



From left to right: Foreign Minister Birkavs, IDAB Chairman General Sir Garry Johnson, President Ulmanis, Baltic Stability Foundation Director Mr. Jurkans and Mr. Lejins, Director of the Latvian Institute of International Affairs.

‘Security and Prosperity in the Baltic Region’
was organised by the:

Ministry of Foreign Affairs of the Republic of Latvia
Baltic Stability Foundation
International Defence Advisory Board
Latvian Institute of International Affairs

with the support of the:

Baltic Stability Foundation
NATO HQ Information & Press
Foreign & Commonwealth Office, London
Institute for East-West Studies, New York

ISBN 9984-583-08-2
UDK 327 (474) (063)
Se 063

EDITING AND LAYOUT: KATRIN PERÄNEN
PHOTOGRAPHY: KIMMO PERÄNEN

© Latvian Institute of International Affairs 1998

Printed by TERRAS MEDIA, Riga, LATVIA, tel. +371 7 289612

**“Security and Prosperity in the Baltic Region”
Riga 16-17 November 1997**

Table of Contents

KEYNOTE ADDRESS:

“The Security Identity of Latvia on the Eve of the Millenium”

President G. Ulmanis, Latvia 5

SESSION 1 “Towards a New Europe”

Dr. Günter Burghardt, European Commission 8

Dr. Klaus-Peter Klaiber, NATO 11

Mr. Hans Henning Horstmann, Germany 14

Ambassador-at-Large Vladimir Shustov, Russian Federation 17

SESSION 2 “Investment and Transition”

Mr. Dimitris J. Demekas, International Monetary Fund 22

Mr. J. Vanden Heuvel, Credit Suisse First Boston 24

Mr. R. Clifford, Lockheed Martin International 27

SESSION 3 “Developing Security in a Greater Europe”

Air Chief Marshal Sir John Cheshire, AFNORTHWEST 32

Mr. Vyacheslav Nikonov, Russian Federation 35

Mr. Henryk Szlajfer, Poland 38

Mr. Paul Goble, Radio Free Europe 40

Ms. Viola Furubjelke, Sweden 44

SESSION 4 “Co-operation and Prosperity in the New Hanseatic Region”

Ambassador Larry Napper, United States of America 48

Dr. Otto Graf Lambsdorff, Germany 51

Ambassador Birger Dan Nielsen, Council of Baltic Sea States 54

Mr. René Nyberg, Finland 56

Mr. Tormod Stene-Johansen, Varner Hakon Investment Group 61

Mr. Igor Yourgens, Russian Federation 63

DINNER ADDRESS: “The Lessons of Bosnia”

Mr. Carl Bildt, Sweden 66

CONCLUDING REMARKS

Foreign Minister Valdis Birkavs, Latvia 72

List of Foreign Participants 75



KEYNOTE ADDRESS

**H.E. Mr. Guntis Ulmanis,
President of the Republic of Latvia**

The Security Identity of Latvia on the Eve of the Millennium

It is a true pleasure and a great honour for me to address such a distinguished audience at this conference on the prosperity and security of the Baltic region with a view toward the next millennium. The conference has brought together a considerable number of our friends and partners from many countries. I wish you interesting and beautiful days in Riga. I have a particular pleasure to welcome those friends of Latvia who have been awarded the *Order of the Three Stars*.

The theme of my present address is "The Security Identity of Latvia on the Eve of the Millennium". Why did I choose this theme? Identity both in Latvia and in the other countries in transition is a topical issue in many aspects. We argue about how we understand the identity of a modern personality. We have different views on what we mean by the notion 'national identity. I believe that "the identity of the state" will always remain a central concept in European countries. I am always eager to take part in discus-

sions pertaining to this theme. Although "identity" as such is a somewhat poetic term, I am sure that it can be fully related also to security. It is important for me to see identity, as a process, as a changing notion. This is the point of reference for my address. I should like to start my address with a brief glance into the past.

A few days ago Latvia celebrated *Lacplesis Day* and gave tribute to the Latvian Riflemen who almost 80 years ago fought to free their country from Bermont's German and Russian mercenaries. Then security meant struggling and colliding. Security meant a victory over an enemy who was visible or could be sensed at the opposite side of the trenches. It was not easy, but in a way it was simple.

The understanding of security has dramatically changed over the last decades, particularly in the post-Cold War period. The understanding has changed not only in Latvia, it has changed in the entire Euro-Atlantic area.

Let me describe how I see the security of Latvia today and for the coming years. Latvia regained independence seven years ago. From the Soviet militarised state we inherited a huge, however, useless dehumanised infrastructure - airfields, bases, polluted towns and ports. We faced two challenges. First, to introduce a modern understanding of security in Latvia, and second, to find a modern answer to the question: "What do we do with the Soviet military pensioners?"

The policy of active participation is incompatible with the policy of neutrality. This is the choice of Latvia at the turn of the millennium. This basically concerns the vital and important opening and further enlargement of the European and Trans-Atlantic structures, the increasingly closer integration of Latvia into Europe, as well as participation in global

processes in a way that ensures the endurance of the Latvian nation, its identity and uniqueness.

We are pleased with the NATO decisions in Madrid. These decisions clearly confirm the feasibility of our foreign policy goal - accession to the Alliance. They encourage us to expend even more effort to concentrate our resources to create a modern reliable national defence that would meet NATO standards.

A multilateral and inclusive dialogue is an important aspect of the identity of Latvian security. Everyone remembers "Mr. No" as one of the symbols of the Cold War, representing politicians who denied the chance of any kind of dialogue. Dialogue is an absolutely necessary pre-condition for co-operation. The Euro-Atlantic Partnership Council should be mentioned as a good forum of dialogue because it gives various countries a chance for candid discussion. This is an opportunity that should be preserved for the next century. The Organisation for Security and Co-operation in Europe will also retain its traditional relevance.

Security of the Euro-Atlantic area is indivisible. Security policy cannot be locked within the borders of nation-states any more. It requires good understanding and co-operation among states in the Euro-Atlantic area. Dialogue helps to overcome mutual prejudices and to know each other better. Close contacts among countries and people facilitate the elimination of psychological barriers that still make it difficult for those who once considered themselves adversaries.

The next aspect I should like to mention is the technological one. Modern knowledge is important for our future as it is often emphasised. However, it is equally

important for security. This is why we attach such importance to the technological dimension of the security identity. The three Baltic States have agreed on a common air surveillance network called BALTNET. This symbolises our understanding of the importance of technology. At the same time it symbolises the good co-operation among the Baltic States. The involvement of NATO members in this process is important.

Domestic policy is an important aspect of the security identity. The security of the state is deeply rooted in domestic stability. Only stable and peaceful development allows a country to project security outwards thereby making a country not merely a consumer of security. I am confident that the peaceful and stable domestic development in Latvia is in the interests of all countries of the Euro-Atlantic area. Peaceful, stable and democratic development in all of Latvia's neighbouring countries is likewise in the interests of Latvian security.

A provider of security can only be a country that does not have a deficit in domestic stability. A provider of security can only be a country with a stable and lasting domestic consensus on democratic values. A provider of security can only be a country that has sufficient mutual trust in close and distant neighbours. The scale of a provider is measured in the number of friends, not in the number of tanks.

The feeling of affinity between peoples and nations is often more important than the number of signed agreements. Security and stability is a foundation for the prosperity of a nation. We in Latvia are well aware of this principle. This principle is shared by all countries in the Euro-Atlantic area. It enables us to look into the future with confidence.



SESSION 1
“Towards a New Europe”

Speakers:

Dr. Günter Burghardt, Director-General, DG1A, European Commission

Dr. Klaus-Peter Klaiber, Assistant Secretary General for Political Affairs,
NATO

Mr. Hans Henning Horstmann, Deputy Political Director, MFA, Germany

H.E. Mr. Vladimir Shustov, Ambassador-at-Large, MFA, Russian
Federation

Dr. Günter Burghardt
Director General, DG 1A, European Commission

I would like to contribute some reflections on three points - the specific European Union contribution to the "new Europe", the *Agenda 2000* which encompasses the question of enlargement, and the future political agenda needed to implement the contents of the first two points.

With regard to the "new Europe", the focus should be on how to insure that Europe will pass into the next century better equipped, more stable, more prosperous and more solid than it passed into the last century. The end of the 19th century was characterised by a very sophisticated network of alliances and re-assurance treaties, but ultimately collapsed when circumstances changed. Our ambition is to create structures in Europe which are more resistant and which form a firm basis for all those countries that want to join the European integration process.

We are seated here above an orchestra pit. There have been many orchestras in Europe. Usually they have not lasted long. Our aim is not to re-invent the orchestra. It is not sufficient to apply new paint to old facades that show their cracks very quickly, but rather to do something innovative. This is what I would call the specific contribution of the European Union to the "new Europe". This contribution is not a recent phenomenon or objective of post-communist Europe. It was, in fact initiated some 45 years ago when a number of French politicians, together with Germans, Italians and others created the message of May 1950.

What does this message entail? The Europe of the European Union, previously the European Community, was about security and prosperity, in addition to the

objective of the war-torn Europe to once again become an actor on the international stage. In fact one can say that the twin subjects of the conference, "security" and "prosperity", are two of the three basic motivations of the European Integration Process which was started in the 1950's.

The European Integration Process was built on the existence and continuation of nation states, but also on the idea of pooling some sovereignty, to be taken care of by common institutions on the basis of free will. These are the most important characteristics of the European Union.

Since then the European Union has grown from the initial six founding states to encompass fifteen member states. Although different layers of identification and legislation still remain, these states all joined the EU, because they recognised that the very survival of their national identity could only be guaranteed inside the larger European context.

The security aspect of the European Union dates back to 1951 when the European Steel and Coal Community was founded. The idea was to pool two basic materials for conventional warfare, by subordinating the production capacities of France, Germany, Italy and the Benelux countries to one High Authority. So what today looks rather trivial, was in actual fact a revolutionary idea in the 1950s.

An attempt to create a European Defence Community and a European Political Community followed shortly afterwards but failed when the treaties were not ratified in the French Parliament in 1954. This was the reason why the integration

process was restarted from the economic side, but without the idea of *finalité politique*, the final political objective.

