refinery in the Baltic states. It was Lithuania’s largest enterprise and tax contributor to the national budget, accounting for some 14 percent of GDP in 2005 before the halt of the pipeline. Deprived of supplies via the pipeline, MN has been forced to ship in crude oil to Lithuania’s Būtingė terminal\(^{218}\) on the Baltic Sea and then transport crude oil via rail to MN. The shipping and railing of crude oil has enabled MN to continue operations but at much greater costs. The company's finances took a steep hit in 2006, with earnings plummeting some 75 percent and recovery since has proved difficult. The completion of the pipeline from Būtingė terminal to MN has improved profitability, but it still lags in comparison to pre-2006.

Mažeikiu Nafta was also of political and strategic importance for Vilnius. MN was an important asset in Russian-Lithuanian relations as it encouraged cooperation based on mutual interest between the two states. Vilnius viewed MN as a strategic asset that could also be used to forge new relationships. For example, in 1999, with the initial privatization of MN to American oil company Williams International, Vilnius hoped to reinforce American ties and investments. The sale of the refinery to Polish PKN Orlen in May 2006 strengthened a strategic partnership between Vilnius and Warsaw - a relationship already based on common foreign policy goals.\(^{219}\) As such, in July 2006, two months after the MN deal, Lithuania invited Poland to participate as an investor in its new nuclear power plant project in Ignalina and reiterated its hopes to create an electricity power link between the two states.

\(^{218}\) Būtingė terminal was built in 1995 and started operation in 1999.
\(^{219}\) These common policies include a cautious approach to Moscow, the goal of reducing energy dependency on Russia, desire to export democracy to the CIS, and tendency for joint lobbying in the EU and NATO to achieve these objectives.
The Domestic Politics of the 2006 MN sale to PKN Orlen

Because of the strategic importance of MN to the government of Lithuania, its sale in 2006 to PKN Orlen was highly sensitive and politicized domestically. In addition to the approximately 35 percent of MN shares being sold by its previous owner Yukos, the Lithuanian government was selling its own 35 percent of MN shares. Excluding PNK Orlen, the main bidder was LUKOIL. Russian-British oil company TNK-BP and Kazakh energy company Kazmunaigaz also expressed interest. Meanwhile, Moscow as intent for LUKOIL to acquire MN and pressured other interested buyers to stay out of the transaction.220

The domestic political environment, particularly the tensions between the political right and left, and business interests were the main factors influencing policy choices. Domestic political forces were divided on partisan lines and both sides favoured principled rather than pragmatic policies towards who should acquire MN. The leftist parties voiced support for an investor from the East and thus, cooperative policies towards Moscow. The rightist parties favoured a Western investor and, accordingly, adversarial policies towards Moscow. LUKOIL was the preferred buyer for the Lithuanian leftist government composed of Social Democrats and the Labour Party. Until late into the negotiations, Prime Minister Algirdas Brazauskas and his Social Democratic party and Minister of Economy Viktor Uspaschik of the Labour Party221 argued in favour of a company that could guarantee the supply of oil from Russia – in short, a Russian investor.222 The conservative opposition party, the Homeland Union was highly sceptical of a Russian investor due to the political influence that Russian investment into Lithuania’s strategic energy assets would bring. Instead, the Homeland Union supported PKN Orlen since Poland was a member of EU and NATO and was perceived as Lithuania’s strategic partner. The conservative leadership of Poland led by the Prime Minister Jaroslaw Kaczynski and President Lech Kaczynski of the Law of Justice party

220 Market participants in the events stated that the Kremlin asked Kazmunaigaz not to participate in the bid for MN telling them that supplies to MN of crude oil would not be guaranteed. Interview with banker representing Kazmunaigaz, London, 30 March 2009.
221 The Lithuanian Labour Party and its leader also had close ties to Kazmunaigaz whom they had signalled as a possible investor in the Lithuanian energy sector since 2002.
were known, after all, for their tough talk on Russia and energy independence and thus also appealed to the partisan preferences of Lithuania’s political right.

Despite the different partisan preferences of Lithuanian political actors, there were limits to what extent any of the players could influence policy outcome. In the end, the sale of MN shares owned by Yukos and the Lithuanian government took place via a transparent international auction where the determining factor was price. The preferences of the Lithuanian government had limited bearing on the outcome. As such, PKN Orlen’s success was ensured by the fact that its offer price was nearly double than that of LUKOIL. Market participants have concluded that the political dimension was little more than a rounding error in the final outcome of the sale, but that political pressures both from the Russian government and from the Lithuanian government were felt by market participants.\textsuperscript{223} Furthermore, the political decisions taken prior to the international auction – such as the initial resistance to surrender Yukos assets to the Russian government and the decision to hold an auction for the shares owned by the Lithuanian government – do demonstrate that the Lithuanian decision makers and their principled policies facilitated an acquisition of a non-Russian strategic investor.

The politicization and controversy surrounding a seemingly transparent commercial transaction can seem surprising. It demonstrates to what extent energy relations with Russia were politicized and securitized in Lithuania. Decision makers were driven by strategic concerns, party ideologies, domestic political considerations, and, as will be shown below, personal interests. It can also be demonstrated that some pragmatic considerations played a role. The political left focused on the need to ensure energy supply and thus indirectly to maintain good relations with Russia. During the negotiations, Brazauskas emphasized that the government sought an investor which could guarantee the future viability of the refinery (i.e. LUKOIL which could guarantee the supply of crude oil via the pipeline) rather than simply a high price offered today. However, he politicized the issue to the extent that he even discussed nationalization of the refinery if a suitable buyer was not found. Brazauskas and the Social Democrats

\textsuperscript{223} According to market participant representing the interests of LUKOIL; Interview, 30 October 2008.
appeared willing to pay an economic premium of a lower sale price that LUKOIL was offering in comparison to PKN Orlen in order to enjoy the domestic and bilateral political premium of stable relations with Moscow.

The policies of Brazauskas can be attributed not only to his partisan preferences but also expectations of domestic political gains for himself and his party in negotiating a sale to a Russian buyer. Selling MN to LUKOIL and then enjoying stable supplies of crude oil would have cemented his personal reputation as someone who could guarantee good relations with Moscow. The positions taken by both Brazauskas and rightist Homeland Union politicians suggest instrumental use of foreign economic policy as an attempt to differentiate one’s party from the opponents in the eyes of the voters. Rhetoric was often just as important as policy outcomes. For instance, Brazauskas probably knew that he or his party had limited influence on the results of international auction sale, but felt that the Social Democrats must publicly express the views of their electorate. It is also likely that personal stakes were at play. The gap between price offered by Russian investors and PKN Orlen and the vigour with which the political left lobbied for LUKOIL suggest that party contributions from stakeholders in the Lithuanian energy sector with close ties to LUKOIL or from LUKOIL itself were given.

The highly politicized and controversial re-sale of the refinery resulted in a domestic political crisis. The Social Democratic party’s support for a Russian investor in light of their political origins as the Communist Party of Lithuania and alleged soft spot for Russia aroused criticism from the Homeland Union and the public. In the midst of the sale process in June 2005, the Minister of Economy Viktor Uspaschik - whose ministry was responsible for overseeing the refinery sale - was ousted in a scandal in which he was accused of fraud and tax evasion in campaign finance. Uspaschik, a former Russian citizen and pro-Russian politician who founded the leftist Labour Party fled to Russia in May 2006 where he hid from Interpol until returning to Lithuania in late 2007. Kestutis Dauksys - also from the Labour Party - replaced Uspaschik as Minister of the Economy on 29 June 2005 and continued to lobby in favour of a Russian investor. The scandal surrounding the government coalition and the suspicions surrounding the transparency of
the MN sale eventually cost Brazauskas his support amongst the members of the coalition government and thus his prime ministership in June 2006. Gediminas Kirkilas replaced Brazauskas as Prime Minister and head of the Social Democrats.

*Negotiations in the Multilateral Arena*

Lithuania’s policies in the multilateral arena regarding the operations of VN were a product of domestic politicking and Vilnius’ more assured and thus adversarial stance as a member of EU and NATO. In response to the freeze in crude oil supply to MN, Vilnius has lobbied for its interests vis-à-vis Russia in Brussels to an unprecedented degree since gaining EU membership. As a result of Lithuanian and Polish lobbying, EU President Jose Manuel Barroso brought up security of energy supply to MN at a Russia-EU summit in May 2007. On 28 April 2008, for the first time ever, the Lithuanian government threatened to block EU negotiations with Russia for a new cooperation and partnership treaty citing Russia’s interruption of crude oil supplies to MN as one of its main grievances. The willingness of Lithuania to use its veto power in EU-Russian agreements has been perceived as a shift in Vilnius’ policies from frosty to hostile towards Russia. It also stands out as one of the most aggressive moves by Vilnius towards Moscow altering what was perceived to have been a rather cooperative relationship between Moscow and Vilnius in the 1990s. The manoeuvres in the international arena were greatly driven by domestic politics. The minority government led by the Social Democrats was supported by the rightist Homeland Union in order to remain in power and thus needed to pay heed to the right’s foreign policy priorities. The Social Democrats also felt under domestic pressure to correct their image as being ‘soft’ on Russia and thus took a tough stance on issues such as the EU-Russia partnership agreement. Overall, Lithuania pursued adversarial and principled policies in the multilateral arena regarding Russia and oil relations.

Moscow also tried to secure its interests regarding MN by using multilateral means - primarily international arbitration. First, the Russian state oil company Rosneft made an agreement with Western creditor banks in December 2005 to assume Yukos’s debt.

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making Rosneft a creditor for Yukos’ assets in the subsequent bankruptcy suite. Then, the designated Russian bankruptcy receiver representing Rosneft’s claim, Eduard Rebgun, sued in the federal Bankruptcy Court in New York and in the Netherlands to block the MN sale. He lost both cases.225

**Historical Comparisons of Oil Supply Tensions to Mažeikiu Nafta**

Russian-Lithuanian tensions over crude oil supply to Mažeikiu Nafta emerged as early as the independence movement and numerous instances of oil interruptions can be cited from the 1990s and 2000s. The most interesting of these cases and most comparable in circumstances to the experience of MN in 2006 were the privatization of the refinery by the American firm Williams International in October 1999 and the resale by Williams of MN to Russian Yukos in 2002. During the lengthy negotiations leading up to the first privatization of MN in 1999, Russia linked secure supply of oil to MN with LUKOIL’s ability to acquire MN however did not link oil the issue with other political questions.226

During the years before and right after the privatization by Williams from 1998 to 2000, Transneft cut deliveries nine times to the Druzhba pipeline branch feeding the MN refinery. The inability by Williams to secure stable crude oil supply to MN increased operations costs and reduced profitability of the refinery. As a result, by 2002 Williams sold its shares to Yukos.

Similarly to 2006, the 1999 sale demonstrated partisan divisions between the political elite with various political parties supporting either Western or Eastern investors. Because the Lithuanian government handled the privatization of MN to Williams, the process was less transparent than the international auction of MN shares in 2006. As a result, the level of domestic political intrigues, scandals, and allegations of corruption was much higher in 1999 than during the sale in 2006. In 1999, the conservative government led by rightist Homeland Union supported the sale to American Williams. In fact, fearing that the MN will either ‘rot or be taken by the Russians,’ Homeland Union

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225 Kramer, ‘Lithuanians are Given a Taste of How Russia Plays the Oil Game.’

delegated the Foreign Minister Algirdas Saudargas to find a Western investors back in 1997. During the 1998 NATO workshop in London Chris Donnelly, then the special advisor to the NATO Secretary General, suggested Williams as an option. Meanwhile, opposition of Labour and Social Democrats insisted that Vilnius could not ignore Russia’s interests if it wanted to secure oil supplies. However, the policies of various political actors were not always consistent with their party stance. The Prime Minister Rolandas Paksas (May-October 1999), nominated by the Homeland Union/Conservative coalition, broke ranks with his party and did not support Williams as a buyer. Paksas resigned during the final negotiations on 27 October 1999 in what was perceived to be an effort to derail the sale agreement. Minister of Economy Eugenijus Maldeikis and Minister of Finance Jonas Lionginas also resigned from the government arguing that the deal would be detrimental to the state budget because Williams wanted the Lithuanian government to assume MN’s debt. Nevertheless, the deal was passed with the Cabinet voted 11 in favor with 3 against.

The resignation by Paksas revealed that not only partisan preferences but interest groups were active in shaping this privatization. Paksas was alleged to have been personally representing LUKOIL’s interests in their efforts to privatize the refinery. The disagreement over the privatization eventually led to the permanent alienation of Paksas, Maldeikis, and Lionginas from Lithuania’s rightist political forces led by the Homeland Union. Paksas later formed several political parties and was even elected as President in 2003 only to be impeached in 2004 for unsavoury links with Russian businessmen and secret service. His resignation from the premiership in 1999 brought more conservative political leaders into power. The subsequent government was led by acting Prime

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227 Ibid.
228 Smith, pp.41-42
231 Both at the time part centre right Liberal Union party.
232 Following the Williams incident, Paksas allied with left of centre Liberal Union before starting his own right-wing populist but pro-Russia political party Order and Justice in the 2000 parliamentary elections. Later, President Paksas (2003-2004) was impeached. His record was further marred by allegations that he was financed by Yuri Borisov, a Russian citizen with ties to Russian military intelligence.
Minister Irena Degutiene (October-November 1999) and later Prime Minister Andrius Kubilius (November 1999-October 2000) - both members of Homeland Union. The newly formed conservative government wholeheartedly supported Williams.

The outcome of the 1999 sale demonstrated the role played by the partisan preferences of the government in power. Despite the resignation of Paksas, the opposition of leftist parties, and the strong influence of energy stakeholders linked to Russia, the sensitivity of the rightist political forces to a Russian investor – and particularly a company close to the Kremlin such as LUKOIL – made an acquisition by LUKOIL unthinkable under a Homeland Union government. Though the Homeland Union probably suspected that oil supplies to MN would be interrupted, the perceived political costs of Russian influence and the outcry from their constituency in the case of LUKOIL’s acquisition outweighed the economic costs of uncertain oil supply. Homeland Union was even planning for a possible scenario of an energy halt. In 1999, the Homeland Union completed their priority project – the government-financed Būtingė oil terminal on the Baltic Sea - enabling Williams to import crude from world spot market by ship and rail. Thus the terminal reduced MN’s reliance on Russian oil pumped via the Druzhba pipeline. In fact, the first shipment via Būtingė arrived a week before Kremlin cut supplies to the pipeline in 1999.

In summary, the privatization of MN in 1999 was a clear case where politics trumped economic considerations. For the Homeland Union, whose leaders had led the movement for political independence from Russia in 1990, ensuring economic and energy independence was a critical policy priority which trumped ensuring a cooperative energy relationship with Moscow. As such, the Homeland Union’s government policies were clearly principled and adversarial towards Russia, in contrast to the cooperative but also relatively principled policies pursed by the Social Democrats.

Despite the mitigating benefits of Būtingė oil terminal, Williams was not able to secure the same levels of oil supply and maintain profitable operations. It therefore completed the transfer of ownership shares to Russian oil company Yukos by 2002. The sale of MN
to Yukos warrants attention since it was the first time a Russian company acquired a strategic Lithuanian energy asset. The key factor enabling a change of policy and thus a sale to a Russian company was the change in government in Lithuania. Social Democrats came to power in 2000 and were more open to cooperative economic relations with Russia as well as more sensitive to the economic costs of an oil flow stoppage to MN. Surprisingly, the sale of MN to Yukos was less controversial domestically and evoked less concerns from the electorate and the opposition Homeland Union that earlier or later sales of the asset. The main reason was that the sale occurred in two stages. In 2001, Yukos became a partner to Williams and a year later Yukos acquired the rest of the MN shares. Another possible mitigating factor was that the Yukos acquisition was more acceptable to Rightist political forces because Yukos was a private rather than a Russian-state owned company and because of its reputation as the most ‘Western’ and ‘open’ Russian company. This demonstrates that the attitudes towards Russian investment were quite nuanced. For, in the eyes of the Lithuanian political right, Russian companies owned by the Russian state such as Gazprom or with close ties to the Kremlin such as LUKOIL were viewed with greater suspicion than private Russian investment.

Summary
A comparison of the privatization of MN to Williams in 1999, and the subsequent sales to Yukos in 2002 and to PKN Oren in 2006, reveals three factors that shaped the foreign energy policy of Vilnius towards Russia. The first driving factor was the domestic political configuration of the government because it created the parameters of debate and of political manoeuvring for the decision makers. In two of the three episodes covered, there was a correlation between the political orientation of the government and the selected investor for MN. When political parties of the right were in power, a Western investor was selected. Conversely, when political parties of the left were in power then a Russian investor acquired MN. In 1999, the rightist government led by Homeland Union was willing to bear the economic costs of a potential energy stoppage rather than risk Russian political influence and thus sold MN to American Williams. In 2002, however, the leftist government preferred security of energy supply rather than independence from Russian commercial entities and was supportive of the sale of MN to Russian Yukos. This makes the sale of MN to PKN Orlen instead of LUKOIL during the leftist
government of the Social Democrats in 2006 the outlier in this apparent relationship between the political orientation of the government and the choice of either a Western or Russian investor. In 2006, the leftist government lobbied for a Russian investor for MN but in the end could not influence the outcome of the sale which was driven by market conditions. As the sale of MN to Polish PKN Orlen in 2006 demonstrated, the government had a limited capacity to determine the outcome of a commercial transaction in an international open auction, but did try to use its political influence.

The influence of partisan preferences in government policies suggests that Lithuanian policies were generally principled rather than pragmatic. Only the 2006 sale of MN to PKN Orlen can be described as pragmatic because the buyer was selected based on the offer price rather than national origin. Since in two of the three privatization cases Russian investors were shunned, we can conclude that Lithuanian policies towards Russian investment in the oil sector were generally adversarial. Based on the 2006 privatization it can also be argued that over time, Lithuania’s policies evolved from highly principled and adversarial to increasingly pragmatic and cooperative towards Russian investment in their oil sector.

A second factor to consider in the foreign energy policy of Vilnius towards Russia is the role of business lobbies. The resignation in 1999 of Prime Minister Paksas, a delegate of the Homeland Union, in order to derail the sale of MN to Williams demonstrates that individual politicians can take a position outside their party line when they are linked to strong business interests. The lobbying of Prime Minister Brazauskas in 2006 in favour of a Russian investor even though the government had little direct influence over the auction also demonstrated the high personal stakes politicians may have had in energy policy toward Russia.

A comparison of the 1998-2000 and 2006 Russian halts to oil supply to MN also sheds light on how Moscow’s policies set the context and influenced Lithuania’s energy policy towards Russia. Both energy cut offs occurred during an episode of change in ownership of MN. Both times Russian investors were sidelined in favour of a Western investor such
as Williams or PKN Orlen. By way of contrast, at the time of the ownership transfer of MN from Williams to Russian Yukos in 2002, oil supply was not interrupted. The events suggest that Kremlin used energy halts as a tool to punish commercial policy choices by its interlocutors that were perceived to be uncooperative. It also demonstrates that Vilnius was willing to risk an energy embargo rather than sell its energy assets to a Russian investor. However, the incidents in question do not necessarily suggest that Russia used energy halts in order to seek political concessions. There were no attempts by Moscow to link energy to political issues in Lithuania. As such, Dmitri Trenin has described Moscow’s policies towards MN as a ‘brutal business tactic.’ This does not mean, however, that there are no political implications in energy stoppages. The Lithuanian government and political elites did not interpret the 2006 shut down of the pipeline as simply a tough business strategy on the part of Moscow. The 2006 halt was viewed as part of a political vendetta against Vilnius and soured relations between the two states in the ensuing years.

A comparison of the duration of oil halts – from the temporary interruptions in 1999 to the seemingly permanent closure of the pipeline in 2006 – provides further insights into Lithuanian-Russian tensions in the oil sector. The reasons why tensions in 1999 did not result in a permanent closure of the pipeline (as was the case in 2006) stem mostly from Russia’s new energy policy rather than Lithuania’s policy choices. In 1999, Russia had still not build new national transit infrastructure such as the port of Primorsk and was relying on transit states such as Lithuania to send its oil to the West. Furthermore, in the aftermath of the 1998 Russian financial crisis, Russia was economically weak and could not jeopardize oil revenues with a prolonged blockade. By 2006, Putin’s Russia was confident and prosperous thanks to high global prices of energy. It had improved its port infrastructure to divert oil transit from transit states, gained control over its domestic energy companies, and was not hesitant to use energy as a tool of foreign policy. Thus, by 2006, permanent closure of the Druzhba pipeline had become less costly for Russia

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both politically and economically. Vilnius thus had limited policy options and could act only in a reactive fashion in the face of Moscow’s increased capacity to reroute energy flows. That said, Vilnius always had the policy option of offering commercial or political concessions to Russia in the hopes of preserving oil flows via the Druzhba pipeline; in what appears to be characteristic principled fashion, it chose not to do so.

**Episode 2: Latvia and Closure of the Ventspils Pipeline in 2003**
The long term and immediate causes of the halt in oil supply to Latvia’s port facility of Ventspils Nafta (VN) were very similar to those in the case of Lithuania’s oil refinery MN. Since 2003, VN has not received oil supplies via the Polotsk-Ventspils crude oil pipeline branch. As in Lithuania, the trigger in the closure of the pipeline was the Latvian government’s adversarial and principled policies exemplified by the resistance to Russian investment in VN. This episode will demonstrate that Latvia’s policy was driven by domestic political conditions, particularly the partisan preferences of the political right. Latvian local business interests played a crucial role in policy making to a much greater extent than in Lithuania. Lastly, as in Lithuania, Moscow’s policies set the context of Riga’s policy options. In fact the permanent closures of the Polotsk-Ventspils and the Polotsk-Mazeikiai branches stemmed from Russia’s new energy strategy rather than the economic disagreements that initiated the closure.

In 2002, Russia’s pipeline company Transneft and several Russian oil companies such as LUKOIL expressed interests in acquiring Ventspils Nafta (VN). Following lengthy talks and negotiations, the state and private owners of Latvia’s transhipment terminal VN rejected a purchase offer from Russian buyers. After numerous interruptions to crude oil supply in 2002, flows to the Polotsk-Ventspils branch were terminated by Transneft in January 2003 and have been blocked ever since. Latvia’s high transit tariffs were cited by Moscow as the reason for the cut. However, a parallel pipeline that brings in oil products to VN continued to operate. In April 2003, Transneft said it would resume oil supplies to VN.

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\(^{235}\)The branch pipeline is managed by the Latvian-Russian joint venture LatRosTrans, owned by the Ventspils Nafta and Transneft.
VN if the Russian pipeline operator could acquire shares of VN. At the time, Sergey Grigoryev, the vice-president of Transneft, said that Latvia has one year to consider the proposal, before oil supplies are permanently rerouted to the new Russian Baltic Pipeline System (BPS) commissioned in 2004 and which brings oil directly to the Russian Primorsk terminal which has been operational since 2002.

Since 2003, crude oil was delivered by rail to the VN, which made operations more costly and less efficient. Though there were numerous discussions with potential Russian investors and ownership changes within VN, the terminal was not acquired by Russian companies nor has the Latvian government succeeded in restarting pipeline operation. During a Latvian-Russian intergovernmental commission meeting in Riga in July 2007, the two sides reached an agreement on transport and border crossing issues but energy transit remained unresolved. During the trip, Russian Transportation Minister Igor Levitin confirmed that Russia's long term strategy is to stop exporting petroleum products through foreign ports, which suggests that oil will not be supplied to VN in the near term.

The Political Economy behind Venstpils Nafta and the Pipeline Closure
Throughout the 1990s until the launch of Russian port of Primorsk in 2002 and the closure of the Polotsk-Ventspils pipeline in 2003, VN operated as the second largest exporting terminal of Russian oil, and the largest outside Russian territory.\textsuperscript{236} Ventspils served as a transit route for many of Russia's leading oil companies but the Latvian branch of Russian oil giant LUKOIL, LUKOIL Baltija, was the main player. In 1999, during the heyday of VN, LUKOIL Baltija loaded 2.5 million tonnes - one-fifth of the oil exports of Ventspils. According to the \textit{LUKOIL} annual report, it also loaded 32 percent of total Russian exports via Ventspils.\textsuperscript{237} The crude oil pipeline alone generated around $200 million transit fees for Latvia annually in 1999. Once the pipeline was shut, rail

operations to supply VN also became important generators of income for the state - in 2005 rail transportation of Russian oil to VN contributes about 30 percent or $1.7 billion dollars of Latvia’s annual budget.\textsuperscript{238} As with MN in Lithuania, because VN is the most important company in terms of state revenues, its operations are highly sensitive both politically and economically.

VN’s operations impacted not only Latvian but also Russian interests. Both Russian oil companies and Latvia’s terminal have experienced higher costs of operation after the closure of the pipeline. For Russian companies, this was due to lack of available export pipeline space and the poorer economies of exporting through alternative ports. For VN, it was a result of having to rail in crude oil for export, which cut into the company’s profitability. But the issue at stake was not simply economic, as both Latvia and Russia proved willing to maintain the \textit{status quo} even at considerable economic costs in order to achieve a political victory. As in the case of MN in Lithuania, the halt of pipeline operations feeding VN can be viewed as part of Russia’s broader energy strategy, whilst Latvian government resistance to Russian investment stems from partisan preferences, domestic interests, and a foreign policy aimed at reducing ties with the East.

\textit{The Domestic Politics of the Venstpils Nafta Sale}
Latvia’s domestic political conditions during the studied period differed from those in Lithuania. Every Latvian government was composed of centre-right political forces in the studied period from 1994 to 2010 and during the time of the closure of oil flows to VN in 2002. The Moscow-Riga negotiations for VN shares coincided with the Latvian parliamentary elections of 2002. The incumbent rightist People’s Party was replaced by the reformist centre-right New Era party. Yet, in terms of their views towards Russia or Russian investment, the People’s Party and New Era did not differ noticeably. Whilst in Lithuania the political debate surrounding MN was volatile, in Latvia decision makers were consistently cautious of the political influence that Russian investment into VN could bring. Thus, Latvian policies can also be described as principled rather than

pragmatic. However, analytically, it is difficult to gauge the effects of Latvian government change on energy policy or policy towards Russia more broadly because all governments were from the political right. Instead, the influence of business interests and the interaction between business and local politics appears to have been particularly potent in the Latvian case.

Though VN and MN are strategically and economically important for Latvia and Lithuania respectively, the governments had different policies towards the two companies. The national government of Latvia had a consistent policy towards VN and towards Russian and was not divided by different political ideologies. Generally Latvian elites have pursued adversarial and principled policies towards Russian investment. The Latvian government not only resisted selling VN to a Russian investor as opposed to a Western one, but instead preferred for the company to remain owned either by the Latvian state or by a Latvian company. Whilst MN was privatized in 1999 to American Williams, VN was only partly privatized in 1997. VN remained a public joint stock company owned by Latvian joint-stock company Latvijas Naftas Transīts (LNT) whilst the Latvian government retained 43 percent of the stake. Whilst the share sales of MN to a Western investor resulted in pipeline closure, the pipeline closure to VN occurred due to the Latvian government’s resistance to selling the company to any foreign investor. In fact, the sale of Latvian government VN shares to a foreign investor occurred after pipeline closure as part of an attempt to find an investor who could secure oil supplies to the terminal. In October 2006, 34.5 percent of VN shares were sold in a public auction to the international corporation Vitol Group, which engages in oil transportation and trade. By 2007, Vitol raised its shares of VN to 47.9 percent, whilst approximately 38 percent remained in the hands of the public LNT. A struggle over control of the terminal emerged between Vitol and LNT and in September 2008, LNT submitted opinions to court challenging Vitol’s acquisition of VN shares.239

The struggle over the policies towards Russian investment in VN was played out in the sphere of local politics and business interests. In 2002 to 2010, VN’s ownership was not

239 As of 2010 the struggle between the two companies continues with no clear outcome.
completely transparent and reflected links between local and foreign, political and commercial interests active in Latvia’s energy sector. It was widely believed in Latvia that a large portion of LNT, as well as other companies related to the port of Ventspils, were owned through opaque holding companies by the mayor of the city of Ventspils, Aivars Lembergs. An ex-communist, Lembergs was elected mayor in 1988 (a position he maintained until 2007) and reportedly entered the energy transportation sector due to his close ties to LUKOIL. His large fortune made him the wealthiest Latvian and enabled him to have a notable influence in Latvian politics. In Venspils, his political centre-left party For Latvia dominated local politics. The mayor also made forays into national politics. In the 2006 parliamentary election, For Latvia entered into an alliance with centre party, the Union of Greens and Farmers, who became members of the coalition government. An ongoing investigation has also uncovered the fact that in exchange for legislative favours Lembergs provided the leftist party representing Russian speakers, Latvian Social Democratic Labour Party (SDLP) with campaign funds and favourable coverage in two main Latvian-language national newspapers. Both paper, incidentally, were owned by VN. Lembergs’ association with SDLP is not astonishing since SDLP were the heirs of Latvia’s Communist party and Lembergs himself was a former member of the Communist party. His communist background, ties to leftist political parties, and the alleged ties between Lembergs and LUKOIL fit the pattern of Baltic leftist politicians being more inclined towards political and economic cooperation with Russia. However, this raises the question of why, despite his leftist leanings and apparent ties with Russian oil companies, Lembergs did not sell his own purported shares of VN to LUKOIL. Possible explanations are that Lembergs was careful not to reveal the structure and circumstances of his ownership of VN or that Moscow was more interested in acquiring the shares of the Latvian government than those of Lembergs who was already a potentially cooperative partner. It is also possible that Lembergs was unwilling to go against the position of the Latvian national government and the public and risk political unpopularity.

240 He is also the head of Ventspils Port Authority.
241 Since March 2007, Lembergs has been under arrest for abuse of powers. His arrest coupled with the legal difficulties of other prominent politicians such as Speaker of Parliament Indulis Emsis of the Union of Greens and Farmers, Andris Šķēle founder of the People’s Party, and Ainars Slesers of Latvia’s First Party
Negotiations in the Multilateral Arena

Latvia has relied less than Lithuania on lobbying in the EU to induce Moscow to resume crude oil flows to the pipeline. Also unlike Lithuania, Latvia has not tried to block or veto any EU-Russia agreements. This may stem from the fact that Riga views the blockade to VN more as an economic dispute rather than a political dispute. Riga did try to hinder Brussels-Moscow negotiations regarding Russia’s WTO membership, citing, together with Lithuania, ‘discriminatory railway tariffs and access to energy resources.’ Latvia also encouraged its allies to speak up in favour of energy security. An avid supporter of the Baltic states, US Senator Richard Lugar, for one, proposed creating an ‘energy NATO’ during his speech on the eve of the NATO summit in Riga in November 2006.

Historical Comparisons of Oil Supply Tensions to Venstpils Nafta

As in the case with Lithuania’s MN, Latvia’s VN experienced a number of halts to its crude oil supply pipeline. That said, whilst all halts in Lithuania since the mid 1990s were related to transfer of ownership of MN, the 1998 interruptions to VN had origins primarily in political tensions. When on 3 March 1998 the Latvian police rather forcefully suppressed a protest of Russian speaking pensioners, a diplomatic crisis emerged between Latvia and Russia. This, in turn, led to unofficial economic sanctions on the part of Moscow against Latvian products and calls for a revision of Latvia’s citizenship policy. Moscow also implemented frequent interruptions to oil supply via the Polotsk-Ventspils pipeline branch to VN during this period. On 9 April, the Russian government announced that it would reduce the oil channelled through VN by 15 percent for the remainder of 1998 because Latvia ‘violated the rights of the Russian speaking population.’ This violation referred to Latvia’s exclusionary citizenship law which precluded many Russian speakers from Latvian citizenship. This was a clear case of

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243 Commercial tensions likely played a minor role as well. Following the partial privatization of VN, loading costs increased from USD5.30 to USD5.7 a ton resulting in complaints from Russian companies. In the wake of a March 1998 crisis involving pensioners, VN lowered prices to USD5.00 prompting the Latvian parliament speaker Alfreds Cepanis to speculate that the crisis was precipitated by Russian business interests. Charles M. Perry, Michael J. Sweeney, Andrew C. Winner, *Strategic Dynamics in the Nordic-Baltic Region: Implications for U.S. Policy*, Brassey’s, Dulles, VA, 2000, p.7.

Moscow’s unabashed punishment of Latvia’s domestic policy choices using the energy weapon. However, it was also a clear example of the Latvian government pursuing adversarial policies towards Russian speakers and thus, Moscow, which were likely to warrant a response. 245

In August 1998, amidst political tensions and frequent halts in oil supply, LUKOIL sought to acquire a stake of VN. As in 2002, Latvian political elites were reluctant to loose this strategic asset to a Russian investor or any foreign investor for that matter.246 The Latvian centre-right government led by Prime Minister Guntars Krasts and his nationalist Fatherland and Freedom party was particularly unwilling to compromise. Fatherland and Freedom was one of the most rightwing parties on the Latvian political spectrum. Thus, Fatherland and Freedom - even more than other members of the centre-right coalition whose other partners were Latvia’s Way and the Latvian Farmers Union – was cautious of greater economic and political ties with Russia. It has reputedly been receiving campaign contributions from VN, which also resisted Russian investment. The only moderately pro-Russian party at the time in the government coalition, the centre-left Democratic Party Saimnieks, withdrew its support from the government. Saimnieks, who was believed to represent interests groups close to Russia and particularly Gazprom, issued a statement by leaders of 70 companies whose leading market is Russia calling for more cooperative relations with Moscow.247 Despite the coordinated effort, the group of 70 failed. The reason lies in the fact that there were conflicting domestic business interests in Latvia. Some (such as VN, LNT) lobbied against Russian investment whilst others such as the group of 70 lobbied in favour of cooperative policies towards Moscow.

While political and economic tensions with Russia and within Latvia in 1998 made economic cooperation between Riga and Moscow difficult, the oil interruptions did not

\[246\] Sprūds in Muižnieks, p.113.  
result in a permanent closure of the pipeline. Moscow recommenced the operation of the Polotsk-Ventspils pipeline branch in 1998 for similar reasons it had continued operating the Polotsk-Mazeikiai branch after the privatization of MN to Williams in 1999. Namely, Russia had not completed its own infrastructure which would enable it to divert flows from Baltic ports. Furthermore, the Russian financial crisis of August 1998 and the low market price of oil made reducing energy exports too costly. However, as was outlined earlier by 2003 Moscow’s position had changed due both to new infrastructure and Russia’s economic boom. Meanwhile, from 1998 to 2003, Latvian elites remained obstinate regarding Russian investment. They were more willing to bear economic costs of pipeline closure rather than risk the steep rise in economic and political influence for Moscow which Russian investment would bring.

Summary
The events of 1998 and 2002 in Latvia demonstrate that Latvian policies towards Russia in the oil sector were driven primarily by three primary factors: the domination of domestic politics by the political right, local business interests, and Moscow’s policies. The episodes demonstrated that the Latvian political elites were unwilling to make political or economic concessions to Russia in order to preserve oil flows to its national strategic asset VN. The policies of the rightist governments may therefore be described as principled and adversarial. It is difficult to test the hypothesis of whether a government of the political left would have been more open to Russian investment because all Latvian national governments in the 1994 to 2010 period were of the political right. The caution of the political right towards Russian investment fell in line with the partisan preferences characteristic of the political right set out in the previous chapter. Furthermore, the 1998 withdrawal from the government coalition of the centre-left Democratic Party Saimnieks because of the adversarial policies towards Russia pursued by the government further supports the view that leftist political forces favoured cooperative relations with Russia.

Both the cases of 1998 and 2002 also demonstrate that business interests sought to influence policy towards Russian investment. Business interests were not always homogenous and some groups supported whilst others resisted Russian investment. In
1998, VN gave campaign contributions to the Latvia’s most conservative major political party, the For Fatherland and Freedom, naturally expecting that this party would resist Russian investment. Exporting companies in 1998 signed a petition asking the government to have a more cooperative relationship with Russia when their exports were hurt following a boycott from Russia. After the permanent oil halt to VN, certain groups within the ownership of VN such as the Lembergs faction and Vitol sought a partnership with a Russian investor. Ventbunkers, on the other hand, opposed such a relationship. The success of some policies over others depended on the confluence of interests of the political parties in power and the active business lobbies.

A comparison of the events in 1998 and 2002 also sheds light on how Moscow’s policies set the context in Latvia’s policy making. First, the long term closure of the pipeline supplying VN in 2003 was enabled by Russia’s new energy infrastructure. Second, in the 1990s and unlike in the 2000s, Moscow admitted that it was using energy to punish Latvia’s policy choices. In 1998, Moscow unabashedly linked Latvia’s policies towards Russian speakers with energy supply. In later instances, Russia did not admit to using energy as a weapon and cited commercial reasons in the case of Latvia in 2002 and technical reasons in the cases of Lithuania in 2006 and Estonia in 2007. The most likely explanation is that in cases which occurred during the 2000s, the Baltic states were already members or on the cusp of membership of NATO and the EU whilst in the 1990s Russia still perceived them as under Moscow’s sphere of interest and influence. Membership of trans-Atlantic organizations therefore appears to have improved the strategic position of the Baltic states. Moscow, in turn, appears to have become less willing to blatantly use energy as a weapon against EU and NATO member states and risk compromising its reputation as a reliable energy supplier to Western clients. This is an instance demonstrating the indirect NATO/EU effects on Baltic-Russian energy relations via Russian policy.
Episode 3: Estonia and the Halt of Fuel Oil Shipment in May 2007
The Estonian episode of oil interruption was driven by Estonia’s adversarial and principled policies towards a Soviet monument. The government policies were driven by partisan preferences, used instrumentally for domestic political gains, and somewhat emboldened by EU and NATO membership. The Estonian episode of oil interruption was different in technical circumstances and to some extent in its precipitating causes in comparison to the other episodes studied in this chapter. On the technical side, Estonia only experienced a brief halt in oil supply via railways, whereas Lithuania and Latvia experienced what appears to be a permanent closure of pipelines supplying their strategic energy infrastructure.\(^{248}\)

While Lithuania and Latvia experienced energy halts because of their adversarial and principled policies towards Russian investment, Estonia generally pursued cooperative and pragmatic policies towards Russian investment. However, openness to Russian investment and the subsequent Russian acquisition of Estonian ports in the early 1990s did not secure Tallinn from an oil supply halt. Because the oil halt to Estonia was a product of political tensions stemming from Tallinn’s adversarial and principled policies towards a Soviet-era monument, the episode is more reminiscent of the circumstances that underpinned the VN case in 1998 rather than VN in 2003 or MN in either 1999 or 2006.

Estonian-Russian energy tensions began on 2 May 2007 when state-owned Russian Railways halted rail deliveries of Russian crude oil, gasoline, heavy fuel oil, diesel and coal to Estonian territory amid a crisis in bilateral relations over Tallinn’s principled and adversarial policies of relocation of a Soviet era monument in the end of April 2007. Russian Railways cited planned track repairs as the reason for the halt and denied that this interruption was politically motivated or that it constituted an attempt by Moscow to impose trade sanctions against Estonia. The technical excuses echoed Transnefts’ citation

\(^{248}\) Generally, the infrastructure supplying Estonia is based on rail deliveries whilst the infrastructure supplying Latvia and Lithuania is based on pipelines.
of alleged pipeline damage in the move to cut off the branch of the pipeline feeding Lithuania’s MN.

Unlike in Lithuania and Latvia, the Estonian energy cut was short lived. By 21 May, deliveries of Russian refined oil products to the Estonian ports of Tallinn and Muuga increased to 27 trains daily, up from only 16 daily cargo trains in the first few weeks of May. But whilst rail traffic increased, it did not reach normal pre-crisis volumes of 30-35 daily trains. In fact, in 2008, there was a further drop in the amount of oil products Tallinn handled in comparison to 2007. In September 2008, Estonian Railways Chairman Kaido Simmermann stated that within three or four years there will be no Russian oil shipments through Estonia as the Russian port of Ust Luga is likely to start handing fuel oil shipment by 2009. Russia’s increased export capacity through its own ports and the gradual drop in volumes flowing through Estonia’s ports following the crisis does suggest that Estonia too will come to experience the halt of energy transit flows on a permanent basis as did Latvia and Lithuania. For if there is one feature common to the cases despite their clear differences, it is the deliberate attempt by Moscow to exert pressure on Baltic governments by exploiting their energy dependence on Russia in tandem with Moscow’s bid to eliminate transit states in its energy flows to Western markets.

The Economics and Ethnic Politics behind the Energy Stoppage of May 2007

Estonia is a major transit state for Russian oil products going westward. A quarter of Russia’s exports of fuel oil, gas oil, and gasoline (25 million tonnes per year) to Western markets arrive first by Russian Railways and then by Estonian Railways to the Estonian ports of Tallinn and Muuga, from where they are shipped to northern Europe and North America. Energy transhipment from Russia is important for Estonia’s economy. According to the most modest Estonian estimates, it directly accounts for 2.5 percent of

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Estonia’s GDP.\textsuperscript{251} Thus, the halt in energy deliveries to Estonia from 2 May to mid May 2007 did not cripple Estonia’s economy. Though it hurt Estonian Railways and ports, the energy blockade did the greatest harm to Russian companies, since most terminal operators at Estonia’s ports are Russian-owned.\textsuperscript{252} Backlogs of cargo accumulated on the Russian border with Estonia during the crisis even though Russian exporters tried to redirect most of the oil to costlier alternative routes via Russia’s Kaliningrad and Primorsk, Lithuania’s Klaipėda and Būtingė, and Latvia’s port of Ventspils and Riga. Since the crisis, Estonian Economic Minister Juhan Parts called for reducing Estonian trade reliance on Russian oil products and instead put forth the goal of reorienting 90 percent of national trade towards European markets. Shipping cargo containers from Western Europe and Asia rather than Russian energy products accordingly has emerged as the new strategy for Estonian ports.\textsuperscript{253}

There was little doubt for Estonian policy elites that the cease in transit of energy by Russian Railways to Estonia was politically motivated rather than a result of rail repairs or even economic considerations.\textsuperscript{254} Even if Russia’s new energy policy favoured Russian ports, the trigger to the crisis was political tensions between Tallinn and Moscow. On 26 April 2007, the Estonian government relocated a Soviet monument known as the Bronze Solder and the remains of unknown Soviet solders from a central square in Tallinn to a military cemetery. The controversial move just days before Russia’s national holiday of 9 May celebrating Soviet victory in the Second World War, sparked riots by local Russians in Estonia. The lower house of the Russian parliament on 27 April called for Russian President Vladimir Putin to sever diplomatic relations with Estonia and suggested restricting energy supplies to the Baltic state. Though such measures were not officially implemented, nearly all were adopted in practice. An attack by the far right pro-Kremlin youth group, Nashi, on the Estonian embassy in Moscow followed. In a counter move on 2 May, the Estonian embassy temporarily stopped provision of consular services in Moscow. Simultaneously there was a series of cyber

\textsuperscript{251} Interview with Sven Ratasseepp, Public Relations Manager, Port of Tallinn, Tallinn, May 2007.
\textsuperscript{252} Ibid.
\textsuperscript{254} Interviews conducted in Tallinn with politicians, business men, government officials, Estonian Railways in April 2007.
attacks, likely instigated by the Kremlin, against Estonian networks from 27 April and until around 9 May. The ‘denial of service’ attacks overwhelmed the websites of the parliament, the president’s office, the police, the foreign ministry, and Estonia’s largest bank, Hansabank. Political tensions between Tallinn and Moscow were at an all time high since independence.

