

# THE REPUBLIC OF LATVIA AND THE EUROPEAN UNION: A DECADE AS A MEMBER STATE

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## Abstract

*The Republic of Latvia has been a Member State of the European Union for ten years. During this period, certain inherited problems have shown themselves to be persistent, notably corruption, a weak legal system and serious deficiencies as regards planning for sustainable economic development. This article highlights the principal failings and gives indications of the reasons why remedies were not being implemented. Critical remarks offered by the EU at various junctures have not always been followed by deeds. The Republic of Latvia has benefitted since its re-emergence as an international actor from a highly-developed ability to present its problems and achievements in a light that elicits international support. Latvia shall be the Presiding State of the European Union Council from January to end of June 2015. This article examines the internal and external preparations for rising to meet the expected challenges. In a the most recent elections to the European Parliament Euro-sceptic political forces scored no successes, this despite the popularly presented critical view that Latvian citizens express as regards many aspects of the European Union. Overall Latvian citizens see their membership of the EU and NATO as the key factor in preventing Russia to assert its questionable rights to dominate its Baltic neighbours.*

**Key words:** *Baltic States, Latvia, Lithuania, Estonia, European Union, EU Accession, economic development, EU fund implementation, 2014 elections European Parliament, EU Presidency, Euroscepticism*

## Introduction

The re-emergence in 1990–1991 of the three Baltic States, Latvia, Lithuania, and Estonia, and their insistence on becoming accepted members of the international community came as a rude surprise to the leadership of the USSR, as an irritant to many key Western leaders and was supported by only a few, in that the public Icelandic stance was in splendid isolation. Nonetheless the almost unimaginable occurred, the three Baltic States were presented with the op-

portunity in the early 1990s to consolidate their success in freeing themselves by forging partnerships and links with those countries that had throughout the period of servitude in the USSR continued to recognise the illegality of how the USSR contrived to seize these states. The politically incorrect view held by the principal post-Soviet nation was (and today still is) that these are “ancient Russian lands” temporarily ceded under duress to foreign powers.<sup>1</sup>

A twin-track policy was adopted to gain membership of the NATO alliance and to accede to the European Union, essentially before the Russian Federation regained sufficient authority and power to cancel any Baltic desire for peaceful existence not beholden to the whims of rulers of the Russian Federation. Although this view of the reasons why the Baltic population having left one Union wished to join another Union was evident to Western decision-makers it is as yet far too early in the second lifetime granted to the independent Baltic States to expect that solid evidence for such views to emerge. Insight into the reasons why the Danish Presidency of the European Union (in 2002) in particular expended very considerable diplomatic efforts in this regard has been alluded to at a senior, albeit popular level.<sup>2</sup>

Accession to the European Union by all three Baltic States on 1 May 2004 was preceded by their full membership of NATO, effective 29 March 2004. This was a remarkable achievement given that their inheritance from Soviet times in economic, administrative, legal and military terms was essentially nil, even a negative. Negotiations for membership of NATO and the EU ran in parallel, yet were disjoint; each Baltic state had different obstacles that they mastered in different ways. Society and politics in Latvia are fundamentally conservative, remarkably disinclined to change and yet able to react swiftly when faced with an existential challenge. All three states inherited residual structural problems from the pre-Accession period, coupled to an expectation of rapid reward for efforts expended during this time. This article examines enduring aspects of this legacy, as well as key successes and shortcomings of the first decade of membership of the European Union. All three Baltic States have called for further elaboration of the EU Security and Defence Policy by the EU concentrating more on its strategic interests and the identification of new types of threats.<sup>3</sup>

This article examines several long-term features of Latvian membership of the EU. As a carry-over from the pre-accession period discussion continues of the extent to which sovereignty has been shared–delegated–lost with respect to the EU, a predilection to tolerate corrupt practices as a sustainable way of life, and little societal cohesion in the face of external economic challenge. Accession has undoubtedly brought economic benefits to Latvia including considerable modernisation of its infrastructure. That some of this modernisation has been slipshod can only be seen when compared with similar features of Estonian and Lithuanian infrastructure; unfortunately, most Latvian self-assessment favours comparison with similar situations in Russia (in provincial Russia, outside the capital region) reflecting deep uncertainty about the long-term viability of the existence of an independent state.

Recognising that Latvian membership of the EU has very many facets, this article treats the following topics:

- a) residual issues identified prior to Accession and still current;
- b) economic issues, including implementation of EU programmes;
- c) the ability to present national priorities, including Presidency of the European Union Council;
- d) Euroscepticism in Latvia and the 2009 elections to the European Parliament.

Although at some distance the three Baltic States are often treated as very nearly the same, in fact they have fewer features in common than might be expected. This article offers some insight into how difficult, yet similar challenges are met rather differently in the neighbouring Baltic States. Perception of their membership of the European Union is not strikingly positive in all three Baltic States — 26% in Lithuania, 36% in Estonia and 40% in Latvia (EU-27 being 40%<sup>4</sup>), opinions on the long-term prospects of the EU are considerably above average, i.e. 59% in Latvia,

64% in Lithuania and 66% in Estonia (the EU-28 average being 51%<sup>5</sup>). Evidently unspoken fears of their sovereignty being still fragile underpin this public wish for a strong external partner to act as counterweight to any external threat.

### Issues identified but not fully resolved during the pre-Accession period

The Republic of Latvia was the first among its neighbours to present a formal application for membership of the European Union, this adopted by the newly elected 5<sup>th</sup> Convocation of the Latvian Saeima in October 1995. This was not an unexpected event, yet for many EU Member States of the period there was an urgent need to understand the legal, economic and political situation in Latvia in proceeding to reply to this request. The Soviet legacy in Latvia was similar to the situation in its neighbouring countries, i.e. no experience with international political and economic relations, a politicised and authoritarian civil service and judicial system, as well as a large obsolescent industrial plant that was beholden to direction from Moscow (intimately integrated into a supply and distribution chain). On the positive side, all three countries could feed themselves even in the face of hostile Russian actions.<sup>6</sup> The situation as regards energy self-sufficiency was considerably worse and predicated continued reliance upon supplies from Russia, a situation that has only slightly changed post-accession to the EU.

