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## **The Baltic States: U.S. Policy Concerns**

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# The Baltic States: U.S. Policy Concerns

## Summary

This report provides background and analysis on the political and economic situations on Lithuania, Latvia, and Estonia (commonly collectively referred to as the Baltic states), their foreign policies, and U.S. policy toward them. The Baltic states achieved their long-held dream of full independence from the Soviet Union in the aftermath of the failed August 1991 coup by Soviet hard-liners. Since 1991, the these three countries have made great strides in building democracies and free market economies. They have also sought integration into Western economic and security structures, in part because they see themselves as part of the West, in part to protect themselves from instability or a nationalist resurgence in Russia. The Baltic states achieved these goals in 2004, joining NATO in March and the European Union in May.

Relations with Russia have not deteriorated since the Baltic states joined NATO, although tensions remain over Russian allegations of discrimination against the large Russian-speaking populations in Estonia and Latvia and other issues. Some in the Baltic states are concerned about continuing Russian influence in their countries, including through large energy companies, Russian organized crime, and Russian intelligence agencies.

The U.S. government never recognized the legality of the Soviet Union's 1940 annexation of the Baltic states. After the independence of the Baltic states, the United States pushed strongly for the withdrawal of Russian forces from the Baltic states, sometimes performing a mediating and facilitating role between the Baltic states and Russia. In 2001, the United States strongly advocated Baltic membership in NATO. The United States has provided significant amounts of economic aid to the Baltic states. Due to their success in economic reform, the Administration phased out bilateral aid for Estonia in at the end of FY1996, and did the same for Latvia and Lithuania at the end of FY1999. The United States continues to provide security assistance to the Baltic states to strengthen their armed forces and help them achieve greater interoperability with NATO, as well as to improve their border security and export controls. The Baltic states have been strong supporters of U.S. policy in Iraq, Afghanistan, and the war on terror, and have deployed troops to Afghanistan and Iraq. This report will be updated as events warrant.

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# The Baltic States: U.S. Policy Concerns

## Historical Background

Estonia, Latvia, and Lithuania are located northwest of Russia on the south-eastern shores of the Baltic Sea. They have a combined population of about 8 million, of whom about 5.4 million are Estonians, Latvians, and Lithuanians, many of the rest are Russian speakers (largely ethnic Russians but also some Ukrainians, Belarusians and other ethnic groups). While their countries are often referred to collectively as the "Baltic states," these three peoples differ ethnically, linguistically, and in their religious traditions from each other. For much of their history, they have been dominated by other countries.

Russian dominance in the Baltic region was first established in the early 18th century. Tsar Peter the Great had defeated Sweden in the Great Northern War. Seeking a military, economic and political "window" to western Europe, he annexed to Russia what is now Estonia and eastern Latvia in 1721. The rest of Latvia and almost all of current-day Lithuania were seized when the Polish-Lithuanian Commonwealth was partitioned by Russia, Prussia and Austria in the late 18th century. The new rulers did not radically change the social structure of the Baltic states. German barons (descended from the Teutonic Knights of the Middle Ages) continued to rule over the native serfs in Estonia and Latvia, while Poles and Polonized Lithuanian nobility exercised similar control over the Lithuanian peasantry. In the late 19th century, growing national awareness among the Baltic peoples clashed with Russification policies pursued by reactionary Russian tsars.

The Baltic countries became independent as a result of the collapse of the Tsarist Empire in 1917 during World War I. In 1918, all three Baltic states declared their independence, but had to fight Germans, Bolsheviks and Poles (in the case of Lithuania) at various times to preserve their freedom. In 1920, Bolshevik Russia signed peace treaties with each of the three Baltic states, recognizing their independence. The new states were at first parliamentary democracies, but each had authoritarian regimes by the mid-1930s.

The Baltic states retained their independence until 1940. A secret protocol to the Nazi-Soviet non-aggression pact of 1939 assigned all three Baltic states to the Soviet sphere. In June 1940 Soviet troops entered all three states. Pro-Soviet governments were installed. Soviet control was interrupted by German occupation. At the end of World War II the Soviets regained control, and resumed brutal repression, sovietization, and russification of the native population. Thousands of Estonians, Latvians, and Lithuanians were executed, imprisoned, or deported to Siberia. Moscow collectivized agriculture, expropriated industrial and commercial enterprises, and integrated the Baltic economies into the centralized Soviet system.