Today we can draw certain conclusion as to what has been achieved and what lies ahead for the European Union. The achievements are more numerous than professional sceptics would concede. Over the last ten years, the European Union has had three inter-governmental conferences, which have led to reform processes of the EU. In addition two major financial packages were produced and two major enlargement processes took place. Moreover, it was possible to fulfil an old objective of the German *Grundgesetz* - the unification of Germany in the framework of a united Europe. In fact, one could argue that the European Union witnessed its first eastern enlargement in 1990, although on the basis of different parameters. So we can look back on a rather long chain of achievements.

The second point I would like to raise is the *Agenda 2000*. It represents a summary of major political objectives, formulated at the European Council in Madrid in December 1995. The first point on this agenda was the inter-governmental conference that led to the Amsterdam Treaty. One can argue about the achievements of this treaty or lack thereof in the context of enlargement preparation. It is certain that the treaty will occupy the EU over the next few years.

The *Agenda 2000* is also encompasses the preparation and conduct of enlargement negotiations with the ten countries of Central Europe as well as Cyprus. The third point in the *Agenda 2000* is the successful introduction of the single currency. Many people are currently beginning to ask what the successful single currency will mean for the international role of the European Union and the identity of its people. The fourth point on the

Agenda 2000 deals with the reform of the agricultural and structural funds policies, aimed at allowing a new financial framework of the European Union to take shape from 2000.

Two points on the *Agenda 2000* have a geopolitical and security aspect; the fifth point which deals with the European Union contribution to the European Security Architecture and the sixth point which deals with the effects of the enlargement process on relations with our big neighbours, i.e. EU-Russia, EU-United States, Trans-Atlantic relations as well as European Union-Mediterranean relations. These six points, in short, make up the *Agenda 2000*.

The *Agenda 2000* can be used to highlight three of the major problems in the preparation for the enlargement process. Firstly, the likely development of the European Union beyond 2000, in terms of its domestic policies. Secondly, the organisation of the enlargement process and thirdly, the question of raising the necessary funds beyond 2000 in order to finance all this.

Turning to the future political calendar, I would like to stress that one should not underestimate the ability of the general public, as well as the national governments, to digest an ambitious political agenda. I am emphasising this point because when it comes to discussion of the enlargement process, there is a growing gap between the uneasiness, the will of the candidates to move forward quickly, and the capacity of the European Union to deliver.

Both the European Union and the candidate countries will have to do their homework. For this reason, the European Union set out the criteria for the basic homework that needs to be done on the part of the candidate countries at the Copenhagen meeting in 1993.

At the same meeting the European Union set out its own homework. In order for the European Union to avoid becoming an enlarged union, able to project its influence on the European scene, enlargement would have to be paralleled by the necessary reform process, in particular of the EU decision-making process. This very ambitious task has not yet been fully completed in Amsterdam. Therefore it is imperative for the European Union to concentrate on these two very important issues - institutional and financial reform -while at the same time monitoring the progress made by candidate countries in regard to the Copenhagen criteria.

I would like to conclude my presentation by shedding some light on the frequent confusion related to the order in which the European Union proposes the enlargement process to take place. One thing that remains certain is that the European Union committed itself to enlargement to ten Central European countries as early as June 1993.

The criteria were set in order to make the process both an objective and orderly process. This means that all ten countries are part of the enlargement process and I expect the European Council in Luxembourg to confirm, in December, that the EU enlargement process has a global, inclusive and progressive nature.

However, it will take time, maybe more time than some MPs in candidate countries would like to see it take.

The enlargement process has both a bilateral dimension, i.e. the individual accession negotiations with each and every candidate country, and a multilateral component, i.e. the so called Europe conference. The latter should make it clear that all countries, independently of when they start or finish negotiations, are part of the process. This is a very important message for the EU and especially for countries like Latvia is in a category of countries not been included among the first candidate countries to start to negotiations with the European Union. Let me emphasise again that there are no group negotiations, only individual negotiations.

One EU Foreign Minister compared the process with a stadium in which there are several corridors in which people run. However, the one who starts first is not necessarily the first to arrive, others may overtake or they may even get into a side corridor because they run out of steam. This example illustrates that the European Integration Process and its enlargement should rather be seen as a marathon, instead of an 800 metre sprint. This is why it is our duty and your duty to do our best in order to become fit for this rather long-lasting experience.

(Edited version of transcript)

Dr. Klaus-Peter Klaiber
Assistant Secretary General for Political Affairs, NATO

It is a pleasure to address this prestigious conference. While I have already twice had an opportunity to visit Latvia as a German Foreign Ministry official, I am especially honoured to be in Riga today as a representative of NATO on the eve of Latvia's Independence Day. So, allow me - in advance - to express my whole-hearted congratulations to all Latvians.

In my brief remarks today, I would like to point out how the Baltic States' approach to European security perfectly complements NATO's political agenda. In the early 1990's, the Baltic independence movements were in the forefront of ushering in a new era of freedom in Central and Eastern Europe. You contributed significantly to tearing down artificially imposed dividing lines in Europe. And while regaining your independence was a very challenging task indeed, you, together with Estonia and Lithuania, were quick to establish close ties with Euro-Atlantic institutions, including NATO.

In December 1991, Latvia and the other Baltic States participated in the North Atlantic Co-operation Council's first session, together with the Soviet Union, only a few weeks before the latter's dissolution. A few years later, the host of today's conference - Foreign Minister Birkavs - signed the Partnership for Peace Framework Document on behalf of Latvia in his capacity as Prime Minister of the Republic of Latvia.

Since regaining their independence, the Baltic States have stood out as a model for many Central and Eastern European countries of successfully mastering the difficult tasks of political and economic reforms. In a relatively short period of

time, you consolidated your democratic systems and have created vibrant free-market economies. In doing so, you not only successfully drew on your century-old tradition of entrepreneurship but - in the Hanseatic spirit - skilfully re-opened channels of communication and co-operation with your neighbours in North-Central Europe and beyond.

It is this co-operative spirit that has enabled the Baltic States to spearhead a number of regional co-operation efforts. Your contributions to enhancing security and co-operation deserve special attention. Indeed, they were specifically mentioned by NATO's Heads of State and Government, at the Madrid Summit, this past summer.

Three Baltic co-operation initiatives come to mind: the Baltic Peacekeeping Battalion (BALTBAT), the joint Baltic Navy Squadron (BALTRON), and the Baltic Air Surveillance Network (BALTNET). While all three programmes are specifically tailored to meet the needs of the three Baltic States, they also involve NATO Allies, as well as Partner states such as Finland, Sweden and Poland. And, further south, a Latvian infantry platoon is working together with Allied and Partner nations to bring a lasting peace to the former Yugoslavia. Your presence in Bosnia shows that you are active players in the new European security architecture.

It is there, where NATO's co-operative approach to security is being put into practice. So, while NATO has retained the core function of collective defence, the Alliance has added an entirely new dimension to approach to security. By reaching out to other institutions, new

members and new partners, we are seeking to build a security architecture founded on strong co-operative ties. Our goal is to create a European security architecture that includes as many players as possible and excludes no one. No country or region in Europe should feel that it is once again being relegated to a grey zone or less important to the Alliance than others.

This new security architecture has a number of components. One key element of our agenda, of course, is enlargement. We applaud the Baltic States' keen desire to integrate as quickly as possible into Euro-Atlantic institutions. And of course, it remains the prerogative of each country, including Latvia, to map its own security and foreign policy.

NATO has begun the enlargement process by inviting a small group of Central European countries - the Czech Republic, Hungary and Poland. But at Madrid, NATO Heads of State and Government underscored that enlargement is a process, not a one-time event and that we would review this process in 1999. Moreover, we are not limiting enlargement to any specific geographic area. NATO will remain open to any European democracy that is willing and able to assume the obligations and responsibilities of Alliance membership.

Secondly, our outreach includes a robust Partnership for Peace Programme. Since its launching in 1994, PfP has turned into one of the most successful co-operation programmes ever and from the beginning, the Baltic States have been active participants. Last year, Latvia participated in over 15 PfP exercises and a few months ago renewed its ambitious Individual Partnership Programme with the Alliance which should take us through 1999. We are currently working on modalities to involve our Partner Countries more directly in the planning and operational side of PfP operations.

Thirdly, NATO is enhancing its political dialogue with Partner countries through the newly created Euro-Atlantic Partnership Council. This Council will provide the overall guidance for the various co-operation programmes between Alliance members and their partners. Within the EAPC, we are also holding consultations on regional co-operation in accordance with the provisions of the basic document of the EAPC.

Let me turn to another important element of NATO's outreach agenda - our new relationship with Russia. It is quite evident that all of Europe has a vested interest in seeing Russia's political and economic reforms succeed. Tying Russia closer to Euro-Atlantic institutions - and allowing Russia to play a constructive role commensurate with its size and political weight - will, in the long run, benefit all of us, including Russia's immediate neighbours.

Through the signing of the NATO-Russia Founding Act, we created an institutionalised mechanism - the Permanent Joint Council - to consult with Russia on a regular basis on matters of mutual concern and to oversee common activities. The Founding Act is complementary to the other key initiatives of the Alliance in furthering co-operation and close ties with other Central and Eastern European countries. Over the last few months, we have held several productive meetings in the PJC format. In the PJC, we have discussed a variety of issues with Russia, from civil emergency planning and nuclear proliferation to our co-operative peace-keeping operation in Bosnia. In the future, we will also explore the possibility of enhancing our military to military contacts.

I know that there are concerns, not only in the Baltic region, that our new relationship with Russia could overshadow our relations with our Partners or even weaken the cohesiveness of the Alliance.

Let me assure you that these concerns are unfounded. We are not giving Russia a veto in Alliance affairs. Nor does Russia participate in the NATO's decision making process. And while our desire is to find common ground between NATO and Russia, this may not always be possible to achieve. However, in the new security environment we believe that improved relations with Russia and ever-closer ties with our Partners should not be mutually exclusive.

Which brings me back to NATO's relations with the three Baltic States and the overall trends of integration and co-operation in Europe. Baltic security remains of vital importance to NATO.