In the light of the considerable challenges associated with convincing existing EU Member States of the bona fides of the Republic of Latvia to discharge its obligations as an EU Member State<sup>7</sup> it is a remarkable achievement that Latvia was able to overcome most serious deficiencies to join the group of candidate countries negotiating Accession issues<sup>8</sup>. The Republic of Latvia was able to conclude negotiations and was one of the

ten states that acceded to the EU on 1 May 2004.

The final monitoring report issued in 2003 on Latvian progress towards EU membership pointed out a number of governance and economic shortcomings that have had ultimately to be addressed post-Accession:

- firm economic activity despite a weak external environment;
- excessive administrative procedures for new business start-ups;
- adequate overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis*, but there is room for further improvements;
- attention to be paid to the reform of the judiciary;
- the fight against corruption should continue to receive high priority. In particular, further efforts are needed to complete the legislative basis and to consolidate the Anti-Corruption Bureau;
- administrative and operational capacity in the *customs union* area, as regards certain information technology systems<sup>9</sup>.

Considerable progress has been made as regards the first three points (with the reserve that administrative procedures have been made heavier and more opaque after Accession. As regards customs issues, IT has been procured but anomalous activity remains rampant and although publically castigate the principal actors remain unscathed. As regards the judiciary and the fight against corruption only superficial efforts were made and in particular the visible successes of the Anti-corruption Bureau (KNAB, the Corruption Prevention and Combating Bureau) are highly questionable given its evidently poor leadership (not only the current head of the Bureau is unfamiliar with efficient management procedures, preferring authoritarian methods), a situation that only evoke public incomprehension.<sup>10</sup>

A final remark in 2003 concerned reform of territorial administration, i.e. that Latvia accelerate sorely needed reforms, begun in 1999, with no end in sight in 2003.<sup>11</sup> In fact, this process became politicised post-Accession and regularly put off, finally to take effect only in 2009.

A difficult national legal and political issue concerned compatibility of provisions of the Latvian Constitution (*Satversme*) and Accession to the EU, as well as how any future changes of how the EU functions would be ratified by Latvia. After considerable debate, the Constitution was amended with the requisite Article (68) to include explicit provisions to cover ratification of international treaties, in particular those related to the EU. The provision that:

Substantial changes in the terms regarding the membership of Latvia in the European Union shall be decided by a national referendum if such referendum is requested by at least one-half of the members of the *Saeima*;<sup>12</sup>

has opened the way for regular challenges to the ratification of any new legal rearrangement of Latvian–EU relations, however minor.

## **Fundamental national issues related to EU membership**

Accession of Latvia to the EU was challenged in the Latvian Constitutional Court as have ratification of the Treaty on a Constitution for Europe and the Lisbon Treaty. Quite aside from the political capital that certain parties seek by harping on the anti-EU feelings of a substantial segment of the population, these challenges reflect an essential defect in Latvia legal thought, i.e. only what is explicitly described as a legal infraction is one, and any excuse is found to question evidence of wrong-doing that in the slightest way differs from what is explicitly prohibited. A shocking number of legal challenges to visible abuse of position, or highly suspect business transactions, are quashed on trivial

formal grounds. This legal nihilism in Latvia does not appear to abate with the passing years.

Considerable international attention was focussed on a pernicious Soviet inheritance, notably the very large number of former Soviet citizens who refused to return to their place of origin (only a very few had been born in Latvia) and to whom Latvian citizenship was accessible only via naturalisation. Those members of this group who refused to apply for Latvian citizenship became an instrument of pressure by the Russian Federation exerted on Latvia and Estonia<sup>13</sup>. This issue was not strictly within the remit of the relations between the EU and Estonia and Latvia, rather it fell within the remit of the Council of Europe. Estonia possessed the more circumspect political elite compared with the elite of Latvia; additionally, Council of Europe strictures aimed at Latvia found within the Latvian national administration a non-negligible echo, even support. The visible outcome of this process was delay in Latvian admission to the Council of Europe (10 February 1995) in comparison with the case for Estonia (14 May 1993). Both Estonia and Latvia were browbeaten as a gesture to the Russian Federation as most arguments advanced for granting special consideration to persons who refused to naturalise are political rather than legal.<sup>14</sup>

## **Successes and challenges post-Accession**

The Latvian Soviet Socialist Republic had the greatest share of industry in the Soviet Baltic republics that was controlled by all-Union entities. Much of this industry was hopelessly out of date, over-manned and a poorly disguised mechanism for pumping into the region a large number of semi-skilled workers from various Soviet regions. The 1990s in all three Baltic States featured a sharp drop in GDP as the Soviet heritage was dismantled followed by rebound at which

time the Latvian economy sustained high growth rates of even up to 7% per annum. This rate of improvement lagged substantially behind that in Estonia, and ultimately, also behind that in Lithuania. This scenario sustained itself post-Accession and Latvia consistently has had the lowest per capita of the three Baltic States.<sup>15</sup>

Latvia was the fastest growing economy in the EU from 2000 to 2007, reaching double digit real GDP growth rates in 2005–2007. International capital inflows, rapid credit growth, and a business-friendly environment resulted in a GDP increase of 34% from 2004 to 2007. The boom was not sustainable and significant imbalances built up during the same period, which were largely neglected by national authorities: on the eve of the 2007, consumer price inflation had reached double-digits, property prices had increased fourfold, and nominal wages had doubled from 2004 to 2007, increasing much more than productivity. Imports grew much faster than exports and resulted in current account deficits above 20% of GDP in 2006 and 2007.

In 2008–2009, the economy entered a severe recession, with 18% GDP contraction in 2009 alone, reflecting a sudden stop of capital inflows, a freeze of liquidity and weak external demand, exacerbated by the loss of competitiveness. The unfolding global financial crisis and record commodity prices aggravated the shock to the Latvian economy. General risk aversion in the global markets reached a peak after the collapse of Lehman Brothers, when the Latvian government lost access to financial markets and the second largest (private) bank had to be rescued. These developments significantly impacted public finances, with the budget deficit widening from 0.3% of GDP in 2007 to 4.2% in 2008; in summer 2009, the budget deficit was projected greatly to exceed 15% of GDP by the end of the year in the absence of a significant consolidation package.