The native Baltic populations were severely reduced by casualties during World War II, by emigration, and by massive deportations that accompanied sovietization. In addition, the three small states had to absorb a large in-migration of non-Baltic people, mostly Russians, from the Soviet Union. In 1989 only about 52% of the population of Latvia consisted of Latvians compared to 77% in 1939. In Estonia, the percentage of ethnic Estonians was about 60% in 1989, compared to 92% in 1939. Lithuania maintained its ethnic population share at about 80%.

Beginning in 1985 Soviet President Gorbachev's support for *glasnost* gave the Balts opportunities to reexamine and debate their recent past, including their incorporation into the Soviet Union. In addition, *perestroika* allowed grassroots economic, political, and cultural activities to occur that resulted in a massive resurgence of national consciousness among the Baltic peoples. A burgeoning environmental movement, spurred by *glasnost* and severe environmental problems caused in large measure by Soviet industrial policy, induced activists to address larger political issues. At the end of 1988, popular front organizations arose in all three Baltic republics. This development was accompanied by the proliferation of political groups and parties including "independence-now" parties, environmentalist "Green" parties, as well as the rebirth of many parties, such as the Social Democrats, which existed during the independence period. In addition, largely Russian "intermovement" groups also arose opposing changes in the Baltic area.

In 1990, Baltic parliaments with non-communist majorities were elected in relatively open and free elections. On March 11, 1990, the Lithuanian parliament declared the restoration of the Lithuanian republic independent of the Soviet Union. On March 30, 1990, the Estonian parliament declared Soviet law invalid in Estonia and declared a period of transition from Soviet control to independence. The Latvian parliament declared a transition period to independence on May 4, 1990. After the attempted August 1991 coup against Gorbachev, Estonia declared its full and immediate independence from the Soviet Union on August 20, 1991 and Latvia did the same on August 21, 1991. On August 24, Russian President Boris Yeltsin recognized the independence of Estonia and Latvia (having acknowledged the independence of Lithuania earlier). On September 6, 1991, the Soviet State Council with President Gorbachev presiding recognized the independence of Estonia, Latvia, and Lithuania.

## **Current Political and Economic Situation**

Since achieving independence, the Baltic states have established parliamentary democracies and free market economies. The political scene has sometimes been unsettled. Democracy in the Baltic states has seen a proliferation of relatively small parties, none large enough to form a government on its own. Politics are not based on sharp differences in ideology: there has been a broad consensus among almost all of political elites on the goals of democracy, the rule of law, free market reform, and membership in NATO and the European Union. Instead, political conflicts are based largely on personal differences between party leaders or the support of parties for competing business interests, or on a rural/urban split, or between those who have benefitted most from reforms and those who have not. Parties in the Baltic states

often have ephemeral lives. Parties that win one election, often due to a charismatic leader, may fragment or fail to win any seats at the next election. These factors have often resulted in unstable coalition governments, prone to breakup due to personality conflicts, or corruption and other scandals. As in other countries in the region, corruption remains a significant issue, despite ongoing efforts to fight the problem.

Nevertheless, the governments of the Baltic states have continued to move forward with political and economic reforms that have made their countries among the most successful transition countries in central Europe, enjoying high economic growth rates, substantial foreign investment, and rising living standards.

## Estonia

**Political Situation.** The current Estonian government is a coalition of two center-right parties, Res Publica and the Reform Party, and a center-left party, the Estonian People's Union. The coalition, which emerged after March 2003 parliamentary elections, is headed by Prime Minister Juhan Parts of Res Publica. Some experts believe tensions between the two center-right parties and the Estonian People's Union over the People's Union's demands to postpone tax cuts and increase social spending could lead to the government's collapse later this year. The People's Union could then be replaced by the center-right Pro Patria Party or the center-left Social Democrats, currently in the opposition. The largest opposition party, the leftist Center Party, has been weakened by divisions over the party's lack of support for EU membership and over the allegedly dictatorial style of party leader Edgar Savisaar.