Despite the volatile political period, Moscow’s energy cut was brief because it was economically unsustainable for Russian business interests. The company most affected by the cut was the Russian refiner Kirishi which is the main user of Estonia’s two ports, Tallinn and Muuga. The company is owned by the Russian oil producer Surgutneftegaz whose own ownership structure is opaque, but whose loyalty to the Kremlin is well known. Although it was not in Surgutneftegaz’s financial interests to sustain a long term embargo of Estonian ports, the company was willing to comply with the Russian government’s agenda vis-à-vis Estonia in the short term. According to industry experts, under 2007-2008 conditions, it was difficult for Russian oil exporters and operators to reroute large volumes of oil products away from Estonia for an extended period of time because alternative ports in the region, such as Ventspils in Latvia or Būtingë in Lithuania, did not have sufficient capacity.\textsuperscript{255} During the crisis, Latvian and Lithuanian railways were working at maximum capacity, whilst Russian railway stations were reportedly full of backlogs of oil cargo trains.

\textit{The Domestic Politics behind the Bronze Solder Relocation}

The timing of Moscow’s energy halt clearly suggests that it was precipitated by Tallinn’s adversarial and principled policies regarding the Bronze Solder. The Estonian government’s policy towards the Bronze Solder can be equated to Estonia’s policy towards Russia, because the monument was a legacy of Soviet history, which was of great importance to Russia in the 2000s. The consequences of Estonia’s policy towards the monument were inextricably linked with Estonian-Russian energy relations. Estonia’s domestic politics was the key factor determining the government’s policies towards the monument. The controversial relocation of the Bronze Solder was a decision of Estonia’s

\textsuperscript{255} Interview with Sven Ratassepp, Public Relations Manager, Port of Tallinn, Tallinn, May 2007.
political right driven by partisan preferences, desire to secure state interests, and pursuit of nationalist votes. Meanwhile, the Estonian political left also acted based on partisan preferences and engaged in politicking which inflamed the situation by supporting Russian speakers in their riots and protests. The tensions over the Soviet monument reflected the divisions along national lines of the Estonian political system and society. For local Russian speakers and the parties that represent them, the monument represented Soviet victory over Nazi forces and remained an important element of national identity. Ethnic Estonians and the Rightist political parties that represent them found the statue offensive as it reminded them of fifty years of Soviet occupation and repression.

Events were driven by the Estonian parliamentary elections of March 2007 highlighting the influence of outgoing incumbent governments on policy making and instrumental use of policies for domestic political gains. In the elections, the incumbent centre-right Reform party campaigned for the elections with a promise to relocate the Soviet era monument away from the Tallinn city center. Their platform included a promise to prevent Russian speakers from celebrating the Soviet Army victory on 9 May in central Tallinn in front of the Bronze soldier. The move was part and parcel of a populist attempt by the Reform Party to capture nationalist votes from their competitor the rightist Union of Pro Patria and Res Publica (Pro Patria). The elections were favorable to both the Reform party and Pro Patria brought to power a centre-right coalition government composed of the Reform Party, Pro Patria, and the centrist Social Democrats. The new government led by Prime Minister Andrus Ansip of the Reform party differed from the previous government only in terms of one political party. But the difference was crucial. With the election of 2007, the rightist Union of Pro Patria replaced the centre-left Center Party which had been in government since 2002. The new government led by the Reform party and supported by Pro Patria immediately took a nationalist initiative to relocate the Bronze Soldier from the centre of Tallinn to a military cemetery at the end of April 2007. This move would have been difficult under the government coalition including the centre-left Center Party. Once in power, the new government also viewed the

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256 Based on interviews with representatives of Estonian political parties, members of government, the media, and NGOs in Tallinn, Estonia in May 2007.
relocation as a way to neutralize a potentially explosive site since Russian speakers had for years organized provocative demonstrations by the monument, which was located in the center of Tallinn.\textsuperscript{257} The policy outcomes following elections support three conclusions. First, rightist political parties are likely to take more nationalist initiatives and support adversarial policies towards Russia. Second, political parties play up the Russia factor instrumentally in domestic contests in order to gain political capital from the electorate. Third, Estonia’s policies towards the Bronze Solder and thus, indirectly towards Moscow, were adversarial and principled.

The political left in Estonia, which was dominated by Russian speakers, responded along the same lines as Moscow during the crisis. It widely believed in Estonia that Moscow was involved in organizing and supporting the ensuing riots of some 1,500 local Russians. Whether this is true is difficult to determine but there are known links between Moscow and the local parties and organizations that supported the riots. Some rioters were mobilized by the ‘Nochnoy Dozor’ (Night Watch) Kremlin-backed right-wing group. The Russian Embassy in Estonia was reported to hold meetings with the organizers of the protests. Even the more moderate leftist Estonian Centre party led by Mayor of Tallinn Edgar Savisaar played a part. Savisaar criticized the Estonian government and took the side of the Russian rioters. The Centre party was known to have close ties with Russian President’s Vladimir Putin’s United Russia party. Following riots of which the Centre party was accused of helping orchestrate, the party increasingly came to represent Russian minorities rather than serves as a mainstream centre-left party. The politicization by both the Estonian political left and the right of the Bronze Solder events demonstrates how sensitive policies towards Russia were in the domestic context. Estonian political elites were willing to risk tensions with Russia and even energy stoppages in order to defend what were perceived as national interests and to gain votes from the nationalist segment of the electorate. The political left was willing to provoke a domestic and bilateral political crisis in order to gain the votes of Russian speakers. In this respect, both sides of the ideological divide may be said to have acted on principled rather than pragmatic grounds.

\textsuperscript{257} Interview with Estonian Ambassador to Britain, Dr. Margus Laidre in London on 27 November 2008.
**Multilateral Assistance and Lobbying**

It is arguable that EU and NATO membership had a small and indirect impact on Estonia’s policies towards the Soviet monument. As a EU and NATO member, Estonia was in a more secure position to press with principled policies towards Russia. Indeed, following the diplomatic crisis EU member states expressed support for Estonia and emphasized that Tallinn had the right to pursue domestic policies towards any Soviet monuments regardless of Moscow’s preferences. In addition, Tallinn was engaged in multilateral lobbying and received assistance in response to attacks on the Estonian Embassy in Moscow and the cyber warfare. During the crisis, the Estonian government called for immediate action from the international community. NATO and the EU did not become directly involved, but spokespeople strongly urged the Russian authorities to honour the Vienna Convention on Diplomatic Relations. The so-called cyber war (which Moscow denied launching) elicited support and concern from Estonia’s allies in the EU and NATO, the latter of which sent experts to Estonia’s aid during the attacks. In early July, the US Department of Homeland Security and specifically its US Computer Emergency Response Team (US-CERT) sent a representative to Estonia to analyze the data related to the attacks. The Chairman of the NATO Military Committee General Raymond Henault’s likewise visited Tallinn on 16 July and called for the establishment of a NATO cyber security centre in Estonia. Such a centre opened in mid 2008.

**Summary**

The analysis of the 2007 events in Estonia demonstrated that Tallinn’s policies were driven primarily by partisan preferences and the instrumental usage of policies and influenced by EU and NATO membership. The Estonian centre-right government was willing to risk political and energy tensions with Russia in order to achieve domestic political aims. It cannot be discounted that their adversarial policies towards Moscow were overwhelming pursued in the name of the nationalist vote in relation to the 2007 parliamentary elections. For, arguably, since political parties of the right dominated the Estonian political system, rightist parties may have felt a heightened need to pursue ever more nationalist policies in order to differentiate themselves from their competitors. As a
result of these domestic dynamics, Tallinn’s policies towards the Bronze Solder were adversarial and highly principled.

The 2007 events in Estonia also exemplify a case where Estonia’s domestic policy choices, which were quite provocative, resulted in Moscow halting energy supplies as a form of punishment. The course events subsequently followed in Estonian in 2007 was very similar to the temporary halt of oil supply to Latvia’s VN in 1998 after the Latvian government’s suppression of demonstrations by Russian speakers. In both cases, purely political disagreements stemming from policies towards Russian speakers resulted in energy stoppages. In both cases, centre-right government coalitions that contained parties from the far right end of the political spectrum such as Latvia’s Fatherland and Freedom and Estonia’s Pro Patria embarked on nationalist policies that were at odds with Moscow.

In Estonia, local business interests played a less apparent role in energy relations with Russia than in Lithuania or Latvia. Many of Estonia’s strategic assets were either owned by the Estonian state such as Estonian Railways or by foreign companies. The majority of port infrastructure is owned by Russian companies or by Russian speaking businessmen. Russian business interests had very little influence over Estonia’s rightist political parties, particularly over domestic policies in the political sphere, and thus could not mitigate the government’s policies towards the Bronze Solder.

The case demonstrated that EU and NATO membership played a small and indirect role on Estonia’s policy making by emboldening Tallinn to pursue principled and adversarial policies towards Moscow. The Western integration of Estonia also likely had a diffuse effect on Moscow’s policies. In 2007 Moscow was hesitant to blatantly use energy or cyber threats against a NATO and EU member state. NATO and EU interference was likely and it did come indirectly. Moscow also denied that the drastic reduction in rail deliveries of oil was politically motivated. Instead, Moscow cited technical difficulties. The Russian government also denied that it was behind the cyber warfare campaign. Thus, Moscow’s line in 2007 differed from its policies towards Latvia in 1998 when it
had frankly admitted to halting energy supply in order to alter Latvia’s policies towards Russian speakers.\textsuperscript{258}

**Conclusion**

The case study has demonstrated that in the immediate term the internal conditions of the Baltic states such as domestic politics and business interests are more important in determining foreign policy towards Russia than structural constraints of energy dependence on Russia or the structural opportunities of EU and NATO membership. The conditions of Baltic energy dependence on Russia, the links between the Baltic and Russian rail and pipeline infrastructure, and the existing routes of Russian energy transit through the Baltic states westwards created the initial constraints on Baltic policy options. Likewise EU and NATO membership played a diffuse and indirect role on Baltic foreign policy making. In Lithuania it made Poland – a fellow EU and NATO member – a favoured investor in the national oil refinery. In Estonia, membership emboldened the government to pursue principled and adversarial policies towards Soviet monuments. The main drivers of Baltic policy decisions were domestic political arrangements such as the political orientation of the government coalitions, the ideologies and interests of executive decision makers, and the links between local business interest and politics. Baltic policy elites have generally been willing to ignore their vulnerable energy conditions and risk a halt in energy rather than make concessions to Moscow. In the studied episodes Latvia and Lithuania demonstrated principled and adversarial policies towards Russian investment. Meanwhile, Estonia though cooperative and pragmatic in its economic policies towards Russia as demonstrated by openness to Russian investment, was adversarial and principled in its political policies towards Russia as demonstrated by the removal of the Soviet monument.

The different tactical and rhetorical approaches of the Baltic states at various time periods were driven by domestic differences. Three differentiating factors rise to the forefront – the left/right political orientation of the government, the instrumental usage of policies,

\textsuperscript{258} Latvia in 1998 was still only a NATO and EU hopeful and was more vulnerable to coercive policies from Moscow towards its ‘near abroad.’
and the strength of local business elites. The divide between political parties was along ideological lines with the left favouring a Russian investor and the right preferring a Western one. The government orientation had an impact on energy policy as demonstrated by the Lithuanian cases in 1999, 2002, and 2006 as well as by the Estonian case of 2007. In Latvia the political right consistently dominated the government so there was less variation in national energy policy. In Lithuania and Estonia there was considerable amount of instrumental usage of policies towards Russia, which had consequences in the energy sector. Both the Lithuanian right and left pursued highly principled rhetoric and policies for domestic political gains. Likewise, the political right in Estonia sought the principled and adversarial policies of removing the Bronze Soldier in order to gain votes in the 2007 parliamentary elections.

The relative strength of business elites is another factor that can shed light on government’s resistance to Russian investment. In Estonia, the local business interests did not play a notable role in policy making in part because of the transparency in the Estonian political system and in part because local ownership in the energy sector was limited. Estonia generally pursued the most liberal economic policies of the three states and privatized most of its infrastructure in the early 1990s reflecting the neo-liberal economic views of its decision makers. As a result, Russian investors owned most of Estonian port and terminal infrastructure. This fact may explain why there were not as many major interruptions to energy supply as in Latvia or Lithuania. In Latvia, local business groups were strongest and have most ardently resisted competition that would result from the entry of foreign capital – either Russian or Western. Thus, when it came to the sale of VN to foreign investors, the interest of business and the centre-right government coincided to resist Russian acquisitions. In Lithuania, the business elites in the energy sector used their political influence and lobbied generally in favour of Russian investors. However, their success was limited due to the high premium the Lithuanian political right placed on Western investment into the strategic energy sector.

See the following chapter for a more detailed discussion of the individual leaders and their views.
In sum, Lithuania’s policy towards Russia in the oil sector was driven by principled policies based on partisan preferences as well as politicking due to the pronounced domestic political cleavage between left and right. The business lobby also played an active role in trying to influence policy decisions and was more successful when leftist political parties dominated the government. In Latvia, continuity of rightist political forces meant a more consistent foreign policy. Generally, policies were highly principled and adversarial towards Russian interests. In Estonia, principled policies were driven by partisan preferences of the political right. Tellingly, the instrumental usage of policies towards the Soviet monument for domestic political gains was pronounced. In the Bronze Soldier episode, the political considerations of the right trumped the economic pragmatism and liberalism which generally dominated thinking in Tallinn.

These cases of Russian interruption of oil supplies to Lithuania, Latvia, and Estonia have also demonstrated that it is important to differentiate between the immediate causes of the halts and the underlying reasons why energy halts to the Baltic states become long lasting and fixed. The immediate causes of the halts have been the principled policies of the Baltic governments that were at odds with Moscow. In Lithuania in 1999 and 2006, and in Latvia in 2002, these policies were economic and commercial, whilst in Latvia in 1998, and Estonia in 2007, they were political and diplomatic. Moscow tried to use the energy weapon to coerce a sale of a strategic energy asset such as Lithuania’s MN (in 1999 and 2006) and Latvia’s VN (in 1998 and in 2002). By wielding its energy weapon towards Riga in 1998, Moscow openly demanded that the Latvian government change its minority policies. Regarding Tallinn, Moscow perhaps hoped that the energy interruption would precipitate a policy change in Tallinn’s policy regarding the relocation of the Soviet monument. Most likely, however, Moscow simply sought to flex its muscles and punish Tallinn for a perceived political and diplomatic mishap.

The underlying reasons for which the energy halts become long lived stem not from Baltic policy choices but rather from Russia’s economic preferences and energy strategy. The cases examined demonstrate that Moscow’s oil halts became permanent when Russian political and economic objectives became complimentary. When Russia’s port
infrastructure was not yet developed and when Russia was facing economic difficulties in the 1990s, a long term closure of pipelines or rail deliveries was not a feasible or affordable option. Indeed, the economic costs outweighed the political premium that Moscow could have hoped to gain. However, in the 2000s, Russia’s improved infrastructure and revenues from high oil prices enabled it to seek the political premium without having to bear the brunt of economic costs. It is therefore likely that the rerouting of energy transit flows from Russia to Estonia will become permanent as they have in Latvia and Lithuania. With the completion of the BPS and improvement of Russian ports, the Baltic states may completely cease to be transit states for Russian oil flows. Economic conditions enable Russia to do so whilst political tensions provide additional motivation.

This case study produced a number of findings regarding the dynamics of Baltic-Russian relations in the oil supply sector, and pointed to factors that influenced Baltic policies towards Russia. In some ways, the findings were predetermined because the episodes were selected based on their similar outcomes – a halt in oil supplies from Moscow. Consequently, two dimensions must be borne in mind regarding the findings. First, since the policy outcomes involved unilateral actions on the part of Moscow, the cases informed our understanding of Moscow’s evolving energy policy priorities, as well as our reading of Baltic policies that precipitated these energy embargoes. Second, it is not surprising that principled and adversarial policies towards Moscow (towards Russian investment in the case of Latvia and Lithuania and towards a Soviet monument in the case of Estonia) rather than pragmatic and cooperative ones precipitated oil supply halts. In this regard, because of the focus on the policies that precipitated the energy embargoes the pipeline study was not best suited to fully demonstrate differences in Baltic policies towards Moscow; rather, it served to demonstrate how differentiated alignment of domestic conditions, actors, and factors came together to produce what were ultimately quite similar policies. By way of contrast, the ensuing case study on gas relations will focus on differences in policy outcomes. The episodes surveyed in the next chapter will examine variegated policy choices in which some states were always open to Russian
investment in their gas sector and others resisted – at least as long as possible. The emphasis on divergent outcomes will complement this chapter’s focus on convergent outcomes to provide a comprehensive assessment of Baltic policies towards Russia.
CHAPTER IV

Resisting Gazprom: Baltic Policies towards Russian Acquisitions in the Gas Sector

Since the 1990s, Baltic-Russian gas relationship was among the most sensitive issues for Baltic security and an important component of the bilateral agendas of Tallinn, Riga, and Vilnius with Moscow. Gas relations displayed many similarities with the Baltic-Russian oil relations outlined in the previous chapter. All three Baltic states were highly dependent on Russian sources of gas and oil for domestic consumption and insights from the oil case study have some relevance to the study of gas. Yet there were a number of differences between the Baltic gas and oil sectors. A study of the gas sector elucidates on Baltic policy making in highly constrained circumstances of limited policy options because the gas dependency on Russia is more acute than that of the oil dependency. This case study will demonstrate that Baltic policy was driven by the ideologies of Baltic political parties and influenced by the gas interests groups.

Before assessing the patterns and dynamics of policy in this issues area, it is worth noting the main features distinguishing the gas sector. First, policy making in the gas sector differed from policy making in the oil sector, because options were narrower since dependency on Russia is even more acute in gas than in oil. The reasons are twofold. First, oil is traded internationally and the Baltic states have the capacity to import non-Russian oil and oil products via their oil terminals on Baltic Sea. In contrast, gas import infrastructure is extremely limited to Russian pipelines and wholly dependent on Russia. Second, unlike in the oil relationship, Russia does not depend on Baltic territories for gas transit to other markets. A further difference between the gas and oil sectors is that there is a correlation between greater vulnerability due to complete gas dependency on Russia and the inability of Baltic governments to resist Russian

260 Baltic ports such as Estonia’s Tallinn and Sillamae, Latvia’s Ventspils, and Lithuania’s Būtingė and Klaipėda are equipped to accept non-Russian oil and oil products though currently they work primarily in exporting Russian oil to Western markets.
261 All gas is imported into the Baltic states via Soviet-era Russian-owned pipelines that carry Russian gas.
262 The gas pipelines feeding Estonia and Latvia terminate in these territories while one feeding Lithuania continues onwards only to the Russian exclave of Kaliningrad.
investment in their gas sectors; by way of contrast, ability to resist Russian investment in the less dependent oil sectors was higher. Powerful local gas interests with ties to the Russian gas monopoly Gazprom served as cause of the limited ability of the Baltic states to resist Russian investment by lobbying in favor of Russian investment. The powerful business interests were also a consequence since Russian investment created more local interests favouring Gazprom of the considerable difficulty experienced by Baltic governments in resisting Russian investment.

This chapter will examine the differences in the ways that the Baltic states handled their gas relations with Russia. Such differences can best be observed by examining government responses to the efforts of Russian companies to acquire Baltic national gas companies - Estonia’s Eesti Gaas, Latvia’s Latvijas Gaze, and Lithuanian Lietuvos Dujos. The Baltic policy decisions regarding Gazprom's investment into the national gas companies will be used as indices to plot national foreign policies towards Russia along the two axes used in all the case studies: cooperative/adversarial and pragmatic/principled.263 The attitudes of governments towards foreign investment can range widely. They ranged from prohibitive blocking of foreign investments deemed to affect national security at one end of the spectrum to highly permissive stances or efforts to promote investment by means of financial incentives and legal assistance.264 In the middle of the spectrum are liberal but not necessarily pro-active ‘open for business’ stances.

When comparing policies amongst the three Baltic states in the gas sector using the cooperative/adversarial and pragmatic/principled indices, a clear divergence in Baltic policies can be discerned (See Figure 4.1 for a graphical comparison). Estonian policies towards investment in the gas sector fell in the middle of the foreign investment policy spectrum and can be described as liberal and ‘open for business.’ They can also be described as the most cooperative and pragmatic of the three Baltic states. The Estonian-Russian gas relationship was consistently the most commercialized and least politicized

263 See introduction for a detailed discussion and definitions of the terms.
of the three Baltic states. Estonia was the first Baltic state to allocate 30 percent shares of its national energy company, Eesti Gaas, to Gazprom in April 1992. Tallinn’s policies in the gas sector were consistent with those in the oil sector: Estonia was also the first in the Baltics to privatize its port infrastructure and oil terminals, many of which were acquired by Russian investors as outlined in the previous case study. Domestic politics, and specifically the neoliberal ideology of the Estonian elites, was the most important factor in explaining these policy choices.

Figure 4.1 The Policies of Baltic States towards Russian Investment

Latvia was less open to Russian investment in its gas sector than Estonia but more open than Lithuania. Riga’s privatization policies can be described as mildly adversarial and moderately principled vis-à-vis Russian investment into its gas sector. Five years after

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266 The values are based on qualitative analysis. Level 3 on the X and Y axis represents highly principled and highly cooperative policies, while Level 1 represents moderately principled and moderately cooperative policies. Level -3 on the X and Y axis represents highly adversarial and highly pragmatic policies while Level -1 represents moderately adversarial and moderately pragmatic policies.
Tallinn allocated shares to Gazprom, Riga sold 16.25 percent shares of its national gas company, Latvijas Gaze to Gazprom in April 1997. In general, Riga also exhibited higher levels of resistance to Russian investment in its oil sector than its gas sector. This is best illustrated by a comparison of the privatization of the port facility Ventspils Nafta (VN) which occurred in the same year as Latvijas Gaze. Riga was able to resist Russian companies’ efforts to acquire shares of VN but not Latvijas Gaze. This difference stemmed from the strong bargaining position of Gazprom in the highly vulnerable Latvian gas market and the strength of local gas interest groups. These factors favoured a cooperative relationship with Gazprom that would facilitate reliable and relatively cheap supply of gas from Russia. Lastly, domestic party politics had an impact on policy choices. The leadership of the non-partisan businessman Prime Minister Andris Šķēle and the leadership of the moderate centre-right party Latvia's Way facilitated the acquisition for Gazprom.

In the gas sector, Lithuania’s policy towards Russian investment exhibited higher levels of resistance than those evident in Estonia and Latvia. Indeed, Vilnius' policies towards Gazprom investment can be described as adversarial and principled until 2004 when it became relatively more cooperative and pragmatic converging towards to the policies of Latvia and Estonia. Vilnius held out the longest of the Baltic states in terms of selling its shares of the national gas operator to Gazprom. Only in 2004 did the Russian gas company acquire 34 percent share of Lietuvos Dujos. Lithuanian gas and oil policies have not differed significantly – both exhibited medium degrees of resistance to Russian investment. The main factor driving Lithuania’s resistance to Russian investment was the partisan preferences of the political elites, particularly from the political right. However, one should not conclude that the Lithuanian gas sector was less penetrated by Gazprom’s interests – local companies with strong and non-transparent links to Gazprom were operating in Lithuania before Gazprom’s official entry in 2004 and were an important factor in lobbying in favor of a cooperative policy towards Russian investment. In the broader context, amongst the EU members, the Baltic states, since their membership in

268 Since then, Gazprom raised its share in Lietuvos Dujos to 37 percent.
2004, along with Poland and United Kingdom, pursued adversarial energy policies towards Russia. In contrast, states such Germany, Austria, Italy, Hungary, and Slovakia pursued more cooperative energy policies towards Russia. However, the Baltic states were the only states in CEE where Gazprom acquired shares in the national gas companies.

The difficulty this case presents is the difference in time periods between the three privatizations. As a result the three privatizations were conditioned by very different sets of geopolitical circumstances characterized primarily by timing. Gazprom's Estonian acquisition occurred when the country was still in the first stage of 1990 to 1995 of sovereignty building. Four years later, at the time of the privatization of Latvijas Gaze, Latvia was already in the second stage of 1995 to 2004 of state building. Finally, in the Lithuania case, the privatization was finalized in 2004, following EU and NATO enlargement in the third stage of 2004 to 2010.

Having outlined the contours of policy differentiation, we turn to consider the internal and external conditions of the Baltic gas sector. This involves first saying something about the gas infrastructure inherited from the Soviet era which set the parameters of Baltic-Russian gas relations. We will then consider the domestic actors active in in the making of gas policy in the Baltic states. Before starting the analysis, the third section of the chapter will consider the evolution of Russian gas policy towards gas dependent and gas transit states and highlight the role of that crucial actor in Russian foreign gas policy – the national gas monopoly Gazprom.

**Baltic Gas Sector: Dependency and the Legacy of Soviet Infrastructure**
The Baltic gas sector should be viewed within the general context of the Baltic energy sector, and more broadly, the Central and Eastern European (CEE) and EU energy sectors. In this section, the conditions of Baltic gas dependency on Russia, gas

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infrastructure, gas prices and gas diversification efforts will be covered. To summarize, limited domestic energy resources, geographic proximity, and the legacy of Soviet era infrastructure were the main reasons why Estonia, Latvia, and Lithuania remained heavily dependent on Russian sources of energy following independence in the 1990s. The Baltic states were not unique in their dependence on Russian gas within the context of the new EU member states from Central and Eastern Europe (CEE) and even amongst the EU states.

In energy policy, there are two factors to consider. The first is energy dependence which demonstrates the proportion of imported energy sources in a country's energy balance; the second is energy security which demonstrates the degree of access to energy sources that are reliable, affordable, deployable, and politically and environmentally sustainable. Energy import dependency, is in any case often perceived as a security risk because it exposes national economies and politics to external stresses and increases trade imbalances for energy importing states. However, when examining the Baltic energy sector, it is important to highlight that it has not been high levels of dependence on imported energy to satisfy domestic consumption which has caused controversy. Rather, the policy agenda has been dominated by questions over the security implications of the sources of imported energy. The percentage of imported energy sources (gas and oil) as a total of domestic energy consumption of the Baltic states is average in comparison to other EU members because the Baltic states also meet some of their internal energy needs through domestic production thanks to shale oil in Estonia.

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270 The Baltic energy sector was presented in the beginning of Chapter III.

271 CEE states received gas supplies almost entirely from fixed pipelines running from Russia to European states and they had few alternative sources of imported gas or pipelines and few gas interconnections. In 2008, half the EU’s domestic consumption was dependent on energy imports and analysts predict that by 2030 the Union will rely on imports to satisfy 84 percent of domestic gas consumption and 93 percent of domestic oil consumption. Egidijus Motieka, Žygimantas Vaičiūnas, Teodora Gaidytė, ‘Rusijos Energetinių Išteklių Tiekimo Europos Sąjungai Nutraukimo Įvertinimas: Pasėkmės Rusijai ir ES,’ Strateginių Studijų Centras, Krašto Apsaugos Ministrija, Vilnius, 2008, p.11-12. Already in 2009, Russia was the main supplier of gas to the Union, accounting for 42 percent of the EU-27 gas imports and meeting 26 percent of EU’s total demand. Geden in Spruds and Rostoks, p.14.


273 Ibid.
hydropower in Latvia, and – at least until recently - nuclear power in Lithuania.\textsuperscript{274} As can be seen from Table 4.1, Latvia’s dependency rate of 63.5 percent\textsuperscript{275} falls above the EU average of 50 percent. Lithuania is close to the EU average at 48 percent and Estonia, dependent on external sources for only 28.5 percent of its energy, is significantly below the EU average.

Energy import dependency in itself does not create energy security risks for resource importing states.\textsuperscript{276} Lack of diversification is the main concern. Amongst the measures proposed by the EU on external energy security, diversification is the most prominent. According to EU proposals energy security can be improved by diversification of imported energy sources, routes, and suppliers.\textsuperscript{277} Energy security of a state is determined not only by the level of diversification but also the sources of these undiversified imports. If energy sources are undiversified and imported from a hostile or potentially hostile state, high import dependency makes a state more vulnerable. The Baltic states import the majority of their energy from Russia which is indeed perceived by the Baltic governments as a potentially hostile state. Baltic energy dependence is even greater in the gas than the oil sector since 100 percent of the three Baltic states’ total gas consumption is supplied by Russia. Thus, even though Estonia’s relatively low 28.5 percent dependency level regarding energy imports is amongst the lowest in the EU, Estonia is wholly dependent on Russia for its gas imports. And since political relations with Moscow are often tense, Estonia is one of the most energy vulnerable states in the EU.\textsuperscript{278} Amongst EU member states, the Baltic states are most comparable to Bulgaria, Slovakia, and Finland who are likewise vulnerable due to their complete dependency on gas imports on Russia.\textsuperscript{279} Other states that rely on Russia for the majority of their gas imports

\textsuperscript{274} Due to EU regulations Lithuania had to close its nuclear power plant by 2009 whilst Estonia will have to reduce its shale oil production to address SO2 emissions by 2013.
\textsuperscript{275} Import dependency demonstrates to what extent a state is dependent on energy sources of import (gas and oil) in order to meet its domestic energy consumption needs. The rest of energy needs are met by domestic production.
\textsuperscript{276} Motieka, Vaičiūnas, Gaidytė, p.13.
\textsuperscript{277} Geden in Spruds and Rostoks, p.17.
\textsuperscript{278} In fact, Estonia is arguably more vulnerable than Italy with its 84.5 percent dependency on energy imports because Italy imports gas in a diversified fashion from Russia, Libya, Algeria, the Netherlands, and Norway – none of which Italy perceives as particularly menacing.
\textsuperscript{279} Motieka, Vaičiūnas, Gaidytė, p.12-13.
include Greece, Austria, and former Socialist bloc countries like Hungary, Romania, and Poland.

Table 4.1: The Levels of Energy Import Dependency amongst EU States and Gas Import Sources

<table>
<thead>
<tr>
<th>EU State</th>
<th>Energy Import Dependency* (%)</th>
<th>Major Import Sources of Natural Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malta</td>
<td>100%</td>
<td>-*1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>98.2%</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Cyprus</td>
<td>94.6%</td>
<td>-*2</td>
</tr>
<tr>
<td>Italy</td>
<td>84.5%</td>
<td>Russia, Libya, Algeria, Netherlands, Norway</td>
</tr>
<tr>
<td>Portugal</td>
<td>83.6%</td>
<td>Nigeria, Algeria</td>
</tr>
<tr>
<td>Belgium</td>
<td>78.9%</td>
<td>Norway, Netherlands, Algeria</td>
</tr>
<tr>
<td>Spain</td>
<td>77.4%</td>
<td>Algeria, Nigeria</td>
</tr>
<tr>
<td>Greece</td>
<td>72.7%</td>
<td>Russia</td>
</tr>
<tr>
<td>Austria</td>
<td>70.8%</td>
<td>Russia</td>
</tr>
<tr>
<td>Slovakia</td>
<td>67.6%</td>
<td>Russia (only source of import)</td>
</tr>
<tr>
<td>LATVIA</td>
<td>63.5%</td>
<td>Russia (only source of import)</td>
</tr>
<tr>
<td>Germany</td>
<td>61.3%</td>
<td>Russia, Norway, Netherlands</td>
</tr>
<tr>
<td>Hungary</td>
<td>60.8%</td>
<td>Russia</td>
</tr>
<tr>
<td>Finland</td>
<td>54.4%</td>
<td>Russia (only source of import)</td>
</tr>
<tr>
<td>Slovenia</td>
<td>52.1%</td>
<td>Russia, Algeria</td>
</tr>
<tr>
<td>France</td>
<td>50.5%</td>
<td>Norway, Russia, Netherlands, Algeria, Egypt</td>
</tr>
<tr>
<td>LITHUANIA</td>
<td>48%</td>
<td>Russia (only source of import)</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>48.0%</td>
<td>Russia (only source of import)</td>
</tr>
<tr>
<td>Sweden</td>
<td>36.5%</td>
<td>Denmark</td>
</tr>
<tr>
<td>Netherlands</td>
<td>30.7%</td>
<td>-*3</td>
</tr>
<tr>
<td>Romania</td>
<td>30.2%</td>
<td>Russia</td>
</tr>
<tr>
<td>ESTONIA</td>
<td>28.5%</td>
<td>Russia (only source of import)</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>25.3%</td>
<td>Russia, Norway</td>
</tr>
<tr>
<td>Poland</td>
<td>14.7%</td>
<td>Russia</td>
</tr>
<tr>
<td>Great Britain</td>
<td>5.2%</td>
<td>Norway, Russia</td>
</tr>
<tr>
<td>Denmark</td>
<td>-48%</td>
<td>-*4</td>
</tr>
</tbody>
</table>

\(^{280}\) Information used from table in Motieka, Vaičiūnas, Gaidytė, p.13.
* Energy import dependency demonstrates what percentage of a state’s energy needs are met by imported energy sources. The rest of energy needs are met by domestic production.

*1 Malta does not import gas and gas is not used as an energy source.

*2 Cyprus does not import gas and gas is not used as an energy source.

*3 The Netherlands is a gas exporting state.

*4 Denmark is a gas exporting state.

Table 4.2: Gas as a Total of Baltic States’ Energy Consumption (Gross Inland Consumption)\textsuperscript{281}

<table>
<thead>
<tr>
<th></th>
<th>Gas as a total of national energy consumption (%) 2007</th>
<th>Gas as a total of national energy consumption (%) 2003</th>
<th>Gas as a total of national energy consumption (%) 1999</th>
<th>Gas as a total of national energy consumption (%) 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>14.6%</td>
<td>11.1%</td>
<td>12.5%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Latvia</td>
<td>32.7%</td>
<td>29.1%</td>
<td>27.1%</td>
<td>21.6%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>30.9%</td>
<td>28.7%</td>
<td>22.42%</td>
<td>23.03%</td>
</tr>
</tbody>
</table>

Lastly, the high reliance of Baltic countries on gas in the total domestic consumption of energy contributed to greater vulnerability vis-à-vis Russia. In the Baltics, gas was used not only for industry but also widely relied upon for household consumption and particularly for heating in the winter months. In the Baltics, gas made up about a third of gross energy inland consumption in Latvia and Lithuania and nearly 15 percent in Estonia (Table 4.2). The portion of gas in the total energy consumption increased with economic development since the 1990s from approximately 20 percent in Latvia and Lithuania to 30 percent in the 2000s. Estonia also experienced an increase in gas usage.

consumption from 11 percent in 1995 to 15 percent in 2007. The 2004 and 2009 closures of the Lithuanian nuclear power plant reactors further increased the reliance on gas not only in Lithuania but also in Latvia and Estonia where Lithuania exports electricity. EU stipulations for Estonia to reduce its SO2 emissions from its domestic shale oil production by 2013 will also increase its reliance on gas. Currently, shale oil is utilized in the production of more than 90 percent of Estonia's electricity.⁴²⁸

Pipeline and Storage Infrastructure
The Baltics were more vulnerable in terms of energy security than other EU states not only because of their gas import dependency on a single and potentially hostile source but also due to their gas transport and delivery infrastructure. Baltic gas transport and delivery of infrastructure was built in the Soviet era and links the Baltics with Russia. Russian gas is brought to the Baltic states via Gazprom-owned pipelines (See Map 4.1). The gas pipelines that feed Estonia come from northern Russian territory and first pass through Latvian territory before they arrive in Tallinn. Latvia is fed through two pipelines. One comes directly from Russian territory and continues to Estonia; another pipeline comes from Russia passing through Belarusian and Lithuanian territories. Lithuania is fed by a pipeline that comes in from the Belarusian territory and continues onward to the Russian territory of Kaliningrad where it terminates. A pipeline also connects Lithuania to Latvia. Due to the extant gas infrastructure and the lack of alternative links with third states which could supply alternative sources of gas, the Baltic states are called ‘gas islands.’⁴²⁹ In addition, they do not have Liquid Natural Gas (LNG) terminals which would enable liquefied gas imports by sea routes. Furthermore, the Baltic gas pipelines are not integrated into the European network or any alternative gas-sourcing zone.

Another dimension is that the Baltic countries are not transit states for Russian gas sent to

Western European markets. As a consequence, and unlike the former Warsaw Pact states or even Ukraine, the Baltics can not rely on pressure from Western European states further down the supply line to ensure that Russia keeps supplies flowing. For, arguably, Moscow would be more hesitant to disrupt supplies to its larger Western European clients in order to preclude a coordinated EU response. As the Russian-Ukrainian gas crisis of December 2008 to January 2009 demonstrated, when Moscow reduced gas supply to Ukraine a shortage was felt immediately in multiple EU countries supplied by pipelines which pass through Ukrainian territory. EU member states responded by seeking to coordinate a Union-level response to Moscow and Kiev during an informal meeting of the Foreign Ministers in Prague in January 2009. The Baltic elites fear that if they were to face gas cuts, there would not be a coordinated EU response because no other EU states would be impacted.

Map 4.1: Energy and Gas Pipeline Infrastructure in the Baltic Region

Source: European Commission 2009.

Of the Baltic states, only Lithuania serves as a gas transit state for Russian gas, to the Russian territory of Kaliningrad, which is physically separated from Russia by Belarusian and Lithuanian lands. Since the 1990s, gas transit to Kaliningrad served as a sort of guarantee of gas supply for Lithuania since a gas cut to Lithuania would result in a gas

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284 Riley, p.3.
cut to Kaliningrad. Kaliningrad itself is an energy island and does not receive gas, oil, or electricity other than through Lithuanian territory. Vilnius has used Kaliningrad’s reliance on Lithuania for gas transit and electricity supply as a bargaining tool with Moscow on several occasions. However, as the next section on Russian gas policies will demonstrate in greater depth, in the 2000s, Moscow has pursued a strategy of making gas supply to Kaliningrad independent from transit through Lithuania. The prime aspects of this strategy include completion of gas storage facilities in Kaliningrad in two stages (by 2010 and by 2015), as well as plans to link Kaliningrad with the Nord Stream gas pipeline. The pipeline will deliver gas under the Baltic Sea from Russia directly to Germany, thereby bypassing the Baltic states. An offshoot of the Nord Stream pipeline to Kaliningrad and completed gas storage would make the Russian territory completely independent from gas transit through Lithuania. This, in turn, could make Lithuania subject to a Moscow gas cut off without any consequences for the ethnic Russian enclave.

As with Lithuania's gas transit to Kaliningrad, Latvia's comparative advantage and guarantee of gas supply was the national gas storage facility. Inčukalns Underground Gas Storage Facility is the only significant gas storage facility in the region serving primarily Latvia and also Lithuania, Estonia, and northwest Russia in the winter period. Inčukalns gas storage capacity totals 4.4 billion cm$^3$ of which 2.3 billion cm$^3$ is active gas, and there is potential to increase this capacity. This exceeds Latvia’s annual consumption of gas which in 2008 was 1.7-1.8bcm$^3$. Arguably, Inčukalns increases Latvian gas security because it can provide Latvia with gas reserves in the case of gas cut offs by Russia. However, some analysts argue that the gas storage facility does not protect Latvia from potentially coercive measures on the part of Gazprom. First,

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287 In 2000, work began on a small storage facility that could provide Kaliningrad a month of supply of gas and will be operational by 2010. A large storage facility that could provide a year’s worth of gas supplies to Kaliningrad will become operational by 2015. Information provided by the Lithuanian Ministry of Foreign Affairs, 2009.


289 Ibid.
Inčukalns is owned by Latvijas Gaze, 50 percent of whose shared are in turn owned by Gazprom and a Gazprom daughter company Itera Latvija. Second, Inčukalns facilities were not designed with any emergency considerations in mind, but rather to ensure constant gas supply and meet the needs of Latvijas Gaze business. Third, current gas supply agreements effectively exclude the possibility of access by a third party to the Incukalns underground gas storage facility.\textsuperscript{290} Thus, Latvian storage facilities (developed in close cooperation with and partially owned by Gazprom) point up Gazprom's stake in the Latvian energy sector\textsuperscript{291} rather than improve Latvia's energy independence.