The Latvian economy was strongly affected by the world economic downturn, magnified by gross local administrative incompetence (lack of oversight of questionable banking practices) in dealing with the near-bankruptcy of the Republic. In 2008, Latvia successfully sought external financial assistance, granted by a number of international institutions:

- European Community, € 3.1 billion under a balance-of-payments assistance programme
- International Monetary Fund, SDR 1.5 billion (around € 1.7 billion)
- Nordic countries (Sweden, Denmark, Finland, Norway and Estonia), € 1.9 billion
- the World Bank, € 0.4 billion
- the European Bank for Reconstruction and Development, the Czech Republic and Poland, € 0.4 billion.<sup>16</sup>

Late recognition of imbalances in the economy and a sudden deterioration of external financing conditions eventually forced the national government to ask for support from international lenders. Easy credit conditions and strong capital inflows were not the only relevant factors behind the crisis. Short-sighted economic and fiscal policies, private banks' undue optimism about customers' income growth, and financial intermediaries' inability to price risk adequately, excessive risk-taking at a global level and poor surveillance added to exaggerate the extent of the boom-bust-cycle in Latvia.

Internal devaluation and structural reforms were in fact considered by the Latvian government as the only way to unwind the existing imbalances, restore long-term competitiveness and achieve sustainable economic growth. The approach was successful. After a substantial drop of around 18% of GDP at the peak of the crisis in 2009, the Latvian economy is now back to a promising and more sustainable path of economic growth and job creation with a different structure of the economy.

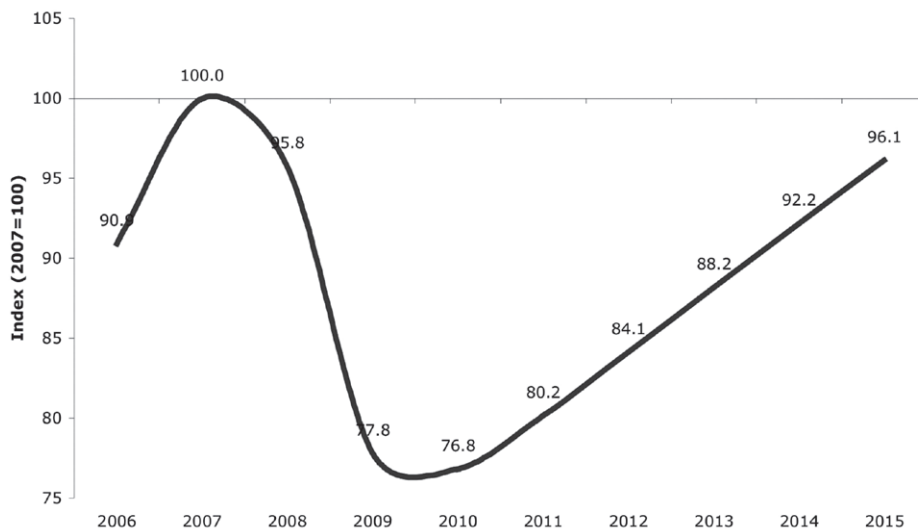


Figure 1. Evolution Latvian GDP, 2006–2014<sup>17</sup>

Much to the amazement of the political elite of Latvia an unwritten requirement for receiving assistance was insistence on the removal from decision-making positions of those who had proved themselves to be fiscally irresponsible and publicly insouciant about their financial mismanagement. Two consequences followed: first, public resentment arose at having to relinquish national sovereignty (denying financially incompetent officials the possibility to squander support monies), and second, emigration from Latvia to other EU Member States became a safety valve, either for insolvent individuals with serious loan arrears as well as young professionals who voted with their feet no-confidence that the political elite of Latvia had learned any enduring lessons from the crisis.

At the domestic level, *government flexibility* proved a crucial asset for the lenders to ensure implementation of the conditions for receiving external assistance. The Latvian government had a flexible mandate to implement sharp adjustment measures. This flexibility at the domestic level gave strong

resources to the lenders to enact adjustment measures without risking that the agents (i.e., Prime Minister or Minister of Finance) might be acting outside their political mandate and cause social unrest. The government even opted to frontload difficult reforms without damaging excessively its credibility (IMF, 2012). Prime Minister Dombrovskis suffered from negative consequences of the reforms, but despite the measures' severity he benefitted from a significant legitimacy: he was re-elected in October 2010 after a sharp wave of austerity measures.

It is an open question as to how sound the future government of Latvia will be as regards fiscal discipline. Neither the Prime Minister or the Minister of Finance who personally ensured that economic recovery in Latvia continued even after the end of the period of supervision by the international lenders are standing for election in the fall of 2014. A number of fiscally irresponsible individuals who were involved in allowing the Latvian economy to overheat in 2005–2007 are again standing for election in October 2014.

It will be a measure of Latvian voter maturity as to whether any of these populist figures will receive a mandate.

### Implementation of EU funds in Latvia

An important aspect to sustained economic growth in all three Baltic States, pre- and post-Accession has been FDI. An important attraction of Accession to the EU was access to EU financial support programmes. In Latvia this prospect clearly interested the economic elite (whose links to the political elite are not transparent) in whose eyes financial instruments are not judged by their synergetic impact on the national economy, but on their direct impact to the true beneficiaries of this support. In Latvia too many EU projects are presented as having had their full allocated funds disbursed, with no discussion of the quality of the deliverables, or even less, of the relevance of deliverables to national economic development.<sup>18</sup>

A recent study of implementation of cohesion structural funds by the 12 EU Member States who acceded to the EU in 2004/2007 show that in the time frame 2007–2013, Latvia has engaged the largest fraction of allocated funds, see Table 1 below<sup>19</sup>, The total of 4.5 billion € for Latvia represents a significant fraction of the national GDP. Public opinion in Latvia has been vocal as regards access support monies under the Common Agricultural Policy. Discussion of this controversy is beyond the scope of this article.<sup>20</sup> However, the total funds transferred to Latvia under the direct

support facility are small (139 million € in 2013) compared with other vectors of EU funding earmarked for Latvia.

A critical aspect of this apparent success has been the impact of these EU funds: in Latvia the primary focus has been on transferring these monies to the contractors, not all of whom apply principles of value for money (i.e. over manning, excessive administrative costs and consultancies that are poorly disguised payments to parties not crucial to delivery of contractual obligations, but who are in a position to influence the choice of contractor). In addition, some infrastructural projects are poorly received by the general public: sewerage systems, delivery of safe potable water have been improved to meet minimum quality standards, yet the public appears to insist that they will not pay more for these services.<sup>22</sup> The problem is not one-sided: often such projects are realised on the principle that total monies must be spent, and various factors combine to ensure that middling even shoddy systems are built incurring luxurious costs. Although there is some public dissatisfaction at this situation, most local authorities are able to avoid taking political responsibility.