### Estonia at a Glance

**Population:** 1.35 million (2004 Estonian government estimate)

**Area:** 45,227 sq. km., slightly larger than New Hampshire and Vermont combined

**Ethnic Composition:** 67.9% Estonian, 25.6% Russian, 2.1% Ukrainian; 1.3% Belarusian (2000 census)

**GDP:** \$8.4 billion in 2003 (IMF)

**Political Leaders:** President: Arnold Ruutel; Prime Minister: Juhan Parts; Speaker of the National Assembly: Ene Ergma; Foreign Minister: Kristiina Ojuland; Defense Minister: Margus Hanson

Estonia also has a President, elected by parliament. The post of President is largely ceremonial, but the President does have the right to appoint the Prime Minister, who must be approved by the parliament. He can also send legislation back to the parliament for reconsideration. The current President is Arnold Ruutel, formerly head of the Estonia People's Union Party. He was elected by an electoral college of parliament members and local government representatives in 2001 for a five-year term.

The status of Estonia's large Russian-speaking minority (about 400,000 persons, or under 30% of a total population of 1.35 million) has been a controversial issue in Estonia's relations with Russia. Russia has charged that Estonia violates the human

rights of the minority. Western countries and international organizations disagree, but have urged Estonia to intensify efforts to integrate the minority into Estonian society. The 2003 State Department human rights report says that Estonia generally respects the rights of non-citizens.

In 1992, an Estonian law took effect giving citizenship to all who were citizens in 1940 and their descendants. Most Russian-speaking inhabitants in Estonia settled in Estonia after the Soviet takeover of the country in 1940, and all but about 80,000 of them were excluded from Estonian citizenship. Over 126,000 people, mostly Russian speakers, have applied for and received Estonian citizenship, most under a naturalization procedure that requires them to pass an Estonian language exam, among other requirements. Approximately 160,000 (nearly 12% of the population) remain non-citizens, although most of them have permanent residency permits. Another roughly 100,000 have taken Russian citizenship. Non-citizens cannot run for office or vote in national elections, but can vote in local elections. On December 8, 1998, the Estonian parliament adopted a law that grants citizenship to non-citizen children born since 1991, if their parents have lived in Estonia for five years and do not have citizenship in another country. Russian speakers have also complained about language laws that require employees to speak Estonian and education laws to increase the use of the Estonian language in largely Russian-speaking schools.

**Economy.** Estonia has one of the most competitive and dynamic economies in central and Eastern Europe. Estonia's Gross Domestic Product grew by 6.8% in the first quarter of 2004, on a year-on-year basis. Due to its use of a currency board that strictly ties Estonia's kroon to the Euro, Estonia has pursued a stringent monetary policy. Consumer price inflation is very low, at 1.3% for 2003. Estonia has also pursued sound fiscal policies; the government is currently running a budget surplus. Estonia privatized almost all of its industries in the 1990s. However, Estonia is seeking to sell off more of its telecommunications sector and must still liberalize its electricity market.

Pro-reform policies have led to perhaps the best climate for business and foreign investment in the region. Foreign Direct Investment increased by 150% in 2003. Estonia plays a significant role in technology industries, especially by manufacturing cellular phones for Nordic telecommunications firms. Estonia has joined the European Exchange Rate Mechanism, a prerequisite for joining the European Monetary Union, which could occur as soon as mid-2006. One dark spot in Estonia's economic situation is its high current account deficit of 15.3% of GDP in 2003.<sup>1</sup>

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<sup>1</sup> Economist Intelligence Unit, Country Report: Estonia, July 1, 2004; Oxford Analytica, "Estonia: Small, Competitive Economy Remains Vulnerable, August 3, 2004.