We do not see the Baltic region as a region disconnected from the Alliance's overall agenda. Rather, we believe that through increased cooperation and integration Europe will grow together. In the months ahead, the Alliance will further deepen its political consultations with Latvia in the 16 + 1 format. Moreover, we will - through an enhanced PfP - further develop our close co-operation in the areas of peacekeeping and crisis

management. These measures will ensure an ever closer relationship between NATO and your country.

Looking beyond NATO's particular agenda, we must not lose sight of the overall integrating tendencies that are currently taking place on the European continent. Early integration of the Baltic States in the EU - as you have repeatedly underscored - is just as important to the future of Baltic security, stability and prosperity as NATO membership. In the broader context of creating a European security architecture, NATO and EU enlargement serve similar and complementary roles, namely to create stability, prosperity and security for all of Europe.

Latvia's association agreement with the European Union, her active participation in the EAPC and PfP, her status as an Associate Partner of the Western European Union, and membership in the Council of Europe are clear indications of her determination and effort to play a full part in the development of a new, cooperative Euro-Atlantic security space. I am looking forward to discussing these and other issues with you during the course of the day.

Mr. Hans Henning Horstmann
Deputy Political Director, Ministry of Foreign Affairs, Germany

Towards a New Europe - The German View

The history of Europe has been characterised in the last centuries and in the first five decades of this century by nation and coalition building. Bilateral arrangements tried to secure sovereignty, power and in particular spheres of influence in Europe and beyond our continent. The bipolar world after World War II produced a fragile stability by the division of our continent, block building, strategic parity between the superpowers, nuclear deterrence and by power competition in the Southern hemisphere.

Today stability and prosperity in Europe is guaranteed and enhanced by a network of multilateral institutions and organisations - EU, NATO, OSCE, Council of Europe, OECD, regional and bilateral co-operation. It is the firm German view that in a multi-polar world with its manifold new challenges European societies and their common values of freedom, human rights and peace can only flourish if the governments build upon the firm bedrock of these institutions.

Germany has been engaged since the early fifties in a foreign policy embedded in a multilateral approach. We ceded parts of our national sovereignty to entities larger than the nation, having learnt the hard way that the isolated and irresponsible assertion of national interest leads to disaster. We also did so in order to restructure our economy, for the prosperity of our people and to increase our political influence after the devastating World War II. We are deeply convinced that Europe is now called upon to be a global player in competition and co-operation with the Americas and Asia. We have to meet the Euro-Atlantic strategic challenges, like the European

Monetary Union, and we have to manage multilateral processes in which we engaged successfully forty years ago. Forty years ago the six founding member states of the European Economic Community had above all a political vision for the whole of Europe. The same applies for the Atlantic Alliance. Thirty years ago the *Harmel Report* highlighted NATO's policy of dialogue and co-operation with what was then the "East" on the basis of a strong defence capability. NATO combined the bold vision of a European peace order with the sober assessment of military risk.

Let me stress the political aspect of both organisations. The vocation of the European Union is a political union and not just a common market, respectively an elevated free trade zone. That of NATO is a political alliance of shared values and not just a military pact. This strategic aspect of both institutions has too often been under-estimated, neglected or just not been understood and still is. It was in particular this characteristic of both organisations which was instrumental in the signing of the Helsinki Final Act in 1975. And the Helsinki Process reached a first point of culmination when the Berlin Wall came down and when we signed the Charter of Paris seven years ago. Since then member states of the EU as well as of NATO and non-member states of the EU and NATO have been together on the road towards European integration.

Today, both NATO and the EU are reforming themselves and at the same time opening and enlarging. These are extremely complex processes and require not only political, diplomatic and

managerial skill, but, above all, patience. The agenda for both organisations is already heavily loaded. It would only be to the detriment of both institutions if impatience, megaphone diplomacy and other forms of pressure were to gain the upper hand. The strategic objectives which the Europeans, together with the Americans and the Russians, have set themselves to promote stability in Europe, i.e. the NATO opening, the enlargement of the EU and the European Monetary Union, are strategic challenges to strengthen both anchors of stability in Europe. If the internal stability of either institution is endangered, European stability as such is put at risk. With a view to the European Council in Luxembourg in December, I state very clearly for my government that the task for the EU enlargement process is not to make everybody equally happy at the same time and at every single step in the process. What counts is that we are together in that process, that we neglect no nation in the ongoing process, and that everybody will be happy in the long run.

Germany will see to it that every candidate is treated fairly and that all applicants accede in a way which will neither endanger their own stability nor that of the European Union. Let there be no doubt, in the end, all candidates will be members, regardless of the concrete modalities of the entry procedures. The stadium-model, proposed by Foreign Minister Klaus Kinkel, serves exactly this purpose.

A strong and enlarged European Union as well as a new NATO is our best answer in an era of economic globalisation as well as of political fragmentation. It is our best answer to the real security challenges of today. What are these challenges? The challenges of today for Europe as well as for the Americas and other regions in the world, but in particular here in the Baltic Sea Area, have

military aspects. But the main threat to security in the Baltic Sea is not an external invader, it is foremost international organised crime. And let me add: additional new challenges are environmental catastrophes, economic instability, migration from the South and East into Europe and the uncontrolled proliferation of weapons of all kind. It is particular in these areas that the opening of both EU and NATO is an essential part of a preventive security policy in transferring stability, security and peace for the whole of Europe. It is self-explanatory: every success in combating the new threats is based on a strong transatlantic partnership as well as a strong, close and transparent co-operation with Russia. Nobody will win by doing it alone.

In this context I should like to remark on a personal basis: With history in mind, it is not self evident that Estonia, Latvia and Lithuania have engaged in and embarked on an active, constructive *Ostpolitik*. With this policy Riga, Tallinn and Vilnius have laid the vital foundation for turning Estonia, Latvia and Lithuania into a transmission area for stability in political, economic, social and also cultural terms in the Non-East of Europe. We all win from that policy.

In the Baltic Sea Area first initiatives for a better co-operation and thus the first beginnings for restructuring of the Baltic Sea were launched on a regional level more than 10 years ago by the regions, not on a national level. The strength of these initiatives is their down-to earth and bottom-up approach: Twin towns, commercial and cultural initiatives for example.

When Denmark and Germany initiated the Council of Baltic Sea States six years ago, we all engaged in an irreversible trend towards reintegrating the eastern shores of the Baltic Sea into Europe. The Council of the Baltic Sea States is a unique enterprise to promote European

integration. The European Commission is a member, there are EU members, NATO members, EU candidates, non-candidates for either institution and Russia.

Russia is a key player of special weight, particular in this region. Russia now enjoys a special relationship to NATO, the Permanent Joint Council, and to the EU, the Partnership and Co-operation Agreement with the European Union which will take effect on 1 December.

The new emerging Europe is also characterised by an unprecedented immensity of relations with the Baltic States on a bilateral level. The city of Riga stands as a symbol for the century old relations between Germany and Latvia as well as Lithuania and Estonia. For generations the Baltic region has been the region of mutual influence and enrichment. Exactly a month ago Riga was the venue for the, by now, traditional annual Foreign Ministers' meeting of Estonia, Lithuania, Latvia and Germany.

This meeting gave the clear signal that Germany continues to assist and co-operate with all the three Baltic States in all conceivable areas. We hope to achieve visa free travel for the citizens of the 3 countries in 1998. The German Länder are providing considerable assistance. For instance in Rhineland Palatinate we have the Baltic Information Office which co-ordinates activities in this respect and branch offices for promoting investment co-operation with the three Baltic States. The state of Hesse contributes by organising a large scale health and industrial safety project. In Tallinn, Mecklenburg-Western Pomerania is running an information office for the Baltic States, providing advisory service in the legal field. Schleswig-Holstein also has an information office in Tallinn and is active, *inter alia*, in environmental protection projects. Cities,

local authorities, the churches as well as individuals round up the contacts between Germany and the three Baltic friends into an unprecedented close network of mutual efforts, interests and activities. The German business community sees not only significantly expanding trade (having achieved growth rates of between 30 and more than 50 Percent for import and export so far this year). It is also discovering the regions' investment potential. The Chambers of Commerce of Kiel, Lübeck, Hagen and Offenbach have established special and successful partnerships with all three Baltic countries. And for the first time in German history, we shoulder the task as the lead nation for forming a military unit, i.e. the joint Baltic Naval Force.

Germany applauds the successes of intra-Baltic co-operation. The Baltic States have come a long way in a very short time. A week ago the meeting of the three Baltic Presidents in Palanga showed once again the political will, ability and capacity of Estonia, Latvia and Lithuania to act together. Since Germany re-established diplomatic relations with the three Baltic States in 1991 we have stressed the importance of the intra-Baltic co-operation. The better the co-operation, the more attractive the region!

It is in the German interest, that security, stability and prosperity in north-eastern Europe is growing steadily. There will be no lasting stability in Europe without enduring stability in the Baltic Sea Area. Germany will continue her policy to enhance our historical, cultural, social, economic, political and military relations with the Baltic States. I am confident that our co-operation within a multilateral framework will continue to be a success story for a new Europe, a Europe where every nation enjoys equal rights but also equal responsibilities.

H.E. Mr. Vladimir V. Shustov
Ambassador at Large, Russian Federation

Russia and Security Problems in the Baltic Region

The laying of a foundation for an all-European space or security system in which all countries will participate on an equal footing is the most appropriate way of ensuring security and stability in Europe as a whole, and in its different regions. Such a system should be based on a comprehensive approach and encompass all major spheres of international relations - military and political, social, including human rights, and economic and environmental.

As any other structure the all-European architecture should consist of various elements and be built up - just as any building - of separate construction elements. Such elements are interstate relations in one region or another.

Russia is vitally interested in the security and prosperity of the Baltic countries and in making its neighbours face the future with confidence. We would like to see that our frontiers with the Baltic countries unite rather than separate us. Apart from our security requirements, this is determined by our trade and economic interests. And by the fact that many Russian - speaking people live on the territory of these states. We would like to contribute to creating a favourable environment for their peaceful and creative life in those societies in which they are an integral part.

It should not be forgot that Russia itself is a Baltic state. Russia is not divided by an ocean from the other Baltic States. Good neighbourly relations with these countries are as important for Russia as for the Unites States relations with Canada and Mexico or for Germany with France.

What is the best way to ensure security,

democratic and prosperous economic development of the Baltic countries based on good and stable relations with their neighbours?