Remittances from expatriates are a well-known feature of the modern economy and detection and estimation is difficult. In the case of Latvia transfer of money as banknotes carried by individuals is regulated by EU rules; however, this avenue is quite narrow in view of the findings of the World Bank (see Table 2) concerning the total inflow/outflow of remittances. These may be defined

Table 1. Uptake of EU funds in the Baltic States<sup>21</sup>

Activity	Estonia	Latvia	Lithuania
Contracted ratio	91%	94%	91%
Payment ratio	59%	56%	59%

Table 2. Bilateral remittances for 2012<sup>24</sup>

Destination/source	Inflow (millions \$)	Outflow (millions \$)
EEA + Ch	242	66
NIS*	275	176
Other 3 <sup>rd</sup> countries	202	11
Total	732	253

\*of the total inflow 270 million \$ is from the Russian Federation

as money transfers from compatriots working/residing abroad towards their countries of origin. Remittance estimates provided by the World Bank on an annual basis.<sup>23</sup>

Remittances towards Latvia are balanced by remittances from Latvia. That the net flux is inwards is not a surprising result. Examining the remittance data in some detail for the three Baltic States some surprising observations emerge. Once account is taken for the remittances to/from the NIS the per capita remittance by compatriots abroad is greatest for Estonia and least for Latvia. Furthermore, when examining the data for the UK it appears that Lithuanian nationals living there are twice as generous as their Latvian counterparts. In fact the figures for 2012 show a remittance to Latvia of 86 million \$ from the USA compared to 64 million \$ from the UK.<sup>25</sup>

The apparent large remittance from Latvia sent to the Russian Federation appears to be related to the possibility of obtaining a temporary Schengen residence permit provided sufficient investment is made in Latvia — a somewhat controversial decision taken by the Latvian government in 2010.<sup>26</sup> What is less publicized is the extent of outflow to countries as far afield as Sri Lanka and many NIS countries. In the case of the latter, the second greatest amount outflow to the NIS is directed towards Ukraine (with no inflow into Latvia).

## Latvia and the euro — a remarkable achievement

Already prior to Accession, but after ratification of the Treaty on Accession to the EU, the Government of Latvia decided to set 1 January 2008 as the earliest likely (rather than target) date for introduction of the Euro in Latvia. A decision was taken on 9 December 2003 to tie the value of the Latvian national currency (the Lat) to SDR, effective 1 January 2005, at the same time as Latvia becoming a member of the II<sup>nd</sup> stage of the EU Exchange Rate Mechanism.<sup>27</sup> A variety of events derailed this optimistic scenario coming to pass. The Latvian government was, however, successful in guiding the Latvian economy sufficiently astutely that effective 1 January 2014 the euro has become the currency of Latvia.<sup>28</sup>

Introduction of the common currency to Latvia may be viewed as one antidote to possible future repeat of the combination of financially questionable decision making (on a grand scale) and the impunity of those taking unsound decisions. In fact, adoption of the euro once the Maastricht fiscal convergence criteria and other conditions are satisfied has been an obligation for all countries that have acceded to the EU post 1993.<sup>29</sup>

Considerable public anguish was evident once the objective conditions were shown to conform to adoption of the euro in Latvia.



Table 3 below shows the results of public opinion surveys conducted of popular sentiment and understanding about adoption of the euro in their country during the time preceding such adoption. Thus there are two entries for Lithuania (2013 and 2014<sup>30</sup>) and one entry for Latvia.

Comparison of the findings in two countries that are neighbours, culturally linked and with a great deal of common history, nevertheless highlights features of both societies that are reflected in other sectors. Notably Lithuanians have far less need of tangible symbols to define their identity, their proud history (albeit somewhat redacted) as a strong mediaeval state is a cornerstone for their identity and the fact of this state emerging when the Latvian tribes were unable to coalesce politically had meant a more cohesive society. Lithuanians are also less emotional when dealing with economic issues whence the popular appreciation that the notion of true economic sovereignty being a feature of the restored independent state was unrealistic and untrue.

In Latvia the campaign to retain the lat was successful in terms of public opinion. It could not be successful among the principal economic actors in the country many of which appear to be tied to foreign economic interests. Thus, the adoption programme proceeded despite rather strident attempts at stopping it, including calls for a referendum for the people to decide. Evidently the legal argument that the people had already decided once although it predominated left many

with the feeling that adoption of the euro was incorrect (or too hasty). The latter opinions are widely shared in those EU Member States that have no immediate plans to introduce the euro to meet their Accession Treaty commitments.

### The EU and Latvia — public perception

Public opinion surveys show that the people of Latvia (independent of their ethnic identity) appear to be eurosceptical and, also, that this attitude has barely changed over the past ten years with Latvia an EU Member State. At the same time, no overtly anti-European political force has been able to muster even 1% of the popular vote in national elections for the Saeima. However, a wide-spread outcry was raised in 2013 when it became clear that the euro was going to become the sole Latvian currency in 2014. One purpose of this agitation was to rile up the Latvian public, in particular the elderly, who are emotionally attached to symbols of Latvian independence. A number of prominent agitators in 2013 appeared to have forgotten their own writings of 2003 which at that time sought to block Accession to the EU at which time they harped on the Latvian commitment ultimately to introduce the euro<sup>32</sup>.

A lack of sympathy for the European project is widespread throughout the EU, as are popular misconceptions about the EU and its function. The general public in Latvia, as opposed to several political parties, does not appear to be more sceptical or ignorant of the

Table 3. Public opinion in Latvia and Lithuania about adoption of the Euro (2013, 2014)<sup>31</sup>

Country	Year	Loss of national identity	Loss of economic independence
Latvia	2013	75%	63%
Lithuania	2013	55%	43%
Lithuania	2014	57%	39%

realities of the EU than is the median in the EU. It is the case, however, that an appreciable segment of the titular population of Latvia has extraordinarily rosy (inaccurate) memories of their socialist past. This translates, for example, into sending to the European Parliament for the third time a passionate defender of the Soviet Union and all external projections of Russian interests.<sup>33</sup>

A detailed examination is made here of popular sentiments in two EU Member States that have demonstrated substantial and persistent manifestation of Euroscepticism, Denmark and the UK.<sup>34</sup> In the case of Denmark, 57% feel that their voice is heard and 75% are optimistic about the future of the EU and only 3% profess to be certain of its demise. In the UK the corresponding figures are, 19%, 45%, yet only 7% are convinced of the imminent demise of the EU. Eurosceptical political parties are marginal in Denmark, as they are in the UK; however, a substantial segment of the two largest UK political parties have been and are today rather sceptical of the UK to be intimately involved with the EU.