Latvia’s gas storage capability has some if limited impact on the gas security of Estonia and Lithuania because resources can be provided from Inčukalns in emergency cases of gas supply halts.\textsuperscript{292} Lithuania relied on Latvia during the Russian-Belarusian gas conflict when gas supply to Lithuania was also cut off in mid February 2004. During the two day hiatus, Lithuania was able to access 5 million m\textsuperscript{3} of the needed 12 million m\textsuperscript{3} via the pipeline connecting Lithuania and Latvia.\textsuperscript{293} However, the gas storage capacity of Inčukalns at 2.3 billion cm\textsuperscript{3} could not meet the annual demand of the three Baltic states which consume approximately 5 billion cm\textsuperscript{3} annually.\textsuperscript{294} As such, Estonia and Lithuania can rely on gas supply from Latvia only in extreme emergency cases, in small amounts, for a brief period of time. Thus, Lithuania’s energy security strategy after the closure of its nuclear power plant in 2009 is insufficient in that plans to increase the country’s gas reserves at Inčukalns to 200 million cm\textsuperscript{3} would only be able to meet the demands of residential consumers and power enterprises for a period of two winter months.\textsuperscript{295} Since 2009, Lithuania has been considering building its own gas storage capacity in Syderiai - both in order to have its own larger gas reserves and because of concern about over-

\textsuperscript{291} Spruds in Spruds and Rostoks, p.235.
\textsuperscript{292} ‘Energetikos Sektoriaus Apžvalga,’ Hansabankas, December 2006.
\textsuperscript{294} In 2003, Estonia consumed .85 cubic bcm in 2003, Latvia consumed 1.63bcm\textsuperscript{3}, Lithuania 2.88 bcm\textsuperscript{3}.
reliance on Įčukalns, which, as noted, is partly owned by Gazprom. In October 2009, the government accordingly launched an international contest calling companies to develop a feasibility study regarding the construction of gas storage facilities in the site which was completed in the summer of 2010.

Gas Prices
Baltic states’ dependency on Russia and the lack of alternative sources was reflected in the price of Russian gas in the 1994 to 2010 period. In the pre-independence era, the Baltic Soviet Republics received gas at below market prices. The energy relationship changed following independence. In the early 1990s, the Baltic states still benefited from lower gas prices than Western European states but gas prices gradually increased by the 2000s. The increase in gas prices was particularly notable from 2005 to 2007 when the price of gas imports rose to 2.4 times their 2005 rates. Prices continued to increase in 2008, and according to the Chairman of the Board of Latvijas Gaze, Adrians Davis, reached Western European levels in 2008.

By 2009, Baltic states were paying Gazprom some of the highest prices for gas in the EU (See Table 4.3). Since neighbours and fellow former Soviet republics such as Ukraine and Belarus pay lower than market gas prices to Gazprom, a view articulated by some Baltic elites is that Moscow sets gas prices in a politicized fashion. This belief was reinforced by the fact that the Baltic states paid higher prices for gas than other EU states such as Germany even though the greater distance and higher transit costs would lead one

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296 Interview with senior strategest of Homeland Union political party. Vilnius, Lithuania, June 2010.
298 Gas supply contracts are negotiated between Gazprom and the Baltic national gas companies and distributors. However, the issue goes beyond the commercial realm into the political, because the price of gas has a tremendous impact on households who rely on gas for heating in the winter months. According to the International Energy Agency, whilst Germans spend 3 percent of their post-tax income for home energy use, Central and Eastern European residents spend 10 to 15 percent, according to the IEA. The fact that gas prices have increased consistently since the mid 2000s makes the matter even more politically sensitive for the Baltic governments.
299 Janeliūnas in Spruds and Rostoks, p.198.
to expect that final gas prices further West would be higher. It is plausible that Germany is able to negotiate better gas prices due to higher purchase volumes. It is likewise possible that lack of transparency in the non-liberalized gas markets in the Baltics plays a role in the high prices of domestic gas. It is also probable that the full dependence of the Baltic states on a single source of gas and the lack of alternative gas import infrastructure enables the gas monopoly Gazprom to dictate its own prices. At the same time, Lithuanian political elites often cite high gas prices as the price Vilnius pays for political tensions with Moscow and lower gas prices as a benefit of cooperation or improved relations with Moscow.301

Table 4.3: Russian Gas Prices for EU states,* (USD/1000m³)

<table>
<thead>
<tr>
<th></th>
<th>2008 September</th>
<th>2008 October</th>
<th>2008 November</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania, Latvia, Estonia</td>
<td>524</td>
<td>476</td>
<td>511</td>
</tr>
<tr>
<td>Germany</td>
<td>n/a</td>
<td>476</td>
<td>511</td>
</tr>
<tr>
<td>France</td>
<td>n/a</td>
<td>476</td>
<td>511</td>
</tr>
<tr>
<td>Hungary</td>
<td>n/a</td>
<td>476</td>
<td>511</td>
</tr>
<tr>
<td>Belarus</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
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<td>Ukraine</td>
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<td>Italy</td>
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</tbody>
</table>

*Based on unofficial data provided by the Lithuanian Foreign Ministry, ESPD, 2009-01-07

Furthermore, not only were there price differentials between the Baltic states and other European states, but in 2008, a price differential emerged between the three Baltic states (See Table 4.4). Whilst prices were similar in 2007, in 2008, Lithuania was compelled to pay the highest fees and Estonia paid the lowest. Again, because Lithuania had tense relations with Russia in the 2006 to 2008 period, the higher prices charged to Lithuania were perceived to be a form of political punishment. The widespread Lithuanian view

that its high gas prices are a function of political rather than commercial considerations was exemplified when the Lithuanian President Dalia Grybauskaite – in an historic meeting with Russian President Vladimir Putin in February 2010 in Helsinki - raised the issue of high prices charged to Lithuania and asked for levels comparable with Western European states.\textsuperscript{302} The fact that gas prices were invoked at the level of national leadership demonstrates the extent to which the otherwise commercial question is politicized.

### Table 4.4: Russian Gas Price Differences amongst the Baltic States (USD/1000m$^3$)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>April 2008</th>
<th>May 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>USD220-260</td>
<td>USD380</td>
<td>USD400</td>
</tr>
<tr>
<td>Latvia</td>
<td>USD220-260</td>
<td>USD380</td>
<td>N/A</td>
</tr>
<tr>
<td>EU average</td>
<td>USD270-300</td>
<td>USD380</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source\textsuperscript{303}

**Gas Sources and Infrastructure Diversification: The Option Not Taken**

Despite the fact that the Baltic policy elites recognized the vulnerability of their energy sector, there has been surprisingly little effort on the part of governments to diversify gas sources or infrastructure. Energy security came to the forefront of Baltic agendas only in the 2000s and primarily as a way to pressure the EU to provide assistance for the Baltic energy sector rather than as part of domestic programmes aimed at altering the national energy predicament. Thus, despite the intensive EU and NATO-oriented discourses calling for elimination of the last vestiges of dependence on Russia little action was taken by the Baltic governments until the late 2000s when lobbying for EU assistance intensified.

Baltic success stories regarding diversification are limited to two projects. First, in December 2006, Estonia completed Estlink, an electricity cable that links Estonia and

\textsuperscript{302} Stasys Gudavičius, ‘Lietuvos Vadovė V.Putinui kėlė Dujų Kainų Klausimą,’ Klaipedos Diena, 10 February 2010.

\textsuperscript{303} Łoskot-Strachota, Pełczyńska-Nałęcz, p.12.
Finland. Second, Lithuania implemented an oil diversification project by opening the Butinge oil terminal in 1999 – a terminal which can import non-Russian sources of crude oil. The Lithuanian government also discussed various ambitious energy diversification projects such as planning to build a new nuclear power plant, LNG terminal, EXMAR mobile LNG terminal technologies, electricity links with Sweden and Poland, gas pipeline links with Poland, and a gas storage facility amongst others. However these projects have not gone beyond words. There are three main reasons diversification of sources or infrastructure was not achieved in the Baltic states: costs, institutional weakness, and vested interests in the gas sector.

The high costs of building alternative energy supply infrastructure and the lack of political will to bear these costs are arguably the main barriers to action. Existing Soviet pipelines and the relative stability of gas deliveries (particularly at below market prices in the 1990s) made the Baltic governments complacent about seeking alternatives. According to the calculations of Lithuanian Ministry of Foreign Affairs in 2009, making energy security a reality in Lithuania would cost 27.5 billion Euros or the equivalent of four annual state budgets.\(^\text{304}\) Since the three Baltic states share similar infrastructure, resources, and geography, Lithuania’s calculations can be taken as an indicator for the other two Baltic states as well. According to the same calculations, alternative gas infrastructure would cost Lithuania 800 million Euros.\(^\text{305}\) Building an LNG terminal in any of the Baltic states could cost around a billion Euros, and introducing minimal LNG solutions such as mobile regasification vessels would cost just under 100 million Euros.\(^\text{306}\)

Whilst such figures may be prohibitive, the Baltic states have demonstrated little commitment to even relatively low cost projects that would diversify gas supplies. For instance, the Belgian LNG technology company EXMAR which provide ships that can regasify LNG and thus serve as mobile LNG terminals, have been interested in bringing


\(^{305}\) Ibid.

\(^{306}\) Interview with gas industry professional Bart Lavent, Vilnius, Lithuania, February 2010.
their solutions to the Baltic states. The European Commission working group on Baltic energy security suggested these technologies as a possible regional solution. Project implementation would cost under 100 million Euros and would not only enable diversification of gas sources vis-à-vis Gazprom but also provide the Baltic states with alternatives routes and the ability to engage in price arbitrage when the prices of LNG fall below their long term contracts with Gazprom. Yet, Estonia and Latvia have not expressed a clear interest in the project to date. And, despite the willingness of the European Commission fund 50 percent of the feasibility study for the project through the 10-E program in 2009, and Vilnius' strong expressed interest in EXMAR's solutions, the Lithuanian government did not commit any resources to the study.

This brings us to the second reason why diversification was not been implemented, namely, the institutional weakness of Baltic governments and bureaucracies, which would need to implement the costly and complex gas diversification projects. As described in chapter II on Baltic domestic politics, immature democracies suffer weakness such as fragile coalition governments, short lived governments, ministers with shorter tenures, and populist tendencies amongst political parties. These domestic political conditions have created impotence and reduced the political will of the Baltic governments to alter their gas predicament. Estonian politics have shown the greatest stability and Estonia achieved some energy diversification by building an electricity cable that links Estonia and Finland. Lithuania falls in the middle in terms of the stability of its domestic politics and was also able to implement a diversification project by opening the Butinge oil terminal in 1999. The Latvian political system can perhaps be described as the weakest and most unstable in the region, particularly in the late 2000s when economic overheating was followed by both financial crisis and a crisis of faith in the government which led to political turmoil. A corollary of this has been the Latvian government's failure to make any progress in energy diversification.

A third reason for Baltic governments' failure to diversify is related to the preferences of

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307 EXMAR company presentations 2009.
local stakeholders who profit from the extant Russian-Baltic gas relationship and who have kept – via their influence over politics and the media - the gas sector off the agenda. Influence on political parties was exercised through unofficial campaign and party contributions. Particularly in Lithuania and Latvia, gas distributors and gas companies played a significant role in domestic politics and had notable influence over policy making. The influence over media was exercised either through direct ownership of newspapers, television, and radio stations,\textsuperscript{309} or through financial contributions to key media outlets.\textsuperscript{310} The inactivity of governments in terms of resource and source diversification was most evident in Latvia where authorities hampered the development of renewable energy resources and energy efficiency, decentralization of energy production and regional cooperation.\textsuperscript{311} Having pinpointed the main reasons for the lack of energy diversification in the Baltics such as vested gas interests, the following section will turn to a detailed analysis of the main actors and interests groups in the Baltic gas sector. The purpose is to demonstrate how existing gas conditions are maintained and how Gazprom's interests are favoured in domestic energy policies.

**Domestic Actors in the Baltic Gas Sector**

Since the energy sector has been perceived as a domain for energy practitioners and because there was little public interest or scrutiny of the sector until the mid 2000s, energy policy has been dominated by large energy companies and vested political interests.\textsuperscript{312} The main non-governmental actors directly and indirectly influencing national gas policies towards Russia were major gas distributors and corporate consumers. These companies often lobbied domestically in favour of Russian gas interests and against Western investors and/or Western investment into alternative

\textsuperscript{309} For instance, the largest gas consumer in Lithuania Achema owns BTV television station and “Radiocentras” and Lietuvos radijas radio stations.

\textsuperscript{310} In 2007, the Lithuanian National Security and Defence Committee revealed that gas distributor Dujotekana paid the main Lithuanian newspapers Lietuvos Rytas and Respublika to not reveal links between the company and politicians as well as the Lithuanian Internal Security Department (government security and intelligence institution). Liepa Peceliūnaitė, ‘Dujotekana’ kartu su VSD išnaudoja Ziniasklaidą? in April 1997 www.alfa.lt, 20 March 2007.

\textsuperscript{311} Spruds in Spruds and Rostoks, p.235.

\textsuperscript{312} Spruds in Spruds and Rostoks, p.238.
sources of energy. Consequently, when Gazprom made major investments in the Baltic gas sector, local gas interests with ties to Gazprom became further entrenched in the domestic energy sector and its politics.

Local gas interests were more powerful than oil interests in their ability to influence policy making in the Baltic states. The operations of gas companies also differed from oil companies. Companies profiting from gas transit or distribution were primarily local companies or local enterprises that drew on Russian investment. Entities such as Dujotekana, Vikonda, Itera and others outlined below could use their influence less transparently and more directly over government. On the other hand, oil companies operating in the Baltic market were most often international or public companies bound by transparency and standardized rules of practice. Baltic domestic gas actors can be broken down into several categories – national gas companies, gas distributors, and gas utilizing companies; their main features and impact on national gas policy will be outlined below.

National Gas Companies
The three national gas companies, Estonian Eesti Gaas, Latvian Latvijas Gaze, and Lithuanian Lietuvos Dujos served as distributors which purchased gas from Gazprom and delivered gas to households and businesses. Only the Lithuanian Lietuvos Dujos remained partially owned by the Lithuanian state whilst Eesti Gaas and Latvijas Gaze were fully privatized by 2010. The ownership structure of the three companies is similar (See Table 4.5). In each Baltic gas company, Gazprom owns a sizable amount of shares, which it acquired through incrementally increasing its shares in order to move from being a minority stakeholder to achieving majority ownership. Itera, an international gas distributing company with close and non-transparent connections to Gazprom also owns shares in both Eesti Gaas and Latvijas Gaze. In fact, when analyzing Gazprom and Russian influence over the three national gas companies, it is useful to view Itera and

313 Legal barriers to investment into wind and geothermal energy have prevented these two promising energy sectors from developing in the Baltic states. Legal and bureaucratic barriers have purportedly been erected by the gas lobbies.
Gazprom’s ownership in the same context. Tellingly, in Estonia, Gazprom-related companies own 47 percent of the national gas company, whereas, in Latvia and Lithuania their share is 50 and 37 percent respectively.

<table>
<thead>
<tr>
<th>Country and Firm</th>
<th>Ownership of firm by Russian companies (rounded to nearest %)</th>
<th>Ownership of firm (rounded to the nearest %)</th>
<th>Main activity of firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eesti Gaas</td>
<td>47% (Gazprom + Itera)</td>
<td>37% Gazprom</td>
<td>Import, transmission (including ownership of pipelines), and sales of natural gas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>33% E.ON Ruhrgas</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>18% Fortum Oil and Gas</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10% Itera Latvija</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2% Other</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latvijas Gaze</td>
<td>50% (Gazprom + Itera)</td>
<td>47% E.ON Ruhrgas</td>
<td>Import, transmission, storage and sales of natural gas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>34% Gazprom</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>16% Itera Latvija</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3% Other</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lietuvos Dujos</td>
<td>37% (Gazprom)</td>
<td>39% E.ON Ruhrgas</td>
<td>Import, transmission, distribution, and sales of natural gas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>37% Gazprom</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>18% Lithuanian state</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>6% Other</td>
<td></td>
</tr>
</tbody>
</table>

The other main investor in the Baltic gas companies is a German consortium of companies presently known as E.ON Ruhrgas International. E.ON Ruhrgas often partners with Gazprom in foreign energy investments and is the only foreign investor in Gazprom – owning 6.4 percent of the Russian gas monopoly’s shares. Yet, in spite of this

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315 Data from publicly available information on the Eesti Gaas, Latvijas Gaze, and Lietuvos Dujos websites as of January 2010.

316 E.ON acquired Ruhrgas in 2003 and has consequently been called E.ON Ruhrgas.
partnership, E.ON Ruhrgas had a poor working relationship with Gazprom and Itera when it came to Latvijas Gaze. As a result, E.ON Ruhrgas has been sidelined from the management since 2005 and it has attempted to sue Latvijas Gaze and Itera-Latvija. The Eesti Gaas case is also fairly unique because outside the three common investors - E.ON Ruhrgas, Gazprom and Itera – there is a fourth investor, the Finish public energy company Fortum.

The leadership and boards of the companies reflect the largest shareholders. In Lietuvos Dujos, the general director of the board is a Lithuanian with a Russian and a German in the executive directorship. The board of directors is composed of board members from Gazprom and E.ON Ruhrgas. This reflects the pervasive influence of Gazprom and E.ON Ruhrgas after 2004, although the Lithuanian general director of the company recalls the fact that Gazprom's takeover was highly controversial, arguing that the company has tried to maintain a 'Lithuanian face.' In Latvijas Gaze, the board is composed of a mix of Latvians and Russians, whilst the counsel is composed of Gazprom, E.ON Ruhrgas, and Itera board members reflecting the majority ownership of 50 percent of shares by Gazprom and its affiliates. In Estonia, the situation is slightly different, demonstrating less influence by the shareholders on the day to day operations of the company. Whilst initially there were representatives from Gazprom and E.ON Ruhrgas in the company management of Eesti Gaas – as is the case with Latvijas Gaze and Lietuvos Dujos, Eesti Gaas has been run by only local managers ran since 1997. Nevertheless, the shareholders have access to company information and have been able to exert influence on the board of directors.

Because Gazprom (particularly if viewed together with Itera) is the major investor in all three national companies, it can be argued that the three enterprises represent Gazprom’s interests in each of the gas markets of the Baltic states. Gazprom’s significant share ownership means that national governments are constrained in their ability to implement

317 Information from Lietuvos Dujos, Latvijas Gaze, and Eesti Gaas websites January 2010.
policy that might contradict the interests of Gazprom. In the case of Lithuania, for example, government ownership of part of Lietuvos Dujos is less than that of Gazprom. This makes it impossible for the national gas company to raise transit tariffs or block gas supply to Kaliningrad because Gazprom would oppose such steps.319 Furthermore, as strategic national companies, the three can effectively lobby the government not only in energy policy but also, potentially, with regard to foreign policy towards Russia. In Latvia, this is evident in the activities of Latvijas Gaze and the electricity monopoly Latvenergo320 which, in the 2000s, assumed centre stage in energy decision-making through their political connections.321 Latvijas Gaze too, has openly lobbied in favour of greater reliance on Russian gas for Riga. As the company's CEO Adrains Davis stated at the Latvian National Committee of World Energy Council in December 2008, 'Latvian energy priority until 2020 must be gas. Renewable energy resources must be put aside...[the notion of a] Coal power plant is an absurd idea.'322 Eesti Gaas has remained the least politicized Baltic national gas company. However, there is a limit to all three companies' ability to act as advocates of Gazprom interests in that they are public companies and there is a level of transparency that governs their operations.

Gas Distributors or Gazprom’s ‘Daughter’ Companies
A second group of actors in the domestic gas market who often are less scrutinized and whose activities are even less transparent than the national gas companies are gas distributing companies such as Itera (operating in Latvia, Lithuania), Dujotekana (Lithuania), Stella Vitae (operating in Lithuania), and Vikonda (Lithuania). All these distributors have an opaque ownership structure and are believed to have strong ties to Gazprom. In fact, they can be thought of as Gazprom’s ‘daughter’ companies in that they enable Gazprom to participate in the final gas market and sell gas to customers. Through partial ownership of these distribution companies, Gazprom's share in Baltic states’ final gas markets is the largest of any of its holdings within the EU.323 That said, Gazprom’s

319 Janeliūnas in Spruds and Rostoks, p.199.
320 See subsequent section.
321 Spruds in Spruds and Rostoks, p.239.
322 Ibid., p.240.
323 Łoskot-Strachota, Pełczyńska-Nałęcz.

Itera stands apart from the other smaller distributors such as Stella Vitae, Vikonda, and Dujotekana, because it is a sizable international organization consisting of more than 120 companies and subsidiaries headquartered in Moscow. Since entering the gas production business in 1998, it became by 2000 one of the largest gas producers in Russia.\footnote{Elizabeth LeBras, ‘Itera’s Success Raises Suspicions,’ \textit{St. Petersburg Times}, 14 November 2000.} Itera’s opaque ownership structure and fraudulent purchases of billion of dollars worth of gas from Gazprom for virtually no payment suggest that its ownership structure is closely linked to Gazprom.\footnote{Ken Silverstein, ‘The ITERA/Weldon Link: Congressman Flacked for Daughter's Client despite being Briefed on its Shady Practices,’ \textit{Harper’s Magazine}, October 2006; Caroline McGregor, ‘Gazprom and Itera: A Case Study in Russian Corporate Misgovernance,’ The Carnegie Endowment for Peace, 18 March 2002.}

In the Baltic states, Itera operates both as a gas distributor and as an investor in the national gas companies. In Estonia and Latvia, its subsidiary Itera Latvija owned shares in both Eesti Gaas and Latvijas Gaze. In Latvia, Itera Latvija supplied gas since 1997 providing one fifth of the national demand for gas in 2003. In Lithuania, Itera was a gas distributor since 1996 but not a major player in the sector,\footnote{Based on information provided by the www.iteragroup.com website.} whilst in Estonia Itera did not have distributing operations and is only a shareholder in the national gas company. Operations of Itera’s subsidiaries in the Baltics have raised concerns amongst analysts and policy makers. Itera was described as ‘another example of Gazprom’s establishment of fictional competitors,’ which has ‘allowed Gazprom to siphon off earnings to company managers and sympathetic Russian officials.’\footnote{Since 2002 Itera has lost much of its support in the Kremlin and Gazprom has created alternative Itera-type daughter entities abroad. Keith C. Smith, p.39.} Local subsidiaries of Itera were generally run by Russians with ties to Kremlin.\footnote{For instance, Itera Latvija is headed by Juris Savickis, a former KGB officer with no previous experience in the energy sector. Keith C. Smith, p.38; Vilemas in Bugajski and Michalewski, p.51;}

\footnotetext[325]{Elizabeth LeBras, ‘Itera’s Success Raises Suspicions,’ \textit{St. Petersburg Times}, 14 November 2000.}
\footnotetext[327]{Based on information provided by the www.iteragroup.com website.}
\footnotetext[328]{Since 2002 Itera has lost much of its support in the Kremlin and Gazprom has created alternative Itera-type daughter entities abroad. Keith C. Smith, p.39.}
\footnotetext[329]{For instance, Itera Latvija is headed by Juris Savickis, a former KGB officer with no previous experience in the energy sector. Keith C. Smith, p.38; Vilemas in Bugajski and Michalewski, p.51;
Dujotekana, Stella Vitae, and Vikonda all operate in Lithuania and unlike Itera are smaller and more obviously local operations. These gas distributors are privately owned with close links to Gazprom and operate by receiving gas from Gazprom at lower prices than Gazprom supplies the national gas company Lietuvos Dujos. Receiving gas at a discount enables these companies to make sizable profits and compete with national gas companies. For instance, in 2000, only 25 percent of gas supplied by Gazprom to Lithuania was allocated to Lietuvos Dujos, whilst Dujotekana delivered 30 percent of the Gazprom gas consumed in Lithuania. The reason why there are smaller and independent Lithuanian gas distributors but no such operations in Latvia and Estonia has to do with the way Gazprom has acted in the Lithuanian market. Gazprom supported the creation of Dujotekana, Stella Vitae, and Vikonda in order to have influence over the gas distribution market in Lithuania and compete with the state owned Lietuvos Dujos as Gazprom was unable to acquire shares of Lietuvos Dujos until 2004. In contrast, there was no need for the creation of Gazprom-friendly local distributors in Estonia and Latvia because Gazprom gained control over gas distribution in these markets through the acquisition of shares in Eesti Gaas and Latvijas Gaze in the 1990s. Furthermore, after 2004, when Gazprom acquired shares in Lietuvos Dujos the local distributors such as Dujotekana, Stella Vitae, and Vikonda lost prominence. Another purpose of these companies was to channel financial support to local political parties.

Dujotekana is registered in Lithuania and has been operative since 2001, primarily as an intermediary in the Russian gas trade. In 2008, it was the largest natural gas importer in Lithuania after Lietuvos Dujos and the Achema enterprise. In addition to gas sales to primarily electricity producers, Dujotekana produces electricity and heat and sells electric

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330 Stella Vitae is a Russian-Lithuanian joint company reportedly owned by Gazprom reportedly (30 percent), Russian company Auri which was linked with the former head of Gazprom Rem Viachirev (35 percent). As with Dujotekana, Stella Vitae lost its prominence as a gas trader, when Gazprom acquired shares of Lietuvos Dujos in 2004. ‘Stella Vitae žada atnaujinti Duju Tiekimą,’ Lietuvos rytas, 12 June 2002.


332 The largest importers of gas into Lithuania are Lietuvos Dujos (1,409 m m3), Achema (846 m m3), Dujotekana (532 m m3), Haupas (17 m m3), and KTE (297 m m3). Janeliūnas in Spruds and Rostoks, p.212.
energy. It has been alleged by the Lithuanian National Security Department that the company was created with the approval of then Prime Minister Vladimir Putin and the involvement of the Russian secret services. It has also been speculated that Dujotekana was intended to facilitate Gazprom’s takeover of Lietuvos Dujos. This seems to be supported by the fact that in the years following Gazprom’s acquisition of Lietuvos Dujos in 2004, Dujotekana’s position as a strategic partner of Gazprom weakened. This is due to two factors. First, Gazprom established its own footprint in the final gas market of Lithuania through acquiring shares in Lietuvos Dujos and Stella Vitae. Since Gazprom did not own any shares of Dujotekana, it became, as it were, a competitor to its other operations. Second, gas industry insiders say that Dujotekana, despite being very influential politically in the early 2000s, failed to deliver the degree of political leverage expected by Gazprom in the Lithuanian context and thus lost favour with the Russian parent company.

Dujotekana’s most visible shareholder, a Lithuanian businessman Rimantas Stonys (34 percent of shares), has been under scrutiny as a highly influential behind-the-scenes player in Lithuanian politics. Indeed, some political insiders claim that Stonys funded and significantly influenced the Social Democrat government of Lithuania (2004-2008). Head of the conservative Homeland Union party and Prime Minister since 2009 Andrius Kubilius, together with Homeland Union member and Minister of Defense since 2009 Rasa Jukneviciene, have publicly suggested that Prime Minister Gediminas Kirkilas gained his position thanks to Stonys. Stonys also reportedly influenced the appointment of the cabinet of ministers and the affairs of the government. Stonys worked closely with Albinas Januska, deemed the ‘grey cardinal’ who served as Vice Minister of Foreign Affairs and later as advisor to the Social Democrat Prime Minister.

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334 Łoskot-Strachota, Pelczyńska-Nałęcz.
Gediminas Kirkilas.\textsuperscript{340}

Other shareholders of Dujotekana include the less visible, alleged former KGB officer Petras Vojeika (40 percent of shares) and former member of Parliament, Russian-born Vladimiras Orechovas (6.8 percent of shares) from the Labour Party. Other members of New Union Social Liberals and Labour parties, whom Dujotekana supported financially, also count amongst the smaller shareholders.\textsuperscript{341} Both of these political parties are from the left of the political spectrum and typically lobby in favor of cooperative relations with Russia. That said, it is also alleged that Dujotekana made financial contributions to all the major Lithuanian political parties including the Social Liberals, the Social Democrats, and the Conservatives, particularly before parliament elections in 2004.\textsuperscript{342}

The creation of these companies, most of whom have registered sizable profits, enabled Gazprom to create strong local companies who must be obedient to the mother company in order to ensure their financial success.\textsuperscript{343} It is possible to extend this argument further and say that these Gazprom daughter companies served as a means for the Kremlin to maintain political and economic influence in the region. Their loyalty was tested and competition was maintained between the distributor companies as demonstrated by the fact that different companies were given different gas quotas in different years. For instance, in the late 1990s, Stella Vitae was the primary gas distributor in Lithuania; in 2000 it was Itera Lietuva, and by 2002 Dujotekana became the leader in gas distribution. Whilst the players and their roles varied across the Baltic states and across time, in all three states gas distributors with opaque ownership served as Moscow’s intermediaries in the final gas market, using their sizable profits for political influence.

\textit{Gas Utilizing Enterprises}

A third group of companies that were significant players in the Baltic gas sector was

\textsuperscript{340} Pilkasis kardinolas Albinas Januška grįžta, www.balsas.lt, 1 April 2009.
\textsuperscript{342} Janeliūnas in Spruds and Rostoks, p.212.
\textsuperscript{343} Vilemas in Bugajski and Michalewski, p.51.
made up of local enterprises relying on Russian gas for operations. Unlike the Moscow-sponsored gas distributors they work in more transparent ways but their influence on the gas sector and domestic politics is also notable. There are three key players in this category. They differ in their ownership structure but all are dependent on Gazprom’s provisions of gas. The first is the Achema group which is owned by local Lithuanian businessmen. The second is Nitrofert an Estonian company that was privatized by a Ukrainian businessman with close ties to Gazprom. The third is the Latvian public company Latvenergo Group.

The Lithuanian Achema Group is the second largest privately owned business enterprise in Lithuania. It is one of the most significant enterprises in the Baltics, managing more than 50 business groups in 2008, achieving a turnover of EUR1,457 billion and a net profit of EUR135 million. Achema Group’s homonymous chemical business Achema accounted for one third (1,146,660,000 m³) of all imported gas (3,440,000,000 m³) to Lithuania in 2007. Whilst it received gas at a discount until the late 2000s, currently all of its gas is purchased from Russian gas monopoly Gazprom at similar price levels to those charged to Lithuanian gas distributors.344

Achema Group is one of the most politically influential companies in Lithuania. The CEO and primary shareholder of Achema Group is Lithuanian businessman Bronislovas Lubys.345 Since the 1990s, Achema Group and Lubys made political contributions to various politicians and political parties, including the two largest parties on both sides of the political spectrum – the Social Democrats and the Conservatives. Heading the Lithuanian Federation of Industrialists, Lubys also actively lobbied the government for more cooperative relations with Russia arguing that it would benefit Lithuanian businesses.346 Lubys likewise lobbied for lower gas prices, drawing an explicit link between the poor relations between Vilnius and Moscow and the high gas prices

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344 Interview with Achema management, Vilnius, Lithuania, December 2009.
345 Lubys did not shy away from politics, having been a signatory of the Act of Re-estabishment of the State of Lithuania in 1990 and serving briefly as Prime Minister (December 1992 to March 1993). However he was not a member of any political party when he was prime minister, a post he obtained during the rule of Conservatives.
346 For his efforts to improve business relations between Lithuania and Russia, he was awarded with Peter the Great award in Moscow in 2003.
Gazprom charges Lithuanian enterprises.\textsuperscript{347}

Meanwhile, in Estonia, the largest consumer of gas is Nitrofert, a producer of fertilizers. In its production, Nitrofert relies on Estonian shale oil and Russian natural gas, making it the second largest importer of gas in Estonia outside of Eesti Gaas. Gas is delivered from the Russian Federation through the gas network of Eesti Gaas. Nitrofert consumed about 215 million m\textsuperscript{3} of natural gas in 2006 which was 25 percent of the total amount of natural gas purchased by Estonia annually.\textsuperscript{348} Whilst Nitrofert may seem similar to Lithuania’s Achema, Nitrofert is not owned by local businessmen. Rather, it is owned by Ostchem Holding AG, which is in turn owned by Group DF, an international private holding company of prominent Ukrainian businessman Dmitry Firtash.\textsuperscript{349} The companies belonging to Firtash are believed to have indirect links to Gazprom. However, unlike Achema in Lithuania, Estonia’s Nitrofert does not have notable influence in domestic politics.\textsuperscript{350}

The third company in the Baltics that is a major consumer of gas is a Latvian public energy company Latvenergo Group. Latvenergo's unique position in the Latvian economy, politics, and society is illustrated by the fact that despite efforts since the mid-1990s to privatize the company, it remains public. This is a function of political forces and a 2000 petition by 23 percent of eligible Latvian citizens demanding a referendum against privatization.\textsuperscript{351} As a state-owned public company, Latvenergo differs from Achema, and Nitrofert. It is an energy utility whose core business is the generation and sale of electricity and thermal energy.\textsuperscript{352} Latvenergo is the largest consumer of Russian gas in Latvia, accounting for approximately half of the consumption. It is followed by the

\textsuperscript{347} Interviews with Lithuanian diplomats at the Lithuanian Foreign Ministry. Vilnius, Lithuania; Spring 2009.
\textsuperscript{349} Information gathered from Group DF website http://www.groupdf.com/about.asp.
\textsuperscript{350} Interview with anonymous Baltic diplomat, Vilnius, Lithuania, 27 January 2010.
\textsuperscript{351} Bruno Lill, 'Latvian Energy Sector Summary,' Center for Markets in Transition, HSE, October 2001; Updated by Ville Rämänen in October 2002.
\textsuperscript{352} Information from Latvenergo website http://www.latvenergo.lv/portal/page?_pageid=73,725654&_dad=portal&_schema=PORTAL.
district heating entity Riga Silums and Liepajas Metalurgs company. Similarly to Achema, the Latvenergo Group is influential both in domestic politics and in national energy policy. Latvian politicians have even suggested that the Ministry of Economy is led by Latvenergo rather than the appointed Minister. Since the Latvenergo Group relies exclusively on gas imported by Gazprom, its interests often coincide with other major Russian gas importers such as Latvijas Gaze and Itera Latvia. With the growing electricity shortage (experienced in the other two Baltic states as well) Latvenergo has prioritized Russian gas the major generating resource.

The different levels of involvement in local politics of Achema and Latvenergo on one hand, and Nitrofert on the other, highlight a major difference between the domestic business environment of Lithuania and Latvia versus Estonia. Estonia's legal framework created in the early 1990s enabled an environment where business remains separated from politics to a much greater extent than in Lithuania and Latvia. The difference in the ownership structure of Achema and Nitrofert is representative of the difference in private sector ownership across Lithuania and Estonia. Lithuania has a number of sizable and strategic companies owned by Lithuanians, albeit some with close links to Russian companies. By way of contrast, Estonia’s liberal policies of the 1990s resulted in most Estonian enterprises being owned by foreign investors, either Western or Russian. In Latvia, whilst Latvenergo is a public company, the business community in general is dominated by either Latvian Russian speakers or by Russian investors. Ethnic Latvians are significantly underrepresented in the fields of strategic commerce and industry. But whilst this has given rise to the claim that Latvia is the most Russian-dominated economy and energy sector in the Baltic, some suggest that Russian businessmen in Latvia are not involved in politics which is dominated by the ethnic Latvians. The case study will demonstrate that Russian gas interests were in fact highly entrenched in the Latvian political system. In either case, and despite EU membership, Latvia's political and

353 Lill.
354 Viestrušn Silenieks, the co-chair of Green party, cited in Andris Spruds, 'Latvia's Energy Strategy: Between Structural Entrapments and Policy Choices,' in Spruds and Rostoks, p.239.
355 Lill.
356 Spruds in Spruds and Rostoks, p.240.
357 Interview with anonymous Baltic diplomat, Vilnius, Lithuania, 27 January 2010.
358 Interview with anonymous Baltic diplomat, Vilnius, 13 July 2010.
commercial culture appears to be marked by 'post-Soviet residues of a somewhat limited scope of transparency and accountability and potential for informal insider deals.' We will argue that the specific domestic conditions enabled companies such as Latvenergo, Latvijas Gaze, and Itera Latvija to acquire considerable influence not only in energy policy but also in foreign policy towards Russia. More broadly, the domestic actors in the Baltic gas sector that have been outlined in this section all have very close links with Gazprom and support Moscow’s energy interests which are outlined in the following section.

Russia’s Gas Politics, Policies, and Priorities
Russia’s energy politics and policies and their evolution were described in the previous chapter as basically displaying a three-pronged energy strategy since 2000. The first tenet of Moscow’s new energy policy is that the Kremlin does not hesitate to use energy as a tool of the state’s geopolitical influence. The second aspect of Russia’s energy policy was the re-orientation of energy transit to Western clients away from old routes via Eastern European states, to new and more direct routes to Western Europe through Russian territory and ports. The third pillar focused on securing full control over the Russian energy sector and expansion into the energy sectors of neighbouring states, often through acquisition of downstream assets.

Moscow’s pursuit of the first tenet, namely use of energy policy for geopolitical leverage, appears at first glance to be less relevant to the Baltic gas sector. Despite the seemingly high levels of vulnerability of the Baltic gas sectors, Moscow did not implement gas interruptions and gas pipelines to the Baltic states continued to operate. However, successive gas interruptions to Ukraine (March 2005; March 2008; December 2008) and to Belarus in February 2004 sent shivers down the spine of Baltic policy elites.

Spruds in Spruds and Rostoks, p.238.
Riley.
The second tenet of Moscow’s energy policy - eliminating transit states in energy flows westward - is also not as relevant in the Baltic gas sector as in the oil sector. The Baltic states are not transit states for Russian gas to Western markets. Lithuania is a transit state for Russian gas destined for Kaliningrad, the consequences of which will be discussed in a later section. In terms of resonance for the Baltic gas sector, the third tenet of Russian policy, namely the commitment to securing control of infrastructure and downstream assets, is particularly relevant. This is attested to by Gazprom’s aggressive bids for Baltic national gas distributors which will be presented below.

An examination of Russia’s three-pronged energy policy provides some insights on Moscow’s perspective towards the Baltic states regarding gas. From Moscow’s viewpoint, the three Baltic states are highly similar as gas markets for at least three reasons. First, they are not gas transit states for Russia’s deliveries to the West and thus, unlike with Ukraine, Moscow can interrupt gas supplies without causing disruptions to its other European customers. Second, the Kremlin consistently increased gas prices to the Baltic states throughout the 1990s and 2000s so that they pay ‘European’ gas prices rather than those typically applied to former Soviet republics. From Russia’s perspective then, the Baltics are part of European markets, at least price-wise, since 2000. Third, the Baltic states’ gas market is of interest for direct investment, as demonstrated by Russian involvement in the national gas companies and gas-powered plants such as KHPP, as well as the presence in the region of ‘daughter’ operations like Itera.

**Gazprom**

The main player in Russian gas politics is without a doubt the Russian national gas monopoly Gazprom. It is the world’s largest producer of natural gas and Russia’s largest company. Though it is a joint-stock company, the state is the controlling stake-holder, making it a national gas company. Gazprom holds a dominant or monopoly position as a

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363 As of December 2008, Gazprom is owned by the Russian Federation (50 percent), the Federal Agency for Federal Property Management (38.4 percent), Rosneftegaz (10.7 percent), Rosgazifikatsiya (0.9 percent), ADR holders (22.2 percent), and other registered entities (27.8 percent). Information from the
supplier of natural gas in the Baltics, Central and Eastern Europe, and former USSR, and its presence in Western European energy markets has been gradually increasing. Lastly, through its shares in gas distribution companies such as Itera or Stella Vitae, Gazprom is also a direct player on the final Baltic and EU gas market.

However, viewing Gazprom as simply the largest Russian company or a state owned company is misleading. Gazprom has been described as ‘one of the strongest institutions in the new Russia’s economic and political environment.' The claim could be taken further in that Gazprom and the Kremlin are almost synonymous. Perhaps for this reason, Gazprom’s activities are not always driven by profit seeking as would be typical for a corporation. In the Putin years, Gazprom, operated under the so-called national champion concept where large companies in strategic sectors are expected to seek profit, but also to advance Russia's national interests and display responsibility towards the interests of the Russian state. Gazprom’s domestic sales of gas at below global market prices (as a form of subsidy to the public) serve as one example. Gazprom’s commercial and non-commercial interests are often difficult to disaggregate particularly in the CIS, the Baltic states, and other countries of Central and Eastern Europe. In terms of investment strategy, Gazprom had openly stated that the Baltic states constitute one of the most important regions that the company targets. However, in this region, Gazprom’s behaviour often falls beyond the scope of commercial interests. Rather, Gazprom serves as a proxy for the Kremlin’s foreign policy agenda.

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364 Łoskot-Strachota, Pełczyńska-Nalęcz, p.2.
365 Ibid.
367 Gazprom was created in 1989 from the Ministry of Gas Industry of the Soviet Union. The Minister of Gas Industry, Viktor Chernomyrdin, was Gazprom’s first Chairman of the Board of Directors. More recently, Russian President Dmitry Medvedev served on the Board of Directors between 2000 to 2001 and 2002 to 2008, serving as Chairman of the Board in 2000.
368 Kriukov and Moe, p.38.
Episode 1: Privatizing Eesti Gaas

In comparison to Latvia and Lithuania, Estonia pursued the most cooperative and pragmatic policies towards Russian investment in its gas sector by demonstrating the least resistance to Gazprom’s privatization of Estonian national gas company Eesti Gaas. Tallinn’s policies were driven primarily by two factors: the neoliberal economic views of the parties in power and timing of the privatization which occurred when Estonia was in the sovereignty building stage of 1990-1995. When, in January 1993, Gazprom acquired 30 percent of the Estonian national gas company Eesti Gaas, it was the first major acquisition by the Russian gas monopoly in the Baltic states.\(^{371}\)

<table>
<thead>
<tr>
<th>Ownership of firm rounded to the nearest % (State of Origin)</th>
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<tbody>
<tr>
<td>Eesti Gaas</td>
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</table>

Data obtained from Eesti Gaas company website.

The sale was motivated primarily by commercial rather than political considerations\(^ {372}\) even thought Eesti Gaas was a strategically important companies in Estonia since the Soviet period. Being the sole distributor of gas in the country and with natural gas providing for over 90 percent of the heat for Estonia's district heating stations,\(^ {373}\) Eesti Gaas has an impact on nearly the entire Estonian population who rely on gas for household heating. Eesti Gaas was created with the early state reforms in 1990s as the first Estonian state enterprise and in 1992 the government decided to make it a public limited company with foreign capital. Thus, by 1992, Eesti Gaas was selected for

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\(^{371}\) The Estonian state maintained 70 percent of the national gas company's shares.


privatization to be carried out by the Ministry of Industry and Power Engineering.