In the capitals of the Baltic States prevails an opinion that their participation in NATO would give an answer to this question. Various arguments are put forward to substantiate this choice: the need to shield their independence and sovereignty from the eventual threat from the East; to open up wider opportunities for the integration of these countries into the Western civilisation; to guarantee progress in their economic and social development.

None of these arguments seems to be compelling. The threat from the East, from Russia, is pure fiction. We have withdrawn our troops from the Baltic countries and have no intention to get them back. Implementation of reforms, first of all, in its economy, has a primary significance for Russia. This is a factor determining the continuation of its course towards deepening stable peaceful relations with other countries. Our Western partners are telling us that the threat from the East does not exist any more. They are developing partnership relations with Russia.

Integration into the Western civilisation and economy, consolidation of principles of democracy, human rights and economic prosperity in the Baltic States can be ensured without their participation in a military-political grouping which NATO is. The matter of paramount importance is practical policy and efforts of the states themselves.

If some countries including the Baltic States have any problems of security, it

seems that the most effective way to resolve them is to establish relations with the neighbouring states, based on confidence, and to use the potential of such organisations as the OSCE in which all European and North-American countries are represented on an equal basis.

Adherence to the European Union contributes to the integration of states into the largest economic system in Europe. At the same time it can serve as a serious guarantee of their security.

Russia concluded with the NATO countries an agreement - the Founding Act on Mutual Relations, Co-operation and Security. But this has in no way changed our negative attitude towards the expansion of NATO including through adherence of the Baltic countries.

Such a position stems from quite concrete considerations. First, the adherence of Lithuania, Latvia and Estonia to the NATO military alliance is a very sensitive issue for the Russian defence interests. After all, these states are its closest neighbours.

Second, the division in Europe would get deeper. The inclusion of the Baltic countries into NATO could be regarded as qualitative consolidation of such a situation. NATO has been and remains a military-political organisation, an association of a limited number of states. On top of all, by its nature it is a closed association.

Third, the significance and efficiency of the RUSSIA-NATO Founding Act may be damaged since the expressly stated Russian concerns will be ignored.

Fourth, if military confrontation persists Russia will be forced to take certain measures to enhance its defence capability. Any given country would do the same.

Fifth, one could not exclude that this may have undesirable consequences for the bilateral relations with the Baltic countries in which serious elements of distrust and suspicion would be introduced.

One can often hear the assertion that each state has the right to choose ways and means of securing its own national security. Russia has endorsed this principle which is enshrined, in particular, in the OSCE basic documents. Russian leaders have stated that our country does not claim a right of veto on the decision of any country to join NATO. But one has to take into account that decisions on security issues are not taken in a political or strategic vacuum. Each state has an inherent right to assess them in its own way taking into account its own national security interests. It would be improper to disregard such a response. Growing mistrust in the relations between Russia and the Baltic countries could hardly be welcomed. It would result in an unnecessary destabilisation of the situation in the whole region.

It is well known that there are countries in Europe that pursue a policy of military non-alignment. One could hardly argue that their non-participation in this or that military alliance renders their security unstable. The examples of those States show that in the sphere of national security various and sufficiently efficient options are possible.

Russia advocates the transformation of the Baltic region into a zone of sustainable development, security and stability. It is feasible to find such a format of securing the concerns of the Baltic States that would not be associated with their membership in a military alliance.

In this respect Moscow has made specific and far-reaching proposals which are well known. They are not of a momentary nature, they have matured gradually.

As early as March this year, President Yeltsin stated that Russia was prepared to genuinely promote the settlement of security issues of the Baltic States - both in the context of regional confidence-building measures and through the provision of security guarantees. In September, Prime Minister Chernomyrdin proposed a whole set of confidence-building measures for the region, speaking at the Vilnius international conference "Coexistence of States and Good-Neighbourly Relations in Europe".

A comprehensive programme aimed at promoting security of the Baltic States was put forward by Mr. Yeltsin in the course of the state visit of President of Lithuania Mr. Brazauskas to Moscow. He suggested, *inter alia*, that the security guarantees could be offered to those countries in the form of a unilateral obligation of Russia accompanied by agreements on good neighbourhood and mutual strengthening of security between Russia and individual Baltic States or between Russia and all three Baltic States. Russia is open to accept the multilateral character of such security guarantees.

An appropriate interstate arrangement, followed by a set of regional confidence-building measures in economic, humanitarian, and environmental fields could be brought together in a form of a regional security and stability pact. Though our proposals has not so far been shared by the Presidents of the Baltic countries who met on November 10 in Palanga, the door seem to remain open for further political dialogue on mutual security arrangements with Russia.

Representatives of the Baltic countries say that Russia is offering guarantees no one has asked for. But we did not have any intention to wait for such a request. Our proposal is a manifestation of Russia's peaceful intentions. It would be erroneous to look for any unilateral or

propaganda motives behind the Russian initiative. As a matter of fact, Russia does not object to other countries or organisations joining such guarantees.

Confidence-building measures in the military, economic and social spheres reinforcing the political guarantees could be provided for on the basis of a comprehensive approach to security issues. In the system of these measures, Russia has put forward about thirty various proposals that could be elaborated in detail in the course of negotiations. Here are several examples.

In the military - political domain: introduction of a special confidence regime in the border zone; exchange of information and plans of military activities; establishment of a joint control over the Baltic air space; an identification of specific sea areas where naval exercises would be undesirable.

In the economic sphere the following is proposed to stir up efforts to create a Baltic energy grid; to establish co-operation in the fuel and raw materials sector and co-operation in the development of border trade including modernisation of roads, ports, water-supply systems, etc.

In the social and human rights sphere: promotion of contacts between people and humanitarian organisations; consultations and joint measures to ensure the rights of national minorities; co-operation in combating crime and terrorism as well as an illicit traffic of drugs and radiation materials.

The Russian initiative is not of a confrontational nature. Constructive ideas of other countries on security and co-operation problems are most welcome.

The strategic objective of our initiative is to set up a regional co-operation, which will be fully in accord with a pan-European model of security and in the

meantime will take into account the specificity of the regional situation. This situation is characterised by the existence of states adhering to different security concepts. Attempts to assert that Russia is striving to make the Baltic States a kind of a grey or buffer zone are groundless. We do not have such intentions. And could not have ones in the realities of today's Europe.

The recent agreements with Lithuania on the state border and demarcation of the exclusive economic zone and continental shelf of the Baltic Sea have demonstrated that Russia is ready to negotiate the most serious and complicated issues. Agreements with Lithuania serve as evidence that our country is a serious and responsible partner.

Large-scale Russian proposals perfectly match the main idea of the Charter on European Security currently being discussed in the OSCE. Their realisation will make it possible to improve radically the climate in relations among the countries of the Baltic region.

Today - and now it is more urgent than ever before - we should look into the future. An analysis of the past should be left to historians. The burden of the past should not hamper our advance. As one of our classics put it, one cannot go far in the carriage of the past. Our proposals face Europe's future and are in essence an invitation to a serious dialogue. Today's forum is evidence that such a dialogue is gaining momentum.



SESSION 2
“Investment and Transition”

Speakers:

Mr. Dimitri G. Demekas, Resident Representative, International Monetary
Fund

Mr. Jon Vanden Heuvel, Credit Suisse First Boston

Mr. Robert Clifford, President, Central & Eastern Europe, Lockheed
Martin International

Mr. Dimitri G. Demekas
Resident Representative in Estonia and Latvia, IMF

Conditions for an Increase in Long-term Investment and the Role of Economic Policy

The subject of the panel, 'Investment and Transition', underscores the fact that prosperity and security are linked. Half a decade after the beginning of its transition to a market economy, Latvia still lags behind Western Europe: with a GDP per capita of about 10 % of the average in Northern Europe and a little under 20 % of the average in poorer, Southern Europe, Latvia clearly has a lot of catching up to do. And for this to happen, Latvia needs to generate high investment rates for many years to come.

When I speak of investment during this presentation, I mean both domestic investment, carried out by domestic enterprises and financed either domestically or from abroad, and foreign investment, carried out directly by foreign enterprises. Both types of investors respond more or less to the same economic incentives and flourish under the same business environment. Nevertheless, this distinction is important, and I intend to return to it later in my presentation.

What are the conditions for an increase in the level and efficiency of investment, and how far does Latvia go in meeting them? I think we can identify four broad sets of conditions.

The first is a system of well-defined private property rights and a well-functioning market. Latvia clearly satisfies this condition, although there is room for improvement in the operation of the court system to enhance the effectiveness of bankruptcy procedures. Bankruptcy is a key part of the system of private property rights in a market economy.

The second condition is a stable economic environment. Here Latvia has some particular achievements to its credit. With real GDP growth expected to be 4-5 % this year and in 1998, and inflation already in the single digits, Latvia clearly enjoys one of the most stable macroeconomic environments among all transition economies.

The third condition is a liberal market organisation, by which I mean a number of different things:

- free movement of capital: Latvia has moved at a very early stage to liberalise its external capital account, and today enjoys one of the most open regimes in the world: goods, capital, and foreign exchange can cross Latvia's borders without administrative restrictions. This achievement is all the more important if one recalls that most Western European countries did not achieve this degree of openness until the late 1970s or 1980s.

- a simple and transparent tax system: Latvia has one of the simplest tax systems in the world, with a flat and uniform income tax for both personal and corporate income. However, tax administration is still a serious problem, despite the authorities' consistent efforts to improve it.

- limited state intervention in the economy: Latvia needs to make more progress in this area, particularly as regards simplifying the licensing requirements for new business and reducing the burden of state bureaucracy.

Finally, the fourth condition for an increase in the level and efficiency of

investment is a transparent and stable business climate, which means transparent business practices, good corporate governance, and the absence of corruption. Latvia has prepared certain key pieces of legislation in this area, like the Anti-Corruption Law, passed about a year ago, and the Money Laundering Law, which I hope can be approved by Parliament very soon. But a lot more needs to be done in this area by the government, the judiciary, as well as by the private sector, to reassure potential investors.

Based on this brief evaluation, Latvia looks quite a favourable place for new investment. Indeed, both domestic and foreign investment have started picking up in late 1996 and in 1997, and last year foreign direct investment per capita in Latvia surpassed for the first time that in the other two Baltic countries. Looking ahead, however, there are two risk factors that the government of Latvia will have to keep in mind.