The results of the 2014 elections for deputies of the European Parliament have produced a number of surprising results. First and foremost the large number of deputies sceptical or even hostile towards the European Project came as warning signal to many large EU Member States. However, even given the very substantial bitterness still evident among Latvian voters about the “loss of their national currency” was not translated into a Eurosceptical vote. Aside from the substantial vote for the aforementioned individual (whose supporters view the EU in a single light — a mechanism to castigate Latvia for its temerity to leave the embrace of Russia), none of the recently-formed Eurosceptical political parties (campaigning with the promise to claw back Latvian sovereignty) received more than 2% of the votes cast, in total less than 5%. Indeed only one new deputy was elected who could be characterised as opposed to Euro-

pean integration — a matter confused by the fact of this political party based on several regional authorities being supportive of the implementation of EU (more) structural funds.

## Latvian interests in the EU

The EU functions on the basis of its sovereign parties, the Member States, being able to agree the way forward whenever medium-term strategic decisions need to be taken. Thus, all Member States have to defend their interests and once a compromise has been reached, to suffer national criticism for failure to defend all national interests. In this sense Latvian domestic discussion about defending Latvian national interests is not unique. One of the most difficult and contentious strategic decisions is agreeing a multi-annual Financing Framework for 5 EU budget years plus an overhang of two budget years, a process that for the cycle 2014–2020 proved to be acrimonious. Nevertheless, a decision was reached in 2013<sup>35</sup> — with Latvian claims to obtain better redress as regards direct payments under the Common Agricultural Policy only partially satisfied<sup>36</sup>. However, Latvia was able to defend its allocation of development funds, a result that it was difficult to achieve in the light of shoddy national planning and formal rather than qualitative implementation of financial resources.

One important and highly visible defence of Latvia's interests in the EU is the upcoming task for Latvia to be the presiding Member State for the EU Council. This is a largely administrative task, taken in rotation by each Member State, and is a mechanism to ensure smooth planning of EU Council meetings without the presiding Member State gaining thereby any extra voting rights. Latvia shall ensure this Presidency function during the first half of 2015. The rotation sequence has been established through to the first half of 2020. Effective 1958, when Belgium first assumed the Presidency, rotation of which that all Council meetings, including working

group meetings, are presided over by a senior official from the Presidency. The Member State itself continues to be represented and has voting rights as usual. Today it is estimated that there are upwards of 2500 such meetings in a six-month term.

Each Member State prepares itself for its role according to its views on the matter. In the case of Latvia, unlike Lithuania who discharged its responsibilities in January–June 2013, a decision was taken to undertake public consultations as well as to publicise certain elements of Latvian preparations for the Presidency.<sup>37</sup> The results of the public consultations on priorities reflected national concerns with little EU dimension excepting Neighbourhood Policy, where the public in Latvia is convinced that it has unique insight into what such relations might be.<sup>38</sup> The government coordinating body adopted tentatively the following topics (still to be finalised in consultations): competitiveness as the basis for development and improved quality of life; strengthening the information society; enhancing the position of the EU on the world stage; and promoting creation of a zone of prosperity and security in the EU neighbourhood.<sup>39</sup>

Evidently, each Presidency comes with unexpected challenges, thus the French Presidency was confronted with the challenge of the Russia–Georgia war in August 2008. However, a number of new EU officials were able to take the principal burden when the Lithuanian Presidency had to deal with the duplicitous actions of Ukraine under the leadership of its former president, the Greek Presidency, with the crisis in Ukraine (annexation by the Russian Federation of Crimea, uprisings in eastern Ukraine). The institution of a permanent President of the European Council has lifted some, but not all, of the burden of dealing with such major issues from the shoulders of the presiding EU Member State. Nevertheless, Latvia can foresee some possible challenges where it might have to

mediate, notably in the formation of a new European Commission (were the procedure to nominate and approve the Commission to drag out). Additionally Latvia may have the internal problem of either not having a new government (if the Saeima elections in the fall of 2014 produce a highly fractured result) or having a government coalition containing a political party explicitly loyal to the political party that underpins the autocratic rule by President Putin and comprising other entities that are a front for Russian economic interests.

## Latvia and Europe2020

Europe2020 is a ten-year strategy proposed dating from 3 March 2010 with the aim of achieving, in all EU Member States, “smart, sustainable, inclusive growth” through greater coordination of national and European policy. In implementation of this strategy the European Commission is convenor and moderator, bearing in mind that economic policy is an exclusive competence of the EU Member States. The strategy is well advanced and the most recent findings as regards Latvia are of particular relevance to any assessment of what has been the external view of how the Republic of Latvia has fared over the past decade as an EU Member State:

Preserve a sound fiscal position in 2014 and pursue efforts to further reduce the tax burden on low-income earners.

Step up implementation of the higher education reform, in particular through the establishment of an independent accreditation agency and a financing model that rewards quality.

Take steps for a more integrated and comprehensive research system also by concentrating financing towards internationally competitive research institutions.

Reform social assistance and its financing.

Improve the cost-effectiveness, quality and accessibility of the health care system.

Accelerate the development of gas and electricity interconnections to neighbouring Member States to diversify energy sources and promote competition through improved integration of the Baltic energy markets.

Pursue efforts to further increase energy efficiency in transport, buildings and heating systems.

Complete judicial reforms, in particular as regards insolvency proceedings.

Step up public administration reforms, including by implementing state-owned enterprise management reform.<sup>40</sup>

It is useful to recall that these recommendations are neither a surprise nor are they compulsory. A number of issues appear to be intractable in the case of Latvia, such as increasing financial support for internationally recognised applied research. Several other recommendations such as reducing dependency on Russian supplied energy appear to run contrary to a number of vested interests that regularly interfere with Latvian legal attempts to rein in these monopolies. Latvian consumers pay unreasonable prices for energy supplies, thanks in part to Latvian negotiators skills at conceding to unreasonable demands of Russian suppliers. There is also an unsavoury feeling to state subsidies aimed at supporting gas-based electricity generating stations to the detriment of diversification of production.