## Latvia

**Political Situation.** The present Latvian government is a minority coalition headed by Prime Minister Indulis Emsis of the centrist Green and Farmers' Parties grouping. Two other parties are part of the coalition, the conservative People's Party and the Christian Latvia's First Party. The government was approved by the Latvian parliament in March 2004. It replaced a similar center-right government headed by Einars Repse of the center-right New Era Party, the largest party in the parliament. The Repse government collapsed due to personal squabbling within the government, including over Repse's reputed authoritarian governing style. The new

government may also be on shaky ground. It depends on the votes of the left-wing National Harmony Party to form a majority in parliament. Another possible coalition party, the nationalist For Fatherland and Freedom-National Independence Movement, is opposed to the participation of the Christian Latvia's First Party, which includes members supporting the interests of ethnic Russian speakers in Latvia. Despite the frequent reshuffling of Latvian governments, the country's leadership will likely continue to work towards key objectives such as legal and administrative reform, and fighting corruption, as part of its efforts to bring Latvia into line with EU norms. Latvia's next parliamentary elections are not scheduled to be held until fall 2006.

Latvia also has a President, elected by parliament. The post of President is largely ceremonial, but the President does have the right to appoint the Prime Minister, who must be approved by the parliament. He or she can also send legislation back to the parliament for reconsideration. The current President is Vaira Vike-Freiberga, first elected in June 1999 and re-elected in 2003. Vike-Freiberga spent most of her life in Canada as a scholar before her election. She has remained the country's most popular politician, despite sometimes taking unpopular decisions, such as sending back to parliament for reconsideration a language law criticized by the EU and OSCE. Her main task has been to improve Latvia's image abroad to assist Latvia's efforts to join the EU and NATO.

The presence of a large Russian-speaking minority has been a controversial issue in Latvia's relations with Russia, and to a much lesser extent, with Western countries. Russia has charged that Latvia violates the human rights of the minority. Western countries and international organizations disagree, but have urged Latvia to intensify efforts to integrate the minority into Latvian society. After it achieved

### Latvia at a Glance

**Population:** 2.3 million (2004 Latvian government estimate)

**Area:** 64,600 sq. km., slightly larger than West Virginia

**Ethnic Composition:** 58.7% Latvian, 28.8% Russian, 3.9% Belarusian, 2.6% Ukrainian, 2.5% Polish, 1.4% Lithuanian (2004 Latvian Naturalization Board data)

**GDP:** \$9.5 billion in 2003 (IMF)

**Political Leaders:** President: Vaira Vike-Freiberga; Speaker of the Saeima (Parliament): Ingrida Udre; Prime Minister: Indulis Emsis; Foreign Minister: Artis Pabriks ; Defense Minister: Atis Slakteris.



independence in 1991, Latvia gave citizenship only to persons who were Latvian citizens on June 17, 1940 and their descendants. About 470,000 (over 20%) of the 2.3 million residents of Latvia do not have Latvian citizenship, almost all of them ethnic Russians or Russian speakers. In June 1998, the Latvian parliament approved amendments to the naturalization law aimed at making access to citizenship easier for the non-citizen population. However, the number of applicants and consequently the number of naturalized citizens remains low. Under 75,000 persons have been naturalized. Many Russian speakers are also upset about recent government efforts to implement an education law that will require 60% of subjects be taught in the Latvian language for students in grade ten or higher.

The 2003 State Department report said that Latvia generally respected the rights of non-citizens. Non-citizens enjoy most of the rights of Latvian citizens. However, non-citizens cannot vote, establish political parties, occupy government posts, and hold certain jobs (such as armed guards, private detectives and attorneys). Land ownership by non-citizens can be hampered by complicated administrative procedures. EU and other Western officials have urged Latvia to accelerate the integration of minorities into Latvian society. Some have expressed concern at the slow pace of naturalization of non-citizens. Latvian officials note that, of those applying for naturalization, more than 95% pass the language tests and meet all other requirements for citizenship. Some observers say that part of the reluctance of many Russian speakers to apply may be due in part to certain benefits that flow from noncitizen status (such as exemption from compulsory military service), and a sense that the status of permanent resident noncitizens, while far from ideal, is relatively secure.