*The Domestic Politics of the 1993 Eesti Gaas Sale to Gazprom*

The privatization of Eesti Gaas was government-led affair and the process was greatly determined by the ideologies of the centre-right government. In April 1992, a decision was reached by the Estonian government to transform Eesti Gaas into a public limited company where 70 percent of the shares would belong to the Estonian state and 30 percent to the Russian company Gazprom. The interim Estonian government at the time was led by Prime Minister Tiit Vahi, a figure who embraced a neoliberal ideology\(^ {374} \) through which he hoped to transform Estonia from a centrally planned economy into a free market economy. Vahi accordingly created the Estonian Privatization Agency, to sell government-owned assets including Eesti Gaas.

However, by January 1993 when the Foundation Agreement to create a public limited company - Eesti Gaas - was signed, there was a new rightist government in power led by Prime Minister Mart Laar of the Christian Democratic Party (later Pro Patria). Laar was a 31-year-old free marketeer who referred to himself as ‘Thatcher's grandson’.\(^ {375} \) The party had come to power following parliamentary elections of September 1992. During this period, Eesti Gaas shares were transferred to Gazprom and the Estonian state. Like Vahi, Laar’s government also embarked on an ambitious program of market reform, involving large scale privatization. This made the privatization of Eesti Gaas an obvious choice for the new government. In 1995, under a new government led by independent Andres Tarand, privatization continued with additional Eesti Gaas shares sold to Ruhrgas (14.67 percent) and the Baltic Republic Fund (7.5 percent).\(^ {376} \) The decision to privatize Eesti Gaas was greatly determined by the the free market, neoliberal views of Estonia’s policy elites including Vahi, Laar, and Tarand.

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\(^ {374} \) Neoliberal is used to refer to the strand of liberal economic thinking that believes a state should have a minimal influence over the economy which should function based on market forces.


\(^ {376} \) Kilvits, Purju, and Padam, p.63.
The decision to allow Gazprom to acquire 30 percent of Eesti Gaas may seem surprising given Estonia’s strongly Western leaning tendencies in the early 1990s and the rule of centre-right parties that were cautious of Russia as a partner. The Estonian privatization case does not support the hypothesis that rightist political parties would pursue adversarial policies towards Russia and resist investment by Russian companies. There are three explanatory factors for Estonian government policies. First, the Estonian right (in contrast to the Latvian and Lithuanian right) was marked by its neoliberal economic ideology which favored foreign investment in general. Second, rightist political governments often have less domestic constraints in their pursuit of cooperative policies towards the Kremlin because they will not be criticized for being 'soft on Moscow' as would political parties of the left. Third, in their policies towards Moscow, the Estonian Popular Front and the first Prime Minister of Estonia Edgar Savisaar pursued more moderate policies than their counterparts in Lithuania and to some extent Latvia.\(^\text{377}\) It is possible that if parties of the political left would have been in power in 1993, it is arguable less likely that Gazprom would have acquired Eesti Gaas. First, parties of the left would have been less likely to launch privatization of state-owned companies. Second, though their partisan preferences would have favored Russian investors, they could have felt constrained to pursue cooperative policies towards Moscow because of the need to be attentive to public wariness of their communist roots.

The stage of Estonia’s development during the privatization process was also a major factor in influencing policy options. Estonia’s geostrategic position was very different during the privatization of Eesti Gaas in 1993 than that of Latvia and Lithuania at the time of the privatization of Latvijas Gaze in 1997 and Lietuvos Dujos in 2004. The Estonian government privatized Eesti Gaas soon after (re-)establishing statehood, at a time when it was engaged in the sovereignty building processes of 1990 to 1995. Indeed, during the 1992-3 period, the Soviet army was still present on Estonian territory,\(^\text{378}\) and there was a Russian military presence at the Estonian Paldiski nuclear submarine training

\(^{377}\) For instance, the Popular Front of Estonia in comparison to the Popular Front of Lithuania pursued a step-by-step approach towards independence and recognized Estonia’s economic and political dependence on Russia.

base until September 1995. In contrast, by the time Latvia privatized its national gas company in 1997, Latvian sovereignty was established and statehood was being consolidated and the Soviet army no longer present. Last but not least, the geostrategic position of the Baltic states had changed dramatically by the time Lithuania started its privatization in 2004 – the year the Baltics joined the European Union and NATO. Thus, in the political and economic climate of 1992, Tallinn’s decision to allow the only supplier of gas to Estonia – Gazprom, be the first foreign investor in Eesti Gaas seems politically prudent. Furthermore, in the early statehood period, it would have been very difficult to attract Western foreign investment as the Baltic states were still viewed by Western markets as politically risky, former Soviet republics, and Moscow-satellite states. For instance, though the French national champion Gaz de France also expressed some interest in acquiring shares of Eesti Gaas it did not make a bid.

In addition to the liberal policies of the Estonian government and the stage of state development, the general context of Estonian-Russian relations also influenced Tallinn's policies towards the Gazprom acquisition. In January 1993, Tallinn turned over 30 percent of shares to Gazprom after months of tensions with Moscow. Such tensions were related to Estonia's language and citizenship policies which spurred the Russian Duma, in July 1992, to call for economic sanctions against Estonia citing the mistreatment of Russian minorities. By the autumn, ‘protection of compatriots’ had become the official policy of the Kremlin. In November 1992, a week after president Yeltsin ordered a halt to the Russian troop withdrawal from the Baltics, Moscow threatened to cut off deliveries of natural gas unless the Baltic States agreed to a new plan to finance the troops.\footnote{379 ‘Russian Gas Deliveries to Baltic Region Halted, ’ Izvestia, Vol XLV, No.26, 1993, p.1.} Though the Kremlin did not officially link the matter to Gazprom investment into Eesti Gaas and ongoing supply of gas to Estonia, it is likely that Estonia believed investment into its national distribution company by the only gas supplier would ensure stable gas supplies in the future.

However, this did not prove to be the case. Gazprom's first halt in gas supplies came in June 1993 after Gazprom had acquired 30 percent shares in Eesti Gaas in January of the
same year.\textsuperscript{380} The gas cut came as the Estonian government under Laar was considering an exclusionary citizenship law that would have required most Russian-speakers to apply for residency\textsuperscript{381} or risk deportation. The Kremlin vowed it might intervene to protect the rights of ethnic Russians in the "near abroad." During this time Gazprom stopped supplies to Estonia for four days. However, there was a limit to the pressure Gazprom could put on Estonia since Estonia was able to receive gas from the underground storage facility in Latvia.\textsuperscript{382} Thus, Gazprom would have had to shut down gas supplies for a significant period and to both Latvia and Estonia in order to disrupt the Estonian market. Still, in the wake of this flexing of muscles and given the moral suasion of regional organizations, a modified version of Estonian citizenship law passed in July 1993. Significantly, the revisions in new version addressed the objections of the Council of Europe, but not those which had been articulated by Russia. Because the law denied citizenship to retired Russian officers it fell short of Moscow’s demands and Gazprom halted supplies of gas for another four days. Tallinn responded by cutting food supplies to Russian military bases on its territories.\textsuperscript{383} The stand off revealed that in spite of having shares in Eesti Gaas and despite being the sole supplier of gas to Estonia, Gazprom failed to provide the Kremlin with effective leverage to alter Tallinn’s minority policies in 1993. Calls by the Russian Duma for economic sanctions against Estonia and Latvia were repeated in March 1995, July 1996, and January 1997 by Russian Foreign Minister Yevgeny Primakov.\textsuperscript{384} These examples show that Moscow was willing to utilize Estonia’s economic and energy dependence on Russia in order to pressure Tallinn with regard to its citizenship law, minority treatment, and Russian troop withdrawal.\textsuperscript{385} Yet, in all three instances, Moscow failed to gain significant leverage over Tallinn.

Third party states outside Russia or Estonia did not play a significant role in the privatization of Eesti Gaas. However, one could argue that Estonian political elites were

\textsuperscript{380} Ibid.
\textsuperscript{381} The law was applicable to approximately 500,000 former Soviet citizens who had emigrated to Estonia following Estonia’s occupation by the Soviet Union.
\textsuperscript{382} Estonia is connected by a Soviet-era pipeline to the underground storage in Inčukalns, Latvia.
\textsuperscript{383} Drezner, p.226.
\textsuperscript{384} Kauppila.
\textsuperscript{385} Ibid.
highly influenced in the early 1990s by neoliberal economic thinking and what could be
described as the Washington consensus. A number of East European countries in the
early 1990s were advised by international organizations like the World Bank and the
International Monetary Fund which promoted market-driven reforms and the reduction of
the State role in the national economies. Thus, rapid and massive privatization of key
infrastructure assets and companies such as Eesti Gaas was a policy outcome favored by
neoliberal thinking.

Subsequent Sales of Eesti Gaas Shares
Gazprom's acquisition of Eesti Gaas became a template for the company’s future
investments in the Baltic states where Gazprom would initially acquire a minority but
blocking stake and eventually gradually buyout shares until majority ownership was
acquired. Thought out Gazprom’s expansionism Tallinn did not demonstrate any
resistance to the Russian investor despite the changing governments and external
circumstances. Interestingly unlike in many other examples of Gazprom expansionism,
acquisition of additional shares of Eesti Gaas was not a top priority for the Gazprom
management for most of the 1990s following the initial acquisition in 1993. During the
second stage of privatization of 1996 to 1999, when the Estonian state decided to sell off
its shares of Eesti Gaas, Gazprom did not seek to acquire additional shares (See Table
4.7). The decision to not invest further in Eesti Gaas in the late 1990s was simply a
function of the Russian financial crisis and Gazprom's preoccupation with acquiring an
initial stake in Latvian Latvijas Gaze (see subsequent section). However, Gazprom
sought to have greater control of the Eesti Gaas through daughter companies and was not
willing to give up control to other shareholders. For instance, Gazprom's ‘daughter
company’ - Itera Latvija – acquired 10 percent of Eesti Gaas from the private investment
fund Baltic Republics Fund in March 1999. With Itera Latvija holding 10 percent shares

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387 Smith, p.31.
and Gazprom another 30 percent shares, Gazprom effectively came to control 41 percent of Eesti Gaas. By the late 2000s, Gazprom increased its shares to 37 percent by slowly buying shares owned by small investors. Owning a controlling share of Eesti Gaas was politically rather than commercially important for Gazprom. Gas sales to Estonia are small and there is no onward shipment of gas.\textsuperscript{390} Being the only supplier of natural gas to Estonia, Gazprom already holds significant sway over Eesti Gaas and the Estonian gas market. However, the ownership of Eesti Gaas shares enabled Gazprom to create vested interests to act in its favour on Estonia’s political and economic stage.

Table 4.7: Main Privatization Stages of Eesti Gaas

<table>
<thead>
<tr>
<th>Year</th>
<th>% Shares privatized from Estonian state</th>
<th>Acquiring Entity (State of Origin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>30%</td>
<td>Gazprom (Russia)</td>
</tr>
<tr>
<td>1994</td>
<td>7.5%</td>
<td>Private Investors (Estonia)</td>
</tr>
<tr>
<td>1995</td>
<td>14.67%</td>
<td>E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td>1995</td>
<td>7.5%</td>
<td>Baltic Republic Fund (UK)</td>
</tr>
<tr>
<td>1996</td>
<td>14.67% --&gt; 21%</td>
<td>E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td>1998</td>
<td>10%</td>
<td>Neste/Fortum Oil and Gas (Finland)</td>
</tr>
<tr>
<td>1999</td>
<td>21% --&gt; 32%</td>
<td>E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td>1999</td>
<td>10% (from Baltic Republic Fund)</td>
<td>Itera Latvija (Russia)</td>
</tr>
<tr>
<td>2000s</td>
<td>30% --&gt; 37% (from private investors)</td>
<td>Gazprom (Russia)</td>
</tr>
</tbody>
</table>

Data obtained from Eesti Gaas company website.

\textsuperscript{390} Kilvits, Purju and Padam in Liuhto, p.70.
Summary
The analysis of Gazprom's acquisition of controlling stake in Eesti Gaas highlights several key factors in Estonian foreign policy making towards Russia. First, it does not support the hypothesis that rightist political forces always pursued adversarial policies towards Russia and Russian investment. This episode, demonstrates that the opposite can in fact be the case: the Estonian political right indirectly favored Gazprom's acquisition due to its neoliberal ideology which favored privatization of state owned enterprises to foreign investors. Also, given their credentials as leaders of the independence movement, the Estonian political right was in a better position vis-à-vis the public to cooperate with Moscow than would have been the Estonian political left. Timing - and internal and external circumstances - also played a significant role in shaping Tallinn's policy options in the early 1990s. Tense relations regarding Estonia’s Russian minority in the early 1990s and the concomitant threat of economic blockade by Russia may also have had some - albeit limited - impact on the Estonian government’s willingness to pursue cooperative policies towards Russian investment in order to ensure a stable supply of gas. There is no evidence, meanwhile, to suggest that domestic business interests played a role in influencing Estonian policies. The primary reasons were that in 1992 to 1993 period, business interests were still new and weak and Eesti Gaas, which had been recently created and did not have a strong influence in domestic politics or established links with Gazprom. Likewise, the Russian minority was preoccupied with language and citizenship issues and did not play a role in Estonian policies towards Russian investment.

Episode 2: Privatizing Latvijas Gaze
Latvian policies towards Russian investment in its gas sector fell in the middle of the Lithuanian and Estonian policies. Latvian policies were marked by greater pragmatism and cooperation than those of Lithuania but fell short of the Estonian policies. Riga’s policies were also driven by domestic politics, existing gas infrastructure, and Russian policies. Unlike in Estonia, local gas interests were influential in Riga’s policy making.

After several years of pressuring the Latvian government, Gazprom was able to acquire 16.25 percent of Latvijas Gaze in April 1997, four years after its acquisition of Eesti Gaas
and just prior to the Russian financial crisis of 1998. During this first round of
privatization, German E.ON Ruhrgas acquired the other 16.25 percent share. The
privatization followed the rules set out by the Latvian Privatization Agency (LPA) which
proposed that Latvijas Gaze, which had become a joint stock company in 1994, would be
privatized by attracting two investors. According to the rules of the LPA, one of the
investors had to be a gas supplier. Gazprom, as Latvia’s only supplier of gas and the only
supplier with infrastructure to deliver, was realistically the only prospective buyer who
could meet LPA requirements. The privatization rules also stipulated that the second
investor had to be a ‘strategic investor’ and Ruhrgas went on to fill this roll. Thus,
Gazprom and Ruhrgas, which had already become primary investors in Estonian Eesti
Gaas in 1993 and 1995, respectively, became the most likely investors in Latvijas Gaze at
the time bidding was opened in 1997.

As in the case of Estonia, Gazprom's initial investment of 16.25 percent gradually
increased to 34 percent by 2005. Furthermore, through the acquisitions of its ‘daughter
company’ Itera Latvija, Gazprom and its affiliates acquired a controlling share of Latvijas
Gaze. By 2010, Gazprom owned 34 percent of Latvijas Gaze, whilst Itera Latvija owned
16 percent. This joint share of 50 percent means that Gazprom and Itera Latvija can have
more influence in the company than E.ON Ruhrgas which owns 47 percent shares.
However, E.ON Ruhrgas does not often challenge Gazprom as it is the Russian gas
giant’s strategic partner in many foreign investments in the global energy sector.

Table 4.8 Latvijas Gaze Ownership Structure in 2010

<table>
<thead>
<tr>
<th>Latvia</th>
<th>% Ownership of firm (State of Origin)</th>
</tr>
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<tbody>
<tr>
<td>Latvijas Gaze</td>
<td>47% E.ON Ruhrgas (Germany)</td>
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<tr>
<td></td>
<td>34% Gazprom (Russia)</td>
</tr>
<tr>
<td></td>
<td>16% Itera Latvija (Russia)</td>
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<td></td>
<td>3% Other</td>
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</table>

Data from Latvijas Gaze website 2010.

Unlike in Estonia, the privatization process of Latvijas Gaze was a politicized and drawn
out affair. As the only natural gas transmission, storage, distribution, and sales operator in Latvia, Latvijas Gaze was considered a strategic national energy company since the re-establishment of Latvia’s independence. The company supplies natural gas to 442,000 customers in Latvia or nearly a quarter of the Latvian population. Latvijas Gaze also owns the strategically important Inčukalns Underground Gas Storage Facility which supplies gas to Estonia, northwestern Russia, and Lithuania in the winter season and which could provide gas reserves to the Latvian state in case of a gas cut off. However, in the period of 1990 to 1993, with the break up of Soviet-era industry in Latvia, national gas consumption declined by 52 percent. By 1994, Latvijas Gaze was taking large credits from the Bank of Latvia and the World Bank to postpone insolvency. To salvage this strategic asset, the state decided to transform Latvijas Gaze into a state joint stock company and assigned it to privatization in 1993.

The Domestic Politics of the Latvijas Gaze Sale

Latvian policies towards Russian investment in its gas sector was primarily driven by the political orientation and preferences of the ruling centre-right parties and leaders. As in Estonia, the stage of the state’s development as well as its relations with Russia also influenced policy making. During the first round of privatization in April 1997, Latvia's domestic political environment was moderately favourable to an acquisition by Gazprom. When the Latvian state sold 16.25 percent of Latvijas Gaze, the Latvian government was a centre-right coalition. Political parties of the right ideologically favour closer political and economic relations with the West rather than with Russia. Yet, and despite the fact that centre-right governments have been the norm in Latvian politics, the rightist government in power in 1997 was more moderate in views towards Russia than might be expected. This is because the government was led by the Latvian Way political party which can be described as economically conservative but centrist in its foreign policy and therefore less sensitive towards Russian investment. Privatization took place under the leadership of the non-partisan businessman Prime Minister Andris Šķēle. Šķēle’s approach to privatization was more driven by commercial considerations than by political

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391 Customers are primarily households that rely on gas for heating and industries such as Latvijas Energia.
392 Information obtained from JSC Latvijas Gaze website, www.lg.lv.
or security concerns, an attitude which facilitated acquisition of shares of Latvijas Gaze by Gazprom. The mindset reflected Estonian elites’ liberal, ‘open for business’ approach espoused by leaders such as Mart Laar.

It is conceivable that Gazprom would have had a more difficult time acquiring shares of Latvijas Gaze under different leadership. In fact, by August 1997, Šķēle was replaced as Prime Minister by Guntars Krasts from the For Fatherland and Freedom (FFF) political party. FFF was the political party furthest to the right in Latvia and one that strongly opposed closer economic and political ties with Russia. It is fairly certain that Krasts would have resisted Gazprom’s acquisition of the minority stake of 16.25 percent. The receptivity of Latvian Way to Gazprom investment further reveals that centre-right parties in neither Estonia or Latvia consistently pursued adversarial policies towards Russia and Russian investment. Both privatizations to Gazprom occurred under centre-right party leadership though not under far right parties. Also, as in the Estonian case, the Latvian experience highlighted the importance of individual leadership in terms of the role played by neoliberal Mart Laar and businessman Andris Šķēle.

State-building was another factor that set the context for Latvia's policy choices vis-à-vis Russia. In 1997, Latvia was immersed in processes of state development, a period which lasted from 1995 to 2004. The prime goals were to consolidate independence and join Western organizations. Latvia’s geostrategic position at the time of the 1997 privatization was considerably better than that of Estonia when it privatized the first shares of Eesti Gaas in 1993. By 1997, the Soviet army was no longer in the territories of the Baltic states. The states were consolidated, recognized by international organizations, and applying for EU and NATO membership. The Russian military was scheduled to leave the Skrunda base in Latvia by 1998. Thus, one could argue that Latvia was in a moderately strong position to potentially resist Gazprom’s overtures to acquire Latvijas Gaze and yet it did not.

The reason for this may have been Latvia's evolving relations with Russia which leaned towards a more cooperative policy in this period. For example, in 1997, the Russian army
was still at Latvian Skrunda military base, and the Latvian government did not want to risk a delay in the evacuation of the base. Thus, Riga's policies towards Russia were conditioned to be more cautious and cooperative. A further factor which weakened the Latvian government’s position regarding Latvijas Gaze and encouraged more cooperative policies was the fact that the Latvian-Russian border treaty was not ratified, causing Latvia to avoid policies that could bring on Moscow’s disfavour. The border agreement with Russia was of crucial importance to the Latvian political elites because without this agreement Latvia's membership application to the EU was jeopardized. This may explain why, in 1997 at a time when Gazprom was in the process of acquiring shares of Latvija Gaze, the Latvian and Russian government were engaged in the drafting of a border treaty. Negotiations between the two sides took place in February and March of 1997 without much success. In August of 1997, three months after Gazprom acquired its 16.25 percent share, a draft border agreement was completed. The timing of the border agreement completion suggests that there was some linkage between Gazprom's acquisition of Latvijas Gaze and Moscow's willingness to finalize negotiations. Whilst it is unlikely that the border treaty was used to coerce the Latvian government into selling Latvijas Gaze to Gazprom, the outstanding necessity to reach border agreement was a factor favouring more cooperative policies towards Russia.

Another aspect of Latvian-Russian relations that influenced Riga's policies was the ongoing negotiations for a new gas supply contract. The privatization occurred simultaneously with Russian gas price hikes to Latvia and negotiations for a new gas contract. Already, in July 1994, Gazprom offered to reduce Latvia’s gas bill in return for a 50 percent stake in Latvijas Gaze. However, in this period Latvia was still deciding when and how it would privatize the company. According to Daniel W. Drezner, the main motivation behind the Latvian government’s decision to sell 16.25 of Latvijas Gaze to Gazprom in April 1997 was to secure gas supply. However, Latvia’s complete dependency on Gazprom for gas supplies which are crucial for its population and

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393 Interview with anonymous Baltic diplomat, Vilnius, Lithuania, 13 July 2010.
395 Drezner, p.223.
industry cannot be underestimated as a factor determining Latvia’s policy options regarding the privatization.

In addition to the favourable political orientation of the Latvian leaders, Latvia’s vulnerable geostrategic position due to the Russian presence in Skrunda, and the unresolved border treaty, business lobbies also played a significant role in the Latvian government’s preference for a cooperative and pragmatic policy towards Moscow regarding privatization. Former Foreign Minister Artis Pabriks (2004-2007) openly stated that that there were a number of stakeholders in Latvia who were lobbying on behalf of Russia's economic and political interests. In the summer of 1997, the networks between political elites and business lobbies became apparent in a series of corruption scandals that resulted in the resignations of four ministers. The most illustrative was Skele’s demand for a vote of non-confidence against Minister of Transport Vilis Kristopans, one of the most influential members of Latvia’s Way centre-right political party. Kristopans had violated the anti-corruption law by sitting on the board of directors of LatRosTrans, a Latvian-Russian pipeline joint venture, and Interbaltija, a Latvian-Irish trading firm. In the same period, Latvia’s prosecutor general examined conflict of interest cases for more than 40 MPs but found no significant transgressions. The high levels of corruption and influence of business in politics does suggest, however, that business interests played a role in Latvian policies towards the privatization of Latvijas Gaze. Latvijas Gaze, Latvenergo, Itera Latvija were influential players in the Latvian economy that favoured Russian investment due to their own close relationship with Gazprom.

Itera Latvija was possibly the most interested party in the privatization of Latvijas Gaze. It was founded in 1996 at the beginning of the Latvijas Gaze privatization process for the apparent purpose of influencing the process and obtaining shares. At the time, Itera Latvija was a sizable player in the Latvian gas sector providing 30 percent of Latvia's gas supplies and shaping the political and public debate on Latvian energy choices.

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399 Ibid., p.242.
2004, Itera Latvija's shares of Latvijas Gaze were even on par with Gazprom, with both owning 25 percent. For Gazprom, Itera was a tool to acquire more shares and control in Latvijas Gaze, as seen by the 2005 Itera sale of some of its shares to Gazprom. The conditions in Latvia stood in contrast to those which prevailed during the privatization of Estonia’s Eesti Gaas in 1993 wherein the political and legal environment and the lack of consolidation of local business made the Estonian government less susceptible to business interests.

A comparison in the course of events and outcomes of the privatization of Latvijas Gaze in 1997 and the attempted acquisition by Russian investors of Ventspils Nafta (VN) in 1998 provides additional insights into the factors influencing Latvia's foreign policy towards Russia. In 1997, at the same time as the privatization of Latvijas Gaze, VN was also partly privatized. However, VN remained a public joint stock company owned by Latvian joint-stock company Latvijas Naftas Tranzīts (LNT) whilst the Latvian government retained 43 percent of the stake. The most important differentiating factors were domestic politics and relations with Russia. LUKOIL’s attempts to acquire VN took place during the rule of Prime Minister Guntars Krats and his nationalist FFF party. As the most rightwing political party FFF resisted Gazprom’s overtures on ideological grounds. They also reputedly received campaign contributions from VN, which resisted being acquired by a Russian investor. The only pro-Russian party at the time in the government coalition, the centre-left Democratic Party Saimnieks, withdrew its support from the government citing the need for cooperative relations with Moscow. Saimnieks, who was believed to represent interests groups close to Russia and particularly Gazprom, issued a statement by leaders of 70 companies whose leading market was Russia calling for more cooperative relations with Moscow. Despite the privatization of Latvijas Gaze to Gazprom in 1997, by 1998, Latvian-Russian relations reached an all time low. 1998 was marked by protests by Russian speakers in Riga (allegedly incited by Moscow) in March and intensified rhetoric from the Kremlin on the protection of ‘compatriots’.

401 Ibid.  
402 Ibid.
Moscow's aggressive stance was met in kind by Latvian elites. The tensions increased the sense of vulnerability in the Latvian government, making it even less willing to permit the expansion of Russian influence in the country.

As in Estonia and Lithuania, there was little direct influence of foreign states outside of Russia over the privatization of Latvijas Gaze. However, the liberal thinking espoused by organizations such as the World Bank and the IMF, and which can be summarized as the Washington Consensus, played an important role in convincing Latvia that it must privatize Latvijas Gaze in order to have a functioning and economically viable national gas company. Since Latvijas Gaze was taking large credits from the World Bank to postpone insolvency in 1994, the World Bank played a role in encouraging privatization of the enterprise.

**Subsequent Sales of Latvijas Gaze Shares**

Whilst the Latvian government was more at ease privatizing a minority share rather than a minority share of Latvijas Gaze to a Russian investor, Gazprom gradually increased its stake in the Latvian gas company. By 2009, Gazprom had increased its share to 25 percent and its daughter company Itera Latvija controls 25 percent. The fact that Gazprom and Itera operated in tandem regarding Latvijas Gaze was demonstrated by their coordinated negotiations with the Latvian government. For instance, in 2002, Gazprom and Itera sought to raise the price of gas sold by Latvijas Gaze to consumers. They jointly challenged the decision of the government commission to not allow Latvijas Gaze to raise prices. Together they argued that the existing price level was not sufficient to ensure further investment in the company.\(^{403}\) E.ON Ruhrgas did not participate in the dispute, suggesting that in Latvijas Gaze the Gazprom and Itera operate as partners with different interests from the German investor. Furthermore, Itera Latvija’s strategic interest in owning a share in Latvijas Gaze was demonstrated by Itera’s refusal to divest some of its shares to E.ON Ruhrgas. In May 2002, Itera received a proposal from E.ON Ruhrgas to sell some of its shares. According to Itera Latvija chief Juris Savickis, the

\(^{403}\) Pirovska.
company did not consider selling its shares in Latvijas Gaze to anyone.\textsuperscript{404}

Table 4.9: Main Privatization Stages of Latvijas Gaze

<table>
<thead>
<tr>
<th>Year</th>
<th>% Shares privatized from Latvian state</th>
<th>Acquiring Entity (State of Origin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>16.25%</td>
<td>Gazprom (Russia)</td>
</tr>
<tr>
<td>1997</td>
<td>16.25%</td>
<td>E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td>1999</td>
<td>10.2%</td>
<td>Itera Latvija (Russia)</td>
</tr>
<tr>
<td>2000</td>
<td>16.25% (\rightarrow) 42.65%</td>
<td>E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td>2000</td>
<td>10.2% (\rightarrow) 21.4%</td>
<td>Itera Latvija (Russia)</td>
</tr>
<tr>
<td>2000</td>
<td>16.25% (\rightarrow) 25%</td>
<td>Gazprom (Russia)</td>
</tr>
<tr>
<td>Early 2000s</td>
<td>42.65% (\rightarrow) 47%</td>
<td>E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td>2004</td>
<td>21.4% (\rightarrow) 25%</td>
<td>Itera Latvija (Russia)</td>
</tr>
<tr>
<td>2005</td>
<td>25% (\rightarrow) 34% (from Itera Latvija)</td>
<td>Gazprom (Russia)</td>
</tr>
</tbody>
</table>

Data obtained from Latvijas Gaze company website 2010.

**Summary**

In sum, the privatization of Latvijas Gaze demonstrated that Latvian policies towards Russia and Russian investment were driven by domestic politics. The analysis demonstrated that centre-right leadership was not predisposed against Russian investment and that there was variation in the preferences of the political right. The moderate leadership of Skele and Latvia’s Way facilitated cooperative policies towards Gazprom's acquisition of a minority shares in Latvijas Gaze. This decision was facilitated by the fact

\textsuperscript{404} Interfax/BNS, 13 May 2002, Riga, Latvia.
that Gazprom initially acquired only a minority stake, and that there were no alternative investors who could also supply gas to Latvia. The general context of relations with Russia such as border agreement negotiations, gas supply contract renewal, and the Russian military presence at the Skrunda military base also favoured cooperative and pragmatic policies towards Moscow. The importance of the context of relations with Russia for both Tallinn and Riga in formulating their policies towards investments by Gazprom demonstrates that there was clear - though not necessarily explicit - linkage in issue areas in the Estonian-Russian and Latvian-Russian gas relations. Whilst business interests did not play a role in Estonian policy making regarding Gazprom, they did so in Latvia due to the stronger connections between business and politics, lack of transparency in the Latvian domestic system, and powerful vested interest groups tied to the Latvijas Gaze, Latvenergo, and Itera Latvija. The precedent of Gazprom's acquisition of Eesti Gaas in Estonia also likely played a role in influencing Latvia's policies towards the Gazprom acquisition.

**Episode 3: Privatizing Lietuvos Dujos**

In contrast to Latvia and particularly Estonia, the privatization of Lithuanian national gas company Lietuvos Dujos, was marked by highly adversarial and principled policies towards Russian investment. The privatization was a long and highly politicized process which started in 2000 and demonstrated the dominant role of the partisan preferences of domestic political parties and business interests. In 2000, Lietuvos Dujos was performing poorly and indebted to the tune of some USD100 million. Privatization offered a solution. The privatization process was staged in two phases, with each phase divesting 34 percent of the shares. Provisions for the first 34 percent sale were published in the fall of 2001 and outlined that shares be allocated to a strategic foreign investor – i.e. a Western investor. Lietuvos Dujos already stated in 2000 that requirements for the possible investor would be the ability to guarantee gas supplies and the possibility to provide alternative sources of gas. However, with no alternative gas pipeline infrastructure, no Western investor could fully guarantee gas supplies. The prime candidates as the strategic

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foreign investor were French Gaz de France and German E.ON Ruhrгаз.\textsuperscript{406} E.ON Ruhrгаз with its close connections to Gazprom (it owned 4 percent of Gazprom in 2000) seemed the best contender. With Gaz de France pulling out of the race at the end of 2001, E.ON Ruhrгаз also became the only contender. E.ON Ruhrغاز acquired the 34 percent stake in 2002.

The second 34 percent share was allocated by the privatization provisions to a commodity supplier. As Remigijus Šimašius\textsuperscript{407}, remarked, if one of the provisions required Lietuvos Dujos to be sold to a gas provider, who else could that actor be other than Gazprom? The privatization provisions almost ensured that there would only be one buyer to meet this demand and therefore placed that buyer in a stronger position in terms of price and the number of shares it sought to acquire.\textsuperscript{408} The only other possible investor that was a gas provider, had access to Gazprom pipelines, and was interested in Lietuvos Dujos was Gazprom-affiliated Itera. The Lithuanian government did not allow Itera to bid since the tender conditions specified potential investors in Lietuvos Dujos have at least ten years of experience in managing gas distribution systems.\textsuperscript{409} It is likely that the condition was drawn up especially to exclude Itera which was a likely contender as it already had shares in both Eesti Gaas and Latvijas Gaze. The result of the provisions was that after intense political debate, the Lithuanian State Property Fund allowed Gazprom to participate in the tender. In 2004, Gazprom purchased the 34 percent share package.

As gas accounts for over one quarter of Lithuania’s energy needs, Lietuvos Dujos – the national gas distributor - was a strategic national enterprise. However, Lietuvos Dujos played a less dominant role in the Lithuanian gas sector than Eesti Gaas in the Estonian or Latvijas Gaze in the Latvian gas sectors prior to their acquisition by Gazprom. The main difference was that the Lithuanian natural gas market was open to competition since 1992, whilst the Estonian and Latvian gas markets were not. Other gas distributors such

\textsuperscript{406} Later Ruhrغاز merged to become E.ON Ruhrغاز.
\textsuperscript{407} At the time, Šimašius was an analyst for the Lithuanian Free Market Institute and Minister of Justice since 2008.
as Dujotekana, Stella Vitae, and Vikonda were sizable players in the market and rivals of Lietuvos Dujos.\textsuperscript{410} In 1999, Gazprom even briefly stopped supplying Lietuvos Dujos because of the latter’s unpaid debts.\textsuperscript{411} Before Gazprom was able to acquire Lietuvos Dujos, it viewed it as a competitor to its daughter distributing companies. Following Gazprom's acquisition, Lietuvos Dujos' position in the market improved at the expense of the other distributing companies claiming a 45 percent share of the market and assuming the same importance in the gas market as Eesti Gaas in Estonia and Latvijas Gaze in Latvia.

Table 4.10: Ownership Structure of Lietuvos Dujos over Time

<table>
<thead>
<tr>
<th></th>
<th>Share breakdown at privatization in March 2004 (State of origin)</th>
<th>Share breakdown in September 2010 (State of origin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lietuvos Dujos</td>
<td>35.7% E.ON Ruhrgas (Germany)</td>
<td>39% E.ON Ruhrgas (Germany)</td>
</tr>
<tr>
<td></td>
<td>34% Gazprom (Russia)</td>
<td>37% Gazprom (Russia)</td>
</tr>
<tr>
<td></td>
<td>24.3% Lithuanian state</td>
<td>18% Lithuanian state</td>
</tr>
<tr>
<td></td>
<td>6% private investors</td>
<td>6% private investors</td>
</tr>
</tbody>
</table>

Sources: Lietuvos Dujos website

The Domestic Politics of Lietuvos Dujos Privatization

From the start of discussions to privatize Lietuvos Dujos in 2000 to the completion of the sale in 2004 to Gazprom, the privatization of Lietuvos Dujos was marked by heated domestic political debates. This resulted in the delay of the transaction for years, although it was initially assumed that the privatization would be completed in 2000.\textsuperscript{412} The privatization overlapped with the 2000 to 2004 rule of a centre-left government led by the Social Democrats under the premiership of Algirdas Brazauskas (July 2001-June 2006) of the same party. The Social Democrats favoured cooperative political and economic relations with Moscow, including openness to Russian investment in Lithuanian energy assets. Behind the platform was the rationale that since Russia is the

\textsuperscript{410} As the state operator Lietuvos Dujos was not in a monopoly position as a gas distributor in the 1990s, and its market share progressively fell to 22 percent in 2002.

\textsuperscript{411} Pirovska.

\textsuperscript{412} Junevičius in Bagdanavičiūtė.
primary supplier of gas and oil to Lithuania, only Russian companies can guarantee supply of raw materials to Lithuanian energy enterprises. Algirdas Brazauskas, the former Lithuanian Communist Party leader, a former President, and head of the Social Democrats also prided himself on his good relations with Moscow. This stance corresponded to the strong correlation in Lithuania between privatization of strategic energy assets to Russian investors when Social Democrats are in power (i.e. Mazeikiu Nafta to Yukos in 2003, Lietuvos Dujos to Gazprom in 2004, and Kaunas Heat and Power Plant to Gazprom in 2007) and lack of any privatization to a Russian investor under the rightist Homeland Union government. In contrast, both Latvian and Estonian privatizations of national gas companies to Gazprom occurred under centre-right governments.

For the Lithuanian political right, particularly the conservative Homeland Union party, who at the time were in the parliamentary opposition, Gazprom was not a desirable investor. Gazprom's acquisition was also controversial for the majority of centre-right parties since at the time Gazprom did not own shares of any strategic assets in Lithuania (Gazprom acquired shares in the Kaunas Heat and Power Plant only in 2007, whilst it acquired a 30 percent share in Stella Vitae in the mid-2000s). The Homeland Union advocated closer political and economic relations with the West and viewed Russian political and economic influence in Lithuania with concern. It is highly likely that if the conservative Homeland Union had been in power in the 2000-2004 period rather than the centre-left coalition led by the Social Democrats, then Lietuvos Dujos would not have been privatized or Gazprom would have acquired a smaller stake. However, in the 2000 elections the Homeland Union suffered a crushing defeat winning only nine seats in Parliament in total.

The term of President Valdas Adamkus (1998-2003; 2004-2009) also coincided with the privatization period. As a nonpartisan, American-Lithuanian representing neoliberal market values, Adamkus called for the privatization to be conducted in a transparent and competitive manner and as soon as possible. He was also concerned that the Lietuvos Dujos privatization could unfold in a similar vein as the privatization of the oil refinery
Mazeikiu Nafta to American Williams, a process that had been tainted by corruption allegations and in the end rendered the Lithuanian oil refinery unable secure supplies of crude oil.413

Meanwhile, domestic business interests that favored closer relations with Russia and the Gazprom venture played a major role in facilitating Gazprom's acquisition of 34 percent shares of Lietuvos Dujos. Lietuvos Dujos itself, relying on Gazprom gas for operations and having a close working relationship with Gazprom, favored Gazprom as an investor. This is evident from the privatization provisions released by Lietuvos Dujos in 2000 which required that the prospective investor display the ability to guarantee gas supplies and the possibility to provide alternative sources of gas.414 Clearly no company other than Gazprom had the infrastructure to supply Lithuanian territory with gas. Another important player in the privatization process of Lietuvos Dujos was the gas distributor Dujotekana. Dujotekana was founded in 2001 at the outset of the privatization of Lietuvos Dujos, seemingly to play a role in the privatization process. This is reminiscent of the founding of Itera Latvija at the outset of the privatization of Latvijas Gaze. In 2002, it was believed that Dujotekana would make a joint bid with Gazprom to acquire shares of Lietuvos Dujos, but Gazprom made an individual bid in April 2003. Nevertheless, Dujotekana was considered to have significant influence in the domestic politics of Lithuania.415 It reportedly channeled funds to Lithuanian politicians to lobby in favor of Gazprom interests. It was particularly active in the provision of financial support to political parties in the October 2004 parliamentary elections which, however, occurred months after the finalization of Gazprom's acquisition of Lietuvos Dujos in March 2004.416 Another powerful player both in business and politics was the Russian-born Viktor Uspaskich, a businessman who gained wealth and influence through his gas distributing business and close relations with Gazprom. His offshore company Jangila, established in 1993, operated like Dujotekana and Stella Vitae, buying gas from Gazprom

413 See Chapter III for a detailed discussion.
414 Junevičius in Bagdanavičiūtė.
416 Dujotekana is likely to have made the contributions to the elections which occurred after the Gazprom deal was completed in order to have the support of all these political parties in the run up to the deal. Janeliūnas, in Spruds and Rostoks, p.212.
- at a mere eight US dollars - cheaper than it sold the same gas to Lietuvos Dujos.\textsuperscript{417} In 2003, Uspaskich founded the Labour Party, which won the 2004 parliamentary elections and became a member of the coalition government. By the time Lietuvos Dujos was privatized in 2004, the Lithuanian gas sector was marked by powerful vested interests with close connections to Gazprom which favoured the latter's control of Lietuvos Dujos.

The earlier of privatization of Mazeikiu Nafta was a factor in the policy choices regarding the privatization of Lietuvos Dujos. Because the 2000 discussions regarding privatization of the enterprise followed rather soon after the 1999 privatization of Mazeikiu Nafta to Williams, there were considerable ‘lessons learned’ and linked concerns. A number of decision makers and experts cited the frequent interruptions of the Russian crude oil pipeline to Mazeikiu Nafta following its privatization to Williams as something that should be avoided with Lietuvos Dujos.\textsuperscript{418} The interruptions of oil supply were perceived as direct punishment for selling the refinery to an American rather than a Russian investor. Lietuvos Dujos was in some ways more vulnerable than Mazeikiu Nafta because Lietuvos Dujos could only receive Russian gas due to the pipeline infrastructure and Mazeikiu Nafta could receive alternative supplies of oil though its sea terminal at Butinge. It was also apparent that a Western investor could not last in the isolated Baltic energy markets. By the end of 2001 when the privatization provisions for Lietuvos Dujos were released, it was increasingly apparent that Williams would sell Mazeikiu Nafta - most likely to a Russian investor.\textsuperscript{419}

As with Latvia, another factor that influenced policies regarding the privatization of the national gas company was the broader context of relations with Russia, and particularly negotiations for a new gas supply contract. As part of the agreement to sell 34 percent shares to Gazprom, the Lithuanian State Property Fund had a prerequisite – the signing of a long term gas supply agreement to Lietuvos Dujos. The Lithuanian State Property Fund said in a press release such an agreement "is a major condition for the privatization of the company, which should be carried out prior to the sale of a [34 percent] packet of shares

\textsuperscript{417} Vitkus, pp.25-46.  
\textsuperscript{418} Junevičius in Bagdanavičiūtė.  
\textsuperscript{419} In 2002, Russian oil big player Yukos acquired the refinery and oil supply resumed.
to Gazprom.' In March of 2004, the Lithuanian government signed the agreement which will remain in effect until 2015. According to this agreement, gas was to be delivered to Lithuania at a price previously coordinated by the parties and linked to the prices set for alternative types of fuel.