## Conclusions

The Republic of Latvia decided rather quickly after gaining international recognition of its restored independence to solidify its standing in the world by joining a range of international organisations. EU Accession occurred on 1 May 2004 with the understanding that Latvia would continue a number of reforms crucial to a well-functioning market economy. Not all of these reforms have been successfully implemented. In particular, political clubs have run the country to their own benefit, leading in part to the serious eco-

nomic downturn, followed by near national insolvency. While not all of the reasons for this collapse were internal, the majority were. Bailout of Latvia took place, again on the understanding that a number of structural reforms important for the medium term would be implemented. Again, these understandings have only been partly met.

In the ten years post Accession, implementation in Latvia of a number of EU programmes has become routine. Difficult administrative issues had to be resolved post Accession. A number of problems still are in evidence, notably a minimal appreciation that EU financing is intended to be used as a catalyst for national development, rather than as a substitute for national support. The very formal approach to resolving legal disputes, e.g. contractual issues as well, as cases of misuse of public authority (corruption), has not substantially improved during the ten years of Latvian EU membership. It is evident in hindsight that the combination of popular and administrative support for Latvian Accession that allowed ratification of the Accession Treaty and which has been stable over the past ten years comprises public appreciation of mobility within the EU to find a better economic situation and administrative interest in disbursing EU funds to “deserving” entities.

Visibility of the Latvian Presidency of the European Union Council has been heightened within Latvia. The Presidency will also be an occasion to promote tourism possibilities and appreciation of cultural achievements in the most distant parts of the EU.

Even though the crisis is now over in the Baltics and important economic safeguards have been introduced, the experience of 2008–2009 underscored the potential for major problems to re-emerge if the EU fails to extricate itself from its current predicament. The Baltic governments hope that banks in their countries will behave more responsibly with lending in the future, but nearly all

banks in the region are owned by Scandinavian or German banks, and hence there is no direct guarantee. The great benefits the Baltic countries derive from EU membership cannot be sustained indefinitely if the EU does not regain its vitality.

The many successes achieved by Estonia, Latvia, and Lithuania since 1991 are of immense historical importance, and the future of the Baltic states is brighter now than anyone could have imagined 25 years ago. Nonetheless, the three countries have experienced some major problems over the past two decades, and formidable challenges lie ahead. Like other small states, the Baltic countries do not fully control their own destinies, not least because their “neighbourhood” has been an inhospitable one most of the time over the past century. External developments are bound to have a far-reaching impact on the three countries’ internal prospects. Even if daunting setbacks occur in the years ahead, the Baltic States thus far have demonstrated a remarkable capacity to overcome them. There is no reason to believe they will be any less resilient in the future.

## Notes

- <sup>1</sup> Soviet Ambassador to the UK Ivan Maïsky thus opined to the British Foreign Office during the Second World War, as an emotional attempt at gaining British *de jure* recognition; for a recent account of Baltic diplomatic efforts during this period, see the monograph, *The last ambassador. August Torma, soldier, diplomat, spy*. Tina Tamman, publisher, Rodopi, Amsterdam/ New York, NY, 2011, XVII, 251 pp.
- <sup>2</sup> See the speech by Danish Prime Minister Anders Fogh Rasmussen, 24 March 2003, to the Danish Institute of International Studies, “The Danish Presidency and the Enlargement Deal”, accessible at [http://www.stm.dk/\\_p\\_11268.html](http://www.stm.dk/_p_11268.html), site

last visited 1 June 2014; the important reference is success in persuading France and Germany to drop their reservations.

- <sup>3</sup> For example, the outline of Latvian national interest in this field as presented by the Latvian Ministry for Foreign Affairs, accessible at <http://www.mfa.gov.lv/en/security/Directions/common-policy/>, site visited 1 June 2014.
- <sup>4</sup> *Standard Eurobarometer 77*, Spring 2013, Public opinion in the European Union Fieldwork: June 2012, Publication: July 2012, Survey conducted by TNS opinion & social at the request of the European Commission, Directorate-General for Communication.
- <sup>5</sup> *Standard Eurobarometer 80*, Autumn 2013, Public opinion in the European Union Fieldwork: November 2013, Publication: December 2013, Survey conducted by TNS opinion & social at the request of the European Commission, Directorate-General for Communication.
- <sup>6</sup> Food grown and processed in the Baltic States was earmarked for feeding certain urban regions in the RSFSR, as well as the Soviet military; primary products necessary for food production were transported to the Baltic countries, and once these supplies were unilaterally terminated post-1991 food production collapsed and recovered only slowly thereafter; local food shortages in Latvia had been endemic throughout the 1980s, a situation originally unrelated to the drive for Latvian independence.
- <sup>7</sup> The initial response of the EU to the application by the Republic of Latvia was not entirely positive, see Agenda 2000 — Commission Opinion on Latvia’s Application for Membership of the European Union, DOC/97/14, Brussels, 16 July 1997.
- <sup>8</sup> Cf. The Presidency Conclusions, Helsinki European Council, 10 & 11 December 1999.