First, Latvia does not operate in a vacuum. For better or worse, it has to compete for limited international capital resources with all other transition economies, indeed with all other emerging markets. This means that Latvia cannot afford to rest on its laurels for what has been achieved thus far: it has to con-

tinue improving the climate for investment at least as far and as fast as its competitors.

Second, just as with everything else, so with investment, it is possible to have too much of a good thing. This is where the distinction that I made earlier between domestic and foreign investment becomes important. While foreign direct investment is generally viewed as positive for the recipient country, a large increase in domestic investment financed from abroad through portfolio inflows creates a risk. In particular, it can lead to a large current account deficit and rapid accumulation of debt, which are potentially destabilising for the balance payments of the country. The recent experience of the Czech Republic, as well as the developments in Southeast Asia, highlight the risks associated with such a deterioration in the country's balance of payments.

But it is not my intention to close this presentation on a negative note. The fact is that Latvia has made considerable progress in the last few years, and is now well-poised to benefit from a sustained increase in the investment rate, provided that it continues to satisfy the four conditions mentioned above (especially vis-à-vis its competitors), and it takes sufficient steps to address the associated risks.

Mr. Jon Vanden Heuvel
Investment Banking, Credit Suisse First Boston Corporation

Investment Banks bring together sources and users of capital, link up investors with companies and governments that need money to prosper. Done through issuing securities - bonds for governments, or sovereign credit, and bonds and stocks for companies. Also advise companies on direct investments in companies - mergers and acquisitions. Securities and direct investment account for the bulk of capital inflows to emerging markets like Estonia, Lithuania and Latvia, and I would like to talk about that today.

What would the international investor, the source of capital consider were be considering an investment in the Baltic today?

All three Baltic Republics have established a positive credit reputation. For the past two years they have exhibited a solid record of monetary stability and conservative fiscal management. These positive characteristics place Estonia, for instance, in a similar sovereign credit quality as the Czech Republic or the Republic of Slovenia, both of which maintain a single A rating from Standard and Poors. Latvia recently received a BBB rating, making its debt of investment quality. Lithuania meanwhile has a BBB debt rating, reflecting its relative late start with fundamental economic reforms. However, Lithuania's prospects to catch up with its central European peers in terms of economic growth and foreign direct investment in the next few years are strong indeed.

All three Baltic Republics face the danger of a growing current account deficit. We have seen the emergence of current accounts deficits as a challenge encountered by most economies making the

transition from a planned communist economy to a market economy. After an initial spurt in exports, pent-up demand in the countries of Central and Eastern Europe has led to wage increases, a boom in domestic consumption and imports.

The Baltic governments have thus far been cautious in terms of raising capital on the international debt markets. Over the next year, they will want to put in place a long-term financing strategy that would establish the three republics as strong borrowers in the international financial markets.

Latvia was the first to tap the international bond markets in 1995. Lithuania followed shortly thereafter, in 1996 after receiving its S&P debt rating. Lithuania issued \$ 200 million Eurobond offering which is destined to be the benchmark for further bond issuance from the Baltic States. Latvia and Estonia can be expected in the future to seek similar benchmark bond issues, that is, establishing a borrowing level that can be used as a price for future bond issues.

In the Baltics, as in the rest of Eastern Europe the primary engine of economic reform is the privatisation of the state enterprises. Secondly, privatisation provided the governments the opportunity to raise cash to combat gaping deficits. The initial problem facing leaders in all three countries was the prospect of selling off companies precisely at the time the economies in Estonia, Latvia and Lithuania were severely contracting.

The general strategy was adopted to sell small enterprises first. Much privatisation was done on an ad hoc basis, with many managers and employees of small

companies simply becoming proprietors themselves. There was no small degree of corruption that plagued this process.

One exception was Lattelekom, the telecommunications company in Latvia, which was privatised with a 49 % strategic stake sold to a consortium of British and Finnish companies. Today this arrangement has been much criticised as having sold a Latvian national asset at a steep discount. But the economic conditions at the time meant that Latvia had to attract Western investment by offering discounting prices. And today Lattelekom is one of the strongest companies in the Baltic.

As the economic situation improved, Estonia, Latvia and Lithuania have moved aggressively to sell off stakes in the larger state enterprises. The Estonians put privatisation in the hands of a privatisation agency modelled after the Treuhand in East Germany, and Latvia and Lithuania thereafter established similar privatisation agencies.

1998 should be an exciting year in the Baltic economies. With the majority of small businesses already privatised, this will be the decisive year for the privatisation of the Baltic region's major infrastructure companies. In emerging markets it is always the infrastructure companies that attract the most interest from international investors - such as Latvenergo, Ventspils Natfa, Lithuanian Telecoms, and Estonian Telecoms.

All three countries have initiated a voucher system whereby citizens receive vouchers exchangeable for shares in privatised companies. The vouchers are an effective means of creating a shareholding citizenry with a stake in the country's industrial base. However, they do not bring in necessary new capital, they do not create a broad shareholder base, and they do not bring in management expertise. For this, the strategic investor and an

international offering of shares is required.

The strategic investors will in many cases be foreign companies - like the British and Finnish consortium that invested in Lattelekom. They will ideally bring the management expertise and the capital to turn around what are often debt-laden companies.

There is some sensitivity as to the nationality of the strategic investor. Many companies with whom I have talked have expressed concern that the strategic investor not be Russian. In some cases, concern has been expressed that the Nordic might be taking to preponderate a role in the Baltic economies. The concern is that certain strategic industries, especially in the energy sector, could come to be dominated by Russia, or another preponderate power.

However, the companies Estonian Energy and Latvian Gas have, wisely, in my view, taken on the Russian gas giant, Gazprom, as a strategic investor. This gives Gazprom, which supplies almost all the gas to the Baltics, a stake in the wellbeing and success of the Baltic gas companies.

A second hurdle in the privatisation of the large companies is the cost and the vagaries of the market place: a listing on the Riga stock exchange, coupled with a listing in London or Stockholm or even New York, is a complicated proposition. A substantial amount of work is involved in a successful international stock offering, and the success of the offering still hinges upon the appetite of international investors for equity in small emerging markets like Estonia, Latvia and Lithuania. The recent turbulence in the emerging markets of Asia will not be helpful.

What are the risk factors that investors into the Baltic countries take account of?

Russia, Russia and Russia. Political friction with Russia over the treatment of the Russian ethnic minorities in the Baltics is not likely to disappear soon. Second, the Baltic States rely on Russia for a great deal of their raw material, especially in the mineral and energy sectors, and any disruption of that supply would be hugely detrimental to the Baltic economies.

Lastly, because much of the potential of the Baltic economies lies in their role as transit countries for goods and services passing from the West into Russia and the CIS and vice versa, instability in

Russia, or simply laggard economic growth in Russia would put a drag on the Baltic economies. The Baltic States have a great stake in seeing Russia prosper.

These risks aside, the outlook for Estonia, Latvia and Lithuania is positive indeed. All three countries have displayed sound fiscal and monetary policies. Governments have changed in the region but the commitment to sensible budgets and stable currencies has been constant. All three countries can boast of an extremely well-educated population, and that human capital is the greatest and most important capital that a country can possess.

Mr. Robert Clifford
President, Central & Eastern Europe, Lockheed Martin International

You are probably wondering why is Lockheed Martin, an American Fortune 500 company, known as a defence contractor, joining this distinguished panel in addressing "Investment and Transition" in a conference entitled "Security and Prosperity in the Baltic Region"? The security aspect seems to fit, but how do we, or any large high technology company, measure up in the prosperity, investment and transition aspects? Let me take the next few minutes to bring you up-to date on who Lockheed Martin really is, explain our current strategic focus and, most importantly, how we view the Baltics. Let me add that I do not want this presentation to be seen as a sales pitch for Lockheed Martin. I would suggest that any other of the major European or American high technology companies would present similar views, although I cannot really speak for them. It is appropriate, however, for an American company to make some points in reference to transition, because our high technology aerospace defence industry has gone through dramatic consolidations recently, and Lockheed Martin was the major U.S. firm to start the trend that others have followed:

Lockheed Martin is really just two years old, less than the age of Latvia. The heritage of the 17 companies that now make up this corporation have as many as 80 years of continuous operations, but the new Lockheed Martin is the result of a very rapid consolidation of the aerospace industry in the United States. This consolidation - call it transition - was forced on the industry by the some 60% drop in defence spending linked to the end of the cold war. It was policy makers, like yourselves, that advised our secretary of defence that our U.S. defence industry

had far more capacity than it needed. Therefore, the industry was strongly encouraged to consolidate. Since the industries were, and are now, private companies, it was not a directive, but rather, strong guidance. As a result, the 17 heritage companies that now make up Lockheed Martin lost an estimated 100,000 defence-oriented jobs. Yet as we see from the low unemployment figures in the USA (4.7%), these workers were able to transition to other gainful employment not only because they had the skills needed by other private businesses, but also because the U.S. has flexible policies for the start-up of new businesses.

The bottom line is that Lockheed Martin faced a dramatic transition challenge - and came away stronger and more diverse. The lesson, to loosely quote the famous Darwin: "It is not the biggest, the fastest, the strongest, nor the smartest that survive - it is those that can change;" besides consolidating, we diversified into commercial lines of business that were closely related to our core skills. We migrated many of our technologies, developed over the years as a leading edge research and development organisation, into profitable and growing commercial venture (we spend about \$1.2 billion per year on R&D). The technology innovations occur in our 60+ companies. The corporation provides its financial backing and helps focus this technology for its commercial application.

So heavy emphasis on commercial ventures is one key leg in our future strategy. Another leg is our international focus. Five years ago we had 5% international revenue. This year we have 18%. Our goal in the next 5 years is 30%. We want to be a truly global corporation, one that

has centres of excellence around the world where we partner with the local talents to produce products and services for that market and for export throughout the world.