Unlike in Estonia and Latvia, the geostrategic context of the state did not appear to play a significant role in Lithuania's policy towards privatization. This may be because in the 2000 to 2004 period, Lithuania found itself in a very different context than Estonia in 1993 when the latter was convulsed in state-building as it privatized Eesti Gaas. It was also in a distinctly different position than Latvia in 1997 at the time of the privatization of Latvijas Gaze and processes of state consolidation. Even forthcoming EU and NATO membership did not seem to enter the Lithuanian privatization debate, nor provide Lithuania with greater leverage to resist Russian pressure for investment.

The precedent of Latvian and Estonian policies in selling shares of their national gas companies to Gazprom likely had an indirect influence on Lithuania's policies towards Russian investment in Lietuvos Dujos even though Vilnius did not have any policy consultations with Riga or Tallinn. By 2000, Gazprom owned 30 percent of Eesti Gaas and E.ON Ruhrgas owned 32 percent. Meanwhile, Gazprom owned 25 percent of Latvijas Gaze and E.ON Ruhrgas 47 percent. Thus, Gazprom and E.ON Ruhrgas were the most likely contenders for Lietuvos Dujos in 2000 since they had become the main investors in the Latvian and Estonian gas companies. In the near final privatization provisions, the Lithuanian government specified it would sell a 34 percent stake in (and control of) Lietuvos Dujos to a Western strategic investor, whilst Gazprom would take a 25 percent stake. Gas consumers and local middlemen, meanwhile, would supply 9 percent and the government retain 17 percent. The Lithuanian government’s strategy reflected the percentages Gazprom and E.ON Ruhrgas held in Eesti Gaas and Latvijas Gaze. However, the plan was not acceptable to Gazprom. The Russian monopoly demanded that it should receive no less shares of Lietuvos Dujos than the Western

420 ‘Lithuania and Gazprom sign gas supply agreement,’ Interfax, 10 March 2004.
investor, namely, 34 percent. Gazprom’s CEO Alexei Miller stated in October 2001 that as Lithuania's only gas supplier Gazprom should not be treated as a mere portfolio investor but the same as a strategic Western investor.\(^{422}\)

This view was related to the fact that - with regard to Eesti Gaas and Latvijas Gaze - Gazprom controlled lower share percentages when viewed as an independent actor but held the same or more shares than E.ON Ruhrgas when its close relations with daughter company Itera were taken into account. The glitch in the Lithuanian case was that the privatization provisions prohibited Itera from becoming an investor. As such, Gazprom had to acquire a controlling share by itself. The precedents set during the privatization of Eesti Gaas and Latvijas Gaze influenced the terms of Lithuania's privatization of Lietuvos Dujos and Lithuania's policies towards Russian investment.

Western international institutions influenced Lithuanian policies as they had those of Estonia and Latvia. The privatization plan for Lietuvos Dujos was drawn up with the help from the World Bank. According to Dalia Grybauskaite, Lithuania’s Finance Minister at the time, the World Bank suggested that the Lithuanian government and the Western investor should together hold more than 50 percent of the shares in Lietuvos Dujos. In the final privatization scheme, that condition was fulfilled with Ruhrgas taking 34 percent and the Lithuanian government 24 percent of the stakes.

**Summary**

In Lithuania, the domestic political environment played the most important role in determining policy options. Privatization occurred under the Social Democratic government which favoured cooperative policies towards Russia. The Social Democrats had also supported investment by Russian companies in other instances such as Mazeikiu Nafta and KHPP. The Lithuanian rightist Homeland Union opposed Russian investment both when they were in government and when they were in opposition, but due to their weak position in domestic politics in 2004, they were unable to alter the privatization provisions set out by the Social Democratic government from 2000 to 2004. The

powerful vested interests in the gas sector such as Lietuvos Dujos, Dujotekana, Jangila and others with close connections to Gazprom played an important role in Lithuania's policy choices through lobbying and non-transparent funding.

Secondary factors that played an important role in Lithuanian policy choices were the precedents set by the privatizations of Eesti Gaas and Latvijas Gaze and the the earlier Lithuanian sale of oil refinery Mazeikiu Nafta to American energy company Williams. Both precedents encouraged cooperative policies towards Moscow and Gazprom. The first was because Eesti Gaas and Latvijas Gaze continued to function satisfactorily and receive gas supplies when sold to Gazprom. The second was because a sale to a Western investor jeopardized energy supplies. Local business interests with close connections to Gazprom also played a sizable role and had influence over the Social Democratic government of 2000-2004. A final element was the context of relations with Russia. With Lithuania negotiating for a new gas contract, there was pressure for a cooperative and pragmatic policy towards Gazprom.

Considering that Gazprom became a majority stakeholder (either independently or with Itera) in the national gas companies of all three Baltic states, it is worth to enquiring to what extent Lithuania was ever really capable of pursuing alternative policies and resisting Gazprom investment. In other words, what leverage did Gazprom have over the Lithuanian government regarding Lietuvos Dujos privatization? Cutting off gas supplies to Lithuania as punishment for privatization to a Western investor (as was done in the case of Mazeikiu Nafta) would have been much more problematic for Moscow than cutting off gas supplies to Estonia and Latvia which do not serve as transit states. If gas were cut off to Lithuania then gas would automatically be cut off to the Russian territory of Kaliningrad which was fed by the same pipeline as Lithuania. Lithuania therefore had some levers with regard to the Kremlin – Vilnius could threaten to cut off electricity and gas to Kaliningrad or demand that Gazprom pay market prices for the transit of natural gas from Lithuania to Kaliningrad. Furthermore, even if Lithuania did not sell Lietuvos Dujos to Gazprom could have then stopped supplying Lietuvos Dujos, Gazprom would

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423 Drezner, p.217.
have still have supplied its daughter distributing companies in Lithuania such as Dujotekana, Stella Vitae, and Vikonda. These levers enabled Lithuania to resist Gazprom’s aspirations to acquire Lietuvos Dujos until 2004 and it is likely that Lithuania could have resisted longer if it was not for the Social Democratic government that came into power in 2000. Once privatization was selected as an option for Lietuvos Dujos, and a gas supplier was deemed as a necessary investor, Gazprom was the natural investor since other companies would not have had the infrastructure or pipelines to supply the Lithuanian territory.

Conclusion
The analysis of Baltic policies towards Russian investment into their national gas companies highlighted some important differences and similarities in foreign policy making towards Russia. In the early 1990s, the three states started out with very different policies towards Gazprom's entry into their markets. Estonia was the most open, cooperative, and pragmatic towards Russian investment which Estonian elites tended to view through a commercial rather than political lens. Thus, Eesti Gaas was privatized with Gazprom acquiring shares in 1993. Latvia was more reserved, less cooperative, and more principled in its views towards Russian investment as Riga resisted Russian investment into its oil and gas sector based on partisan preferences. However, in a turn towards pragmatism at a time when greater cooperation with Moscow was required in other issue areas, Riga agreed to sell shares of Latvijas Gaze to Gazprom in 1997. Lithuania resisted the longest and Gazprom acquired shares of Lietuvos Dujos only in 2004 after a long and politicized process.

The acquisitions followed different patterns. In Latvia, Gazprom initially acquired a minority stake in Latvijas Gaze and gradually increased these shares to become a majority stakeholder (when viewed together with Itera's shares). In Estonia, Gazprom acquired a sizable share of 30 percent which it later increased. In Lithuania, however, Gazprom immediately became a majority stakeholder acquiring 34 percent shares in the first round of privatization. For rightist governments in Estonia and Latvia, Gazprom's
acquisition of smaller share packages rather than immediate majority shares was politically more acceptable. The incremental increase in Gazprom's shares was less noticeable to the public and less sensitive. In Lithuania, the immediate 34 percent acquisition granting majority ownership to Gazprom would have been unacceptable to a rightist government but was acceptable to the leftist Social Democrats.

By 2010, Gazprom directly owned 37 percent of the shares in Eesti Gaas, 37 percent in Lietuvos Dujos and 34 percent in Latvijas Gaze. The similar outcomes and stakes suggest that the three states experienced a convergence in policy outcomes by the late 2000s. At the same time, the length of time it took Gazprom to enter the Estonian market versus the Lithuanian market - an 11 year difference - suggests that policy preferences of the Baltic capitals were remarkably different. There was little evidence to suggest that it was EU and NATO membership that brought about such convergence of policy outcomes by 2010. However, at least one Western factor - liberal thinking as epitomized by the stance of the World Bank - did create similar pressures on the three states in favour of privatization. Once privatization was selected as an option, Gazprom was the most natural and interested buyer because of the structural conditions of the Baltic gas markets, not because of Baltic preference for Gazprom as an investor.

The greatest pressure for policy convergence amongst the three Baltic states policies towards Russian investment stemmed from nearly identical gas sector conditions. With Gazprom being the only gas supplier to the Baltic states and effectively the only company with the infrastructure to provide gas to the Baltic national gas companies, Gazprom was the likeliest contender for controlling shares of Eesti Gaas, Latvijas Gaze, and Lietuvos Dujos. Another common factor favoring eventual cooperative policies towards Moscow amongst the three Baltic states was their nascent political systems. The political systems in question, after all, were ones in which government coalitions were fragmented and short lived, where business lobbies had significant and non-transparent influence over political parties, and wherein governments were institutionally too weak to implement policies that could diversify gas supplies or resist Gazprom's influence over the sector.
The main differences in Baltic privatization of the national gas companies to Gazprom were timing and tactics (e.g. minority or majority shares, politicized or commercial process). Such differences were primarily driven by domestic party politics, the context of relations with Russia, and the strength of vested business interests. The privatizations of Eesti Gaas, Latvijas Gaze, and Lietuvos Dujos all occurred under the leadership of governments and prime ministers who were unopposed or even explicitly favored investment by a Russian company. In Estonia, it was the neoliberal Prime Minister Mart Laar and his successors who favored rapid privatization and did not distinguish between Russian and Western investors. In Latvia, it was the non-partisan businessman Andris Skele who presided over Gazprom's acquisition. In Lithuania, the process was completed under the leftist Social Democratic government and Prime Minister Algirdas Brazauskas who favoured cooperative relations with Moscow. This was part and parcel of a belief that Gazprom was the only investor that could guarantee supplies of gas.

The context of relations with Russia also played a role in shaping Baltic policies towards acquisition by Gazprom or national gas interests. Each of the privatizations occurred during sensitive periods in the respective state's relations with Moscow. This was especially evident in Latvia which negotiated its sale of Latvijas Gaze concurrently with its negotiations for a border agreement and gas supply contract with Russia. Furthermore, the Russian military still occupied the Skrunda military base in Latvia during the 1997 privatization. In Estonia, the 1992-1993 privatization of Eesti Gaas occurred when the Soviet army was still in Estonian territory where it occupied the Estonian Paldiski nuclear submarine training base. In Lithuania, the general context of relations with Russia played the least important role but the sale of Lietuvos Dujos was also coupled with negotiations for a long term gas supply contract with Gazprom.

Vested interests in the gas sector played varying roles in the three Baltic states. The influence of business interests with close ties to Gazprom in the national energy policy was most apparent in Latvia and Lithuania. During both privatization processes, local gas distributors such as Lithuania's Dujotekana and Latvia's Itera Latvia, created with the support of Gazprom, lobbied in favor of Russian investment. Likewise, the companies
themselves, Lietuvos Dujos and Latvijas Gaze, clearly favoured their supplier Gazprom as the potential investor. It was only in Estonia that business interests did not play a sizable role. The main reasons were the relative youth of Eesti Gaas as an institution, lack of entrenched business interests in the early 1992 to 1993 period, and the more transparent business, political, and legal environment created in the early 1990s in Estonia.

Compared to other neighbouring states, Baltic policies towards Russian investment into their gas sectors have been relatively open and cooperative despite the described efforts by Latvia and Lithuania to resist investment by Gazprom. This stands in great contrast to the general perception that in the EU the Baltic states are the most hostile towards and fearful of Russia in foreign policy. Whilst Gazprom's expansionism has been aggressive across Central and Eastern Europe, the Baltic states have been least able to resist its influence in their gas sectors. This inability to resist Russian investment is also notable when compared to the Baltic oil sector, particularly the greater of ability of Latvia and Lithuania to resist Russian investment in their strategic oil assets. The vulnerability of the gas sector and the strong influence of business interests with connections to Gazprom are the main reasons for this state of affairs. Another important reason is the greater attention warranted by Baltic elites to political rather than to energy questions in their relations with Russia, which brings us to the next case study on Baltic policies towards the Soviet occupation.

CHAPTER V

Reconciling History: Soviet Occupation and the Policies of the Baltic States towards Russia

The historical legacy of the Soviet occupation425 of the Baltic states from 1940 to 1991 remains a major source of tensions in contemporary Baltic relations with Russia. In the period between 1994 and 2010, the primary source of conflict stemmed not from Baltic security concerns or Russian efforts to re-establish control over the region but rather from the conflicting perspectives of Moscow and of the Baltics towards their shared Soviet history. Whilst Baltic elites held that the Baltic states were occupied by the Soviet Union with devastating consequences for their economies, societies, and populations, Moscow viewed Russia as having liberated the Baltic states from Nazi Germany and argued that the three states voluntarily joined the Soviet Union. These divergent historical views have been the source of considerable tensions. For example, Audronius Ažubalis, then head of the Parliamentary Committee of Foreign Relations and Minister of Foreign Affairs since 2009, described Lithuanian-Russian relations in the following terms: ‘Relations are coolly friendly. One of the essential reasons is the different view by Kremlin’s leaders and the Lithuanian nation towards their shared history.’426 History has come to the forefront of Latvian politics as well. The decision of Latvian President Vaira Vike-Freiberga to accept an invitation to the 2005 Victory Day celebrations in Moscow marking the 60th anniversary of the Soviet defeat of the Nazis was therefore regarded as a major break through in Latvian-Russian relations. When in 2005 Tallinn released the White Book, which recorded the human and material losses Estonia experienced during the Soviet period, this was met with outrage in Moscow.

425 The chapter will use the term ‘occupation’ to refer to the time period that the Baltic states were Soviet Republics. Most Western governments and institutions such as the American government, the European Parliament, the European Court of Human Rights, and the United Nations Human Rights Council, maintained that Baltic states were forcibly incorporated as Soviet republics into the USSR under the 1939 Molotov-Ribbentrop Pact. However, some Russian historians argue the three states voluntarily joined the USSR. Report of the Select Committee to Investigate Communist Aggression and the Forced Incorporation of the Baltic States in the U.S.S.R., United States Printing Office, Washington, 1954, p.8.
In contrast to the energy cases examined in the previous two chapters, this chapter will examine debates over history in order to offer insights into political aspects of Baltic policies towards Russia. An examination of Baltic policies towards the Russia in the context of the Soviet occupation highlights the role of domestic political parties and their behaviour, the importance of different time stages, and the effects of Russian speaking minorities. The issue area is not only pertinent and manageable in terms of analysis, but also complementary to the analysis of this dissertation. The case is predominantly political in nature - driven by ideological and strategic calculations as well as ones of domestic political advantage rather than economic concerns. Unlike the energy cases, Soviet occupation was an area of high visibility for the elites, political party members, and the public. Public opinion and electoral platforms therefore played a role in policy considerations. Even though this is not a security case, given the high level at which decisions were taken and the salience of the discourse surrounding the issues, this case arguably belongs at least in part to high politics. As a compliment to the energy case studies, the historiographical case provides a more complete picture of the political factors which determined Baltic foreign policies towards Russia.

This investigation will also help test a number of the hypotheses set out in this study. It will consider whether the sizable Russian speaking minorities in Latvia and Estonia were a stimulus for cooperative or adversarial policies towards Russia with regard to contested representations of the Soviet occupation and its consequences. It will also consider whether the lack of Russian speaking minorities enabled Lithuania to have more cooperative or adversarial relations with Moscow when it came to history-driven policies. Second, the present chapter will examine whether the prevalence of centre right ideologies in Baltic governments was associated with adversarial policies towards Russia in terms of questions of history and historiography, and whether centre left ideologies facilitated a greater understanding with Russia over historical issues. Third, the case study will examine to what extent policies related to Soviet history were used instrumentally in domestic politics. Fourth, it will also consider to what extent NATO and EU membership have resulted in a convergence of Baltic policies on historical

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427 Chapter III and chapter IV of this dissertation.
questions and whether these were adversarial or cooperative towards Moscow. Last, the study will test whether the Baltic states responded in kind to increased assertiveness in Russia’s foreign policy following 2003, particularly to Putin’s more assertive stance regarding Soviet history.

In order to test these hypotheses with regard to divergent historical viewpoints, two issue areas will be examined. The first regards views of Victory Day celebrations in Moscow; the second, demands for damages to recompense for experiences under Soviet occupation. These issue areas have become the most visible, controversial, and symbolic in Baltic-Russian relations regarding their common Soviet history. Seeking damages for the occupation and not attending Victory Day celebrations was unprecedented amongst policy makers in the former Iron Curtain states. Whilst Baltic policies towards Soviet monuments, symbols, and history books also demonstrate historical tensions, these policies have been less topical since the mid 1990s. The importance of historical legacies in relations with Russia is relevant, moreover, not only for the Baltic states but also for other Central and Eastern European states. The most comparable case is Poland's post 1990 efforts to have Russia recognize the Soviet execution of Polish prisoners of war at Katyn in 1940 – an incident which marred Polish-Russian relations in the 1990 to 2010 period.

The Baltic states shared the same history of Soviet occupation and the same view of their Soviet-era history. Nevertheless, their policies vis-à-vis Russia differed significantly in the 1994 to 2010 period. The leaders of the Baltic states have made different choices regarding attending Moscow's celebrations of the Soviet victory in the Second World War. The Baltic countries also took very different positions regarding demanding occupation compensation from Russia, as the legal successor of the Soviet Union. Latvia was the most pragmatic without necessarily being cooperative. Its policies appeared to be the least driven by partisan preferences; they were also the least politicized in terms of

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428 See chapter III for a discussion of the 2007 relocation of Tallin's Soviet-era military memorial that resulted in a diplomatic crisis with Russia.

instrumentalization of the issues for domestic political gains. Adversarial tendencies were softened by the presence of a large Russian speaking minority.

To demonstrate the divergence in Baltic policies, decisions regarding Victory Day and claims to damages for occupation will be used as indices to plot the national foreign policies towards Russia. The foreign policies will again be plotted along two axis: *cooperative/adversarial*, and *pragmatic/principled*. For a graphical summary indicative of the nature of state policies see Figure 5.1 below.

Figure 5.1 The Policies of the Baltic States towards Soviet Occupation

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See introduction for a detailed discussion and definitions of the terms. Introduction, pp.18-19.

The values are based on qualitative analysis. Level 3 on the X and Y axis represents highly principled and highly cooperative policies, while Level 1 represents moderately principled and moderately cooperative policies. Level -3 on the X and Y axis represents highly adversarial and highly pragmatic policies while Level -1 represents moderately adversarial and moderately pragmatic policies.
Lithuania pursued the most adversarial and principled policy decisions regarding their shared history with Russia. The Lithuanian political right was the main driver of confrontational policies towards Russia but there was little deviation in practice between the stances of the political left and policies set forth by the right. The low number of Russian speakers in Lithuania may have conditioned policy decisions in two ways. First, it enabled Vilnius to pursue more adversarial policies regarding Soviet history without significant electoral implications as would have been the case in Latvia and Estonia. Because Lithuanian policies were driven by a law and a referendum passed in the 1990s, the changing external environment in the context of NATO and EU membership and the evolution of Russian policy did not significantly impact Lithuanian policies but had an impact on Lithuanian rhetoric.

Latvia pursued the most pragmatic and cooperative policies of the three states. While the political right dominated the Latvian foreign policy elites, in general Riga did not pursue principled policies in the 2000s. Instead the pending border treaty with Russia and the deep economic crisis of 2008-2009 motivated the Latvian rightist government to pursue a pragmatic relationship rather than one based on partisan preferences. Due to the electoral and public opinion implications, the large presence of Russian minorities had an indirect impact on Riga’s policies towards Victory Day celebrations. By 2009 political parties representing Russian speakers had direct effect on policies towards Soviet occupation damages by terminating the funding of a government think tank. Latvia also experienced the greatest evolution in their policies with EU membership in the late 2000s serving as a force for cooperative relations with Moscow.

Estonian policies were more principled and adversarial than Latvian policies but more pragmatic and cooperative than Lithuanian ones. Tallinn’s policies were influenced by the principled partisan preferences of the rightist leadership which also sought to transpose historical questions to the domestic arena for political gains. Thus, policies oscillated between pragmatic and principled but still remained less confrontational than Lithuanian approaches. EU and NATO membership potentially had an indirect moderating impact on Estonian rhetoric but not policies while there is insufficient
evidence to argue that Putin’s increasingly assertive policies had a clear impact on Estonian policy decisions.

Some common features of policy making emerged in the alignment of preferences along the left-right divide in all three states and the instrumental usage of policies. With regard to the political right, one can discern an ability to be simultaneously confrontational in rhetoric towards Russia whilst enacting cooperative policies. On the other hand, the political left appeared to prefer a cooperative policy towards Russia but usually failed to take cooperative policy decisions. Because of their ideologies, one would expect that the political right in all three states would be the least likely to attend the celebrations in Moscow and pressure the leaders in power against attending or to seek damages for occupation. One would likewise expect leaders from the political left (or of Russian speaking parties) to be more likely to attend Victory Day celebrations and argue against seeking compensation for occupation. In practice, however, leaders of the political right often had more room for maneuver in their policies towards Russia in that they were less vulnerable to charges of being ‘soft’ on Moscow. By way of contrast, leftist political parties were more vulnerable to criticism from the political right and thus had less room for maneuver to attend events like the Victory Day celebrations in Moscow.

The following case study will first provide a brief summary of the historical background of the Soviet occupation of the Baltic states during the 1939 to 1991 period, an experience which conditions Baltic and Russian viewpoints of their shared history. Before plunging into the analysis, however, the chapter will provide a brief context of Baltic foreign policy making in the 1994 to 2010 period. Third, the case study will analyze the tensions stemming from divergent Baltic and Russian views on Soviet occupation of the Baltic states. The decision of Baltic leaders to attend or not attend celebrations in Moscow of Russia’s victory in the Second World War will be the first issue area used to compare Baltic policy choices. Subsequently, the chapter will turn to the second issue area of various Baltic policy choices regarding the consequences of Soviet occupation. Last, the chapter will offer some conclusions on Baltic foreign policy towards Russia that can be derived from this survey of the historical dimension.
Historical Background of the Soviet Occupation of the Baltic States

The military occupation of the Baltic states by the Soviet Union occurred under the auspices of the Molotov–Ribbentrop Pact. On 23 August 1939, the Treaty of Non-Aggression Between Germany and the Union of Soviet Socialist Republics and The Secret Additional Protocol were signed by Soviet foreign minister Vyacheslav Molotov and German foreign minister Joachim von Ribbentrop. According to the Secret Protocols of the Molotov-Ribbentrop pact, Finland, Estonia, Latvia, and eastern Poland were designated to the Soviet sphere of influence, whilst Lithuania and Western Poland would be in the German sphere of influence. In September 1939, the Secret Protocols were re-written, with Lithuania being given to the sphere of influence of USSR in return for a monetary payment. Following this new agreement, in the autumn of 1939, the Soviet Union imposed the so-called pacts of mutual assistance upon the Baltic States which called for Soviet troops to be stationed in each country. In June 1940, the Soviet Union, claiming that there had been ‘acts of provocation carried out against the Soviet garrisons,’ issued an ultimatum to the Baltic states to form new governments subject to approval by the USSR. Special envoys from Moscow arrived to ensure such governments were formed in all three Baltic countries. Moscow ordered the new puppet governments to carry out elections with a single list of candidates all from the Communist Party in order to give the annexation a shade of legality. Subsequently the elected assemblies voted for admission into the Soviet Union as constituent republics. In 1941, the Baltic countries came under Nazi rule when Germany invaded the Soviet Union. The USSR regained control over the region in 1944 and the second occupation lasted until 1991. Despite some efforts by the Soviet Union to legitimize its occupation of the Baltic states, the incorporation of these states into the Soviet Union was never

435 Krivickas.
436 Kirby in Schopflin, p.274.
recognized by most Western powers. The Western Bloc’s policy of non-recognition gave rise to the principle of legal continuity, which held that *de jure* the Baltic states remained independent and under illegal occupation throughout the Cold War period - from 1940 to 1991.

The Soviet occupation of 1940-1941 and 1944-1991 had a number of negative consequences on the population, economies, state property, and ecology of the Baltic states. Baltic governments have reflected upon these losses when calculating damages resulting from Soviet occupation and have considered seeking compensation. In terms of population losses, it was estimated that deportations, emigration, evacuation, flight, and executions leading up to and during Soviet occupation resulted in the loss of about 25 percent of the population in Estonia, 30 percent for Latvia, and 15 percent for Lithuania between 1939 and 1945.\(^{437}\) The Soviet-sponsored influx of immigrants from other Soviet republics resulted in the ethnic Estonian share of the population dropping from 94 percent in 1945 to 72 percent in 1953, whilst ethnic Latvians declined from 83 percent to 60 percent over the same period. Lithuania’s ethnic composition did not change significantly due to a higher birth rate, a rural economy less attractive to immigrants,\(^{438}\) and active partisan resistance to the Soviet regime.

The repressions, executions, and deportations were not exclusive to the Baltic states and studies claim that the Communist regime resulted in around 20 million deaths in the Soviet Union. In the Baltic states, executions and deportations occurred in waves. During the period of 1940 to 1953 the number of deportees from the Baltic states totaled some 200,000 (of which 120,000 were Lithuanians, 50,000 Latvians and 30,000 Estonians). In addition, by 1953 there were a total of 75,000 Balts imprisoned in the gulags. In these special camps reserved for hard-line political prisoners, 20 percent of the inmates were of Baltic origin. In short, as a result of the Soviet occupation and purges 10 percent of the entire adult Baltic population was either deported or sent to a prison camp.\(^{439}\)

\(^{437}\) Although during the 1941-1944 period, the Baltic states were under Nazi rule, the Baltic states perception is that most of the damage occurred during Soviet rule.

\(^{438}\) Kirby in Schopflin, p.274.

\(^{439}\) Courtois *et al*, p.4, pp.212, 235-236.
In addition to the human losses, Baltic governments have stressed the economic losses experienced due to Soviet occupation. In 2004, Estonian President Arnold Ruutel highlighted the fact that Estonia’s 1939 standard of living equaled that of Finland whereas by 1991 Estonia was far behind. He concluded that the occupation held back Estonia’s development for five decades.\(^{440}\) Economic development in the region was also distorted by the regime which, according to local analysts, caused a country like Latvia to lose ‘its ability to make economic decisions and to choose optimum directions for local needs.’\(^{441}\)

A further consequences was damage done to the Baltic environment by the fifty year occupation; the presence of its troops alone is estimated to have run into tens of billions of dollars.\(^{442}\) The Soviet army ‘dumped hundreds of thousands of tons of jet fuel into the ground, improperly disposed of toxic chemicals, and discarded outdated explosives and weapons in coastal and inland waters.’\(^{443}\) Latvia has created several research centres to study the Soviet occupation\(^{444}\) and estimates that the environmental damage done by the Soviet occupation was as high as USD712 million.\(^{445}\)

Last but not least, damage done to culture has been cited by Baltic elites and scholars. Censorship and the Soviet ‘nationalistic propaganda’ were deemed to have negatively affected cultural life. Research in Lithuania shows\(^{446}\) that ‘the beginning of


\(^{443}\) Iwaskiw.

\(^{444}\) These include the Commission of the Historians of Latvia was established in 1998, the Centre for Documentation of the Consequences of Totalitarianism, and a governmental commission for identifying the victims of ‘totalitarian communist occupational regime of the Soviet Union.’ Nikolai Dimlevich, World War II History: Weapon of Informational War Against Russia, Strategic Culture Foundation, August 2009, www.globalresearch.ca; Latvia to Shut Down Commission on Soviet ‘Occupation’ to Save Money, RIA Novosti, 2009, viewed on 17 April 2010, <http://en.rian.ru/world/20090612/155235137.html>.


\(^{446}\) Research is completed by the International Commission for the Evaluation of the Crimes of the Nazi and Soviet Occupation Regimes and the Subcommission for the Evaluation of the Soviet Crimes. www.komisija.lt
collectivization almost 60 percent of the entire cultural heritage of the past rotted away, was destroyed or damaged beyond retrieve.\textsuperscript{447}

\textbf{The Context of Baltic Policies Regarding Soviet Occupation}

The internal and external environment of the Baltic states set the context and conditioned Baltic policy making regarding remembering the Soviet occupation. The internal and external environment can be disaggregated into three spheres characterized primarily by timing. The first stage of 1990 to 1995 was one of sovereignty building in which goals included international recognition of independence, Soviet military withdrawal, and the delineation of borders. All such aims were circumscribed by immense vulnerability vis-à-vis Russia. The second stage of 1995 to 2004 was one of state building focused on consolidating the achievements of the previous period and improving the geopolitical positioning of the states through EU and NATO membership. The third stage of 2004 to 2010 was one in which EU and NATO membership had been achieved and when statehood and the international positioning of the states was secured. In this context, the Baltics where in a significantly stronger position towards Russia than ever before. At each of these stages, there was also the broader context of each states’ relations with Moscow. A range of issue areas were salient, circumscribing policies regarding Soviet occupation. For instance, the Latvian border treaty negotiations with Russia of 2004-2006, had an impact on Latvia’s decision to attend Victory Day celebrations in Moscow the year prior. In sum, differentiation in the geopolitical positioning of the Baltic states and the variegated context of relations with Russia during these two periods conditioned Baltic policy capabilities and options towards Russia. Over time, however, convergence emerged in Baltic policies. This is especially evident in discourses and policies regarding Victory Day celebrations.

**Issue Area 1: Victory Day Celebrations**

The following section will present the tensions in Baltic-Russian relations over the views and policies related to the Soviet occupation of the Baltic states. In order to illustrate how Baltic positions on Soviet occupation have played out in practice, the Baltic policies of attending or not attending Soviet Victory Day celebrations in Moscow will be analyzed (See Table 5:1 for a summary of attendance). Soviet Victory Day or 9 May marks the defeat of Nazi Germany by the Soviet Union in the Second World War in 1945. In the Soviet Union, the 9th of May was amongst the most important national holidays. Since the collapse of the Soviet Union it continues to be celebrated in Russia and by Russian-speakers in the former Soviet Republics. In 2005, Putin stated that it was:

> difficult to find a more sacred and unifying day than May 9. ... We have no right to simply forget about the sacrifices that were made for the fatherland and for world civilization by our nation.\(^448\)

Due to the vastly different views of the Soviet era held by Moscow and the Baltic capitals, Victory Day celebrations have come to symbolize Baltic-Russian tensions over their common history. When Moscow issues invitations to the celebrations of 9 May, the leaders of the Baltic states can choose to attend thereby showing goodwill towards Moscow or not to attend in order to demonstrate that Soviet victory in the Second World War resulted in Baltic occupation. The 9 May celebrations thus became a focal point for Baltic elites to domestically denounce the Soviet occupation, running concurrent with attempts to raise the issue of Soviet occupation with both Moscow and in international fora. However, the salience of Soviet occupation issues declined from the early 1990s when they were fresh in the memory of the electorate to the late 2000s when the population increasingly lost interest interest in the topic. As such by 2010 the rhetoric of the elites was more moderate and pragmatic. Before examining Lithuanian, Latvian, and Estonian policy decisions, the following sections will outline Russia’s position on the occupation of the Baltic states and address Baltic policy making on this question in the multilateral arena.

Table 5.1: Victory Day Invitations and Attendance of Baltic Leaders

<table>
<thead>
<tr>
<th>State</th>
<th>Year</th>
<th>Official invitation</th>
<th>Attended</th>
<th>President (Political Party/ Left vs. Right political orientation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>1995</td>
<td>Yes</td>
<td>No</td>
<td>Algirdas Brazauskas (Lithuanian Democratic Labour Party/ Left)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>Yes</td>
<td>No</td>
<td>Valdas Adamkus (nonpartisan)</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>No</td>
<td>No</td>
<td>Dalia Grybauskaite (nonpartisan)</td>
</tr>
<tr>
<td>Latvia</td>
<td>1995</td>
<td>Yes</td>
<td>No</td>
<td>Guntis Ulmanis (Latvian Farmers’ Union/ Centre-right)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>Yes</td>
<td>Yes</td>
<td>Vaira Vike-Freiberga (nonpartisan)</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>Yes</td>
<td>Yes</td>
<td>Valdis Zatlers (nonpartisan)</td>
</tr>
<tr>
<td>Estonia</td>
<td>1995</td>
<td>Yes</td>
<td>No</td>
<td>Lennart Meri (Pro Patria/ Right)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>Yes</td>
<td>No</td>
<td>Arnold Ruutel (People’s Union of Estonia/ Left)</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>Yes</td>
<td>Yes</td>
<td>Toomas H. Ilves (Social Democratic Party/ Centre)</td>
</tr>
</tbody>
</table>

449 Instead of an official invitation, Grybauskaite received a greeting on 11 March 2010 (for Lithuania’s national independence day from the Soviet Union) from Russian President Dmitri Medvedev and an invitation to set a convenient date for a meeting to discuss the Russian-Lithuania’s relationship. After previous refusals from Vilnius to attend Victory Day celebrations it was unlikely that Moscow would have sent an official invitation without an indication from Grybauskaite that she would be attending. However, Grybauskaite used the absence of an official invitation to explain her non-attendance. Liepa Pečeliūnaitė, Grybauskaite geguzės 9-tąją bus ne Maskvoje, o Dubline, Alfa.lt, 2010, <http://www.alfa.lt/straipsnis/10316052/?Grybauskaite.geguzes.9.aja.bus.ne.Maskvoje..o.Dubline=2010-02-18_10-43>. 
Russia’s Position on Soviet Occupation of the Baltic States

Russia generally held the position that the Soviets did not occupy the Baltic states and that damages were not inflicted on the three states during the Soviet period. In the same period as the internal and external conditions of the newly independent Baltic states evolved, Russia was also undergoing a domestic rollercoaster marked by different stages. One evolving feature was the changing leadership of the Russian Federation. Russian policy shifted from the period of President Boris Yeltsin whose policies were more conciliatory regarding common Baltic-Russian history to the more aggressive position of President Vladimir Putin. In his early years in government Yeltsin (1991-1999) acknowledged that the Baltic states had been occupied and forcefully incorporated into the Soviet Union. Under President Vladimir Putin (2000-2008), however, and his successor President Dmitry Medvedev (2008 to present), occupation was no longer officially recognized and increasingly denied by the Russian political elite.

In general, the Russian administration’s position on the Baltic occupation was heavily grounded in Soviet interpretation of history and based on two contradictory arguments. The first was that the Soviet Union had no alternative but to occupy the Baltic states in 1940 since they were in danger of being overrun by Nazi Germany, a condition which would have threatened Soviet security; second, it was suggested that the Baltic states joined the Soviet Union based on their own free will following the decision of newly elected ‘people’s’ governments.\textsuperscript{450} The first of these contradictory arguments emphasizes the security threat to the USSR, the second Baltic free will. However, as Baltic elites have argued, if the Baltic states were incorporated into the Soviet Union for security considerations, the decisive factor was the will of the Soviet Union and not the will of the Baltic nations.\textsuperscript{451}

During the early years of Yeltsin’s presidency there were fewer tensions between Russia and the Baltic states in general, not least due to divergent views of history. Yeltsin had forged good relations with the Baltic independence movement leaders and encouraged

\textsuperscript{450} The Soviet Union, Finland and the Baltic States, published by the ‘Soviet War News’ on behalf of the Soviet Information Bureau, 1941. p.4

\textsuperscript{451} Krivickas.
the independence of the Baltic states as a tactic to weaken the Soviet authorities and strengthen his own position as leader of Russia.\textsuperscript{452} He stated in June 1991, ‘I, too, support giving freedom to the Baltic republics’\textsuperscript{453} and by August 1992 as President of the Russian Soviet Federative Socialist republic he recognized the independence of Estonia and shortly after of Latvia and Lithuania.\textsuperscript{454} The highlight of Baltic-Russian relations regarding their common historical past was the agreement signed in July 1991 between Lithuania and the Russian Soviet Republic. This 29 July 1991 bilateral agreement stated that Russia recognized the annexation of Lithuania (but not occupation – wording Moscow avoided) and acknowledged also that efforts to reduce the consequences of the period for Lithuania would increase trust in the relations of the two states.\textsuperscript{455} This agreement was cemented by Lithuania’s \textit{de facto} President Vytautas Landsbergis who later championed the pursuit of compensation on the legal basis of the 1991 agreement.\textsuperscript{456} Estonia and Latvia did not sign similar agreements with Russia, in part due to outstanding territorial disagreements with Moscow and the fact that their leaders did not place the same importance on recognition of the occupation and receipt of compensation. But Lithuania’s hard and legalistic stance spurred Russian elites including Yeltsin to distance themselves from the 1991 agreement and public acknowledgement of the Baltic occupation. Russian authorities in general opposed granting financial compensation for crimes committed by the Soviet Union. As Sergei Yastrzhembskii of the Russian Foreign Ministry stated in 1993, ‘The new, democratic Russia is not responsible for Stalinist crimes committed also on its own nation. In this situation, the escalating demands for Russia’s financial compensation […] are illusory.’\textsuperscript{457} Possibly the last time Russian officials acknowledged the Soviet occupation of the Baltics was in 1993 when the


\textsuperscript{453} Reuters, ‘Yeltsin Backs Baltics,’ \textit{Reading Eagle}, 20 June 1991, p.3.

\textsuperscript{454} Goble, p.70.


\textsuperscript{456} Interview with Homeland Union party member and strategist Kęstutis Škiudis, Vilnius, June 2010.

\textsuperscript{457} Popowski, ‘Rosja Nie Czce Odpowiadać Za Zbrodnie Stalinowskie’ quoted in Gorska, p.181.
Foreign Minister of the Russian Federation Andrey Kozyrev confirmed that the Soviet Union occupied the Baltic states in 1940. For Russian leaders in the mid 1990s, Baltic occupation began to be interpreted as a voluntary act by the Baltic states of joining the Soviet Union.

With the start of Putin’s presidency in 2000, tensions regarding the historical record between Russia and the Baltic states increased. Putin’s regime began to consciously rehabilitate Soviet era leaders and symbols as well as the Soviet version of history. The Soviet victory in the Second World War held an important place in such historiography which unfolded alongside efforts to raise national pride in contemporary Russia. Indicatively, on the occasion of the 2005 commemoration of the Soviet victory in the Second World War, Putin stated, ‘The world has never known such heroism... Our people not only defended their homeland, they liberated 11 European countries.’ During the 2000s then, a number of pronouncements from Kremlin leadership denied the occupation of the Baltic states. The official stance was that in 1939-40 the Baltic states had voluntarily joined the Soviet Union and therefore in 1941 the Soviet Union did not occupy these countries but reasserted sovereignty over Soviet territory. President Putin summarized the Russian position in 2005 stating:

If in 1939 the Baltic countries had joined the Soviet Union, then in 1941 the Soviet Union could not have occupied them, because they were already part of the Soviet Union.

The same year the chief of European affairs at the Kremlin Sergei Yastrzhembsky seconded Putin, declaring that ‘There was no occupation. There were agreements at the time with the legitimately elected authorities in the Baltic countries.’ Also representative was the position was expressed by the Minister of Foreign Affairs of the

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460 Liik.
Russian Federation, Sergei Ivanon: ‘Saying that USSR had occupied the Baltic states is absurd and nonsense. One can not occupy something that already belongs to him.’

Such positions demonstrate that the Russian authorities not only sought to deny the occupation but felt somehow threatened by Baltic historiography. Russian government-sponsored research centres have accordingly critiqued what they call Baltic attempts to wage an ‘information war against Russia.’

However, in 2008, Putin inadvertently admitted occupation when referring to the 1991 agreement between Lithuania and Russia where Moscow recognized its annexation of Lithuania and denounced the Molotov-Ribbentrop pact. Putin stated that Russia already denounced its actions and they were ‘recorded in the Lithuanian-Russian agreement of 29 July 1991 and Russia does not plan to return to this topic because we cannot ask for forgiveness every year.’

Generally, Russian officials preferred to forget the past or leave it to historians. As a member of the International Relations committee of the Russian Duma, Leonid Slucki put it in 2008, ‘Occupation is an issue of interest for historians not for contemporary politicians.’

However, a comparable Polish case suggests that Russia may reassess its policies in the future. Prime Minister Putin’s recognition in April 2010 of the 1940 Soviet massacre of 20,000 Polish military officers in Katyn was a watershed moment in Putin's policies towards Soviet history in Poland spurred by the tragic death of Polish President Lech Kaczynski on his way to commemorate the Katyn victims. Previously both the Soviet and the Russian regime denied Soviet responsibility for the murders placing blame on the Nazis. The 2010 change in Putin’s policy regarding Soviet history towards Poland

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464 Иванов назвал "абсурдом" заявления об оккупации СССР Прибалтики, RIA Novosti, 7 May, 2005.
465 Dimlevich.
467 Ibid.
468 Putin became the first Russian or Soviet leader to join Polish officials and Polish Prime Minister Donald Tusk in commemorating the anniversary of the massacre in April 2010.
469 In the perestroika period of Michael Gorbachev and later, in 1992, President Yeltsin released archival documents showing that Stalin’s Politburo ordered the massacre in March 1940. The Russian led
could bring changes in Russia’s policies towards recognizing historical wrongs committed in the Baltic states. However, Putin's acknowledgement of the Katyn murders in the unique circumstances of Kaczynski's death, suggest that a similar watershed moment may be necessary for changes in Russia's viewpoint towards Soviet occupation of the Baltic states.

Policies in the Multilateral Arena Regarding Soviet Occupation
The Baltic states actively lobbied in the multilateral arena for greater international recognition of the Soviet occupation and for support in their tense relationship with Russia over history. Following EU membership, the European Parliament became the primary tool and a powerful forum for Baltic states to forge new allies and spread their message regarding crimes committed by Stalinism, Communism, and the damages resulting from the Soviet occupation. When examining Baltic activities in the European Parliament it is important to note three aspects. First, efforts to target the European Parliament and multilateral institutions evolved between 1994 to 2010 and gathered momentum in the late 2000s. Second, whilst there was some limited efforts at policy coordination between the three states, there were notable differences in the ways they utilized multilateral institutions. Third, representatives of the three Baltic states in the European Parliament sometimes pursued strategies based on their own partisan preferences rather than state policies at the time.