- <sup>9</sup> See the Comprehensive monitoring report on Latvia's preparations for membership, at [http://ec.europa.eu/enlargement/archives/pdf/key\\_documents/2003/cmr\\_lv\\_final\\_en.pdf](http://ec.europa.eu/enlargement/archives/pdf/key_documents/2003/cmr_lv_final_en.pdf), site last visited 1 February 2014.
- <sup>10</sup> In its recent publication on corruption, Report from the Commission to the Council and the European Parliament, COM(2014) 38 final, Brussels, 3 February 2014, the internal turmoil within KNAB is highlighted.
- <sup>11</sup> *Ibid.*, at p. 12.
- <sup>12</sup> Official translation into English of the Latvian Constitution is to be found at <http://www.saeima.lv/en/legislation/constitution>, site accessed 14 February 2014.
- <sup>13</sup> In 1991, there were an estimated 715 000 such individuals in Latvia, currently the numbers are considerably less, approx. 283 000, whereas in Estonia the comparable figures are approximately 450 000, and 88 000, respectively.
- <sup>14</sup> *Status of Settlers Implanted by Illegal Regimes Under International Law*, by Yael Ronen, The Hebrew University of Jerusalem, Faculty of Law, Research Paper No. 11-08, September 2008, 69 pp.
- <sup>15</sup> *The Baltic Countries after Two Decades of Independence Achievements, setbacks, internal challenges*, PONARS Eurasia Policy Memo No. 200, June 2012, Mark Kramer.
- <sup>16</sup> An overview of this episode is to be found at [http://ec.europa.eu/economy\\_finance/assistance\\_eu\\_ms/latvia/index\\_en.htm](http://ec.europa.eu/economy_finance/assistance_eu_ms/latvia/index_en.htm), site last visited 14 February 2014; post the last tranche of financial support surveillance continues.
- <sup>17</sup> Source Figure 8: Latvia: Annual GDP (Index) IMF database for 2010. <http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx>, site last visited 1 February 2014, published by the Center for Economic and Policy Research, Mark Weisbrot, Rebecca Ray, Latvia's Recession: The Cost of Adjustment With An "Internal Devaluation", results post-2009 are extrapolated.
- <sup>18</sup> Latvian plans for economic development are prepared solely to access certain EU financial instruments; typically any impact on the national economy of implementation of EU-funded projects are described in non-financial terms, for example, improvements in the road network in Latvia are to be measured by "Reduction of the length in % of major state motor road segments in a poor or very poor condition", an indicator that has been shown to be unrelated to the quality and durability of the improved roads, cf. National Development Plan of Latvia for 2014–2020, approved December 2012.
- <sup>19</sup> EU Funds in Central and Eastern Europe — Progress report 2007–10, prepared and published by KPMG, accessible at <http://www.kpmg.com/CEE/en/IssuesAndInsights/ArticlesPublications/Documents/eu-funds-in-central-and-eastern-europe-2012.pdf>, site last visited 3 June 2014.
- <sup>20</sup> At less than 100 € per hectare Latvia received the lowest such payment, next lowest was Estonia with approx. 125 € per hectare. The origin of this disparity is far from obscure, but the members of the Latvian political elite responsible for this failure, essentially a passive attitude taken at the Copenhagen European Council meeting in December 2002, presently avoid discussion of their role.
- <sup>21</sup> EU Funds in Central and Eastern Europe — Progress report, see above.
- <sup>22</sup> Recent press reports indicate e.g. that of the 1 billion Euro invested in Latvia for new sewerage systems only 1/3 of these are to be used by the public, most potential clients refuse to accept increased costs for connection to a modern system. That there are deleterious consequences for their environment and themselves appears

- to be unimportant for those refusing connection.
- <sup>23</sup> The World Bank Project is described at <http://www.worldbank.org/en/news/press-release/2013/04/19/world-bank-launches-initiative-on-migration-releases-new-projections-on-remittance-flows>, site last visited 14 February 2014.
- <sup>24</sup> Ibid., Bilateral Remittance Estimates for 2012 using Migrant Stocks, Host Country Incomes, and Origin Country Incomes.
- <sup>25</sup> Ibid.
- <sup>26</sup> For practical aspects flowing from this decision see <http://www.immigration-residency.eu/residence-permit-latvia/>, site last visited 14 February 2014; the programme is politically controversial with downsizing revisions debated during 2013–2014 in the Latvian Saeima.
- <sup>27</sup> A note summarising these Latvian government decisions was published in the official government newspaper, *Latvijas Vēstnesis*, 12 December 2003, Nr. 176 (2941).
- <sup>28</sup> On 21 June 2013, the Finance Ministers of the 17 countries that then comprised the Euro-zone unanimously recommended that Latvia join the currency union as of 1 January 2014. The Economic and Financial Affairs Council, on 9 July 2013, took the decision that allowed Latvia to adopt the euro as its currency as of 1 January 2014.
- <sup>29</sup> The UK and Denmark by virtue of their being EU Member States prior to 1992 possess a derogation of unlimited duration to be exempt from automatic adoption of the euro; Sweden whose economic and legal indicators are all sound has avoided adoption of the euro by not joining the Exchange Rate Mechanism (ERM-II), largely for political reasons, in that the population has through referendums indicated its unwillingness to countenance disappearance of the Swedish Kronor.
- <sup>30</sup> All indications point to Lithuania joining the Eurozone on 1 January 2015 (on its second attempt).
- <sup>31</sup> Data taken from Flash Barometers 377 (2013) and 400 (2014) surveying public opinion in countries outside the Eurozone concerning the Euro. Surveys are conducted by TNS Opinion & Social at the request of the European Commission, Directorate-General for Communication.
- <sup>32</sup> An article by Prof. Elmārs Zelgalvis, *Ekonomiskā suverenitāte — ārpus ES*, published on 8 September 2003 in *Neatkarīgā Rīta Avīze*, agitating for a negative vote on Latvian Accession to the EU clearly stated that Accession meant an obligation to introduce the euro, this at variance with his statements in 2013 that the Latvian electorate in 2003 had not been informed about this treaty obligation.
- <sup>33</sup> In the 2014 European Parliament elections this individual, who had personally supervised in a personal capacity the referendums in Crimea and attested to these being a true expression of the will of the inhabitants, received nearly 7% of votes cast and returned as a member of the Green and Free Alliance political grouping in the European Parliament.
- <sup>34</sup> Ibid.
- <sup>35</sup> Agreement was reached during the first semester of 2013, with the actual Regulation agreed between Parliament and Council on 19 November 2013.
- <sup>36</sup> An analysis of these payments as foreseen for 201402020 can be found at [http://ec.europa.eu/agriculture/rca/pdf/PO0202\\_direct\\_payments.pdf](http://ec.europa.eu/agriculture/rca/pdf/PO0202_direct_payments.pdf), site last visited 14 February 2014.
- <sup>37</sup> The Latvia secretariat has already set up an Internet web-site, <http://www.eu2015.lv/en/>, site last visited 14 February 2014.
- <sup>38</sup> The Trio Presidency programme for the Italian, Latvian, Luxembourg Presidencies contains little reference to what the Latvian public consultations on presidency priorities outlined as desirable, cf. *The*

*Trio programme* as published, Brussels, 17 June 2014 (OR. en) 10948/1/14 REV 1 POLGEN 97.