Given our focus on becoming a global corporation, we made a number of fact-finding visits to the region starting last year. While we are certainly no experts on the Baltics, for we were denied access for many years due to the obvious political restrictions, we have clearly learned enough to be very encouraged that the region has significant potential. We do feel the region is ready for investments. It clearly has a strategic geographic location in a vibrant nordic region known for innovations and at the gateway to the vast wealth to the east. We are noticing a steady improvement in the transparency of competitive bidding process, which is a welcome step for companies looking to do business in the region. This is an important trend, for it is a major benefit to each country, because it allows for more bidders and therefore an overall better pricing and conditions as a result of more open competition. Perhaps most important, it is clear that there is a vast pool of resources - exceptionally educated and dedicated personnel - which is the basic building block in any successful business - especially in this ever-more global competitive marketplace. The bottom line is that the Baltics have excellent growth potential - in its products and very much in its systems integration capabilities - an area where I feel this region should stress. What it needs is some key strategic partners and, of course, the investment capital.

There is a perception that Lockheed Martin is a military contractor for the U.S. Department of Defence (DoD) that makes aircraft. In reality only 53% of our portfolio is military business with the U.S. DoD, and aeronautics, which is the sector that makes aircraft, accounts for only 18% of the corporation's sales.

Space is the biggest of the five sectors that make up the new Lockheed Martin with 26% of sales (building satellites, launching satellites, space telecommunications, etc.). Let me add at this point that our biggest business in Central and Eastern Europe is with the Russians. We work with Russian industry in using their excellent rockets and launch civil satellites from Baikonur, Kazakhstan; we have selected the Russian RD-180 rocket engine through our partner Pratt & Whitney for the next major family of launch vehicles that will be used for both military and commercial purposes. We have a partnership with the Intersputnik Organisation and we are working in the environmental clean-up area with the Russians and the Norwegians in the Kola peninsula region, among others.

Electronics provides 23% of our business - including radars and equipment used under the sea, on the sea and land, and in aircraft and space, as well as C3I (command, control, communications and intelligence) areas, and are a leader in training and simulation as well as vessel traffic management systems for sea ports. Information services is our fastest growing sector with much involvement in civil infrastructure and commercial work with 17% of sales. Air traffic control systems, "turn key" systems to assist civilian governments in making their tax collection, social security and health programs more efficient, and are modernising postal systems throughout the USA and, most recently, internationally. And finally, another fast growing sector, environment, which produces 16% of our sales. I have already mentioned some of our work in Russia in this area. Lockheed Martin is, in fact "one of the most diversified high technology companies in the world," with products and services that extend "from the depths of the oceans to the outer reaches of space".

Lockheed Martin is primarily a systems integrator with fully 80% of our income

derived from systems integration and only 20% from platforms like aircraft. And this is where we see the strength of the Baltics, in their vast pool of highly educated and dedicated workforce of engineers, both software and otherwise. And this is the resource we would like to employ in partnership, with heavy commercial emphasis, to help us become a

truly global corporation where goods and services are built and provided in various centres of excellence around the world.

We, at Lockheed Martin, do see the Baltics as a region with a high growth potential and we want to contribute to and share in its future prosperity. We are here to build the basis for the long run - as a true investing partner.



SESSION 3
“Developing Security in a Greater Europe”

Speakers:

Air Chief Marshal Sir John Cheshire, Commander, AFNORTHWEST

Mr. Vyacheslav Nikonov, President, Polity Foundation, Russian Federation

Mr. Henryk Szlajfer, Director of Policy Planning Department, MFA,
Poland

Mr. Paul Goble, Director of Communications Division, Radio Free Europe

Ms. Viola Furubjelke, Chairman, Foreign Affairs Committee, Parliament,
Sweden

Air Chief Marshall Sir John Cheshire
CINC, AFNORTHWEST

It is a great privilege to be back in Riga and to be invited to represent the SACEUR, General Wesley Clark, here today. He sends his sincere apologies for not being here in person, but he is currently making a long-standing visit to Turkey.

In attempting to represent the SACEUR's views, I make no apologies for the fact that you will get a NATO military perspective of three fundamental military issues which will continue to influence Security in Europe. As a starting point, it is worth remembering that, today, SACEUR is, in military terms, ultimately responsible for guaranteeing the security of the NATO nations in Europe and for ensuring that ACE is capable of contributing successfully to any other military operations which NATO's political authorities task us to undertake.

To this extent ACE is (in a specific way) already heavily committed to ensuring security in Europe - rather than developing security in a greater Europe, which is the precise title of this particular discussion. This may be only a semantic difference. In any event I am not convinced that the difference is important in the context of what I have to say.

Reverting to my observation that ACE is already heavily committed to ensuring security in Europe, I now need to expand on that statement. First, we like to think that, in this post cold-war era, our collective defence capability is sufficiently robust to deter any would be aggressor from assessing that challenging the sovereignty of any NATO nation would be worth the risk.

Of course, the "deterrent" theory is fine for as long as the potential aggressor is

prepared to carry out that *risk versus gain* assessment. We recognise that a radical, indeed lunatic, leader could emerge who was prepared to take on NATO, regardless of the consequences. In this case we well recognise that deterrence would fail and we would be committed to restore the integrity of NATO's borders by military means. So much for the basic defensive posture which underpins the Alliance itself. I would just add one other military observation about NATO's deterrence posture in the context of the Security of Europe at large.

This is what, in NATO military circles, has been described, rather loosely, as "third party deterrence". In short, this is the effect that NATO's deterrence posture may have on the thought processes of a would-be aggressor who was contemplating military action against a European country which is not actually a member of NATO. We consider that, in certain circumstances, the NATO deterrent posture would give a would-be-aggressor very serious food for thought. The more so if his target nation was adjacent to NATO's borders and a participant in the PfP programme. We also attempt to contribute actively to a secure environment in Europe by being ready to carry out military operations (outside the ACE AOR) wherever and whenever our political masters task us so to do. NATO's involvement (and ACE's contribution to that involvement) in Bosnia is the obvious example of this. Whilst we do justifiably claim some credit for contributing positively to security in Europe, through our endeavours in Bosnia, it is just worth remembering two points concerning the genesis of NATO involvement in the Balkans:

First, we are there because the UN asked NATO to put a military force into

Bosnia-Herzegovina, to create a secure environment.

Second, we are there because the NAC decided that this was an appropriate mission for a NATO military force and therefore agreed to the UN request.

I make these two points only because they highlight some of the issues that we will have to face in the context of "Developing Security in a Greater Europe". The first is based on the fact that the situation in the Balkans was allowed to become very serious indeed before the UN decided to call on NATO for military assistance. The point being that NATO's military forces can only and will only react to a political decision to engage in an operation. If such a political decision, whether it be the UN, or NATO, or both, is not made until the situation on the ground gets seriously out of control, then we have to recognise that the individual and collective political will in Europe may not be robust enough in the future, to take pro-active rather than reactive military action to ensure security in the greater Europe.

The second, and more parochial point, is that NATO military involvement in a European security incident will only occur if all the NATO nations reach a political consensus that such involvement is justified. The fact is that, even in today's relatively small (16 nation) Alliance, it does take time to achieve political consensus; and, from the moment that the clock starts ticking, the situation in the area of potential operations is likely to be deteriorating.

Looking to the future, the more nations that join the Alliance, the greater the potential for extending rather than reducing the decision making time cycle. Moreover, with the increase in membership, not only might the process slow down, but the decisions themselves, in order to satisfy the consensus require-

ment, may become progressively more of a compromise and/or less clear and concise.

From our military point of view, tardy decisions which lack clarity are not the basis of sound military planning and operations. But, this is the real world, and one that we have to accept and work around, and it is relevant to European Security tomorrow.

There is one last general point that I must make on the back of the IFOR/SFOR experience. It is that we, in ACE, do not underestimate the splendid contribution that the non-NATO nations make to the operation. It has been terrific. The obvious conclusion is that the more we can operate alongside each other, the more we can learn from each other and the more we can enhance our ability to inter-operate. These are all fine thoughts and examples in our quest to Develop Security in a Greater Europe.

However, there is one very important aspect of our collective effort in Bosnia which we, as military men, would be irresponsible not to acknowledge. It is this: since IFOR/SFOR has been in Bosnia, the military situation has been relatively benign. This being so, we have to recognise that we have not tested our individual and collective ability to operate in a seriously hostile environment. Therefore, we cannot and should not attempt to draw a conclusion that, because we may have succeeded militarily in Bosnia so far, we are capable of taking on any Peace Enforcement operation that the UN/NATO may task us to undertake in the future.

Now may I change the focus for the last minute and look at one aspect of how ACE is attempting to respond to the more general aspect of developing security in Europe.

You will be aware that we are already under political-military direction to

increase stability and reduce the risks to ACE and to the Alliance at large. This direction gives us a simple litmus test for any activity that we are proposing. In short, if the assessment is that the proposed action is likely to enhance stability (or reduce risk) in a particular region, then we should be all for it; and the reverse is also true. The test itself is indeed very simple to define. But, providing a comprehensive response to it can be hugely complicated even from a purely military point of view.

I should explain what I mean by giving you just one of many examples: the one I will take is NATO enlargement because it is topical today: The question here is whether the inclusion of generic nation 'X' in the Alliance would enhance stability and/or reduce the risk in that particular region of Europe? From our military point of view, to contribute to this analysis, we need to assess:

What nation 'X' will need in military terms to give it a reasonable assurance that its sovereignty can be protected?
What that military capability would cost, and how and when it will be funded and implemented?

We then need to recognise that, in an era of limited defence budgets, that capability will probably only be funded at the expense of some other capability elsewhere. This begs the question:
Would the diversion of resources from one area to another increase or decrease stability in Europe at large?

We then need to assess what the political-military reaction of the adjacent nations would be to nation 'X' joining NATO? And whether that reaction will substantially affect the stability of the Region?

We then need to start the whole process again and assess how the risk/instability equation would balance out if nation 'X' was not included in the Alliance? To answer this last question, it will be necessary to make a political judgement about what NATO would do if nation 'X' was not a member of the Alliance, but then had its sovereignty challenged and sought NATO assistance?

I use this example, not because I want to get into a debate about the wisdom of NATO enlargement; but, just to make the point that making a meaningful risks/instability analysis is a hugely complex exercise, but it is absolutely fundamental if we are to take sensible steps to develop security in a greater Europe. Of course, we will recognise that the military issues are only a very small part of European security as a whole.

