

EXECUTIVE SUMMARY

Extract from:
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2013 is a significant year for the Baltic states in their relations with European integration. On 1 July 2013, Lithuania became the first of the Baltic states to hold the rotating presidency of the EU Council of ministers. In addition, this year Latvia has been invited to join the Euro Area thus becoming the second Baltic state after Estonia to share the common currency. This Study aims to show that these developments are extremely important for the young and small Baltic states, which continue to aspire to secure their place in the European "core".

Part 1 (pages 16-33) **discusses the difficult history of the three Baltic states and the rocky road on the way to joining the most prestigious international organisations in the Western world, including the European Union.**

- The general strategy adopted by the Balts was to join as many international and Western organisations as possible and to do so quickly, thus guaranteeing the survival of their independence by becoming embedded in the dense network of international bodies. One can recognise the same underlying logic today in such decisions as joining the Euro Area.
- However, integration with Western Europe appeared the least likely and utopian scenario after the collapse of the Soviet Union. Indeed, just after regaining independence from the Soviet Union, the Baltic states had to begin from scratch in their institution-building because they were the only three of the current Central and Eastern European EU member states to have been fully incorporated in the Soviet Union. In addition, the Baltic states were the most vulnerable economically; therefore, they had to make a lot of efforts to meet the Copenhagen criteria and to make sure that they would not be left behind.

- The Baltic states have niches or “pet projects”, conditioned on their history and national interest, which they have tried to upload onto the EU agenda. Estonia, Latvia and Lithuania champion initiatives to strengthen energy security, the Eastern Partnership, the Single Market (especially free movement of services), and are staunch proponents of enlargement.

Part 2 (pages 33-64) deals with the recent economic crisis and its consequences in the three Baltic states.

- During the first half of 2000’s, the Baltic states lived through their golden age of GDP growth, which was nevertheless coupled with a build-up of significant macroeconomic imbalances. As a consequence, in 2008-2009 the three Baltic states experienced double-digit recessions, which in terms of output loss could have only been compared to the downturn caused by the collapse of the Soviet Union.
- There were two ways out of the crisis: external (currency) or internal devaluation (and thus harsh austerity), out of which the second policy option was chosen in all three Baltic states. The way the Baltic states dealt with the crisis and the near-miraculous current economic recovery invites the austerity-supporters to proclaim the countries as an example, in particular for the Southern EMU member states caught in protracted recessions.
- However, austerity apart, it has to be pointed out that the unique economic and societal model of the small open economies as well as distinct historical legacy have all worked to their advantage when dealing with the crisis. In addition, even though GDP growth is back on track, the Baltic populations are paying a high price for the austerity policies in terms of poverty, unemployment and emigration.

Part 3 (pages 65-86) analyses in detail the specificities of energy policy, which is among the top priorities of Lithuanian presidency, in the Baltic states.

- This issue is given extreme attention in the region because the Baltic states are “energy islands” within the EU – still linked to Russian pipeline

and electricity network infrastructure and 100% dependent on Russian sources of gas and oil.

- As a consequence, Baltic energy dependence on Russia facilitates Moscow's influence in Baltic domestic politics as well as stokes tensions in bilateral relations with Russia and EU-Russia relationship. This in turn influences domestic transposition of EU energy policy initiatives.
- EU's energy policies of liberalisation and the Third Energy Package are being adopted to a different extent among the three Baltic states, with Lithuania most progressive and Latvia most passive.
- It seems certain that without EU institutional support and funding for integration of Baltic energy infrastructure and diversification of energy sources, the Baltic states will fail to become true members of the single EU energy market.