In the period leading up to and early years of EU membership (2004-2007), the Baltic states' multilateral efforts regarding their Soviet history aimed at leveraging EU support to have Russia acknowledge Soviet occupation and its damaging consequences for the Baltic states. For instance, Baltic actors elicited official statements from EU and US leaders, and allies from Eastern Europe in denouncing the occupation with calls for

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Russia to do the same. In May 2005, following the diplomatic efforts of the three states, and during celebrations of the 60th anniversary of the end of the Second World War, the European Commission Vice-President Guenter Verheugen urged Moscow to admit the illegality of Soviet rule in the Baltics. US President George Bush was also prompted by Lithuanian media and officials in Vilnius during his visit before attending the 9 May celebrations in Moscow in 2005 to remind Russian President Vladimir Putin about the Soviet occupation of the Baltics. However, EU and US leverage on Russia regarding Soviet occupation of the Baltics was not fruitful and Russia did not acknowledge the occupation nor shown any willingness to recompense the damaged incurred by the Baltic states.


\footnote{Interview with anonymous Baltic diplomat. Vilnius, Lithuania. 13 July 2010.}


The Baltic states rarely tried to coordinate their policies regarding issues of Soviet history. Even when they did, they were generally unsuccessful. This was in part due to the fact that there was no supranational institution for policy making for the three states. When comparing the activities of Estonian, Latvian, and Lithuanian MPs in the European Parliament one can conclude that Latvian MPs have generally been the most active in initiating resolutions related to Russia. Latvian MP Inese Vaidere of the rightist For Fatherland and Freedom party (FFF)\textsuperscript{474} lead the most initiatives related to Russia. Estonian MPs were almost as active in initiating resolutions but the measures were mostly related to Soviet occupation.\textsuperscript{475} Lithuanian MPs were less active in initiating resolutions except in cases when all three Baltic states initiated resolutions related to contemporary Russian policies such as EU-Russia summits, responses to Russian-instigated violence following the relocation of the Bronze Solder in Tallinn in 2007, EU-Russia relations after the murder of Anna Politkovskaya, and Russian policies in South Ossetia and Georgia.\textsuperscript{476} That said, Lithuania’s uncompromising national stance towards Russia regarding seeking occupation compensation contrasted with Lithuanian MPs rather limited activity in the EP. This suggests that the issue of occupation compensation was most relevant domestically and possibly deployed for domestic electoral gains.

Such differences in the activities of Baltic MPs stemmed not only from national policy differences but – and arguably primarily - from the partisan preferences of the Baltic MPs elected to serve in the European Parliament. For the political orientation of the MPs elected to the European Parliament does not necessarily reflect the domestic political alignment or national policies. For instance, since 2004 Latvian European Parliament membership was dominated by representatives of the rightist FFF party whilst in domestic politics FFF ceased to be the leading political force since 1998. Latvian representatives in the European Parliament such as Inese Vaidere, Girts Valdis Kristovskis, Guntars Krasts, and Roberts Zile are all members of the FFF party and are active participants in initiating and passing resolutions related to containment of Russia

\textsuperscript{474} As MP of EP from 2004 to 2009 Vaidere was a member of the rightist For Fatherland and Freedom Party and in 2010 joined centre right Civic Union, which was composed primarily of former members of For Fatherland and Freedom and New Era parties.

\textsuperscript{475} Based on resolutions listed on http://www.europarl.europa.eu.

\textsuperscript{476} Ibid.
and recognition of Soviet occupation. Thus, Latvia's policies in the EP are more adversarial towards Russia than Latvia's national policies. Lithuanian representatives to the EP have not been dominated by a single political force but rather reflect the domestic political alignment. However, resolutions related to Russia are also dominated by representatives of rightist political parties such as Vytautas Landsbergis and Laima Andrikiene of the Homeland Union. As with Lithuania, Estonian representatives in the EP were of various political parties. Unlike Lithuanian and Latvian MPs, Estonian MPs active in issues related to Russia came from a range of political parties and not only from the far right. This perhaps demonstrates greater Estonian domestic consensus on the subject while there was notable ideological division among the Lithuanian political elites regarding Russian policy.

The discrepancy between European Parliament behaviour and policies at the national level stem above all from the nature and personalities of the different political parties. For instance, members from the FFF and the Homeland Union have developed reputations as leaders in foreign policy and thus, their members are more likely to be elected to the European Parliament (EP). Furthermore, once in the EP they are more likely to act on their partisan preferences. As will be demonstrated below, the partisan preferences and the different domestic political conditions resulted in Soviet occupation were a highly politicized domestic issue in Lithuania, but much less so in Estonia and particularly Latvia where the topic was viewed through the prism of EU-Russian relations or bilateral relations with Russia.

*Lithuanian Policy Decisions Regarding Attending Victory Day Celebrations*

Lithuanian policy regarding Victory Day celebrations stood out in comparison to Estonian and Latvian policies in its adversarial and principled, even dogmatic outlook. The following analysis will demonstrate that the political orientation of governments and leaders set the context for policy decisions regarding attending celebrations in Moscow. There was not, however, direct correlation between rightist leaders and non-attendance of the celebrations on one hand and leftist leaders and attendance on the other. On the contrary, Lithuanian leaders and political parties engaged in controversial rhetoric and
used the issues instrumentally for domestic political gain, which was facilitated by the lack of Russian minorities in Lithuania. This tendency for instrumental usage was most evident in opposition parties while the incumbent parties pursued more moderate rhetoric and policies. Of the three Baltic states, only Lithuanian Presidents have not accepted any invitations issued by Moscow to attend the anniversary celebrations of Soviet Victory Day (including official invitations of 1995 and 2005 and an unofficial invitation in 2010). Invitations to attend celebrations in Moscow were rejected by leaders of various political orientations: President Algirdas Brazauskas of the leftist Lithuanian Democratic Labour Party (LDLP)\textsuperscript{477} in 1995, the non-partisan but centre right in political ideology President Valdas Adamkus in 2005, and non-partisan President Dalia Grybauskaite who, nevertheless, is supported by a rightist coalition government (See Table 5.2).

Business interests which would have preferred more cooperative policies did not have a significant influence on elite policy making for two reasons. First, business interests probably had less at stake in historical debates rather than energy supply and therefore, exerted less effort on influencing historical policies. Second, the political elites hijacked this question and allowed little input from outsiders. In addition to the domestic political environment, the three stages of Lithuanian state development (1990-1995; 1995-2004; 2004-2010) set the context and conditioned Vilnius' policy making regarding Soviet occupation. External factors such as EU and NATO membership possibly had a small role in taming Lithuanian rhetoric by 2010, but did not cause policies to converge towards those of Latvia and Estonia. Lastly, there is little evidence to demonstrate the effects of Putin’s policies on Lithuania’s policies or Baltic policies as a whole in the historical sector. However, it is more likely that Putin’s increasingly assertive stance on Soviet history made Lithuanian elites respond in kind rather than opt for more cooperative policies as can be seen from Lithuania’s aggressive rhetoric regarding Putin’s pronouncements on the Soviet occupation and the refusal to attend the elaborate celebrations of the Soviet victory in the Second World War.

\textsuperscript{477}Later the LDLP became the Social Democrats.
Table 5.2: Lithuanian Domestic Political Environment and Victory Day Celebrations

<table>
<thead>
<tr>
<th>Year</th>
<th>President (Political Party/ Left vs. Right political orientation)</th>
<th>Prime Minister (Political Party)/(In favour of attendance)</th>
<th>Opposition Party (In favour of attendance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Algirdas Brazauskas (LDLP/Left)</td>
<td>Adolfas Šleževičius (LDLP) (Yes)</td>
<td>Lithuanian Christian Democrats</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Valdas Adamkus (nonpartisan)</td>
<td>Gediminas Kirkilas (Social Democrats) (Yes)</td>
<td>Homeland Union (No)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Dalia Grybauskaite (nonpartisan)</td>
<td>Andrius Kubilius (Homeland Union) (No)</td>
<td>Social Democrats (Yes)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A comparison of the decisions of presidents in 1995, 2005, and 2010 to not attend 9 May celebrations demonstrates that policy making was circumscribed by the internal and external environment with domestic political power alignments playing an important role in determining policy outcomes. However, there was no direct correlation between the left/right orientation of the government or presidents in terms of (non-)attendance of Victory Day celebrations. In 1995, President Brazauskas and his leftist political party LDLP supported cooperative relations with Moscow. Thus, accepting an invitation to Moscow's Victory Day celebrations would have been in line with the ideology of Brazauskas and of the LDLP. However, Brazauskas did not accept an invitation to Moscow for several reasons. Though Brazauskas had the support of the government which was led by Prime Minister Adolfas Šleževičius of the LDLP, the opposition, led by
the conservative Lithuanian Christian Democrats\textsuperscript{478}, was vocal and pro-active in discouraging even consideration of attendance.

Timing of internal and external factors played a crucial role as well. First, in 1995, the Lithuanian state was in the throes of its initial state building process. Lithuania had only recently administered a withdrawal from its territory of the Russian army which left in 1993. With fresh memories of the Russian presence, it would have been politically difficult to accept an invitation to a Russian military celebration. Second, in 1995, Russia was engaged in the first Chechen war and there were rumours that Chechen flags would be desecrated during the Russian military parade. At the time, the Lithuanian public was highly supportive of the Chechen independence movement which it likened to its own recent endeavours. Various Lithuanian municipalities had even officially recognized Chechen independence, and the rightist opposition was pressuring the leftist Lithuanian government to do the same. As the former Head of the Parliamentary Committee on Foreign Relations, Justinas Karosas, stated, ‘in such circumstances, a trip to Moscow [for President Brazauskas] would have been a political suicide.’\textsuperscript{479} Brazauskas and the LDLP viewed attendance as constructive for Russian-Lithuanian relations. Ever the diplomat, Brazauskas publicly expressed hopes that Lithuanian relations with Russia would not deteriorate following his decision not to accept the invitation; he furthermore spoke of the need to conduct constructive relations with Russia ‘on an equal footing, in mutually beneficial direction.’\textsuperscript{480} He also appealed to the nationalist sentiments of some of the electorate stating that historical differences had influenced his decision, ‘We want to see signs from Moscow demonstrating a greater understanding of our case, our history.’\textsuperscript{481} Last but not least, he appropriated the argument of the rightist political forces which asserted that the Soviet victory in the Second World War did not bring hope of liberation and that ‘very quickly the tendencies of Stalinist dictatorship and terror emerged.’\textsuperscript{482} Brazauskas’ decision was primarily influenced by pressure from conservative political

\textsuperscript{478} Later the Christian Democrats joined the Homeland Union party.
\textsuperscript{480} ‘Santykiai su Maskva neturėtų pablogėti,’ Lietuvos Rytas, 4 May 1995, p.2.
\textsuperscript{481} Ibid.
\textsuperscript{482} Ibid.
forces in opposition and the context of the events, rather than by his own political ideology or the political orientation of the government. For, in Lithuania, it was often difficult for leftist political leaders to enact conciliatory policies towards Moscow because they would have been interpreted by the public as a ‘sellout’ by former Communists. As such, in 1995, attendance of the 9 May festivities would have been unthinkable for any – and particularly a left-leaning leader of Lithuania.

A decade later, the domestic political and external circumstances had changed tremendously. In 2005, Lithuania was already in the third stage of state development having achieved EU and NATO membership. Externally, the Russia of 2005 – with a booming economy under assertive Putin - was also very different from the Russia of 1995 – defeated and economically weak under unpopular Yeltsin. But in 2005, as in 1995, President Valdas Adamkus decided against attending the celebrations. The non-partisan president with centre right foreign policy views had to make the decision in light of pressure from the leftist government of the Social Democrats led by Prime Minister Algirdas Brazauskas as well as pressure from the rightist opposition of Homeland Union led by Andrius Kubilius (See Table 5.2). The Head of the Parliamentary Committee on Foreign Relations and Social Democrat Gediminas Kirkilas stressed that an invitation to attend these celebrations was an important diplomatic act. Meanwhile, the generally pro-Russian Bronislovas Lubys, a former prime minister and the most influential business leader in political circles as well as the president of the Lithuanian Confederation of Industrialists, put pressure on Adamkus to attend the celebrations. Lubys claimed that he possessed information about possible Russian attempts to impose economic sanctions on Lithuania if President Adamkus decided not to take part in the festivities. The conservative opposition was adamant, however, in its stance against Adamkus’ attendance. As the leader of the conservative Homeland Union, Andrius Kubilius, stated ‘May 9th is not a day of victory for Lithuania but a catastrophic defeat. If the President goes to Moscow then he will participate in the celebrations of Lithuania’s defeat. In this

way we would suffer another defeat – this time a moral one.\textsuperscript{485} Kubilius also insisted that even if Moscow would denounce the Molotov-Ribentrop Pact which was the basis of the Soviet occupation of Lithuania, the President should still not attend the celebrations, ‘because there is nothing for Lithuania to celebrate in Moscow on May 9\textsuperscript{th}. And there will never be anything to celebrate.’\textsuperscript{486} Beyond the political realm, 50 Lithuanian historians and an organization of Lithuanian émigrés from the World Lithuanian Community and other nongovernmental organizations urged Adamkus not to attend the celebrations in Moscow.\textsuperscript{487}

Whilst the left and right politicized the issue, President Adamkus called for a public debate on the subject. According to polls, public opinion was divided with 52 percent of respondents believing that the president should accept the invitation whilst 32 percent thought that he should not, with the rest uncertain.\textsuperscript{488} However, Adamkus did not heed public opinion in the end, making a decision not to attend the Victory Day celebrations. His main motive was Lithuania’s historical experience of Soviet occupation. His statements were couched in normative language citing morality. In addressing the question of attending the celebrations he used idiom and argumentation favoured by the political right:

It is a question of morality. I cannot imagine that I would have to stand in the Red Square and look at the participants of the parade, former army veterans, and red flags. My presence there would contradict the fact that May 9\textsuperscript{th} was a boundary between two historical events: victorious end to the Second world war with the defeat of Nazi

\textsuperscript{487} Ibid.
Germany and the beginning of the occupation of my country. The same system occupied Lithuania for fifty years.\textsuperscript{489}

However, unlike the Lithuanian political right, Adamkus was open to compromise with Moscow if the Russian government recognized the Molotov-Ribentrop pact and the occupation of the Baltic states. He stated that he would go to see President Vladimir Putin, ‘if the Russian government said, yes, it was a day of victory but also the beginning of your country’s occupation.’\textsuperscript{490}

The 2005 decision not to attend Victory Day celebrations was driven by the personal political convictions of Adamkus, politicization of the issue domestically, and the pressure of the conservative opposition. Thus, domestic factors dominated external factors. The fact that most of Lithuania's allies in the EU and NATO planned to attend the celebration, including Latvia’s President Vaira Vike-Freiberga, did not serve as a significant factor in Adamkus’ decision. Policy coordination between the three Baltic states on the issue was also limited and did not play a determining role. In December 2004, the three Baltic Presidents had met to discuss attendance of Victory Day celebrations but a joint position was not reached.\textsuperscript{491} According to Adamkus, Vike-Freiberga’s decision was a concession to the large numbers of Russian speakers in Latvia who make up 40 percent of the population.\textsuperscript{492} Homeland Union honorary leader Vytautas Landsbergis was predictably critical of Latvia’s decision, stating that ‘Latvia was the “weak link” in the Baltic states’ chain.’\textsuperscript{493} Despite that all three states were already members of EU and NATO there was little evidence of conditioning influence of these organizations. First, there were no significant attempts by Brussels or Washington to influence Baltic policies and second, it was too early after accession to have a major impact.

\textsuperscript{490} Ibid.
\textsuperscript{492} V. Adamkus neabejoja, kad Gegužės 9-tąją jis turėtų būti Lietuvoje, Rzecpospolita, 2005.
Following the two consecutive refusals to accept invitations to the Victory Day celebrations in 1995 and 2005, it is of no surprise that an official invitation was not issued by Moscow to the Lithuanian president in 2010. However, there was an unofficial invitation and some diplomatic posturing before President Dalia Grybauskaite signaled that she would not be attending the Victory Day celebrations. In a clear departure from her predecessors, her arguments were not based on ideology. Rather, she cited a scheduling conflict.494 However, Grybauskaite arguably could have opted for attendance of Victory Day celebrations on pragmatic grounds, if in so doing she could have orchestrated a diplomatic breakthrough in the form of a visit by Russian President Dmitry Medvedev to Vilnius for Lithuania's independence day celebrations of 11 March.495

In 2010, in comparison to 1995 and 2005, there was less instrumental usage of policies for domestic political gains and less rhetoric regarding Victory Day celebrations by the president and the conservative political parties. There were two main reasons for this. First, the conservative forces were in power and had the capacity to make the decision virtually unopposed. Because of the moderating effects of incumbency on party behaviour, they no longer pursued the most adversarial policies or rhetoric as they would have in opposition. Though Grybauskaite was a non-partisan president she was supported in the elections by the conservative Homeland Union party and she continued to support the Homeland Union government once in power (See Table 5.2). Thus, despite her independent governing style, the influence of the conservative government led by Prime Minister Andrius Kubilius of the Homeland Union cannot be underestimated. Yet, in contrast to 2005, when Andrius Kubilius and the Homeland Union were in opposition, in 2010, the government led by the Homeland Union and Kubilius refrained from tough

494 When Grybauskaitė did not attend the Victory Day celebrations, she cited an official visit to Ireland on 9 May. When referring to the prospect of going to Moscow on that date, moreover, Grybauskaite described it as an official meeting with the Russian president rather than celebrations of Soviet victory. She stated that time was not ripe for a bilateral meeting with Russian officials in May and it would be more useful for bilateral relations to prepare well rather than meet during special anniversary dates. DMN,D. Grybauskaitė nevyks į Maskvą minėti Gegužės 9-osios, Kauno diena, 2010 viewed on 30 April 2010, <http://kauno.diena.lt/naujienos/lietuva/d-grybauskaite-neyvks-i-maskva-mineti-geguzes-9-osios-263888>.

495 When Grybauskaite invited President of Russia, Dmitry Medvedev, to the 20th anniversary of Lithuanian independence on March 11th before she gave her response regarding May 9th it was seen as a tactical move. Analysts and the press claimed that if Medvedev would have accepted the invitation to Vilnius then Grybauskaite would have attended May 9th celebrations in Moscow. The President and her office denied these speculations. DMN,D. Grybauskaitė nevyks į Maskvą minėti Gegužės 9-osios, Kauno diena, 2010.
pronouncements regarding Soviet occupation to explain non-attendance. The Homeland Union representative Kęstutis Masiulis only spoke out against holding a parade in Vilnius that would commemorate the end of the Second World War citing that ‘to Lithuania May 9th meant another occupation that lasted 45 years.’ The changed language of Kubilius and of the Homeland Union suggests that the harsh rhetoric of 2005 was driven by tactical considerations to discourage Adamkus from going to Moscow rather than ideology which is unlikely to have been transformed between 2005 to 2010. This finding further supports the analytical insight of this work that parties in the opposition rather than parties in government rely on the instrumental use policies towards the Soviet occupation for domestic electoral.

The second reason why there was less politicking by both the government and the opposition was that the public was fatigued with the issue. Public opinion polls show that in 2010, as in 2005, the majority favoured attendance rather than non-attendance. In response to a question whether the President should go to Moscow for 9 May celebrations, 47.8 percent of respondents answered either ‘yes’ or ‘most likely yes’ whilst 20.5 percent answered ‘no’ or ‘most likely no.’ A further 31.7 percent of respondents did not know or did not respond. In comparison to 2005, public opinion fell slightly in terms of numbers supporting attendance, whilst the number of uncertain respondents increased. This suggests that in 2010 there was less interest in the issue altogether than in 2005. This was reflected in less attention to the question apart from a few pronouncements on the issue by, most notably, members of the Social Democratic party. Indicatively, Social Democrat Vytautas Rapolas Gritėnas, the Deputy Mayor of the country’s fifth largest city Panevėžys, decided with a delegation from the municipality to attend the 9 May celebrations in Minsk, Belarus. As in 2005, the Lithuanian Confederation of Industrialists led by businessman Bronislovas Lubys, also lobbied in

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favour of attending the celebrations in Moscow. Citing the decision of Latvia and Estonia to attend the celebrations, Lubys stated, ‘Latvia and Estonia will participate, whilst Lithuania wants to stand out, however, its desire to stand out is not always expressed at the right time.’

Lubys’ stance was not surprising since the politically influential business man always favoured cooperative relations with Russia - his primary market and source of energy supplies. However, in 2010 as in 2005, business interests did not play a deciding or even minor role in shaping policies towards Soviet occupation issues.

Another factor that stood out in the decision making process of 2010 and which was similar to 2005 was the lack of successful policy coordination between the three Baltic states. In both years, there was an effort to coordinate policy. In the fall of 2010 the three presidents - Grybauskaite of Lithuania, Toomas Hendrik Ilves of Estonia and Valdis Zatlers of Latvia - met privately in Vilnius to discuss their views regarding attendance in Moscow that May. According to an insider source, the Estonian president was the most keen to go to Moscow, and was supported by the Latvian President Zatlers. Grybauskaite was more skeptical, but in the end the impression was that all three decided they will attend. They also resolved to coordinate their policies but make separate national decisions. In the end Grybauskaite decided on non-attendance following her efforts in January to secure a visit by Medvedev to Vilnius as a trade-off for her possible attendance. The initiative came as a surprise to Estonia and Latvia.

The inability of Baltic states to coordinate their policies in both 2005 and 2010 demonstrated that national preferences and differences remained stronger than commonalities between the Baltic states. It also demonstrated there was no convergence of policies or interest on politically sensitive issues related to the Soviet occupation despite the anticipation of such convergence following EU and NATO membership. That said, there was a clear overlap in discourses deployed by the leaders of the three states from the 2005 to 2010 period. By 2010, even the most confrontational political forces towards Moscow, such as the Homeland Union refrained from rhetoric regarding the Soviet occupation in relation to


500 Anonymous interview with Baltic diplomat, Vilnius, 13 July 2010.
Moscow's Victory Day celebrations. The convergence of rhetoric is likely an effect of EU and NATO membership as it increased the sense of security of the Baltic states and moderated the tone of political leaders which did not want to stand out among the other Western leaders.

A comparison of policy decisions in 1995, 2005, and 2010 suggests that domestic conditions set the context for policy making but did not directly determine policy decisions (See Table 5.2). Two of the three Presidents were of centre right ideology and did not favour attendance of celebrations in Moscow. However, even during the government of the leftist Social Democrats and leftist President Brazauskas, the same decision of non-attendance was reached. Timing and external circumstances played the deciding factor in 1995 when Lithuania was recently independent and Moscow was engaged in the first Chechen war. Policy coordination was limited and Lithuania was not influenced by the decision of Latvia in 2005 or Latvia and Estonia in 2010. Different views towards history and principled policies remained the main motivator of non-attendance even when this was not explicitly stated in 2010.

The incumbency factor is evident when comparing the discourse of the Homeland Union in 2005 with 2010. In 2005, and when in opposition, the Homeland Union was highly critical of the prospect of Adamkus going to Moscow and cited historical differences with Russia. However, in 2010 the ruling Homeland Union refrained from any reference to historical differences and explained President Grybauskaite's non-attendance as motivated by a scheduling conflict. The analysis suggests that the governing or incumbent factor - the variable of whether a political party is in power or not - played a role. The incumbent factor can be described by the phenomena that when in government, both rightist and leftist political parties pursue similar centrist policies. Thus, conservative political parties behaved more pragmatically and cooperatively towards Russia when in power rather than when in opposition when they promote principled and adversarial policies. Likewise, the parties of the political left rhetorically support cooperative policies towards Moscow when in opposition. When in government, however, they opted for cautious and more adversarial policies towards Moscow as can
be seen by Brazauskas' decision in 1995. A converse ‘opposition’ factor would suggest that when parties are in opposition their rhetoric becomes more extreme and they engage in more politicking in order to influence the policies of the government.

Latvian Policy Decisions Regarding Attending Victory Day Celebrations

The analysis of Latvian policy also highlights the role of domestic politics in policy making and particularly the role of internal and external conditions such as Latvia’s development stages, relations with Russia and EU membership. Of the Baltic states, Latvia demonstrated the most cooperative and pragmatic policies related to historical differences with Moscow as demonstrated by the attendance of its leaders of two Victory Day celebrations. Riga received three official invitations from Russia to attend Victory Day Celebrations in Moscow in 1995, 2005, and 2010. It accepted two of those invitations in 2005 and 2010. The three Latvian Presidents and governments involved in the rejection and two acceptances were all of centre right political orientation (See Table 5.3) which makes it difficult to demonstrate a clear causal link between partisan politics and policy outputs regarding attendance of Victory Day celebrations. However, the Latvian case also supports the broad analytical insight of this thesis that conservative leaders when in power were likely to pursue cooperative and pragmatic policies towards Moscow whilst leftist political parties when in power could not pursue cooperative policies because they lacked the 'tough on Moscow' credentials and had a reputation of being 'former Communists' or Russian parties. The general context of Latvian-Russian relations also played a role in influencing policy attendance decisions. The different stages of state development such as the state building period of 1990 to 1995, the state consolidation processes of 1995 to 2004 and the experience of membership to NATO and particularly the EU after 2004 also played a role in setting the context for policy making. In comparison to the relative lack of salience of EU and NATO membership in Lithuanian and Estonian decisions, accession to these bodies played a considerable role in Latvian choices. For, after acquiring EU membership and especially in the late 2000s, Riga began to view its relations with Russia in the EU-Russian context. Since historical
tensions between Latvia and Russia were amongst most sensitive, there was also a
determined effort to remove such tensions from the EU-Russia agenda.\footnote{Interview with anonymous Baltic diplomat, 13 July 2010.}

Table 5.3: Latvia’s Domestic Political Environment and Victory Day Celebrations

<table>
<thead>
<tr>
<th>Year (Attendance-Yes or No)</th>
<th>President (Political Party/ Left vs. Right political orientation)</th>
<th>Prime Minister (Political Party)/(In favour of attendance)</th>
<th>Opposition Party (In favour of attendance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995 (No)</td>
<td>Guntis Ulmanis (Latvian Farmers’ Union/ Centre right)</td>
<td>Maris Gailis (Latvian Way) (No)</td>
<td>The Latvian National Conservative Party &amp; The Popular Front\footnote{The Latvian Popular Front was a nationalist independence movement which lost in the elections in 1993 to centre-right parties.} (No)</td>
</tr>
<tr>
<td>2005 (Yes)</td>
<td>Vaira Vike-Freiberga (nonpartisan)</td>
<td>Aigars Kalvitis (People’s Party) (Yes)</td>
<td>New Era (Yes – but sceptical)</td>
</tr>
<tr>
<td>2010 (Yes)</td>
<td>Valdis Zatlers (nonpartisan)</td>
<td>Valdis Dombrovskis (New Era party) (Yes)</td>
<td>Harmony Centre (Yes)</td>
</tr>
</tbody>
</table>

Latvia’s 1995 decision making process as to whether or not to attend Victory Day celebrations unfolded in a similar way as in Lithuania that same year. In 1995, the main factor setting the context for policy making was the fact Latvia was in the stage of state building. Being newly independent - the withdrawal of the Russian army from Latvian territory was completed only in 1994 - it was politically highly sensitive for Latvian President Guntis Ulmanis (as for Lithuanian and Estonian leaders) to consider celebrating a Soviet military victory. Furthermore, Ulmanis was a member of the centre right Farmers Union political party which predictably did not support attendance of the celebrations in Moscow. Last of all, in 1995, all three Baltic states had decided against attendance which made the decision easier from a multilateral perspective, though as will
be demonstrated, Latvia was by 2005 be willing to make unilateral decisions regarding Victory Day celebrations.

This was because by 2005 Latvia’s statehood was secure and its membership in NATO and the EU had created a different geopolitical context. Though neither NATO nor the EU had a direct influence in Riga’s policy making, Latvia increasingly saw its relations with Russia through the EU lens. These external factors facilitated the 2005 decision of non-partisan but centre right leaning Vaira Vike-Freiberga to be the first president of a Baltic state to accept Moscow’s invitation to 9 May celebrations. Since the move was unprecedented, Vike-Freiberga’s decision to attend Victory Day Celebrations in Moscow in 2005 highlights key factors influencing Baltic foreign policy making towards Russia. Her decision that year set an important precedent both for her successor President Valdis Zatlers and for Estonian President Toomas Hendrik Ilves, both of whom would later attend the celebrations.

In 2005, Vike-Freiberga explained her motives in accepting Putin’s invitation to attend the Victory Day celebration in Moscow by invoking the necessity of using the international stage to draw attention to Latvia’s position regarding the Soviet occupation.503 Presidents from most EU and NATO member states including important allies for Latvia such as American President George W. Bush and German Chancellor Gerhard Schroeder attended the Victory Day celebration of 2005 in Moscow. While the West was not active in trying to alter Riga’s preferences, the Latvian leadership sought to be part of the EU group of leaders. In her official declaration preceding her trip, Vike-Freiberga stated: ‘For Latvia, the beginning of the end of the Second World War arrived many decades later, on May the 4th, 1990. This was the date when my country's parliament passed a declaration of independence from the Soviet Union.’504 The Latvian Prime Minister Aigars Kalvitis of the centre right People’s Party supported the President’s position that attendance in Moscow constituted an opportunity to present Latvia's position on the historic events. He stressed the importance of sharing the Baltic

504 Declaration by H.E. Dr. Vaira Vike-Freiberga, President of the Republic of Latvia regarding 9 May 2005, Riga, 12 January 2005.
viewpoint and expressed his disappointment that the Estonian and Lithuanian Presidents would not be joining Vike-Freiberga in Moscow: ‘After World War II Latvia lost independence. Unfortunately, our neighbours will not go to Moscow to present our viewpoint together.’\textsuperscript{505} Again, Vike-Freiberga’s decision demonstrated that political forces of the right though in favour of more adversarial policies towards Moscow in principle, could often follow more pragmatic policies towards Moscow when in power. They were able to do so without the same political costs of being accused of ‘selling out’ to Russia of which leftist political forces might have been charged if they initiated similar policies.

However, the decision to go to Moscow was not made without a principled debate taking place between the Latvian elite. Part of the debate was a reassessment of history and its importance in Latvian-Russian relations. It also entailed attempts to separate Stalinist crimes from the fight for freedom of the Russian nation, and highlighted the importance of Latvian diplomacy to counter Russian efforts to justify Stalinism by linking it to the Soviet struggle against Fascism. A further dimension was recognition of the importance of spreading Latvia’s views of history to its Western allies.\textsuperscript{506} Some far right political forces in Latvia called the president to use the 9 May celebrations for political pressure on Russia to demand compensation for Soviet occupation, to repatriate Latvia’s Russian speaking residents, and to review state borders based on the 1920 treaty.\textsuperscript{507} Generally, however, Latvia’s political right supported attendance of the celebration as long as it was for the purposes of drawing attention to the reading of historical events after 1945 as occupation for the Baltic states and not liberation as Moscow claimed.\textsuperscript{508} There was also some skepticism amongst the opposition rightist parties as to whether the Latvian president would succeed in making her voice heard. Karlis Šadurskis, the leader of the centre right opposition party New Era, stated ‘I am sure that Russia will do everything [to ensure] that the President would not have such an opportunity [to express different views


\textsuperscript{508} Latvijos Prezidentė minės Pergalės dieną Maskvoje, BNS, 2005.
of history.\[509\] New Era’s position demonstrated the tendency of opposition Baltic rightist parties to politick vis-a-vis Russia for political gains by criticizing incumbents’ policies and calling for more confrontational approaches. This instrumentalist motivation may also have been behind Freiberga's own decision to go to Moscow as she later sought the post of UN Secretary General – a position which would require Russia’s endorsement.\[510\]

Behind the explicit rationale of drawing attention to Latvia’s perspective on history lay also the commitment of Vike-Freiberga and Latvian elites to improving relations with Russia. Coming to office in 1999 following the Latvian-Russian diplomatic crisis of 1998\[511\], Vike-Freiberga had a genuine interest in trying to positively shape Latvian-Russian relations and establish normal partnership between the two countries as well as in normalizing relations with the Russian speakers in Latvia.\[512\] But in early 2000s, both countries were too deeply enmeshed in adversarial political rhetoric and little progress was made. Because of failed efforts to improve relations with Russia, her decision to go to Moscow has been interpreted as her last conciliatory effort.\[513\]

Another important pragmatic goal of Vike-Freiberga and the Latvian elites was to improve relations with Moscow in order to increase the chances of signing a border treaty with Russia \[514\] in 2005.\[515\] The salience of this goal was a byproduct of EU membership and another instance of EU’s indirect influence on Latvian policies towards Russia. The fact that by 2005 Latvia had still not signed such a treaty made its position with international partners such as the EU and the Schengen area countries more precarious. Both organizations required member states to resolve border issues. Thus, the head of the

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\[509\] Ibid.
\[510\] Following her presidency, Vike-Freiberga was nominated for and sought the UN Secretary General Post. Interview with anonymous Baltic diplomat, Vilnius, Lithuania, 13 July 2010.
\[511\] The major crisis of Latvian-Russian relations was in 1998 when Russian speaking pensioners marched in front of Riga City Council on 3 March due to cuts in pensions. The response of the Latvian police was deemed too severe by Russia and an informal blockade of Latvian food products (a major Latvian export to Russia) was advocated by Russian authorities including Mayor of Moscow Yury Lushkov.
\[512\] Upon assuming presidency, Vike-Freiberga stated she would learn Russian and encouraged Russian-speakers in Latvia to learn Latvian.
\[513\] Interview with anonymous Baltic diplomat, Vilnius, Lithuania, 13 July 2010.
\[515\] The border treaty was signed by both parties in 2007.
ruling People’s Party Janis Lagzdinis stated that it supported the president’s decision citing as prime rationale improved chances to sign the border treaty: ‘I believe that this visit will have not only a symbolic but also a practical purpose – a border agreement will be signed and relations with Russia could improve.’ The linkage of other policy issues, demonstrated that pragmatism rather than dogma determined Latvian policies towards Victory Day attendance in 2005. However, there was a principled line that the Latvian President would not cross – she would insist on emphasizing that Soviets occupied rather than liberated Latvia even if she attended Victory Day celebrations.

The high proportion of Russian speakers in Latvia in comparison to Estonia and especially Lithuania also played an important role in the president’s decision to attend Victory Day celebrations. Being a Canadian-Latvian and of centre right political views, Vike-Freiberga tried to be true to her non-partisan position and represent not only ethnic Latvians but also Russian speakers. Many Russian speakers in the Baltic states were veterans of the Second World War for whom 9 May was an important holiday. According to public opinion polls in 2005, 65.8 percent of Latvians approved of President Vaira Vike-Freiberga's decision to accept Putin's invitation to the Victory Day celebrations, the high percentage reflecting the opinion of Russian speakers. It appears then that the high numbers of Russian speakers and their preferences made it easier for the Latvian president to find greater public support for attending Victory Day celebrations and mitigated calls for nationalist and principled approaches to the issue.

The 2010 decision of the Latvian President Valdis Zatlers to attend 65th anniversary celebrations of Victory Day in Moscow had in many ways already been preconditioned by the precedent set by his predecessor Vike-Freiberga. A decision not to attend by Zatlers in 2010 would have been a clear reversal of policy set by Vike-Freiberga in 2005 and would have required either a domestic political realignment or a different context of

516 Latvijos Prezidentė minės Pergalės Dieną Maskvoje, BNS, 2005.
517 According to 2008 data, Russian speakers made up 34 percent of Latvia’s population and due to restrictive citizenship policies only 27 percent of Latvian citizens.
Latvian-Russian relations. However, the final decision was that of Zatlers. His move testifies to the fact that in 2010, Latvia was more open to coordinating its policy with the other Baltic states. As the previous section explained, in 2010, the three Baltic countries sought to come to a common decision to attend Victory Day celebrations – an approach defended most ardently by the Estonian president and supported by Zatlers.

Second, the domestic political environment set the context for policy making. Zatlers, though a non-partisan was supported by the People's Party in the presidential elections. The People's Party had supported Vike-Freiberga’s 2005 decision and it would have been odd for the party to alter its view five years later without significant changes in the Latvian-Russian relations or other intervening variables. Likewise, both former presidents Vike-Freiberga and Ulmanis encouraged Zatlers to accept the invitation. The Prime Minister in 2010 was Valdis Dombrovskis of the centre right New Era party which had supported Vike-Freiberga's decision to attend in 2005 but had been skeptical of Latvia's ability to promote its own version of history during the Victory Day celebrations.

Zatlers unlike Vike-Freiberga did not use Victory Day celebrations as a forum to voice Latvia’s view on history. He stated that historical topics should be discussed not with Russia but inside Latvia. This change in policy was influenced by three factors. First, Vike-Freiberga was not perceived to have succeeded in altering the views of Putin and Russia towards Baltic occupation. Second, nationalist policies held less sway for the Latvian public by 2010 than in the 1990s or even 2005 as can be seen from the demise of the FFF rightist party and the focus on the economic crisis of 2009. Some more

519 Interview with anonymous Baltic diplomat, Vilnius, 13 July 2010.
520 Ibid.
nationalist groups in Latvia did express their opposition towards attendance of the celebrations in Moscow but these groups were marginal. For example, Maris Grinblatas, one of the leaders of the nationalist Latvian Movement for National Independence For Homeland and Freedom stated that Latvian leaders should not participate in Victory Day celebrations, because they are ‘reminders of the beginning of Soviet occupation.’ Third, in 2010, there was a concerted effort to build solidarity between ethnic Latvians and Russian speakers for whom Victory Day celebrations hold a special significance. Zatlers accordingly rationalized his decision to go to Moscow with reference to a desire to ‘improve bilateral relations with Russia and unify Latvian society.’ The fact that, in 2010, Zatlers had discontinued the rhetoric further supports the finding that by 2010 there was convergence in discourse though not policy outcomes between the three Baltic states regarding Victory Day celebrations.

Another important factor in the debates was state of the economic situation in Latvia. Though Latvia was more secure in its geopolitical situation following EU and NATO membership, in 2010, it was in a highly vulnerable economic position. This was due to the severe economic downturn Latvia experienced in 2009 which forced it to seek help from the International Monetary Fund (IMF). Isolationism and cutting the country off from valuable Russian markets for Latvian exports (since nationalist Duma members often call for a boycott of Baltic goods when there are diplomatic tensions) would have been difficult to justify in 2010. As such, the national Latvian newspaper Neatkarīgas Rita Avize suggested that the visit to Moscow was driven not by desire to improve relations with Moscow but a desire to use its resources and market. Zatler's decision to go to Moscow was fully supported by associations of commercial banks, transport, transit, energy, and food-product business – sectors that had significant business interests in Russia. The relevance of economic incentives for attending Victory Day celebrations supports the finding that Latvia pursued more pragmatic policies regarding the festivities in 2010 as in 2005. This is particularly evident when compared to the decision of Vilnius in 2010 since Lithuania, which decided not to attend, had also

524 Ibid.
525 Latvijos Prezidenté minēs Pergālēs dienā Maskvoje, BNS, 2005.
526 Interview with Baltic diplomat, Vilnius, 13 July 2010.
experienced tensions with Russia over exports, and comparable pressure from business interests, and a severe economic recession in 2009, albeit not to the same extent as Latvia. However, it is also important to note that the principled pressures against attendance were never as high in Latvia as they were in Lithuania in the 2000s.

In summary, Latvia’s policy making regarding attending Victory Day celebrations was the most pragmatic and cooperative of the three Baltic states. Latvian leaders accepted invitations to Moscow in order to improve political and economic relations with Russia. Specifically, they sought to improve chances of signing a border treaty in 2005 and to deter the Russians from boycotting Latvian goods in 2010. Vike-Freiberga’s decision to accept the invitation to Moscow was a sign of cooperative policies but at the same time the decision to use the forum of Moscow’s Victory Day celebrations to emphasize Latvia’s different view of history can also be described as confrontational and somewhat principled. The acceptance of invitations by two non-partisan but right-leaning presidents Vike-Freiberga and Zatlers further supports the finding that leaders from the political right are often more empowered to pursue cooperative relations with Moscow than would be leaders from the political left who could be accused of treason. Furthermore, both the Latvian and the Lithuanian case demonstrated that by 2010 - and though there was no successful policy coordination between the three states and little convergence in policy - there was incomparable rhetoric regarding occupation and Victory Day celebrations. Last, external and internal conditions played a significant role in setting the context for policy making – from the state building vulnerabilities of 1995 which made attendance in Moscow difficult, to the mitigating factor of the EU in Latvian-Russian relations in 2005 and 2010, to the economic recession of 2009 which favoured attendance in 2010.

**Estonian Policy Decisions Regarding Attending Victory Day Celebrations**
Estonian policies regarding attending Victory Day celebrations have been marked by both pragmatism and dogma, falling between the more pragmatic and cooperative Latvian policies and the more principled and confrontational Lithuanian policies. The following section highlights the factors that influenced the evolution of Estonian policy towards Victory Day celebrations. In general policy was driven by the different stages of
Estonia’s development and the political orientation of the leadership with rightist parties preferring adversarial policies but sometimes choosing cooperative ones and with leftist parties favouring cooperative policies but due to the domestic political context selecting adversarial ones. The turnaround in Estonian policy in 2010 can be attributed to the changed domestic and external environment and the more salient role of Russian speakers.