As mentioned this morning, political, economic and industrial development is likely to have a larger part to play in Euro security and decision making than the purely military issues. Doubtless my colleagues will be touching on the political, economic and industrial influences in a minute.

All we, in ACE, would ask is that the military issues do get a fair hearing. As the custodians of the NATO defence guarantee in Europe today, we very much hope that the sort of questions I have posed in the last 10 minutes (and there are many others) will be considered seriously by all those organisations and nations who will be influencing the decisions about European security tomorrow.

We are very happy to be part of a greater Europe, but we have an unquestionable, professional responsibility to ensure that it is actually a more secure place for us all to live in.

Mr. Vyacheslav Nikonov
President, "Polity" Foundation, Russian Federation

It is a great honour for me to address such a distinguished audience and I appreciate this opportunity. I am here to represent, not the Russian government, but rather, prevailing views in the Russian expert community.

The subject of my talk, as announced in the Conference's Programme, "Developing Security in a Greater Europe", sounds normal to a Westerner, but rather ridiculous to me as to any Russian. We have no habit of dividing Europe into a "greater" and a "smaller" one, considering ourselves no less European than the other Europeans, as Russia has been a part of the European system at least since 17th - early 18th century, and no one would consider Tolstoy or Tchaikovsky being second class Europeans or Asians.

The whole concept of the "real" Europe and a "greater" one, in my view, is less productive and promising than the concept of a non-divided Europe. The difference in terminology is not merely linguistic, it reflects certain principles that have serious political consequences. By far not fatal, but rather harmful.

Fortunately the foundation of European security is not based on words, but on the basic changes in the continent, underestimated by many. Europe is no longer the place of global bipolar confrontation.

All the prophets who at least since 1993 predicted a "cold peace" in Russian-Western European relations, must be ashamed of their predictions. Certain mini-crises emerged, but the leaders have always succeeded in neutralising their consequences for the relationship as a whole. Russia has not become authoritarian or nationalistic. Forces of the past were seriously defeated in the presiden-

tial election last year, with no chances to recover.

Russia and the West not only ceased to look at each other as enemies, they ceased to be enemies. The foundation of the new European security was laid, first of all, by the signing and implementation of several arms control agreements, unprecedented in scope and depth.

From conventional forces reduction in the CFE treaty to the elimination of medium range missiles and the radical reduction of deterrence forces in START II. Russian Armed Forces compose 15 % of all forces on the European continent, compared to 50 % of the USSR.

Today all European countries have armies fit for defence and not for the offensive. Verification procedures made armed forces transparent from the Atlantic to the Urals. Russian-American co-operation helped to turn Ukraine, Belarus and Kazakhstan into nuclear-free countries. Russia joined the PfP and started consultations based on the Founding Act. My country has a wide range of basic security interests which coincide with those of the West:

- strategic stability;
- strengthening the regime of non-proliferation of nuclear arms, other weapons of mass destruction, missile and other critical technologies;
- further reductions of weapons;
- actions to stop regional ethnic and religious conflicts;
- prevention of terrorism, drug-related and international crime, etc.

Co-operation in peace promotion in Bosnia, taking into account all the shortcomings, should be regarded as, at least, a partial success for both sides.

Russia gives its due to international economic co-operation with the West, though quite limited, taking into account the mere size of Russia. We welcome the transformation of G-7 into G-8 started in Denver. Russia appreciates its admission into the Paris and London Clubs, and is speeding up its admission to WTO and OESD. The EU has become Russia's major economic partner, accounting for 42 % of Russia's foreign trade. The Treaty on Partnership and Co-operation between Russia and the EU has recently been ratified by all the EU countries' parliaments.

I am convinced that as of now there is not a single security problem or threat in Europe that would require Article 5 guarantees or presence of sizeable amounts of foreign troops on anyone's soil.

So, here is a success story. But there is also a story of disappointment. I remember well our feelings in the early 1990's. It seemed that it would not take long after the fall of the Berlin Wall for us to arrive at co-operation and unity in an undivided Europe. Several years passed, but Russia, as well as many other new democracies, is still outside the meaningful European structures. We are still facing many artificial obstacles on our road to the Western markets.

Despite all solemn oaths of Western leaders not to expand NATO eastward in 1989, promises not to do it in 1991, and a lack of intention to do so in early 1994, NATO is now expanding. If a competition for the worst possible architecture of the new Europe after the Cold War had been organised some six years ago, the first prize would have been given to the idea of admitting three Central European countries into NATO which now becomes the European system. This approach is limited, inadequate, harmful and thus mistaken.

I would not like to dwell on that subject, first of all, because everyone in this audi-

ence is aware of counter-argument 265 to argument 736 about NATO expansion. And, second, because it is not a Russian problem anymore, but a Western one.

It is the West that will have to convince the taxpayers that they should pay zillions to protect themselves from a non-existent security threat, while the rest of Europe is disarming. It is the West that will have to deal with its own prominent diplomats, politicians and experts, who call NATO expansion the greatest mistake made since the end of World War II. It is the West that will have to deal with the situation when instead of one dividing line in Europe you are getting three: between the members, soon to be members, someday to be members and never to be members. It is the West that will have to convince parliaments of 19 countries that this is a good idea and it is the West that will have to convince Russia that NATO expansion does not present a problem for her.

The NATO - Russia Founding Act is not bad, but it does not make Russia part of the European security system. Russia should be consulted, but its opinion is not supposed to be taken into account. That makes me rather sceptical about the long-term effective implementation of the Founding Act, especially when there is not really much to be implemented. And it also has all chances of disappearing after the further expansion, as Mr. Yeltsin says. So much for NATO.

Now let us turn to the security in the Baltic area and Russian - Baltic relations. It is evident that only a friendly Russia can make the Baltic countries feel secure. And no one can practically guarantee their security if Russia is not friendly. Unfortunately in early 90-s when the Russian government was the greatest champion of independence for Latvia, Estonia and Lithuania in the fight with the Soviet leadership, we lost the best opportunity to solve all the prob-

lems which now divide us. And we have added some new ones to those that had been inherited from the bitter past. Now, both Russia and the Baltic States have to patiently work on a new, positive agenda. This agenda includes, or might include:

- direct bilateral dialogue on the whole range of political, economic and human rights issues;
- joint efforts to help the Russian community in the Baltic countries to integrate into their societies, and to prevent discrimination of non-citizens, which is still evident in Estonia and Latvia;
- completion of border delimitation;
- discussion of regional security issues that might include regional arms and naval limitations, confidence-building measures, military co-operation, joint peace-keeping exercises in the PfP framework;
- search for a way to speed-up the admission of not only Estonia, but also Latvia and Lithuania into the EU (This might be our shortest route to the EU. But everyone should understand that there is not a single reason why Russia might support the admission of these countries into NATO);
- co-operation in the major regional organisations, be it Nordic Council, Council of the Baltic Sea States, Baltic Forum etc.;
- joint programmes to modernise trade infrastructure: sea ports, roads, railroads, airports;
- establishment of direct contacts between academic, business and political organisations and communities.

- The opportunities are numerous. Normal and friendly relations between Russia and the Baltics are in the interest of all sides concerned. As I have stated, military security threats are almost non-existent in Europe, and military security issues are peripheral.
- The expansion debate should not foreclose a much more essential agenda for Europe - that is the agenda for the next century.

There is a need for a common strategy to stimulate economic growth throughout Europe. There is a need for a common energy strategy. There is a need for a common global telecommunications strategy. There is a need for a common strategy of overcoming the philosophy of deterrence, inherited from the Cold War. There is a need for a common strategy in the fight against international terrorism, crime and drug trafficking.

The most important task is to lay the foundation of the new system of international relations - firstly in the broad Euro-Atlantic region - which would answer the challenges and realities of the future, rather than refer to phobias, suspicions and issues of the past.

Russia and the rest of Europe should concentrate on issues that unite us, and there is a majority of those, rather than on issues that divide us. One should try to look at Russia not as at a problem, but as a European opportunity. The agenda for responsible politicians is to think about general arrangement of the future Europe, rather than regional adjustment of the old one.

Mr. Henryk Szlajfer
Director, Policy Planning and Studies Department,
Ministry of Foreign Affairs, Poland

I would like to concentrate on three issues in my remarks. Firstly, the improvement of the security situation in Poland's immediate neighbourhood; secondly, the contributions Poland can make to the security of the greater Europe and thirdly the OSCE agenda, as a part of the contribution to the security of greater Europe.

What does "greater Europe" mean? Rather than defining the term, I would like to draw on my own experience to illustrate the meaning of a "greater Europe". I saw the "greater Europe" in the period 1994-1996, when Americans, Germans, British, Russians, Hungarians and Poles were involved in building the Marshall Center in Garmisch-Partenkirchen. The "greater Europe" created there involved field commanders from Tajikistan, Royal Navy captains, guard officers from the *Illinois*, Latvians, Lithuanians, Estonians as well as Russian officers. If this is the definition of the "greater Europe", then it is fine with me.

With regard to the question of the security in Poland's immediate neighbourhood, let me say that in general, as far as the main lines of the development in the region surrounding Poland are concerned, one can say that everything is fine, with some small exceptions. We see the problems in Belarus, Slovakia and Kaliningrad.

The existence of non-democratic or semi-authoritarian countries in the heart of Europe is an anomaly and contrary to Polish interests, the people concerned and to Europe as a whole. In solving this problem, in helping the people to restore democracy we need very serious contri-

butions as well as help, not only from Europe, but also from our Russian friends.

As far as Kaliningrad is concerned it is obvious that Poland is interested in seeing the region flourish and develop into a place with adequate living standards. In order to achieve this aim, Poland has reiterated, in all possible fora, that Kaliningrad is more in need of police than armed forces. It is only then that economic development and investment can be achieved in this part of Europe.

As far as the solution of the surrounding problems are concerned, we see some obstacles and it is therefore imperative that some positive contributions are found by Poland, but also in the larger framework, the framework of a "greater Europe".