**Economy.** Since regaining independence in 1991, Latvia has made substantial economic progress by implementing a program of restraint in fiscal and monetary policy, establishment of a strong currency (the *lat*, which is currently pegged to the IMF's accounting unit, Special Drawing Rights, but will soon be pegged to the Euro), and liberal trade and investment rules. Latvia hopes to meet the criteria to join the European Monetary Union in 2007 or 2008. Latvia's privatization efforts started slowly due to mismanagement, corruption and power struggles between contending political-economic groups in the country but have moved forward. Several key enterprises to privatize remain, including the very important oil transport firm Ventspils Nafta and the energy monopoly Latvenergo. Latvia's economy is growing rapidly. Gross Domestic Product increased by 7.5% in 2003 and 8.8% in the first quarter of 2004, on a year-on-year basis. Inflation is currently relatively high: 6.1% in June 2004, year-on-year.<sup>2</sup> Latvia suffers from a high current account deficit of 8.3% of GDP in 2003.

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<sup>2</sup>Economist Intelligence Unit, Country Report: Latvia, July 1, 2004.

## Lithuania

**Political Situation.** The most recent elections to the Lithuanian parliament, the *Seimas*, were held in October 2000. They resulted in a crushing defeat for the ruling right-of-center Homeland Union. The largest grouping in the current parliament is the left-of-center Social Democratic Party with 48 seats. The right-of-center Liberal Union won 34 seats, the populist New Union-Social Liberals won 29 seats, and the right-wing Homeland Union won only 9. The remaining 21 seats were scattered among ten small parties and independents. The current government is coalition composed of the Social Democratic Party and the New Union-Social Liberals.

The next parliamentary elections are scheduled for September 2004. According to pre-election polls and the results of the European parliament elections in June 2004, the Labor Party, a newly-emerged, populist group promising to help poorer Lithuanians, is likely to be the largest party in the new parliament, although it will fall short of a majority on its own. The SDP and NU-SL will likely lose ground

Although the institution of the presidency in Lithuania is not as powerful as the U.S. Presidency is, its powers are more significant than those of the largely figurehead presidencies common to most parliamentary systems. In April 2004, Lithuanian President Rolandas Paksas was impeached and removed from office by the parliament for corruption. In October 2003, a report by the Lithuanian intelligence agency charged that some of Paksas's key advisors and campaign contributors had links to Russian organized crime. These figures used their connections to steer privatization deals to their associates. The chief financial backer of Paksas's campaign, Russian businessman Jurijus Borisovas, received Lithuanian citizenship and was tipped off about police surveillance against him. Paksas nevertheless continues to have a populist appeal among poorer Lithuanians, who claim he was framed by corrupt political opponents. However, Paksas is barred from holding elective office due to his removal from the presidency, according to a ruling from Lithuania's constitutional court.

In June 2004, Valdas Adamkus was elected to the Presidency. Adamkus, a Lithuanian-American who had been an official in the U.S. Environmental Protection Agency, ran as a center-right, pro-Western figure. He beat former Prime Minister Kazimira Prunskiene, who was supported by Paksas's party and center-left groups.

### Lithuania at a Glance

**Population:** 3.4 million (2004 Lithuanian government estimate)

**Area:** 65,200 sq. km., slightly larger than West Virginia

**Ethnic Composition:** 83.5% Lithuanian, 6.7% Polish, 6.3% Russian; 1.2% Belarusian (2000 census)

**GDP:** \$18.2 billion in 2003 (IMF)

**Political Leaders:** President: Valdas Adamkus; Prime Minister: Algirdas Brazauskas; Speaker of the Seimas (parliament): Arturas Paulauskas; Foreign Minister: Antanas Valionis ; Defense Minister: Linas Linkevicius.

Adamkus had been President from 1998 until 2003, when he was defeated by Paksas in an upset.

**Economy.** The Lithuanian economy, like its Baltic neighbors, is growing rapidly. Real GDP grew by 7.7% in the first quarter of 2004, on a year-on-year basis. Almost all of Lithuania's state-owned firms are privatized, with the exception of a few utility companies. Lithuania has pursued sound fiscal and monetary policies. Inflation in the first quarter of 2004 was -0.2% on a year-on-year basis. Lithuania has pegged its currency, the *litas*, to the Euro and is seeking to meet the criteria to join the European Monetary Union by 2007.<sup>3</sup>

## Foreign Policy

The key foreign policy goal of the Baltic states since the restoration of their independence has been integration into Euro-Atlantic organizations, including membership in the European Union (EU) and NATO. The Baltic states achieved these goals when they joined NATO in March 2004 and the European Union in May 2004. They continue to work to restructure their economies and societies to bring them closer to EU norms. Needed changes include improving public administration in order to make use of the large amounts of EU aid the countries will receive; fighting corruption, a particularly serious problem in Latvia and Lithuania; and preparing to join the European Monetary Union in 2007 or 2008.