Estonia received three official invitations to attend Victory Day Celebrations in Moscow in 1995, 2005, and 2010. Estonian leaders rejected the invitations in 1995 and 2005 but accepted the invitation in 2010 (See Table 5.4). The fact that Estonian leaders altered their position in 2010 and finally decided to attend the celebrations in Moscow makes the 2010 decision making process especially interesting. The 1995 decision not to attend was driven by similar considerations as in Latvia and Lithuania in the same period. The sovereignty building phase of 1990 to 1995 was marked by new statehood, recent memories of the Soviet army in Estonian territory, and Russia’s brutal war in Chechnya, making attendance of a Russian military holiday politically impossible for either a rightist or leftist politician. But, in principled terms, it was even less likely under the presidency of Lennart Meri, a nationalist politician of the Pro Patria rightist party. Though the three Baltic states did not coordinate their policies in 1995, their common decision not to attend Victory Day celebrations effectively facilitated each country’s unilateral decision. Finally, in 1995, and in comparison to 2005 and 2010, there was less pressure from Russia to attend the ceremony. In 1995, economically weak Russia was ruled by Yeltsin, a figure critical of the Soviet regime. Victory Day celebrations thus entailed less to celebrate than in 2005 or 2010 when booming Russia under Putin's assertive presidency/premiership sought to glorify Soviet history.

In 2005, president Arnold Ruutel of the leftist People’s Union party also decided against attending the Victory Day celebrations in Moscow. The fact that the leftist politician made a policy decision that was clearly confrontational towards Russia further reinforces the analytical finding that Baltic leftist politicians often had difficulties in pursuing their partisan preference for cooperative policies with Russia due to vulnerability to charges of
‘selling out’. The domestic political environment, dominated by the centre right government led by Andrus Ansip of the centre right Estonian Reform Party, put further pressure on Ruutel not to attend the Victory Day celebrations. Ansip asserted that non-attendance would not harm relations between the two countries\(^{527}\) and emphasized that he would like to hear Russia apologize for the injustice done to the Baltic States sixty years ago.\(^{528}\) Decisions of leftist leaders and parties dependent on the degree of vulnerability felt due to their personal reputations, the domestic political context, and the specific configuration of political forces.

### Table 5.4: Latvia's Domestic Political Environment and Victory Day Celebrations

<table>
<thead>
<tr>
<th>Year</th>
<th>President (Political Party/ Left vs.Right political orientation)</th>
<th>Prime Minister (Political Party)/(In favour of attendance)</th>
<th>Opposition Party (In favour of attendance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995 (No)</td>
<td>Lennart Meri (Pro Patria/ Right)</td>
<td>Tiit Vahi (Estonian Coalition Party) (No)</td>
<td>Coalition Party/Estonian Centre Party (No)</td>
</tr>
<tr>
<td>2005 (No)</td>
<td>Arnold Ruutel (People’s Union of Estonia/ Left)</td>
<td>Andrus Ansip (Reform Party) (No)</td>
<td>Social Democrats (Yes)</td>
</tr>
<tr>
<td>2010 (Yes)</td>
<td>Toomas H. Ilves (Social Democratic Party/ Centre)</td>
<td>Andrus Ansip (Reform Party) (Yes)</td>
<td>Centre Party/ Greens/People's Union (Yes)</td>
</tr>
</tbody>
</table>

In 2005 the leaders of all three states engaged in similar rhetoric regarding the Soviet occupation in the context of Victory Day celebrations. That year, all three Baltic presidents and the conservative political forces linked in their rhetoric Victory Day


celebrations with the Soviet occupation. Whilst in 2005, Vike-Freiberga justified her attendance by asserting that she would be spreading the historical truth about the Soviet occupation, Adamkus explained his non-attendance by citing Soviet occupation. Ruutel also justified his decision not to attend Victory Day celebrations with reference to Estonia’s painful experiences following the Second World War. He stated: ‘The sufferings of the people of Estonia caused by World War II and those of the following years have not yet died away from the memory of the people.’

In 2005, the three Baltic states failed to successfully coordinate their policies regarding attending Victory Day celebrations. Vike-Freiberga's attendance and the non-attendance of Lithuanian President Valdas Adamkus allowed Ruutel to accept or to refuse the invitation without standing out amongst the Baltic states. Attendance was not completely ruled out in 2005 and there was considerable discussion at the elite and popular levels about the possibility of accepting Moscow’s invitation. At the time, Social Democrat and MP of the European Parliament Toomas Hendrik Ilves (who became President of Estonia in 2006) urged Ruutel to go to Moscow. The second largest newspaper in Estonia, the right wing *Eesti Paevaleht*, also portrayed non-attendance as a dangerous decision that would be manipulated by Russia:

The best thing for Moscow will be if presidents Arnold Ruutel and Vaira Vike-Freiberga do not arrive in Moscow. Then it will be able to tell the world: look, we have held out the hand of friendship and wanted to sign a border treaty in the interests of the EU and NATO, but these small disgusting Nazi states have turned their backs on us.

However, as a centre left president in power during a centre-right government, Ruutel would have had difficulty pursuing a highly controversial cooperative policy towards Moscow by accepting the invitation in 2005.

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Interestingly, the large Russian speaking minority in Estonia did not influence policy making regarding attending Victory Day celebrations in 2005. Whilst Vike-Freiberga had already tried to unify Latvian society in the early 2000s and perhaps was partly moved in her decision to go to Moscow in 2005 by this factor, possibly because of the politically less engaged Russian community, Ruutel did not seem to have considered his country’s ethnic minority. Tellingly, when he spoke of public opinion he referred only to ethnic Estonians noting, ‘As head of state, it is my duty and responsibility to support what my people believe, and I can do this best if I am with my people on that day.’ Nevertheless, the Russian speakers in Estonia who celebrate 9 May en masse, became sufficiently mobilized by 2007 and did indirectly influence policy decisions by 2010 as will be outlined below.

In 2010, Estonian President Toomas Hendrik Ilves decided to attend Victory Day celebrations in Moscow for the first time in the history of independent Estonia. Ilves was a candidate of the centrist Social Democratic Party and his partisan preferences were for neither a confrontational nor a cooperative policy with Russia. Since Ilves had encouraged Ruutel to attend in 2005, Ilves' decision in 2010 was not surprising. Interestingly, in 2010, Estonia’s domestic political environment remained similar to that which prevailed in 2005 in that the Estonian Reform Party still lead the government and prime minister Andrus Ansip was still in power. Whilst, Ansip had pressured Ruutel not to attend the celebrations in 2005, the fact that he did not pressure Ilves to the same extent in 2010 reveals that the domestic context had also changed particularly due to the riots of Russian speakers in 2007. It furthermore suggest that Ilves as an individual played a determining role in Estonian policy output regarding Victory Day celebrations in 2010.

In Estonia, the domestic environment and relations with Russia changed notably from between 2005 to 2010. This was one of the major factors influencing the change in Tallinn's policy from 2005 to 2010. The main event which altered both Estonian-Russian

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relations and Estonia’s domestic environment were 2007 civic and diplomatic crisis in Tallinn related to the 9 May celebrations. When, just a month prior to the festivities, the Estonian government decided to relocate a Soviet monument to Russian soldiers who had fought in the Second World War away from the Tallinn city centre, riots of Russian speakers and a diplomatic war with Russia broke out. The riots demonstrated the divisions in Estonian society between the Russian speakers and the ethnic Estonians. It also revealed the explosiveness of Estonian-Russian relations when Russia retaliated with cyber warfare, energy blockage, and blockaded the Estonian embassy in Moscow. It is likely that the experiences of 2007 encouraged Ilves to treat more delicately the historical differences with Moscow as well as policies towards the Russian speakers in Estonia. Whilst the large numbers of Russian speakers had not been a factor in the decision of Ruutel in 2005, by 2010 Russian speakers indirectly influenced Ilves' decision.

The 2010 case of Estonia also demonstrates that a convergence of rhetoric if not necessarily policies occurred amongst the three Baltic states from 2005 to 2010 regarding Victory Day celebrations. That said, the nuances of Ilves rhetoric regarding attending the Victory Day celebrations differed somewhat from that used by Ruutel and Vike-Freiberga in 2005. Whilst Ruutel and Vike-Freiberga had both referred to the Soviet occupation of the Baltic states (the first to argue against attending the ceremony and the second to argue in favour of attending the ceremony in order to tell the historical truth), Ilves, like Grybauskaite and Zatlers, refrained from any mention of occupation in 2010. His explanation for attendance was given in neutral terms. Ilves stated:

I will participate in the event in Moscow on 9th May to celebrate the anniversary of the end of World War II in Europe and to commemorate with other European countries all the victims of this war. My decision was preceded by a personal invitation from President Dmitri Medvedev, which was handed over by the Russian Ambassador in Estonia.\textsuperscript{532}

Ilves also tried to find a conciliatory common historical ground with Russia, comparing the Russian victory in the war with the Estonian struggle for freedom stating, ‘We are

proud of our victory in the independence war, and the Russians are proud of their victory in the Second World War.’ 533 The changed mood of the Estonian elite and public in 2010 was well captured by the comment of a renowned Estonian historian David Vseviov, ‘Our history with Russia is very painful, but now there is no reason to bare our knuckles.’ 534

A comparison of Estonian policy towards attendance of Victory Day celebrations in Moscow in 1995, 2005 and 2010, demonstrates that the main factors influencing Estonian policy regarding historical differences were the political orientation of the decision makers and that rightist political leaders were in a better position than leftist leaders to pursue cooperative policies towards Moscow. Changing domestic and external conditions and the Russian minorities proved to be factors that determined the turnaround in Estonia’s policy and rhetoric in 2010. The importance of individual leadership was demonstrated most notably in the case of Ilves in 2010. In addition to the evolution of Estonian policy towards Russia there was also a convergence of political views in Estonia internally. Unlike in 2005 when there was disagreement between political parties on attendance (with centre left parties such as Social Democrats or People's Union arguing in favour of and centre right parties such as Reform party against attendance) in 2010 political forces in Estonia were all by and large in favour of attendance.

Summary
A comparison of the three Baltic states decision making process regarding attending Victory Day demonstrates that in practice Baltic policies were similar in 1995 and diverged by 2005. Whilst one would expect that NATO and EU membership in 2004 would have made Baltic policies towards Moscow more similar, it was in 2005 that (non-)attendance of Victory Day celebrations diverged for the first time. However, the recent accession is unlikely to have had a significant influence on Baltic policies. In 2005 Latvia was most cooperative and pragmatic towards Moscow, while the other two states refused

their invitations to Moscow. Riga’s position became even more pragmatic in 2010 when the Latvian president attended Victory Day celebrations without emphasizing that Latvia took a different view of history. Estonia only displayed a cooperative and pragmatic policy in 2010 when its president accepted an invitation to attend Victory Day celebrations in Moscow; at that juncture, it did not emphasize that the end of the Second World War meant occupation for Estonia. Lithuania pursued the most adversarial policies by refusing all three invitations from Moscow in 1995, 2005, and the unofficial 2010 invite.

The divergence in policy notwithstanding, from 1995 to 2010 there was an apparent\textit{discursive} convergence in the frames used by the three states by 2010. In 2010, for example, the Lithuanian president no longer emphasized that non-attendance was driven by a different historical viewpoint. Similarly, neither the Estonian president Ilves nor Latvia’s Zatlers underlined Soviet occupation when they opted for attendance in 2010. Since 1995, the policies of all three states evolved from more principled to more pragmatic with varying speed. The policies of Estonia and Latvia also evolved from adversarial to cooperative from 1995 to 2010, whilst Lithuania maintained its adversarial stance albeit in a more pragmatic fashion by 2010.

Though the EU and NATO did not attempt to directly influence Baltic policy choices regarding attending Victory Day celebrations, it seems likely that membership of these organizations did have an indirect role in the discursive convergence of the Baltic elites by 2010. The attendance of leaders from other EU and NATO member states to the celebrations, made the Baltic leaders consider their invitations more carefully and temper their rhetoric regarding non-attendance. In contrast, the convergence in rhetoric or policies was not due to any regional coordination of policies since all Baltic attempts at coordination proved unsuccessful.

The factor that emerged as the most important/powerful driver of policy decisions regarding attendance was the domestic political environment. However, contrary to what one would expect, Baltic leftist governments were less likely to attend Victory Day
celebrations than rightist governments. For leftist leaders would have been likelier targets of criticism and labeled as being soft on Moscow. Western-leaning leaders such as American-Lithuanian Adamkus, Canadian-Latvian Vike-Freiberga, and American-Estonian Ilves would have had an easier time attending the celebrations and, in fact, Vike-Freiberga and Ilves choose to attend. Leftist presidents, on the other hand, such as the former Communist leaders of Lithuania Algirdas Brazauskas and of Latvia Arnold Ruutel decided against attendance.

An important factor determining policy output was the timing and general internal and external conjuncture. In the early years of 1990 to 1995 - the state building phase - all three Baltic states were less likely to attend Victory Day celebrations because they were more vulnerable and sensitive towards Russia. By 2005, as recent memories of the Soviet occupation subsided and with EU and NATO membership achieved, the Baltic states could consider more cooperative relations with Russia. This factor was most influential in Latvia which by the late 2000s sought to engage Russia in the context of EU-Russia relations rather than bilateral relations. Other external and timing factors included Latvia’s desire to sign a border treaty with Russia in 2005. Finally, the economic crisis of 2009 encouraged all three states to have more cooperative and prudent relations with Moscow, but again this was most evident in Latvia.

The high presence of Russian minorities influenced Estonian and Latvian decision making in varying degrees to pursue more cooperative policies. Russian speakers already played a role in Latvia when Vike-Freiberga decided to attend the celebrations in 2005 and again in 2010 when Zatlers followed her example. In Estonia, Russian speakers did not influence Ruutel's policies in 2005. Only after the 2007 riots of Russian speakers did ethnic Russian likely influence Estonian policy towards attending Victory Day celebrations in Moscow. The lack of a sizable Russian speaking minority in Lithuania also influenced Lithuanian policy making in that polemical rhetoric was more prevalent.

535 Interview with anonymous Baltic diplomat, Vilnius, Lithuania, 13 July, 2010. The theme will be elaborated upon in the case study of demands for compensation for Soviet occupation.
in Lithuania than in Latvia and Estonia as the political actors did not have to bear the electoral loss of the Russian speaking vote.

**Issue Area 2: Compensation for Soviet Occupation Damages**

Baltic policies regarding the consequences of Soviet occupation shed additional analytical light into Baltic foreign policy making toward Russia and how historical tensions influence these relations. The policy elites in all three Baltic states firmly held the view that the Baltic countries were forcefully occupied by the Soviet Union. They also assessed the Soviet occupation as damaging to the state but sought recompense from Russia to varying degrees. Lithuania was the most vocal in seeking compensation, whilst Estonia was most adamant about recording and calculating the damages incurred and encouraged the other Baltic states to do the same. In the three countries, the compensation question was also considered in the light of whether Russia admitted and apologized for the Soviet occupation. Estonian officials implied that the country would not seek compensation in the future if Moscow recognized and apologized for having committed the occupation. Lithuania, on the other hand, openly stated that though Russia first needs to admit to and apologize for the Soviet occupation, such an acceptance would not preclude the need to seek compensation.

Baltic policies regarding occupation and compensation, like the question of attending Victory Day celebrations, demonstrate how historical tensions render Baltic-Russian relations more adversarial. However, whilst Baltic policies regarding Victory Day celebrations were more reactive based on Moscow's invitations, Baltic policies on occupation and compensation were pro-active. The case is also interesting because Lithuanian and Latvian policy objectives were without precedent in international law as occupation is generally not compensated other than in the form of war reparations by a

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536 Estonian ambassador in Moscow Marina Kaljurand confirmed that Estonia will not demand any compensation for damage done by the occupation if Moscow agrees to admit to the occupation *per se*. ‘News Radio,’ Vilnius, 2005.  
537 Homeland Union members’ discussion with Lithuanian Foreign Minister Audronius Azubalis, Vilnius, 8 April, 2010.
losing party or property restitution to private individuals. Neither the Soviet Union nor its legal successor Russia ever paid reparations or any other form of compensation to any of the countries occupied during or after the Second World War. Nor have any of the Warsaw Pact countries passed laws or resolutions sought compensation from Russia. Indeed, the only countries outside of the Baltic states that have voiced their historical grievances related to Soviet occupation are Moldova and Afghanistan.

The policies of Vilnius, Riga, and Tallinn differed significantly when measured on our two scales of adversarial/cooperative policies and principled/pragmatic policies. Lithuania pursued the most adversarial and principled foreign policy regarding Soviet occupation – passing a referendum on pursuit of compensation for occupation and issuing a law seeking material compensation for the damages incurred by Lithuanian citizens and the state during the period in question. Latvia’s policy fell along the middle of the adversarial/cooperative spectrum. It did not pass any laws which would permanently require the Latvian government to seek compensation, but created a parliamentary working group to estimate the damage of the occupation. The policies of Lithuania and Latvia regarding occupation compensation were driven by partisan preferences, politicized domestically, and pursued by rightist political forces rather than the result of consensus amongst political elites. Whilst Latvian policy evolved from the mid 1990s to late 2000s from principled to increasingly pragmatic, Lithuanian policies remained generally consistent over time. Finally, Estonia pursued the most pragmatic if not necessarily cooperative set of policies in the sphere of seeking redress for occupation. Tallinn did not pass any laws or hold any referendums related to seeking compensation from Russia but sought to record the damages that resulted from the Soviet occupation.

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540 Some Moldovan organizations have called for compensation from Russia for the Soviet occupation of Bessarabia.
541 There have been calls in Afghanistan for Russian compensate for the ten year war waged by the Soviet Union in Afghanistan.
542 See introduction for detailed definitions of terms.
For a summary of Baltic policies towards Soviet occupation damages see Table 5.5 below.

Table 5.5: Baltic States' Policy Initiatives Regarding Soviet Occupation Damages

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Act/ Law/ Referendum/ Commission</th>
<th>Prime Minister (Political Party)</th>
<th>Policy Labeling (State policy or Private initiative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>1992 06 14</td>
<td>Referendum regarding seeking occupation compensation from Russia</td>
<td>Gediminas Vagnorius (Conservative)</td>
<td>Adversarial (State Policy)</td>
</tr>
<tr>
<td></td>
<td>2000 06 13</td>
<td>Law on compensation for damage resulting from the occupation by the USSR</td>
<td>Rolandas Paksas (in 2000 delegated by Homeland Union/ Lithuanian Conservatives; in 2010 Order and Justice)</td>
<td>Adversarial Principled (State Policy)</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>Governmental group to evaluate the damage from the occupation (led by Rasa Budbergyte) − damage determined to total USD20 billion.</td>
<td>Rolandas Paksas (in 2000 delegated by Homeland Union/ Lithuanian Conservatives; in 2010 Order and Justice)</td>
<td>Adversarial (State Policy)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>International Commission for the Evaluation of the Crimes of the Nazi and Soviet Occupation Regimes in Lithuania was established, the Subcommission for the Evaluation of the Soviet Crimes led by Emanuelis Zingeris (Homeland Union)</td>
<td>Algirdas Brazauskas (Lithuanian Social Democratic Party)</td>
<td>Adversarial Principled (State Policy)</td>
</tr>
<tr>
<td>Latvia</td>
<td>1998</td>
<td>Commission of Historians to study the crimes against humanity in the territory of Latvia during the time of two occupations and organize a production of a report on the theme.</td>
<td>Guntars Krasts (For Fatherland and Freedom) Convened by President Guntis Ulmanis (Farmers Union)</td>
<td>Adversarial Principled (State Policy)</td>
</tr>
<tr>
<td>Year</td>
<td>Event Description</td>
<td>Leader/Commissioner</td>
<td>Political Position</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Parliamentary work group, set up to estimate the damage done by the occupation</td>
<td>Aigars Kalvitis (People’s Party)</td>
<td>Adversarial (State Policy)</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>Occupation damage estimates released and set at USD712 million; Parliamentary working group terminated.</td>
<td>Valdis Dambrovskis (New Era party)</td>
<td>Cooperative (State policy)</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Estonian State Commission for Studying Repressive Policies of the Occupational Regimes issues the White Book which estimates USD49 billion as occupation damage</td>
<td>Andrus Ansip (Estonian Reform Party; governmental coalition between Reform, Centre and People’s Union parties)</td>
<td>Adversarial (NGO)</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Foundation for the Investigation of Communist Crimes</td>
<td>Andrus Ansip (governmental coalition between Reform party, Pro Patria and Res Publica Union, Social Democratic Party)</td>
<td>Adversarial Principled (NGO)</td>
<td></td>
</tr>
</tbody>
</table>

Before analyzing which variables drove Baltic foreign policies on the subject, it is useful to set out the context of Russia's position on compensation for the Soviet occupation and Baltic efforts to seek redress in the multilateral arena.
Russia’s Policies towards Soviet Occupation

Moscow’s position regarding recognizing the Soviet occupation of the Baltic states was closely linked to the Baltic states’ efforts to seek compensation. Because the Baltics were likely to seek recompense for damages incurred, Russia was hesitant to officially recognize that the Soviet Union had forcefully incorporated the three Baltic states. In comparison to Russia’s changing views towards acknowledging the Soviet occupation of the Baltic states (recognized by Yeltsin but denied by Putin), Russia's view on compensation has been static (neither Yeltsin or Putin have ever considered providing compensation).

Moscow’s official position centered on three arguments. First, Moscow was against compensation since – the argument went – the Soviet Union had not occupied the Baltics in the first place. The second argument was that the Soviet Union contributed to the Baltic states’ economic development rather than caused damages. Industrialization, gasification and development of sea ports were all cited by Moscow as benefits of Soviet rule. Third, Moscow argued that Russia should in fact be compensated by the Baltic states for the benefits which accrued to them during the Soviet period. In December 2002, the Russian Duma approved a resolution stating that the Baltic states owed Russia billions of dollars for the military installations left behind by the Red Army. In September 2004, Russia’s Audit Chamber, led by chamber president Sergei Stepashin (a political ally of Putin), published a report formally contending that Russia, as the legal successor to the Soviet Union, is entitled to compensation for having vacated the three Baltic states, including the military property that remained there following Russian troops withdrawal. The report cites a 1993 Russian government decision, never implemented, to seek compensation for abandoned military bases in order to finance new troops’ accommodations in Russia and pensions for demobilized officers. The Audit Chamber also proposed that the Baltic states assume proportionate repayment obligations on the Soviet Union's debts which Russia assumed as its external debt after 1991.

544 Bugajski, p.128.
545 Socor.
Chamber's report citing the calculations of Russia's Central Bank and Foreign Trade Bank concluded that the Baltic states’ aggregate share of debt was USD3.06 billion. In the case of Lithuania, Moscow argued that if Vilnius sought compensation from Russia for Soviet rule it should return territorial gains it received during the Soviet era. Some nationalist Russian parliament members suggested that Lithuania return its territories that it regained under Moscow’s rule following the end of the Second World War – the capital Vilnius (returned by Poland) and the main port of Klaipeda (returned by Germany). However, Moscow never pursued these financial or territorial damages. Meanwhile, Latvian claims to regain their lost territories of Abrenes to Russia have been met with derision by Putin. Putin's statement of 2005 that instead of land Latvia will get 'a dead donkey's ears' – is illustrative of Moscow's position towards compensation.

**Baltic Lobbying in the Multilateral Arena on Compensation for Occupation**

The Baltic states actively utilized the multilateral arena to lobby for greater recognition of the crimes committed by communist regimes and the Soviet occupation. The two main arenas were the Baltic Assembly and the EU. Whilst of the Baltic states, Lithuania was the most vocal in seeking compensation, Estonia was most active in recording and calculating the damages of the Soviet occupation and encouraged the other Baltic states to do the same. In December 2004, the Estonian delegation initiated a resolution to be passed in the Baltic Assembly on the Need to Assess the Damage Inflicted on the Baltic States by the Occupation. In fact, the Estonian Prime Minister Mart Laar's rightist Pro Patria party first called for seeking a resolution in the Baltic Assembly in September 2000. Significantly, in 2004, the Estonian-led resolution did not discuss seeking compensation but only the need to assess the damage. In 2005, after signing the resolution, both Estonia and Latvia issued calculations of the damages incurred by the states and citizens due to Soviet occupation. Lithuania had already completed its

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546 Ibid.  
548 The Baltic Assembly consists of members of three delegations – 12-20 parliamentarians from each member state who are appointed in accordance with the principle of proportional political representation in each national parliament  
calculations in July 2000. Though support had been gearing up in Latvia and Estonia for studies of the occupation damages, passing the resolution gave more weight and priority to the issue.

**Lithuania: Compensation for Occupation**
Lithuania's adversarial and principled policy towards seeking occupation compensation was driven by factors like the political orientation of the leadership and political parties in power, the small size of the Russian minority, and the internal and external context in which the country found itself. Centre right leaders and governments were most vocal both when in power and when in opposition in terms of seeking compensation. The lack of a significant Russian speaking minority in Lithuania made the politicians more aggressive in their domestic rhetoric because there were no potential electoral costs. Lastly, in the different stages of 1990-1995, 1995-2004 and 2004-2010 geopolitical and domestic conditions favoured different policies towards Russia. The vulnerabilities associated with the early stages of Lithuanian statehood and the enhanced status of EU membership set different conditions for seeking occupation compensation. In Lithuania the three most important policy decisions regarding occupation compensation were a referendum, a law on occupation compensation, and calculations of the damage inflicted by the Soviet occupation.

One of most significant Lithuanian policy decisions regarding compensation was the move to call a national referendum on 14 June 1992. The decision was primarily driven by the domestic political context and also a function of the fact that Lithuania was in that period (1990-1995) engaged in the sovereignty building stage of its development. The referendum was initiated by a parliament which at the time was dominated by the rightist political forces of the Lithuanian independence movement Sąjūdis (later Homeland Union) and led by Head of the Supreme Council Vytautas Landsbergis. The referendum asked the public to express their opinion ‘On the former USSR army, now belonging to the Russian Federation, unconditional and immediate withdrawal from the territory of the Republic of Lithuania and the compensation for damage done to Lithuania.’ The withdrawal of the army was a pressing and undisputed priority in 1992 when the Russian
army was still on Lithuanian territory; the view that it must withdraw therefore had the support of the majority of the population and most of the political forces. The question of seeking compensation was less straightforward and did not have strong support amongst the Lithuanian Democratic Labour Party (LDPP, later Social Democrats) who viewed it as an unrealistic demand which would only lead to tensions with Russia. The lumping together of these two separate issues (army withdrawal and compensation), was a deliberate move by the rightist Sąjūdis, and it increased the likelihood of a positive vote for compensation for damage. In the referendum, 75.8 percent of voters participated with 90.8 percent voting in favour (those who voted ‘yes’ represented 68.7 percent of registered voters in Lithuania). In short, timing and the general geopolitical context greatly increased support amongst the voters for the referendum because the Russian army was still on Lithuanian territory and the painful experiences under the Soviet regime, particularly the civilian casualties inflicted by the Soviet army in January 1991, were still fresh in the public's mind.

Had the LDPP would have been in power in June 1992, it is highly unlikely it would have called a referendum on pursuit of compensation and certainly would not have lumped together demands for the withdrawal of the Russian army and compensation. The rightist forces seemed aware of the lack of support regarding the compensation issue amongst the LDPP and they issued a referendum just months before parliamentary elections ensuring that the issue would remain on the agenda even if the rightist forces would be defeated. In October and November 1992, the LDPP indeed swept the parliamentary elections gaining control of the parliament. LDPP leader Algirdas Brazauskas was elected president in 1993. The government led by LDPP remained skeptical of Lithuania’s ability to negotiate compensation from Moscow and did not pursue the issue during its tenure of 1992 to 1996.

The successful referendum nevertheless gave legitimacy to the question of compensation amongst Lithuanian political elites, particularly those in rightist political circles. According to the Homeland Union and the official position of the Foreign Ministry, the

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550 Data from the Lithuanian Ministry of Foreign Affairs, 2009.
high turnout and clear result of the referendum placed permanent responsibility on Lithuanian diplomats and politicians to seek compensation for the damage done by the Soviet regime.\textsuperscript{551} In 2010, Lithuanian Foreign Minister Audronius Ažubalis was asked if Lithuania would cease seeking compensation under any circumstances; he replied ‘we cannot cease seeking compensation since there is the referendum.’\textsuperscript{552} Thus, as long as the results of the referendum are not revoked by a new one, the Lithuanian government is permanently bound to pursue compensation for damage done by the Soviet occupation.

When the Homeland Union returned to power following the 1996 elections, its policies demonstrated that pragmatism rather than dogma prevailed regarding pursuit of compensation for the occupation. The conservative government – which lasted from 1996 to 2000 - made only lukewarm attempts to seek compensation despite the fact that it was an issue put on the agenda by the Homeland Union. Non-partisan but centre right leaning President Valdas Adamkus, elected in 1998, broadly supported seeking occupation compensation but preferred diplomatic policies: ‘We do not renege and will not renege on the demand to recognize the fact of the Soviet occupation and to seek compensation for the occupation, but we will also seek a dialogue with Russia.’\textsuperscript{553} The fact that the Homeland Union behaved different when in power than when in the opposition highlights the importance of the incumbent factor. When parties were in government they sometimes chose to pursue pragmatic rather than principled policies if doing so was in their political interests.

The Homeland Union did not actively pursue occupation compensation because achieving it would have been highly unlikely and failure would have been politically costly. However, at the end of its term in power the conservatives initiated a law ‘On Compensation of Damage Resulting from the Occupation by the USSR,’ which was passed on 13 June 2000 by the Lithuanian parliament. The law legally bound the government to complete calculations of the damages committed by the Soviet regime and

\textsuperscript{552} Discussion of a Homeland Union member with Lithuanian Foreign Minister Audronius Ažubalis, Homeland Union meeting, Vilnius, 8 April, 2010.
\textsuperscript{553} Vytenė Stašaitytė, Rusijos deputatai už nemalonią temą Adamkui diagnozuoja šizofreniją, Alfa.lt, 2008.
to negotiate with the Russian government regarding compensation. The Lithuanian government in 2010 designated a government commission as the main actor responsible for seeking compensation and called on the Lithuanian Ministry of Foreign Affairs to ensure that the question of compensation would be included in the working agenda between the Republic of Lithuania and the Russian Federation.

Though the law was written based on the Homeland Union’s ideology, passing the law in 2000 was a policy decision driven by the party’s political calculations. First, it ensured that the new government of the Social Democrats would be obliged to continue pursuing the compensation agenda. Indeed, the fourth point of the second article permanently bound the government to seek compensation. Second, the law became a tool for the Homeland Union when they were in opposition to critique and pressure the government for homework not done regarding occupation compensation. Third, the move outlined the next policy steps such as completing the calculations of damages. In keeping with the law, in 2000, the governmental working group led by Deputy Minister of Justice Rasa Budbergytė concluded that the Soviet occupation resulted in damages for the Lithuanian state of USD20 billion or 80 billion Litas.

The two subsequent centre left governments (2000-2004 and 2004-2008) led by the Social Democrats were bound by the law to at least officially pursue the occupation compensation agenda. Whilst the foreign policy ideology of the Social Democrats favoured cooperative policies with Moscow, the party half-heartedly pursued compensation out of political calculations. First, the results of the referendum demonstrated that there was public support for seeking compensation. Second, the Homeland Union in opposition would have fiercely critiqued the government for not pursuing the compensation agenda. Thus, during the Lithuanian and Russian intergovernmental commission sessions held in Nida in January 2001 and in Moscow in

555 Lithuanian government decision Nr.884 28 July 2000.
556 Lithuanian government Protocol decision Nr.48 25 October 2000
March 2001, the Lithuanian Foreign Minister Antanas Valionis of the leftist New Union party tried to include occupation compensation issue on the agenda. However, the Russian side refused, suggesting it was best ‘to leave such matters to historians, and to engage in concrete issues.’ Moscow's subsequent statements in 2004, namely that Russia may seek compensation form the Baltic states for assets acquired under Soviet rule, received a tough response from Valionis who described Moscow's material demands as ‘an attempt to deny the facts of occupation and annexation,’ ‘absurd propaganda,’ and an ‘unheard-of demand by an aggressor for compensation.’

Lithuanian Foreign Minister Petras Vaitiekūnas of the leftist Social Democrats also raised the issue of occupation compensation and the necessity of resolving historical tensions in his first meeting with Russian Foreign Minister Sergei Lavrov in November 2006 and during the last Lithuanian-Russian inter-governmental commission session in December 2007. The government of the Social Democrats led by Prime Minister Gediminas Kirkilas requested the Lithuanian Institute of Law to conduct a study into the legal possibilities of seeking compensation for the occupation. The findings of the Institute were politically convenient for the Social Democrats because the study concluded that the difficulties associated with seeking compensation stemmed from lack of political will in Russia. The lack of interest on the question on the part of international lawyers and experts was also noted and cooperation with Moscow advised. As such, the study helped the Social Democrats appear to be trying to address the compensation question but suggested that their hands were tied due to external factors.

In light of the fact that the Lithuanian governments of the political left did not pursue the compensation issue through diplomatic channels, a clear policy divide on the issue of compensation can be observed in the Lithuanian political spectrum. Parties of the right, particularly the Homeland Union and the Liberals, were not only the initiators of the referendum and the law but also actively promoted pursuit of compensation for

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559 Ibid.
560 Ibid.
occupation. From the signing of the law in 2000 up through 2010, the vast majority (10/11) of all parliamentary initiatives supporting the occupation compensation law have been put forth by the Homeland Union Party.\textsuperscript{561} The law and pursuit of compensation was indeed a pet subject for the Homeland Union, particularly for its leader Vytautas Landsbergis. In 2008, Landsbergis argued that securing compensation ‘will not happen soon, but will happen when Russia will become a European state. However we must seek compensation because it is only better for Russia. It must deal with its past as Germany has done. As long as Russia denies this, it remains in the past and cuts off its road to the future.’\textsuperscript{562}

On the other hand, political parties of the left such as the Social Democrats, the New Union, or the Labour parties either pursued the compensation agenda with reservation or outright opposed it. Mainstream leftist parties such as the Social Democrats maintained diplomatic and cautious rhetoric on the subject due to domestic political considerations. Outright rejectionism could have been politically costly because of the legitimacy bestowed on the question by the referendum and because there were no significant Russian speaking cohorts in Lithuania to which a more conciliatory stance towards Moscow would have been appealing. Thus, the Social Democrats called for a diplomatic and cautious approach. As Social Democrat party member Justinas Karosas stated ‘Everything depends on Russia’s good will, therefore we have to be patient and to wait for Russia’s democratization. We cannot forget this question, but we should not hit our head against the wall either.’\textsuperscript{563} The prime minister and head of the Social Democrat Party Gediminas Kirkilas argued in 2007 that diplomacy and dialogue are necessary to solve the question of compensation. As he put it, ‘If the Parliament decided that it is necessary to request compensation we will do it, but it will be just another demand. However, if we want results we have to seek it via the diplomatic channels.’\textsuperscript{564} He also noted that the idea of seeking compensation from Russia was untimely because today

\textsuperscript{561} The exception is the initiative by the populist far right party Order and Justice initiated in January 2010.\textsuperscript{562} Vytenė Stašaitytė, \textit{Rusijos Deputatai už nemalonią Temą Adamkui diagnozuojà Sizofrenijà}, Alfa.lt, 2008.\textsuperscript{563} Ibid.\textsuperscript{564} \textit{Prezidento ir Premjero Nuomonè dël Kompensacijû Aukû Artimiesiems – skirtingos}, BNS and lrytas.lt, 2007.
there was no dialogue or goodwill between Russia and Lithuania. Similarly, in 2005, the prime minister and then head of the Social Democrats Algirdas Brazauskas called for dialogue with Russia and cooperation with other countries such as Poland and Hungary regarding occupation compensation. In so doing, he criticized the politicization of the issue which he described as apparent when governments ‘come out with demands from time to time which are more of a political rather than practical type.’ Thus, in October 2007, when twelve MPs from the Homeland Union called for more action regarding occupation compensation, the Social Democrat Minister of Foreign Affairs Petras Vaitiekūnas stated that ‘you cannot speak with Russia in the language of ultimatums; we must convince her that it is useful for her because what is important to us is the result and not the process.’

In contrast to the major leftist parties such as the Social Democrats, marginal leftist parties such as Labour were more vocal in their demands for pursuit of compensation for occupation. Tellingly, the Labour party initiated two failed attempts to revoke the law requiring the government to seek occupation compensation when they were in a coalition government with the Social Democrats. In January 2001, Julius Veselka of the Labour party sought annulment arguing that the law was one-sided and that rescinding it would be a gesture of good will towards the Russian Federation and testify to the willingness of Lithuania to pursue constructive relations with Moscow. During the parliamentary vote, most members of the Social Democrats and Labour voted to revoke the law whilst members of Homeland Union, the Liberals, and the centre left Social Liberals voted against the initiative. The Social Liberals were acting primarily out of pragmatic political interests because at the time they were – along with the Homeland Union - in opposition against the Social Democrat government. Prominent Social Democrat politicians such as Gediminas Kirkilas and Algirdas Butkevicius also refrained from voting during the parliamentary initiative. This demonstrated their caution when it came to taking sides on

the highly politicized and sensitive issue.\textsuperscript{569} In January 2005, Veselka of the Labour Party made a second failed attempt to annul the law and ‘abandon principled labeling in relations with Russia.'\textsuperscript{570}

However, whilst domestically the various Lithuanian political parties had different views towards occupation compensation, they held a single national position in multilateral or external negotiations. Consider, for instance, the stance and composition of the Lithuanian delegation at the Baltic Assembly in 2004. The body supported a resolution calling for an assessment of Soviet damages in the Baltic states and was made up of only seven figures from the political right (Homeland Union and Liberals) whilst the remaining personalities in the twenty-strong delegation were affiliated with the political left (Peasants, Labour, Social Democrats, and Social Liberals).\textsuperscript{571}

In sum, the government of Lithuania pursued compensation for occupation after the referendum legitimized the issue in 1992. The policy was initiated and driven by the political right for both principled reasons and out of political calculations. The political left provided continuity to the policy because they were bound legally to do so and because of pragmatic considerations in light of domestic political gains. However, the ongoing policy of seeking compensation has not born results for a number of reasons. First, there was a lack of dialogue with Russia regarding the issue and Moscow’s increasing unwillingness to even recognize the fact of occupation. Other important factors include the hijacking of the Soviet occupation compensation agenda for domestic political politicking as highlighted by the actions of the Homeland Union and the Labour party. The weakness of non-governmental institutions and organizations working on this question, the lack of international support, and the lack of precedents in international law regarding this question\textsuperscript{572} also played a role. Since no Central and Eastern European

\textsuperscript{569} Seimo Nutarimo ‘Dėl Seimo II (Pavasario) Sesijos Darbų Programos’ PROJEKTAS (Nr. IXP-469(3)), \textlt{<www.lrs.lt>}.  
\textsuperscript{570} SSRS Okupacijos žalos Atlyginimo Įstatymo Nr. VIII-1727, Atšaukimo Įstatymo Projektas, 19 January 2005.  
\textsuperscript{571} Information from the website of the Parliament of Lithuania, \textlt{<www.lrs.lt>}.  
\textsuperscript{572} Interview with a representative of the Lithuanian Ministry of Foreign Affairs, 2009.
countries outside the Baltics contemplated seeking compensation from Russia, there were no precedents or international expertise that can be obtained.

*Latvia: Occupation Damages*

The Latvian government was less persistent than its Lithuanian counterpart in pursuing occupation compensation from Russia because of differences in the structure of domestic politics and the large size of the Russian speaking minority. Latvia also experienced a turnaround in policy due to the turbulent political and economic conditions related to the economic crisis of 2008-2010. Unlike Lithuania, Latvia did not hold a referendum and did not issue any laws that would bind the government to seek compensation. Latvia’s policy was centered on recording and estimating the damage inflicted by the Soviet occupation rather than seeking compensation from Moscow as did Lithuania. Similarly to Lithuania's top-down approach, Latvian efforts were also spearheaded by state created bodies or through government initiatives which were primarily supported by the rightist For Fatherland and Freedom (FFF) party and at times by the centre right People's Party.

In Latvia, as in Lithuania, domestic politics greatly influenced policies on occupation calculations. Latvian President, Guntis Ulmanis, of the centre right Farmers Union convened an International Commission of Historians on 13 November 1998. It was patterned on the model of such commissions in other Central and East European countries to study the Soviet occupation period. In 2005, a parliamentary working group was established to determine the damages incurred by the Soviet occupation. The domestic political environment in 2005 enabled such an initiative. The president at the time was non-partisan but nationalist-leaning Canadian-Latvian Vaira Vike-Freiberga who was serving her second term since 2003. The newly formed centre right coalition government in December 2004 was led by Aigars Kalvitis of the conservative People’s Party and also included the centrist Union of Greens and Farmers (ZZS) and the centrist Latvian Way. On the other side of the coin, the People’s Party with its head, Kalvitis, who came to power in December 2004 were focused on foreign policy issues, particularly those related to Russia. The timing of the creation of the parliamentary group also suggested that domestic political calculations were a consideration for the Kalvitis
government. Creating a working group shortly before the 2006 parliamentary elections gained the People’s Party nationalist votes in the elections. The People’s Party competed for votes with the most conservative and nationalist party of the Latvian political spectrum – the For Fatherland and Freedom Party (FFF). Following the 2006 elections a centre right coalition emerged composed of the same political parties as before and led by the Kalvitis of the People’s Party but now also including the FFF, reflecting an increasingly nationalist mood in the Latvian electorate.