<sup>39</sup> See the Press Release of 13 January 2014 (in Latvian), Koordinācijas padome vienotības par Latvijas prezidentūras prioritārajiem virzieniem, at <http://www.leta.lv/es/item/2CE041FE-91C0-47F5-8426-7B32BB0E1833/pr/>, site last visited 14 February 2014.

leta.lv/es/item/2CE041FE-91C0-47F5-8426-7B32BB0E1833/pr/, site last visited 14 February 2014.

<sup>40</sup> European Commission draft for a Council Recommendation on Latvia's 2014 national reform programme, COM(2014) 415 final, Brussels, 2 June 2014.

## LATVIJAS REPUBLIKA UN EIROPAS SAVIENĪBA: DESMIT GADU KĀ DALĪBVALSTS

Eduards Bruno Deksnis

### Kopsavilkums

**Atslēgas vārdi:** *Baltijas valstis, Latvija, Lietuva, Igaunija, Eiropas Savienība, pievienošanās ES, ekonomiskā izaugsme, Eiropas naudas apgūšana, 2014. gada Eiropas Parlamenta vēlēšanas, ES Padomes prezidējošā valsts, eiroskepticisms*

Rakstā aplūkota Latvijas Republikas kā Eiropas Savienības dalībvalsts pieredze vairākos aspektos. 20. gs. 90. gadu sākumā nonākot uz Eiropas valstu skatuves, visas trīs Baltijas valstis pieņēma lēmumu pievienoties Eiropas Savienībai un NATO iespējami drīz, lai nostiprinātu savu drošību un piekļūtu attīstības līdzekļiem. Latvijas Republikas pievienošanās Eiropas Savienībai noritēja veiksmīgi, taču ļoti strauji. LR politiskajai elitei un iedzīvotājiem nebija iespējas ilglaicīgi savstarpēji pārrunāt un publiski izdebatēt šāda soļa vēlamību, nedz valsts pārvaldei pakāpeniski sagatavoties jauniem izaicinājumiem.

Laikā pirms pievienošanās triju Baltijas valstu sarunas ritēja savstarpēji neatkarīgi: problēmas ar valsts pārvaldi, ar tiesiskuma izpratni, ar valstu infrastruktūru, kas vispārējos vilcienos bija lielā mērā līdzīgas, tika risinātas dažādos veidos. Lai arī Igaunija izcēlās ar lielāku gatavību pielāgoties ES dalībvalstu prasībām, visas trīs Baltijas valstis pievienojās ES un NATO vienlaikus. Latvijas gadījumā ieteikumi un prasības stiprināt tiesiskās valsts izpausmes ņemti vērā visai nosacīti. Arī 2014. gadā tiek atkārtoti ieteikumi Latvijai sakārtot savu tiesu sistēmu.

Piekļuve ES attīstības fondiem Latvijas gadījumā ir bijusi daļēji veiksmīga: Latvijā uzsvars, kas likts uz līdzekļu apgūšanu, nav līdzsvarots ar novērtējumu, kādā veidā ieguldījumi veicinās ekonomikas attīstību. Ekonomiskās krīzes cēloņi, kas Latviju piemeklēja, sākot ar 2007. gadu, ir tikai daļēji saistīti ar ārējo faktoru ietekmi. Saņemot finansiālu atbalstu no ES un starptautiskiem avotiem, Latvija arī uzņēmās veikt strukturālas reformas. Starptautiskajiem ekspertiem par pārsteigumu, Latvijas politiskā elite izrādījās spējīga sāpīgos jautājumos pieņemt un īstenot publiski nepopulārus lēmumus. Sabiedrība samierinājās ar šādu pieeju — Ministru prezidents, kura darbības laiks saistīts ar šiem notikumiem, tika pārvēlēts uz otru pilnu amata periodu. Latvija arī paguva, izkļūstot no ekonomiskās lejupejas, īstenot savas saistības attiecībā uz eiro ieviešanu kā tās nacionālo valūtu 2014. gada 1. janvārī. Arī šis sasniegums ir ievērojams.

Latvijas pilsoņu attieksme pret dalību ES ir visai komplicēta. Aptaujas nebūt neliecina par eiroskepsi, kas tik plaši tiek daudzrunāta Latvijas medijos. Lielais tādu pilsoņu skaits, kuri



atraduši īslaicīgu vai ilglaicīgu palikšanu citās ES dalībvalstīs, Latvijas gadījumā kļuvis par nopietnu izaicinājumu Latvijas politiskajai un ekonomiskajai elitei censties vismaz apturēt iedzīvotāju aizplūšanu. Savukārt 2014. gadā Eiropas Parlamenta vēlēšanās no Latvijas mandātu ieguvuši pieci (no astoņiem) deputāti ar izteiktu pozitīvu attieksmi pret ES un viens deputāts ar izteikti ekstravagantu, ar reālām iespējām nesamērīgu politisko platformu. Divi no Latvijas ievēlētie deputāti orientēti izmantot savus mandātus, lai traumētu Latvijas pilsoņu vairākuma jūtas.

Sākot ar 2015. gada janvāri, Latvijas Republikai nāksies sešus mēnešus veikt administratīvus pienākumus, esot ES Padomes prezidējošai valstij. Šis darbs tiks veikts godam: tālu no Latvijas publiskā redzesloka tiek sagatavota spēcīga, pārsvarā jaunu ierēdņu grupa, kuri apgūst daudzas iemaņas, kas diemžēl ir svešas LR pašmāju ierēdniecībai.

2014. gada rudenī Saeimas vēlēšanās nekandidēs vairākas personas, kuru darbība būtiski sekmēja Latvijas centienus izkļūt no ekonomiskās krīzes. Diemžēl ekonomiski neatbildīgi (populistiski) darboņi un Krievijas interešu lobētāji atkal sarosījušies, tiecoties nonākt pie varas vēlēšanu ceļā. Grūti iedomāties iemeslus, kādēļ lai starptautiskās finanšu organizācijas otrreiz glābtu Latviju no defolta, ja tādu izraisītu atgriešanās „trekno gadu” ieražās.

Baltijas valstu sabiedrību spēja pieņemt grūtus lēmumus, vienlaikus esot neatkarības statusā, ir vēsturiski pierādīta īpašība.