The Baltic states also continue to improve their armed forces and enhance their interoperability with NATO. To this end, they have pledged to continue reforms that they began before being admitted into NATO, including a pledge to spend at least 2% of their GDP on defense. They have also deployed platoon or company-sized forces to U.S. and NATO-led missions in the Balkans, Afghanistan and Iraq, a significant commitment given their modest populations and military manpower.

The Baltic states have established strong political and economic links with the Nordic countries. Links between Finland and Estonia (whose majority peoples are ethnically related) are especially close. The Baltic states have also increased cooperation among themselves in security, economic and political matters through the Baltic Council, the Baltic Assembly and other inter-governmental organizations.

## Relations With Russia

Russian-Baltic relations have been strained by the issue of Russian-speaking minorities in Estonia and Latvia, and by the Baltic states' efforts to join NATO. Although the foreign trade of the Baltic states has been radically reoriented toward the West and away from Russia over the past decade, Russia retains important influence in the energy and transport sectors. Moreover, many people in the Baltic states are concerned about the influence of Russian intelligence agencies and organized crime in their countries. The impeachment of President Rolandas Paksas

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<sup>3</sup>Economist Intelligence Unit, Country Report: Lithuania, July 1, 2004.

in Lithuania in 2004 for close ties with a Russian organized crime boss is a particularly dramatic illustration of this problem.

The Russian government has denounced treatment of Russians in Estonia and Latvia at the U.N., OSCE and other international organizations. Estonia and Latvia reject the Russian assertions, and asked international organizations to offer opinions on their laws and to investigate Russia's charges of human rights violations. OSCE representatives have said that Estonia and Latvia do not violate the human rights of their Russian-speaking minorities. However, both countries have changed laws that OSCE experts believed were not in line with European standards. Russian officials have said these efforts are insufficient. Despite concerns raised by Russia and local Russian speakers, emigration of Russian speakers from Latvia and Estonia since Baltic independence has been moderate. Observers believe that despite their grievances, most Russian speakers prefer to remain in the relatively stable and increasingly prosperous Baltic states than to move to Russia. Russia has not signed border treaties with Latvia and Estonia. Russia has initialed border treaties with both countries but has linked the signing of the accords to its grievances on the status of Russian speakers in Estonia and Latvia. Russia and Lithuania signed a border treaty in October 1997.

Russia expressed strong opposition to NATO membership for the Baltic states, claiming that having a NATO country on their borders would weaken Russia's security. They noted that Russia's Kaliningrad region would be surrounded by NATO states if Lithuania were to join the alliance. Baltic membership in NATO has not led to a drastic deterioration in relations between Moscow and the Baltic states. However, Russian officials continue to express concerns and issue warnings about the deployment of foreign forces from NATO countries on Baltic soil. Baltic observers believe Russia's objections are based on an assumption that, as former Soviet republics, the Baltic states belong in a Russian "sphere of interests."

Russia's economic role in the Baltic states has declined over the past decade, but is still significant in some sectors. Russia has maintained double tariffs on Estonian goods since 1992, in retaliation for alleged human rights violations against the Russian-speaking population in Estonia. This policy has had the side effect of sharply redirecting Estonia's trade toward Western countries and away from Russia. Russia will eventually have to drop the trade restrictions against Estonia now that Estonia is an EU member. However, Russia retains an important role in certain sectors of Estonia's economy. Estonian ports are heavily dependent on Russian transit trade (unlike Russian ports in the region, Estonia's ports are ice-free year-round). Estonia's port facilities bring in as much as 14% of the country's GDP.