The creation of the parliamentary working group under the Kalvitis government rather than any other also highlighted the importance of political orientation of the leaders. The previous coalition government formed in March 2004 was also composed of the same political parties such as the centrist Union of Greens and Farmers (ZZS), the rightist People’s Party, and the centrist Latvian Way. However, the difference was that the previous government was led by Prime Minister Indulis Emsis, founder of the Green party. The partisan preferences of Emsis and the Green party were less focused on foreign policy issues. Emsis was also cautious of policies seeking occupation compensation from Russia. In 2004 Emsis expressed concern that Russia would advance counter-claims against the Baltic states if they sought reparations. Instead of focusing on the damages from the Soviet era, Emsis suggested seeking a political acknowledgment by Moscow that the Baltic states were forcibly annexed.573

Though the People’s Party initiated calculation of the occupation damage, it was a moderate move in comparison to the policies of Lithuania which sought occupation compensation. Seeking occupation compensation was shunned by most segments of the Latvian political elite with the exception of the most conservative FFF. In 2006, Latvian President Vaira Vike-Freiberga stated: ‘Demanding compensation from Russia for the Soviet occupation of Latvia is not realistic’.574 Following the Lithuanian Law on Compensation, a similar document was presented before the Latvian Parliament in

573 Socor.
October 2000. It argued that support for the returnees of prisoner from Siberia should be claimed and German payments to Nazi victims were used as an example. The bill was not passed. According to Latvian Foreign Minister Indulis Berzins, member of the centrist Latvian Way party, ‘Our relations with Russia are already not at all simple’, he declared, and ‘this would complicate them further’ referring to the pending issue of citizenship of the Russian minorities residing in Latvia and Estonia. The large presence of Russian speakers in Latvia was an important factor in cautioning Latvian elites from aggressive policies regarding Soviet occupation and particularly with regard to seeking compensation. Such adversarial policies would have alienated Russian speakers from the mainstream Latvian centrist parties such as Union of Greens and Farmers, and centre right parties such as New Era Party, Latvian Way and People’s Party.

Political parties representing Russian speakers did not have a direct influence on government policy making related to Soviet occupation since they were never members of any the coalition governments in Latvia since independence. However, they did have indirect influence through the parliament and put pressure on the government by speaking out publicly against policies seeking calculations of damages under the Soviet regime. In 2009, Andrei Klementyev of the center leftist Harmony Centre and a member of the Latvian parliament's presidium, criticized the Commission of the Historians of Latvia which was studying the question of damage incurred by Soviet occupation. In 2009, the Latvian Commission released the figure of USD712 million as damage for the economic and environmental damage inflicted on the Baltic state during the Soviet era, and suggested that the total damages could eventually top USD20 billion. ‘This commission is causing damage. At times when relations between Latvia and Russia are beginning to improve these radical statements emerge. And they of course have a negative impact on our relations,’ declared Klementyev. It is not surprising then that it was Klementyev who initiated the closing of the commission citing the Latvian financial crisis of 2009 because the body received around USD400,000 a year in government

funding. Following this criticism, the public funding for the commission ceased in 2009, though it continues to exist as a non-governmental organization.

Whilst the main actors seeking the closure of the commission were parties representing Russian speakers, the precipitating factor was the Latvian economic crisis. In the context of the economic crisis of Latvia of 2008-2009, there was a backlash against the commission. Though the commission members stated that the 2009 calculations were completed because sooner or later (and most likely later) the compensation would be paid, the public and other political forces were more skeptical. As Klementyev, put it.

I am surprised that in a period of the most difficult economic crisis in Latvia the government continues to support this dubious structure. Hospitals are being closed, thousands of doctors, teachers and police officers are jobless, but the commission that calculates damage from the “Soviet occupation” continues to actively function.579

The costs of funding such a commission at a time of economic crisis and, concomitantly of jeopardizing Latvian-Russian relations when Russia remained an important economic partner, was perceived as reckless in the context of Latvia’s economic predicament.580

The closure of the commission also marked the evolution of Latvian foreign policy towards Russia regarding historical differences. In the late 2000s, Latvia policy elites wanted to remove historical tensions from the Russian-Latvian agenda – a trend evident in the policies and rhetoric regarding Victory Day celebrations as well. In 2009, with nationalist forces such as FFF in decline, and the governing People's Party mostly interested in an economic agenda and pragmatic relations with Russia, the commission became an outdated instrument. If there had been broad political support, it might have been maintained even during the economic crisis, but the downturn and the arguments of Russian speakers provided the impetus for a policy decision about which there was

577 Ibid.
already tacit consent. Only the FFF, a minority party outside the ruling coalition, opposed the closure.\footnote{581}{Interview with anonymous Baltic diplomat, Vilnius, 13 July 2010.}

In summary, Latvian elites were less adversarial towards Moscow than their Lithuanian counterparts in policies related to seeking occupation compensation, largely because of the different domestic conditions. The sizable Russian speaking minority opposed aggressive policies towards Russia and pragmatism prevailed in light of economic difficulties. As in Lithuania, policies addressing the damages of Soviet occupation were driven by the political right, opposed by the political left, and viewed with caution by the centre. The Latvian political right also instrumentalized questions of historiography but not to the same extent as in Lithuania. Following EU membership in 2004, moreover, Latvian policies towards historical differences with Russia have become ever more pragmatic and cooperative as can be seen both in attendance of Victory Day celebrations and in inaction regarding occupation compensation.

\textit{Estonia: Occupation Damages}

Estonian policies regarding Soviet occupation and pursuit of compensation have been significantly more cooperative and pragmatic than Lithuania and moderately more pragmatic than Latvia due to different domestic political conditions, the large numbers of Russian speakers, and the general tendencies towards pragmatism exhibited in foreign policy towards Russia. Like Latvia, the Estonian government did not make any official demands for compensation and instead focused on the damages incurred during the Soviet occupation.\footnote{582}{The only legal act in relation to the Soviet occupation was the resolution in 1990 which pronounced as void the Soviet government's 1940 nationalization of property and recognized the continuity of all pre-war property rights.} However, unlike Latvia, the emphasis was not on estimating the actual value of the damage but rather on creating historical records of the crimes endured during the Soviet occupation. However, whilst the Latvian Commission suggested that the damages would be paid to Latvia sooner or later, the President of Estonia Arnold Rüütel clearly stated in October 2005 that it will not make any material claims against
Russia.\textsuperscript{583} Considering the policies of neighbouring Latvia and Lithuania, Estonia’s actions stand out as deliberate policy choices.

Estonian moves regarding Soviet damages during occupation were driven by partisan preferences of specific, domestic political parties. The Estonian rightist political party Pro Patria created three most important historical research institutions of Soviet occupation. Pro Patria’s emphasis on recording the devastation of the Soviet occupation can be likened to the platform of Lithuania’s rightist Homeland Union party and Latvia’s rightist FFF. Other Estonian political parties were less interested in the question of occupation damages. However, because the Pro Patria party in Estonia, like Lithuania’s Homeland Union, remained a significant force in the political scene in the period of 1992 to 2010, its influence on policies towards compensation remained sizable. On the other hand, the Latvian FFF lost influence in Latvian politics and thus influence over national policies regarding compensation. Still, despite being a rightist party and a significant player in Estonia's domestic political scene, Pro Patria pursued less adversarial policies than Lithuania's Homeland Union.

In 1992, during the presidency of Lennart Meri and the government of Prime Minister Mart Laar\textsuperscript{584}, both of the Pro Patria party, the Estonian State Commission for Studying Repressive Policies of the Occupational Regimes was established. This first organization for the study of Soviet occupation was confirmed by a decree of the then right-dominated Estonian parliament in June 1993.\textsuperscript{585} The commission sough to: ‘clarify the crimes of genocide committed during these occupations, to assess the economic damage caused to the people of Estonia and to give an objective scientific opinion on the activities of the occupying powers in Estonia.’\textsuperscript{586} Meri and Laar continued to endorse research of the Soviet era and its tribulations, not only as members of the Pro Patria party but as individual politicians whose personal convictions, like those of their electorate, gave the subject great importance.

\textsuperscript{583} ‘News Radio,’ Vilnius, 2005.
\textsuperscript{584} In 1992, Prime Minister Mart Laarat was a member of the rightist Christian Democratic Party which later was incorporated into Pro Patria.
\textsuperscript{585} Estonian Parliament Resolution No 40.
Meri and Laar later founded the other two most influential Estonian organizations to study Soviet crimes. Meri founded the Estonian International Commission for Investigation of Crimes against Humanity in 1998. The Commission set as its objective the investigation of crimes against humanity committed in Estonia and/or against citizens of the Republic of Estonia during the period of 1940 to 1990. Laar, in the meanwhile, was amongst the founders of a second institution, the Foundation for the Investigation of Communist Crimes (FICC). The FICC, established in 2008 as an NGO, was broadly intended to conduct research on communist crimes committed globally and to assist communist regimes in their transitions to democracy. In their commitment to such institutions, Meri and Laar could be likened to the Lithuanian Homeland Union leader Landsbergis for whom seeking occupation compensation became a personal matter.

The most important policy output from the study of the damages inflicted during the Soviet occupation was the publishing of a “White Book” which outlined the losses Estonia suffered during the Nazi and Soviet occupations in the 1940 to 1991 period. It was released in 2005 by the Estonian State Commission in Estonian and English. The findings state that Estonia lost 180,000 people from repression and that the ecological damage committed totalled in the billions of dollars. Whilst Lithuania had also completed calculations of damages as part of its policy of seeking compensation and Latvia had likewise completed calculations of damages in case such sums might be paid in the future, Estonia’s intentions were different. Even though the calculations could potentially become the basis of seeking future compensation, and despite the fact that publication of the White Book was perceived by Moscow as a confrontational move, the Estonian government denied any intent to seek material compensation for the Soviet occupation. In October 2005, the President of Estonia Arnold Rüütel of the leftist People's Union stated to the Russian newspaper Izvestia that ‘neither the current government, parliament, nor the President of Estonia has made any kind of decision regarding the material claims to Russia, and has no intensions of doing so.’ This declaration may have been made in response to the 2004 Russian suggestion - before the publication of the White Book – that

it might develop counter-claims against the Baltic states with regard to economic benefits accrued during the Soviet occupation. Estonia and Rüütel’s mild statements stand in contrast to the intensity of the position of Lithuanian President Adamkus. Consider that in 2004 Adamkus stated, ‘We can submit claims for the broken lives, the destroyed state, the material losses we suffered…If anyone were to make compensation claims, it would be us presenting a bill for the entire occupation period.’ Ruutel, by way of contrast, did not suggest billing Russia but pointed out that Estonia's 1939 standard of living had equaled Finland's and that the occupation had held back Estonia's development for five decades. Such claims may be understood as a response to Moscow's lauding of the economic benefits of Soviet Union membership. Estonia’s less adversarial agenda may have stemmed from the fact that Pro Patria and its members like Meri and Laar were the sole drivers of these policies. Other Estonian centre right parties such as the Reform Party or centrist Social Democratic Party or leftist parties such as the Estonian Centre party and Coalition party did not even seek to record occupation damages. Pro Patria’s influence, however, is not inconsequential; despite ebbs and highs, the party has remained a force in Estonian politics, furnishing a two-term president in Meri and served as a member of three coalition governments.

There is insufficient evidence to suggest that the sizeable Russian speaking population of Estonia had a direct influence Estonian policy towards recording Soviet occupation damage. First, demands for occupation damages were driven by the Pro Patria party which did not have many Russian speaking constituents. Second, although political parties representing Russian speakers were not members of any government coalition, the sizable minority did have indirect influence because there was not the same electoral support for the issue. Therefore, mainstream political parties which would have been interested in gaining the support of the Russian speakers vote were hesitant to pursue the issue.

In comparison to Latvia and particularly Lithuania, Estonia exhibited the greatest pragmatism in its policies related to Soviet occupation. Tallinn did not pursue

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590 Socor.
591 Ibid.
compensation and explicitly signaled that it will not pursue material compensation in the future. Instead, its efforts were focused on recording the crimes and damages of the Soviet occupation. In comparison to Latvia and Lithuania, Estonia’s policies were more cooperative towards Moscow but since occupation damages were recorded and driven by state institutions, policies can be described as adversarial. The main factors driving Estonian policy were the partisan preferences of the Pro Patria party whose leaders pursued the study of occupation damages as their own electoral agenda. It is likely that if Pro Patria would have been a dominating party on the Estonian political scene, it would have gone further and pursued compensation. However, the large numbers of Russian speakers in Estonia were a likely factor mitigating against more nationalist and confrontational Estonian policies regarding Soviet occupation. In Estonia, meanwhile, and unlike in Latvia, there was no discernible policy evolution regarding the occupation debate in the studied period. Whilst Latvian policies underwent a turnaround by the late 2000s when the state commission on the study of occupation damage was closed, in Estonia, the state commission continued to be funded by the government in the late 2000s. Furthermore, a new, albeit non-governmental organization, the Foundation for the Investigation of Communist Crimes, was established in 2008 demonstrating that the subject remained relevant for the Estonian electorate.

Summary
The examination of Lithuanian, Latvian and Estonian policies towards the Soviet occupation demonstrates that there was little policy coordination between the three states other than the Estonian initiative in 2004 through the Baltic Assembly to urge all three states to record damages incurred from the occupation. All three Baltic states did make such calculations, with Lithuania completing it in 2000 before the Estonian initiative, and Latvia and Estonia following in 2005. Other than this, however, the three Baltic states diverged regarding the next step, with Lithuania seeking compensation from Russia, whilst Estonia stated that it would not seek any such compensation. Latvian policies displayed the least consistency ranging from efforts by the rightist FFF party to seek
compensation for the occupation to the eventual discontinuation of funding for the state commission compiling the data.

The differences in these policies lie primarily in the different domestic political conditions of the three states. In all three countries, occupation damages were an issue for rightist political parties such as Homeland Union, FFF, and Pro Patria. The pursuit of compensation policies was related to the successes of these parties. Since Homeland Union and Pro Patria remained significant parties in Lithuania and Estonia respectively, policies regarding the occupation displayed continuity. The decline of the FFF party in Latvia, however, meant that policies regarding occupation damages lost traction and were discontinued by 2009. A comparison of Lithuanian and Estonian policies reveals that whilst there was continuity in both, the former was more confrontational and principled, and the latter more cooperative and pragmatic. The reasons for these differences lie in the legally binding mechanism created in Lithuania in the early 1990s which obliges the state to permanently seek compensation for the occupation. In the early 1990s, when the wounds of the occupation were still fresh, it was the most opportune time to find broad electoral support for such an initiative. This opportunity was grasped by the Homeland Union but not by Pro Patria. One explanation for the divergent outcomes in the three states may be the large presence of Russian speakers in Estonia and likewise in Latvia which mitigated compensation oriented policies. The second was the general Estonian tendency toward more pragmatic policies towards Russia in comparison to Lithuanian principled policies. Lastly, a comparison of all three states' approaches demonstrates that there was no policy or even rhetorical convergence in the studied period. Instead, each state pursued policies based on their own interests, domestic political conditions and the general context of its relations with Russia.

**Conclusion**
The analysis of Baltic policy decisions regarding Soviet occupation demonstrates that tensions over history remained a highly sensitive aspect of Baltic-Russian relations. Policies were typically adversarial and principled, driven by the partisan preferences of
political parties across the three states—albeit to varying degrees. Lithuanian policies were the most principled and confrontational whilst Latvia exhibited the greatest pragmatism and cooperation towards Moscow. These policy differences were primarily driven by differences in domestic conditions such as the left-right political affiliation of the governments in power.

However, the policies scrutinized demonstrated that in contrast to the hypothesis that rightist governments pursued adversarial policies towards Russia, rightist governments often pursued cooperative and pragmatic policies towards Russia whilst leftist governments at times pursued adversarial policies. This was particularly evident in Baltic policies towards attendance of Victory Day celebrations in Moscow and, to a lesser extent, in Baltic policies towards compensation. The analysis also demonstrated that rightist political parties in opposition usually advocated adversarial and principled policies in line with their partisan preferences and often relied on politicising the issues to gain nationalist votes and critique the government. Likewise, leftist political parties when in opposition called for more cooperative policies towards Moscow as a means to critique the policies of the rightist governments. This suggests that there were an incumbency and opposition factors at play. When in government, both rightist and leftist political parties pursue similar centrist policies. Policies of the rightist parties in government become more cooperative whilst policies of the leftist parties in government became less cooperative. When parties are not in government their rhetoric becomes more extreme in order to influence the policies of the government. The instrumental use of Soviet occupation by political parties for electoral gains was notable in all three states, particularly Lithuania. Generally, politicizing the question resulted in more adversarial and principled policies though leftist parties also engaged in the same tactics to achieve more cooperative policies.

The main differentiating domestic factor between Lithuania on one hand and Latvia and Estonia on the other was the population of Russian speakers. The hypothesis that the presence of Russian minorities supported cooperative policies towards Russia was not proven. The analysis showed that Russian speakers did not play a significant or direct
role in influencing policy outcomes with the exception of Latvian approaches to compensation in 2009. Parties representing Russian speakers were never members of either the Estonian or the Latvian governments, which explains their limited influence. Nevertheless, the large presence of Russian speakers in Estonia and particularly Latvia influenced public opinion and because of its electoral implications indirectly impacted the policy choices of the Estonian and Latvian leaders. Such influence regarding Victory Day celebrations began to be felt in Latvia in 2005, and in Estonia only in 2010. Latvian political parties representing Russian speakers had a notable influence on Riga's policies towards compensation in 2009 when they initiated the closure of the government commission studying occupation damage. In Estonia, the influence of Russian speakers remained unfelt through to 2010. In Lithuania, the lack of a significant Russian speaking population had an indirect effect in that the absence of electoral costs translated into greater willingness of the political right to engage in politicking and instrumental usage of the occupation issue.

Contextual factors played a notable role in determining policy choices in all three Baltic states but particularly in Latvia’s policy choices. Latvia’s negotiations for a border treaty with Russia in 2005 and Latvia's severe economic crisis of 2009 acted as forces promoting cooperative relations with Russia. Latvia also experienced a general turnaround in foreign policy towards Russia in the late 2000s which now sought to engage with Russia in the context of EU-Russian relations.

The evidence of this case study only partly supported the hypothesis of this thesis regarding the effects of EU and NATO membership on policy making. Baltic policies did not experience significant convergence after EU and NATO accession in 2004. In fact, the greatest divergence in Baltic policies regarding Victory Day celebrations occurred in 2005 when the Latvian president attended the celebrations whilst the Estonian and Lithuanian presidents refused. However, in 2005 one could argue that there was a degree of convergence in policies regarding occupation damage when Latvia and Estonia released their estimates of Soviet damages whilst Lithuania did so in 2000. However, by 2010, there was a notable convergence in the rhetoric of all three states regarding Victory Day celebrations, but no such convergence in policies since the Lithuanian president did
not attend the celebrations like the Estonian and Latvian presidents. While EU and NATO membership did not demonstrate a significant policy convergence, it did have an effect on moderating Estonian and Latvian policies towards the Soviet occupation damages and Victory Day celebrations. In sum, EU and NATO membership produced an indirect effect on Baltic rhetoric and a limited effect on Baltic policies only after a considerable time lag following the accession. The minimal policy convergence can also be explained by the fact that there was very little successful policy coordination between the three states. When policy convergence occurred, it was primarily due to temporary coincidence of interests rather than a willingness to coordinate policies. Last of all, in terms of Baltic policy responsiveness to the heightened timbre of Russian policies following Putin’s accession to power, there seems to be insufficient evidence to suggest that Russia’s increased assertiveness has been met in kind by the Baltics.
CONCLUSION

This concluding chapter will highlight the empirical and theoretical findings of the thesis, evaluate the causal importance of the variables, and draw broader conclusions about the analytical implications of the study and the new horizons for research which it opens up.

Distinct and Evolving Policies
This study has demonstrated that the approaches of the Baltic states in their foreign policy towards Russia differed significantly over the period examined. Clear distinctions among national policies emerged from all three cases, but particularly in the gas and history studies.

The examination of Lithuanian foreign policy across economic and political questions with regard to oil, gas, and history demonstrated that, as a whole, Lithuania pursued the most principled and adversarial policies towards Moscow. In the oil sector, Lithuania was relatively adversarial towards Russia in that it resisted two of the three efforts on the part of Russian companies to acquire the Mazeikiu Nafta oil refinery. Political parties on both left and right of the political spectrum pursued principled policies, with the left favouring Russian investors with relatively little regard to the price offered and the right favouring Western investors, with little consideration of their ability to guarantee oil supplies to the refinery. In addition to these partisan preferences, Vilnius also differentiated between Russian state companies and Russian private companies, preferring the latter.

In the gas sector, Lithuania pursued highly adversarial policies towards Russia and mounted the longest resistance in the region to Gazprom’s acquisition of national gas company shares. Policies were highly principled and driven by partisan preferences - primarily of the political right - both when it was in power and when it was in opposition. The left too was constrained by pressure from the right to put on a relatively adversarial face. Also, in an interesting twist, the apparently cooperative Lithuanian left was in fact was also effectively anti-Russian in the economic sphere because it was cautious towards privatization and foreign investment. The caution towards privatization was rooted in the
left’s socialist ideology. However, despite such policies, Gazprom and its affiliates ultimately penetrated the gas sector to the same extent as they did in Latvia and Estonia via methods including non-transparent investment into distributing companies.

In the sphere of history, Lithuania pursued by far the most adversarial and principled policies towards Russia by officially seeking compensation for damages incurred during the Soviet occupation and by not attending any of the three anniversary Victory Day celebrations in Moscow. By the 2000s, however, Lithuania’s rhetoric towards Victory Day celebrations had become less adversarial although this was not coupled with a turn towards more cooperative and pragmatic policies. The evolution was a possible result of a greater sense of security stemming from EU and NATO membership and the tendency for more moderate rhetoric of the political right when it is in government versus when in opposition.

Broadly, Estonia pursued cooperative and pragmatic policies regarding economic and energy issues and maintained a more principled and adversarial stance on political questions such as the historiography of the Soviet period. The oil and gas case studies demonstrated that Estonia was open to Russian investment both in its oil sector infrastructure such as port terminals and with regard to its national gas company. The openness to investment stemmed primarily from the neoliberal economic ideology of Estonia’s political right, which dominated government throughout these years.

In the area of historical legacies, however, Tallinn took a principled and adversarial stance. A significant move in this respect was the relocation of the Bronze Solder monument which had repercussions in its energy relations with Russia. Estonia also pursued principled policies in the sphere of history regarding Victory Day celebrations in 1995 and 2005. Its moves to record damages from the Soviet occupation may also be read as adversarial. However, in comparison to Lithuania, Tallinn’s historical policies were milder because Estonia never sought compensation for the Soviet occupation through official channels. This study also charted the evolution of Estonian policies in the historical arena from the principled and adversarial stance of the 2007 Bronze Solder
episode to the more pragmatic and cooperative approach of attending 2010 Victory Day celebration. The extent and the speed of Estonia’s policy evolution can be explained by the impact of different geopolitical conditions, including the role of EU and NATO membership, and the diplomatic crisis with Russia of 2007.

If Lithuania was located at the adversarial and principled end of the spectrum and Estonia at the cooperative and pragmatic end Latvia may be broadly described as falling somewhere between the two – particularly regarding policies in the energy sector. That said, the analysis has brought out the nuances of Latvia’s policies and the variation between economic and political issue areas. In both the oil and gas sectors, Latvia pursued moderately principled and relatively adversarial policies towards Russia. In the oil sector, Riga resisted Russian investment in its oil transshipment company. However, Latvian resistance was directed not only against Russia but also against all foreign investment. In the gas sector, Latvia resisted Gazprom investment in its national gas company until 1997, which was considerably earlier than Lithuania but later than Estonia.

With regard to historical legacies, Latvia’s policies were markedly different from those of Estonia and Lithuania, not in substance as much as in terms of evolutionary trajectory. Latvia’s principled and adversarial policies underwent a complete transformation, becoming cooperative and pragmatic on major issues such as attendance at Victory Day celebrations and the question of Soviet occupation. The turnaround regarding Victory Day celebrations was more gradual, taking five years. The transformation in policy regarding Soviet occupation damages was more abrupt and achieved within the course of 2009. These dramatic turnarounds reflected the domestic and diplomatic crises Latvia experienced in the period in question – from a deep diplomatic crisis with Russia which prevented it from signing a border treaty until 2007, to the severe economic recession of 2008 to 2010.

A major contribution of this work was to bring out clearly the evolution of Baltic foreign policies towards Russia. Not only were the policies pursued by the Baltic states variegated, but they evolved differently over time, through three stages. In the 1990 to
1995 stage, all three states pursued adversarial and principled policies towards Russia, with the exception of Estonia in the economic sphere. In the 1995 to 2004 stage, there was a significant divergence in policies across the sectors. Estonia was still cooperative and pragmatic in the economic sector whilst Latvia opened its gas sector to Russian investment but not its oil sector. Lithuania, on the other hand, was still adversarial and principled towards Russian investment in the oil and gas sectors. In 2005, there was a marked divergence in the Baltic states policies regarding Victory Day celebrations with Lithuania and Estonia refusing to attend while Latvia accepted the invitation for the first time.

When examining policy outcomes in 2010, one can see that some convergence amongst Baltic policies has occurred in the post-EU/NATO enlargement stage of 2004 to 2010. By 2010, Gazprom was a sizable shareholder in the national gas companies of all three countries. All three states experienced halts in oil supplies from Russia due to tensions with Moscow and effectively ceased being major transit states for Russian oil products destined for Western markets. By 2010, moreover, none of the three states issued adversarial statements towards Moscow over historiographical questions related to Victory Day celebrations in Moscow. On the contrary, both Estonia and Latvia chose to attend the celebrations while Lithuania gave its polite excuses. The convergence of policies was often based on individual, *ad hoc*, and instrumental decisions rather than policy coordination or common interests among the three states.

**Determinants of Baltic Policies towards Russia**

The hypothesis outlined in the introductory chapter pointed to six variables which may have affected the policies of the Baltic states towards Russia in the years 1994 to 2010. These included the left/right political orientation of the government, instrumental usage of principled policies, the ethnic factor, business interests, membership in the EU and NATO, and finally, Moscow’s own policies. The subsequent empirical analysis showed that all these factors had a role in shaping the Baltic policies. However, the most important role was played by domestic political factors such as the left/right orientation of the government, the instrumental usage of policies by political elites for domestic
audiences, and the greater or lesser role of business interests, especially with regard to energy.

The three case studies further demonstrated that centre-right political parties were ideologically predisposed towards adversarial policies towards Russia and centre-left political parties favoured more cooperative platforms. However, detailed analysis demonstrated that in practice, centre-right governments did not necessarily pursue adversarial policies towards Russia and centre-left governments also often did not pursue cooperative ones. Left-wing governments and political leaders were often constrained by their reputation of being ‘soft on Moscow’ and the label of being ‘former communists.’ Thus, they were inhibited in the pursuit of cooperative policies towards Russia. This was most evident in Lithuania and Estonia rather than Latvia where there were no governments led by centre-left forces. Rightist governments often playing from their position of strength - of being untainted by questionable links with Russian interests - on occasion chose to pursue cooperative and pragmatic policies towards Moscow. These tendencies were most evident in the choices of leaders regarding attendance of Victory Day celebrations in Moscow. In the economic sector, the political right in Lithuania and Latvia maintained their hostility towards Russian investment while the political right of Estonia was open to Russian and indeed all foreign investment.

The multidimensional behaviour of the political right and left spoke of another and often unaccounted domestic political variable that shapes Baltic policies towards Russia – the incumbency factor. Incumbent political parties behaved differently and pursued different policies than when in opposition. Political parties of both sides of the political spectrum pursued more moderate and more pragmatic policies when they were in government than the more principled policies they advocated whilst in opposition. There were several reasons for this. First, the nature of the Baltic political system resulted in coalition governments, which as in many other systems inclined parties in the coalition government to find common ground with their coalition members and thus pursue more moderate policies. The second reason is closely related to the second determining factor studied in this thesis: the instrumental use of principled policies by political parties and
leaders. Political parties in opposition called for principled policies (the left for more cooperative and the right for more adversarial) towards Moscow in order to appeal to their electorate and influence the policies of incumbent governments. However, once in power, political parties sometimes chose to pursue more pragmatic, moderate, and consistent policies. A tendency in political party behaviour was also noted towards the end of a government’s term when, preparing for upcoming elections, moderation was often abandoned and principled policies and polemic rhetoric favoured particularly regarding the historical agenda.

The study also demonstrated that there was a considerable amount of instrumental use of principled policies towards Russia by both the left and the right with domestic political gains rather than bilateral ends in mind. This was most often practised by political parties in opposition and by outgoing incumbent governments. In these instances, policies ran outside the scope of partisan preferences and the left called for highly cooperative policies whilst the right called for highly adversarial policies towards Russia. The calls of the right were often successful and the resulting adversarial policies resulted in tensions both with Russia and within the domestic politics. The best examples of this were the Estonian centre-right Reform party’s decision to relocate the Soviet monument ahead of the parliamentary elections in 2007 and Lithuania’s outgoing Homeland Union-led government’s call for a referendum on compensation for Soviet occupation held in 1992 just before parliamentary elections. As the examples demonstrate, there was considerable electoral appeal of adversarial policies, particularly in the early 1990s or in elections overcrowded with numerous parties when political parties sought to differentiate themselves from their competitors.

Most other studies recognizing variation approached Baltic-Russian relations through the prism of the ethnic composition of the three states. The three case studies provided a fuller analysis, demonstrating that the ethnic factor played an influential but generally indirect role in determining Baltic policies towards Russia. The ethnic factor impact on policy making in Latvia and Estonia was limited because, despite the large numbers of Russian minorities, political parties representing Russian speakers were isolated from the
decision making process due to their exclusion from government coalitions. However, the sizable presence of Russian speakers indirectly played a moderating role on policies related to historical tensions with Moscow. For instance, the public opinion of Russian speakers was a moderating factor promoting cooperative policies towards Russia such as in Riga’s 2005 and both Riga and Tallinn’s 2010 decisions to attend Victory Day celebrations. The single case of direct influence was when political forces representing Russian speakers in Latvia successfully lobbied to cut off state funding for the centre studying Soviet occupation damages. Thus the ethnic factor resulted in differentiation of Baltic policies but not always along obvious and predicted lines.

The literature has also often portrayed Estonia and Latvia as having the most complex and tensest relations with Russia because of their large populations of Russian speaking minorities. Lithuania, with its small Russian speaking minority, was perceived to have cooperative relations with Moscow. In contrast to these oft-cited expectations, the findings of this study were mixed. In the 2007 riots of Russian speakers in Tallinn and the 1998 protests of Russian pensioners in Riga, Russian speakers were clearly a source of tension in bilateral relations with Russia. However, it is important to highlight that tension does not always go hand in hand with adversarial relations. For instance, though tensions related to Russian speakers were present in Estonia and played out in the historical sphere, Tallinn was cooperative and pragmatic on economic issues. Furthermore - and in contrast to widespread assumptions - the absence of a Russian minority in Lithuania was at times a factor for adversarial policies towards Moscow. It enabled political forces, especially on the right, to engage in provocative rhetoric on the Russian issue for domestic political advantage without electoral costs. On balance then, there was greater evidence to indicate that the Russian minority either did not play a notable role or was a factor promoting cooperative policies towards Moscow particularly in the historical issue areas. Meanwhile, the absence of a Russian minority resulted in more adversarial policies towards Moscow particularly in the historical areas. In other cases not examined by this study such as citizenship or language policy, the presence of Russian speakers would likely be a force for adversarial policies towards Moscow. In
energy policy, Russian business interests rather than Russian speakers lobbied in favour of more cooperative relations with Moscow.

Business interests appeared to play an active, though non-transparent and often poorly documented role in influencing Baltic economic policies towards Moscow. The evidence did not confirm the hypotheses relating to the nature and influence of business interests. In fact, the business lobby did not produce a singular effect on Baltic policies but a much more complex and multidimensional one. The business lobby was unsuccessful in influencing political concerns such as the Lithuanian president’s non-attendance of Victory Day celebrations and Latvia’s 1998 policies towards Russian pensioners. In the economic sector, however, business interests were more successful in their lobbying. Business interests (regardless of their ethnic origin but in line with commercial sectoral interest in the Russian market) lobbied in favour of Russian investment into strategic energy assets. That said, the business lobby was not always a force in favour of cooperative relations towards Russia. In Latvia, powerful local business interests lobbied successfully against foreign investment (Russian or Western) into Latvia’s transshipment company Ventspils Nafta. In Estonia, meanwhile, much of the local strategic energy infrastructure was owned by Russian companies and investors. However, in the examined case studies there was insufficient evidence to demonstrate that they actively influenced Tallinn’s policymaking. The more transparent, less corrupt political system and the neoliberal economic attitude of the elites towards all investment made the business lobby somewhat less relevant in Estonia but surely not wholly so. Finally, in Lithuania, entrenched business interests with links to Russia were important behind-the-scenes players in the economic and political life of the country lobbying in favour of cooperative policies towards Moscow. Business interests that lobbied against Russian investment were not active to the same extent in Lithuania as they were in Latvia.

EU and NATO membership played a limited and indirect role in determining Baltic foreign policies towards Russia and did not result in the same level of convergence of policies as was anticipated. The influence of EU and NATO was different in different issue areas. There was little evidence to suggest that EU and NATO membership played a
role in Baltic policies towards Russian investment since much of the privatization processes were completed before membership. A possible exception is the Lithuanian preference for a Polish investor for its oil refinery, considering that Poland was a fellow member of EU and NATO. In the field of historiography, this factor did have a more notable effect. It was most evident in Latvia, which by the late 2000s sought to engage Russia in the context of EU-Russia relations rather than bilateral relations, particularly regarding issues related to the Soviet occupation. It was also evident in Estonia in 2007 when it was possibly emboldened by EU and NATO membership to pursue policies towards the Bronze Solder that led to a diplomatic crisis with Russia. Across the Baltic states as a whole, EU and NATO membership did not produce immediate effects of convergence as in 2005 there was perhaps the greatest divergence in Baltic policies registered to this day, with Lithuania and Estonia not attending Victory Day celebrations in 2005 whilst Latvia chose to attend. However, by 2010 convergence of rhetoric if not policies occurred in all three states regarding Soviet occupation and Victory Day celebrations.

The influence of EU and NATO membership in Baltic policies towards Moscow can be explained best not through neo-liberal institutionalist effects but through the changing environment. That said, the environment was affected of course by changes in institutional affiliation. In this study, the changing environment of the Baltic states was accounted for by marking the different development stages of the Baltic states. These different time periods set the general internal and external parameters for action and played an important role in framing policy options for the Baltic elites. The first stage of 1990 to 1995 was one of sovereignty building in which goals included international recognition of independence, Soviet military withdrawal, and the delineation of borders. All such aims were circumscribed by intense vulnerability vis-à-vis Russia, which often resulted in highly principled policies related to the Soviet occupation. The second stage of 1995 to 2004 was one of state building focused on consolidating the achievements of the previous period and improving the geopolitical positioning of the states through joining the EU and NATO. This period was marked by a struggle between the partisan preference for principled policies and pragmatic pressures. The third stage of 2004 to
2010 was one in which EU and NATO membership had been achieved and when statehood and the international positioning of the states was secured. In this context, the Baltics were in a significantly stronger position vis-à-vis Russia and more secure to pursue cooperative policies towards Moscow, a course of action for which they have opted on occasion, but by no means always.

There was insufficient evidence to confirm the hypothesis that the Baltic states responded in kind to the increased assertiveness of Moscow following Putin’s re-election in 2003. Generally speaking, Baltic policies towards Moscow became more cooperative or were unchanged in the 2003 to 2010 period but there was insufficient evidence to suggest that this was in response to Moscow’s policies. However, the role of Moscow’s initiatives in spurring Baltic actions cannot be underestimated, especially in the energy sector throughout the 1994 to 2010 period. For it was in this issue area that Baltic policies were above all reactive. Such policies often entailed attempts to come to terms with Moscow’s efforts to acquire controlling shares in the national gas companies slated for privatization and in the Baltic strategic oil assets. Likewise, Moscow’s increasingly elaborate celebrations of Victory Day in 2005 and 2010 – which were accompanied by the glorification of Soviet history - required a response on the part of Baltic leaders in the form of attendance or non-attendance and support or condemnation of the casting of the Soviet Union as the saviour of the Baltic states in the Second World War.

**Value of the Study**

In the course of the analysis, this thesis has challenged the conventional interpretations of Baltic policies toward Russia. In contrast to the common assumption that the small and weak Baltic states have little say in their relations with Russia, this work focused on Baltic policies and their active resistance to Russian interests even in spheres such as energy where Moscow has long had the upper hand. Thematically and theoretically, this work also goes beyond an existing literature, which focuses on the early period of Baltic independence and is steeped in the constructivist view that Baltic policies towards Russia.

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592 See the literature review section in the introduction.
have been dominated by fear and mistrust due to questions of national identity.\textsuperscript{593} This work demonstrated that Baltic foreign policy making is complex and multidimensional and that distinct partisan ideologies, instrumental usage of policies towards Russia for domestic political gains, the role of Russian speakers, and business interests also play multi-vector roles in the formulation of Baltic policies towards Moscow. As the study has highlighted, the Baltic Russian policies often were not aimed at Russia but rather at domestic political opponents, the electorate, and the business lobby. Such an analysis of Baltic domestic politics and the impact of domestic political actors and conditions in shaping Baltic foreign policy is arguably unprecedented in the literature in terms of both comparative scope and the depth of analysis accorded to each case study.

This study also re-assessed and challenged the old and simplistic labels of ‘most conflictual’ for Estonia and ‘most cooperative’ for Lithuania in their relations with Russia.\textsuperscript{594} The findings demonstrated that the nature of policies varied for different sectors and across different time periods. Last but not least, the study filled gaps in the literature on recent and ongoing issue areas such as tensions over energy and the legacy of Soviet occupation, as well as the political role of Russian speakers and business interests in domestic and foreign policy.

The arguments and conclusions of this thesis have a number of analytical consequences. First, it builds on and yet challenges the structural realist assumption that states of similar resources and geopolitical conditions, sharing similar constraints and opportunities in their foreign policy, would display highly similar foreign policies. This work not only demonstrated the differences in Baltic policies but also the complex web of domestic actors and interests that shape foreign policy in addition to broad structural constraints. It also demonstrated how the small Baltic states each set their own unique foreign policy agenda towards their regional hegemon in the face of energy dependency and historical tensions and membership in institutions such as NATO and the EU.

\textsuperscript{593} See the literature review section in the introduction.
\textsuperscript{594} See the literature review section in the introduction.
The patterns of foreign policy making such as instrumental usage of policies for domestic audiences, the behaviour of incumbent political parties versus parties in opposition, the inability of leftist parties to easily pursue cooperative policies towards Russia, and the willingness of rightist parties or leaders to pursue pragmatic policies were captured by this study. These patterns also yield insights into political processes in new democracies and vulnerable states in their dealings with the former hegemon. Such findings may be highly relevant for other CEE states that share many similar attributes and a difficult relationship with Russia.

Agenda for Further Research
The findings of this study present a number of further research avenues for scholars of this region. First, though this study focused on Baltic policies towards Russia, it provided a number of insights into Moscow’s policies towards the Baltic states—especially the circumstances and the motives behind Moscow’s halts in oil supply to the Baltic states. A study of contemporary Russian policies towards the Baltic states covering issues beyond Moscow’s attitudes towards Baltic independence and Baltic efforts to join NATO would be highly complimentary to this thesis. Issues that particularly warrant attention are Moscow’s economic and energy policies towards the Baltic states and if and how these are distinct from Moscow’s policies towards other CEE states and CIS states. An analysis focused on Russia’s policies would provide a better understanding and fill in the current gaps of contemporary literature on Russian-Baltic relations.

Second, the insights provided in the selected case studies could be the basis for an extension of such research to other issue areas. The two case studies of Baltic policies in the oil and gas sector could be the basis of an examination of Baltic policies towards the Russian-German Nord Stream gas pipeline project which seeks to cut out transit states from Russia’s gas flows westwards. The Baltic states have resisted the Nord Stream project to varying degrees with Lithuania and Estonia being most adversarial and Latvia most open to collaboration. Baltic elites and the public have been active at various levels such as in bilateral relations with Russia and multilateral relations between Russia, EU institutions, and Western European states. This fascinating case study is more feasible for
future students of the region since these ongoing events were too recent and too nebulous to allow for serious analytical coverage at this time.

A further insight yielded by this thesis – although not one developed in great depth and which warrants further exploration – is that the EU’s ‘Europeanization’ effect on the foreign policies of new member states may not be very powerful. For the findings suggest that EU membership had only an indirect effect in shaping Baltic policies towards Russia. Instead, it is more likely that the Baltic states have had an ‘Easternizing’ influence on EU policies towards Russia by raising issues of concern for Baltic states such as EU energy policy towards Russia, and a re-assessment of the EU’s historical understanding of the legacy of Soviet and communist regimes. Further study of the ‘Easternization’ effect on EU-Russian relations due to the entry of former Soviet satellite states into the EU would add greatly to this ongoing debate. One interesting case study would be to examine Baltic and CEE support for democratic change in former Soviet republics. For instance, Lithuania and Poland have both been active through the EU’s Neighborhood Policy in spreading democracy and supporting regime change, i.e. the ‘colour’ revolutions in neighbouring Ukraine (2004-2005) and Georgia (2003) and reaching out to opposition leaders and civil society activists in Belarus.

Finally, further studies of Baltic policies towards Russia could build on the theoretical model and empirical methodology developed in the field of Comparative Foreign Policy (CFP). Baltic policy towards Russia should be examined in the context of foreign policy of CEE states or mid-sized states devising their foreign policies vis-à-vis a former hegemon or a neighbouring/regional power. New studies could explore if findings of this work - that the complexity of differentiation amongst the comparable states is based not only on the more evident domestic differences such as ethnic composition but on

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differences in domestic political settings, the nature of domestic politics and related calculations – can be applicable to other states in CEE.

Whilst this dissertation did not aim to evaluate Baltic policy in normative terms or to produce policy recommendations, the findings do raise a number of research questions for policy analysts of the region. Based on the findings regarding the patterns of energy halts and the implications of Baltic policy making in the energy and historical spheres, further studies can be completed aiming to address how to improve energy security and diversification, collaborative relations with Russia, and social cohesion in the case of Latvia and Estonia. The studies demonstrated that despite the rhetoric emanating from the Baltic capitals calling for energy security the three states have done very little in the way of improving their energy predicament, particularly in the gas sector. Further studies can explore how to alter the existing gas infrastructure in the face of an impotent bureaucracy and stiff resistance stemming from vested gas interests. Additional insights into the nature and workings of transnational actors such as Gazprom-owned companies in domestic politics and foreign policy would build on the findings of this work. Lastly, the continued aggressive bidding of Russian companies for Baltic strategic assets and the continued solidification of Russian interest in this region will have eventual consequences for EU-Russia relations, which will be of interest for future studies.
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