Russia similarly accounts for a decreasing fraction of Latvia's imports and exports, as trade with other EU countries increases. However, as in the case of Estonia, Latvian ports are heavily dependent on Russian transit trade. Ventspils in particular is a key port for Russia's oil exports. The ports of the Baltic states compete with each other, as well as possible new port facilities developed in Russia. Russia has an important role in Lithuania's energy sector. Lithuania's huge Mazeikiai oil refinery accounts for 10% of Lithuania's GDP and 20% of government tax revenues. In 2003, the state-controlled Russian oil transport firm Transneft cut off oil shipments to Ventspils in an effort to secure an ownership stake in the oil

terminal. It is also trying to boost the importance of a competing Russian oil terminal at Primorsk, which it owns.

In a similar move, the Russian firm Lukoil, which is closely connected with the Russian government, cut off oil shipments to the Mazeikiai refinery after Lithuania sold a controlling share in the firm to a U.S. firm, Williams International. As a result, the refinery remained unprofitable. In 2002, Williams sold its shares in the refinery to the Russian oil firm Yukos, a competitor to Lukoil that offered to supply the refinery with oil. In 2004, Yukos came under attack from the Russian government, allegedly for tax evasion. Observers believe the move could be an effort by Russian President Vladimir Putin and his cronies to gain greater control over Yukos's assets and the Russian oil sector as a whole, a development that some believe could have negative consequences for Mazeikiai and Lithuania.

## **U.S. Policy**

The United States recognized the independent states of Estonia, Latvia, and Lithuania on July 28, 1922, and never recognized the legality of their incorporation into the Soviet Union. The U.S. Government continued to accredit the representatives of the former independent governments. When the Baltic states started to push for independence from Moscow in 1990 and 1991, the Bush Administration encouraged Baltic independence efforts, but stopped short of taking stands that might provoke a strongly negative response from Moscow. The Administration did, however, begin some direct involvement with the current Baltic governments such as the shipment of medical supplies to all three Baltic states in early 1991. After the failed Soviet coup of August 1991, the Administration established full diplomatic relations with all three Baltic governments on September 2, 1991. P.L. 102-182 as enacted on December 4, 1991, extended nondiscriminatory (most-favored-nation) treatment to the products of Estonia, Latvia, and Lithuania. U.S. embassies began some operations from temporary quarters in all three Baltic states in all three Baltic countries on October 2, 1991 and were formally opened in February 1992.

After the independence of the Baltic states, the United States pushed strongly for the withdrawal of Russian forces from the Baltic states. The United States tied aid to Russia to Baltic troop withdrawal; carried out a \$166 million program to provide housing to retired Russian officers withdrawn from the Baltic states; and performed a mediating and facilitating role between the Baltic states and Russia on this issue, until the withdrawal was completed in 1994. U.S. officials have also tried to support minority rights in the Baltic states, while not sanctioning Russian charges of massive human rights violations in the Baltic states.

Since 2001, the United States has strongly advocated the Baltic states' entry into NATO. The United States has also sought to help integrate the Baltic states into European institutions through the Enhanced Partnership in Northern Europe (e-PINE) program. This program focuses on three main areas: 1) ensuring political security, which includes combating terrorism and the proliferation of weapons of mass destruction; 2) nurturing healthy societies, which ranges from efforts to protect the environment to anti-trafficking activities; and 3) promoting economic growth through

the development of commercial ties.<sup>4</sup> The program attempts to involve non-governmental organizations (NGOs) and private sector enterprises, which often require little or no government funding. its Northeastern. The program also aims to improve cooperation between the U.S. and Nordic countries and increase regional cooperation with Russia. Program involve OPIC insurance for U.S. investments in the region , law enforcement assistance in improving border controls, and health and environmental programs in northwest Russia and other areas.

## **U.S. Aid to the Baltic States**

Over the past decade, the United States has provided significant aid to promote political and economic reforms in the Baltic states, and to improve the capabilities of their armed forces and their interoperability with NATO. From FY1990 to FY1999, the United States obligated \$29.7 million in aid from the Support for East European Democracy (SEED) program to assist political and economic reform in Estonia. At the end of FY1996, Estonia was “graduated” from bilateral SEED funding, due to its success in carrying out reforms. From FY1990 to FY1999, the United States obligated \$54.3 million in aid SEED aid for Latvia. From FY1990 to FY1999, the United States obligated \$79.73 million in SEED aid in Lithuania. The Administration “graduated” Latvia and Lithuania from bilateral SEED funding at the end of FY1999.

The Baltic states continue to receive small amounts of aid from U.S.-funded regional projects, including the Baltic-American Partnership Fund, which aims to strengthen NGOs in the Baltic states. The Fund has a \$15 million endowment, half of which comes from the U.S. government and half from the Soros Open Society Institute. In addition, a U.S.-funded Baltic Enterprise Fund, capitalized at \$50 million, makes equity investments and loans, and offer technical assistance to small and medium-sized business and U.S.-Baltic joint ventures.

Currently, the main focus of U.S. aid to the Baltic states is security assistance. In FY2004 Estonia will receive an estimated \$6.2 million in Foreign Military Financing (FMF) aid in FY2004 and \$1.099 million in IMET military education and training funds. The Administration requested \$5 million in FMF aid for Estonia in FY2005 and \$1.2 million in IMET funding. Estonia has also received U.S. aid to improve its export control system: \$1.175 million in FY2004 and a requested \$1 million for FY2005. Latvia will receive an estimated \$6.61 million in FMF in FY2004, \$1.2 million in IMET, and \$1.825 million to improve its export control system.

For FY2005, the Administration requested \$5 million in FMF, \$1.2 million in IMET, and \$1 million for export control system improvements for Latvia. In FY2004, Lithuania is slated to receive \$6.95 million in FMF, \$1.2 million in IMET, and \$1.020 million in assistance to improve export controls. In FY2005, the Administration requested \$5.5 million in FMF, \$1.2 million for IMET, and \$1 million in export controls aid for Lithuania. The United States also provides Excess Defense Articles to the Baltic states.

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<sup>4</sup>See E-PINE web page: [<http://www.state.gov/p/eur/rt/epine/>].

The key focus of U.S. security assistance to the Baltic states is to improve their interoperability with NATO and bolster their capabilities. U.S. aid and equipment helps the Baltic states participate in Partnership for Peace training exercises with NATO countries and in U.S. and in NATO-led operations throughout the world. The United States has provided equipment for the Regional Airspace Initiative, which aims to develop integrated regional civil-military airspace regimes that are compatible with Western civil airspace organizations and NATO. U.S. military aid includes such things as communications equipment, light anti-tank weapons, trucks, and spare parts for existing equipment. IMET programs are aimed at helping the Baltic states upgrade officer training. In the congressional presentation on its FY2005 foreign aid request, the Administration said that funding to set up an effective export control system in the Baltic states would be discontinued after FY2005, due to the progress they have made, and that future funding would focus on providing equipment to improve the countries' border security.<sup>5</sup>

## **Iraq, Afghanistan, and the War on Terrorism**

The Baltic states have supported U.S. operations in Iraq, Afghanistan, and in the war on terrorism. In Iraq, an Estonian infantry platoon is stationed in Baghdad under the command of the 1st Cavalry Division. A cargo handling team is located at an airport near Nasiriyah. A 105-man Latvian infantry company platoon has been deployed to the Polish sector in Iraq, as well as a logistics support platoon and an Explosive Ordnance Disposal (EOD) unit. Lithuania has contributed over 100 soldiers to multinational forces in Iraq, in the British and Polish sectors.

Estonia has deployed an EOD team and a medics staff officer with the International Security Assistance Force (ISAF) in Afghanistan. A team of Latvian military medics have also been deployed to ISAF. Lithuania has contributed 40 troops to Operation Enduring Freedom, the U.S.-led anti-terrorist campaign in Afghanistan, as well as a handful of logistics troops, medical personnel, and an air traffic controller to ISAF. All three Baltic states have strongly supported the war on terrorism, including by tightening border controls and enacting improving anti-money laundering legislation.

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<sup>5</sup> FY2005 Congressional Budget Justification for Foreign Operations, from the State Department website, [<http://www.state.gov/>].

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