Turning to the Polish contribution to stability and security in the greater Europe, I think, Poland has already made two considerable contributions in the last seven years. The first was the resolution of all major problems with Germany and the second, a minor miracle, our good relations with Ukraine. Taking into account the bloody history of Ukrainian-Polish relations, the co-operation and the friendship we have now with the Ukrainians is something which, in my opinion, contributes decisively to peace in Central Europe

Poland would like to extend this example and is therefore showing growing interest in the Baltic region, in particular, in the stabilisation and security of the countries in the region. Poland already enjoys very good relations with Lithuania and would like to develop

equally good relations with other countries in the region.

As far as the development of Baltic co-operation is concerned, we propose the extension of the agenda of Baltic co-operation and we are also looking at new ideas in the framework of the EAPC involving the Baltic region.

Based on our own experience, the link between PfP and NATO membership, or the prospect of NATO membership, is absolutely clear. After three years of the PfP experience one sees, at least in Poland, that without the experience, it would have proved very difficult to think realistically about NATO membership. For instance, it would have been difficult, or practically impossible, for Poland to provide the Alliance with the first Defence Planning Question without the serious experience of the PfP and PARP process. Now there is the prospect of NATO membership for Poland.

The last point I would like to mention is the co-operation in the Baltic region and the OSCE process. We want to extend to the Baltic region the good examples we already have with our neighbour Ukraine as far as military co-operation is concerned. One example is the Polish-Ukrainian battalion. The formation of a similar battalion is now underway together with Lithuania. However, this

kind of military co-operation should not remain limited only to the Ukraine and Lithuania in the future. We see the extension of such co-operation as important simply because through such battalions in the next few years one will see practical co-operation, not only political co-operation, but technical, military and day-to-day co-operation between NATO and non-NATO countries. This seems to me very important in giving concrete meaning to the security of the region.

My final point concerns the OSCE. I mention the OSCE not only because it is very important topic, but also because from January 1998 Poland will chair the OSCE. I would like to assure you from my minister that there will be no revolution in the OSCE. Poland will try to follow the good examples set by previous chairmen, in addition to putting some more flesh on the initiatives. In particular, Poland would like to strengthen the norm setting capabilities of the OSCE as well as the technical potential for preventive diplomacy.

Furthermore, Poland hopes to move from the discussion of the model for security of the 21st century to concrete discussions and eventually, if possible, on to the Charter. This is a modest agenda, but if we can fulfil these two tasks it will already be fine as far as the next chairman in office is concerned.

(Edited version of transcript)

Mr. Paul A. Goble
Director, Communication Department, RFE/RL, United States of America

I would like to add my congratulations on the occasion of Latvia's Independence Day and to note two additional matters which may get lost in a meeting such as this. First of all, we should all take a moment to recognise how remarkable it is that such a session is taking place at all. Even five years ago, a meeting like this one would have been virtually unthinkable; ten years ago, it would have been impossible. And second, given this and given what it says about how far Latvia has come in such a short time, we should all recognise how small Latvia's problems are today when compared to those it had only a few years ago. That is not a call for complacency but rather a reminder that we should not lose heart as we grapple with the problems of today.

In a very real sense, 1991 marked not the end of history as many in the West thought but rather the return of geography, of the primacy of place in international affairs. For Latvia and its neighbours, the return of geography had a triple meaning. First and most obviously, it meant the return of the Baltic countries to the map of Europe, to a place from which they had been torn a half century ago. None of us in this room can fail to recall how wonderful it was when the Latvian flag rather than one of a foreign occupier began to fly over Riga castle.

Second, it meant the return of the geography of conflict, of the zone of weak states between Berlin and Moscow and between the Baltic and Black Seas. That region was the seedbed of conflicts leading to World War I and World War II. And unless both the nature of the problems there are recognised and responded to, it seems likely to give birth to new

conflicts in the future.

And third, the return of geography also meant the shift from the static world of the Cold War to a more dynamic one. The period between 1945 and 1989 was the longest period in modern European history without significant border changes; in that sense as well as in many others, it was unique. But while that period of enforced stability dominated our lives, it is hardly typical of international politics. As a result, the next generation is likely to see far more changes in the map of Europe—or at least in the meaning of the map of Europe than did our own.

But this new world is not an answer to Latvia's problems but rather a challenge for those who care about Latvia's future. That is so both because of the problems Latvia has experienced in the past as a result of its location on the map of the world and because the maps we are talking about are not so much maps given by the physical characteristics of the globe as by the mental maps of those involved with Latvia and its neighbours.

Today, I would like to discuss very briefly three of these mental maps: the map of Europe on which Latvia is situated, the map of Latvia as defined by Latvians and others, and the map of cooperation between Latvia and the other states on these larger maps. In no case does Latvia have an entirely free choice — one cannot, as one young Estonian reportedly did, ask for a globe of Estonia — but in no case are these maps simply givens: Latvians have important choices to make about each of these maps, and the choices Latvians make about them will have profound consequences for Latvia itself.

In discussing the new geography of the region around Latvia, many people are using terms as explanations that in fact must be explained. What is Europe? Does it extend only from the Atlantic to the borders of Russia? Or from Vancouver to Vladivostok? To ask this question is to answer it in an important way: it is to suggest that Europe is an idea rather than a geographic location and that its definition reflects a political struggle rather than a simple consultation of a geographic gazetteer.

Virtually everyone agrees that Latvia is part of Europe, but there is little agreement on whether it is located at the edge of Europe or in the very heart of it. Nor is there any agreement on whether Latvia is a Scandinavian country or an East European country or a former Soviet republic as some insist. And there is no agreement either on where Latvia should therefore look for its future to the North Atlantic community or to something else.

Closer to home, Latvians increasingly find themselves asking whether they are even a Baltic state. While Ambassador Smašcov has reminded us that Russia too is a Baltic state, many in the three traditionally Baltic countries are asking themselves whether this is a relevant geographic category for Latvia. Should Latvia look first to her two Baltic neighbours? Or as seems increasingly likely, should Latvia see itself as a country with many neighbours near and far and cooperate only in ways that serve its national interests rather than those of some imagined community called "the Baltic States"?

Latvia is not the only country having difficulties with defining the geography of the post-Soviet world. In 1924, six years after the demise of the Austro-Hungarian Empire, no foreign ministry in the world had an Office of post-Austro-Hungarian Affairs. Unfortunately, now most foreign ministries have one, variously named,

for the post-Soviet states, and equally unfortunately, many of these ministries include the Baltic countries within this category either directly or indirectly. All this is beginning to change, but it remains an open question how long a country must be independent until it is no longer a "newly" independent state.

As Latvians already know, their ability to define their place on the new world map is limited by the actions of others. But with regard to a second map, the map of Latvia itself, they have much greater freedom of action and consequently much greater responsibility. Recovering independence was not enough as ever more Latvians now recognise. Latvia must build a state and a nation, it must establish its borders and its judicial system, it must decide what Latvia is and what it will be. Those are not trivial questions, and the answers are not easy.

As Latvia has shifted from a cause to a country, it has had to face a change that many in Latvia and abroad have not found easy. Causes can deal simply with principles: they can demand the realisation of principles though the heavens may fall. Countries, on the other hand, must deal with interests, all of which reflect principles but many of which are in conflict one with another.

Many in Latvia thought they could avoid this challenge. Many thought that the bad "elder brother" from the East was going to be replaced by a "good elder brother" from the West. But they should now recognise that no big brother is coming. The Russians are not going to invade Latvia, and the West is not going to save Latvia. Instead, the Latvians must do it themselves.

That task consists of several very different but interrelated challenges. Perhaps the most important consists of deciding what kind of a country Latvians want for the future? That question has a multitude of answers.

Obviously, Latvians need a legal state, one whose police forces and judges are strong enough to impose the law of the land on everyone but whose government remains responsive to the population. The recent events surrounding the *Baltiija Bank* trial are not encouraging but they may serve as a clarion call for action.

But even more fundamental than that is the challenge that the Soviet system left to Latvia: coping with the large number of non-Latvians who were introduced into Latvia during the occupation. Because Latvia was occupied, it was under no obligation to give these people citizenship. And I have frequently defended Latvia's right not to do so.

However, now Latvians and their friends must ask a difficult question:

Would it be better to have a country on whose territory some 300,000 people lived but carried the passport of and were loyal to another state? Or would it be better to have a country on whose territory those same 300,000 people were loyal citizens of Latvia even if they did not in every case speak Latvian fluently?

If Latvia chooses the first, then it will have to face the fact that it is likely to be isolated from the rest of Europe. Everyone in this room knows in his heart that Latvia was not invited to accession talks with the European Union because the Latvian government somehow failed to provide adequate data; it was not invited because of the citizenship problem.

And if Latvia chooses the second, then it will likely be in a position to achieve what Latvians have always hoped for: a dynamic and cosmopolitan for which Riga has been historically famous, a bridge between Europe and Russia that will leave Latvia rich and the leader among the three Baltic States, and a model society that Europe will seek out rather than keep out.

That is not to say that choosing the second will be easy: there are many obstacles and some of them will inevitably appear insurmountable. But it is to say that Latvia has a chance, in many ways a remarkable second chance to become a leader of Europe whether one believes that it is on the edge of that continent or one feels that it is in the middle of it.

One reason that these choices are so difficult is that Latvia is simultaneously confronted with the need to co-operate with other countries to achieve its ends. Indeed, the push by the international community toward co-operation of all kinds may be having some adverse consequences for Latvia. The integration of Europe is often held up as a model for Latvians and others in Eastern Europe. But one aspect of that integration is almost always neglected. Had Jean Monnet proposed the Treaty of Maastrich in 1951, Europe would never have had an iron and steel community.

Countries must be confident of their own sovereignty before they can reasonably be expected to yield it to others. Unfortunately, Latvia and its neighbours are routinely asked to yield some of the sovereignty that they have not yet fully realised on their own territory. And this problem is compounded by the fact that some foreign countries are using the push to co-operation for their own selfish purposes, seeing in it a way of keeping countries like Latvia off balance.

Consequently, Latvians will have to proceed very carefully in order to avoid the dangers of being left behind and those of being dragged too far into the future. And in doing so, they must ask with whom should they co-operate: with the West? With other Balts? Or with Russia? In asking these questions, too many people in Russia, the West and Latvia are asking them in the form of either/or — either we are part of the West or we are subordinate to the East, either we co-

operate with Estonia or Lithuania or we go our own way altogether.

But that is the wrong way to ask the question: On the new map of Europe, the question should be phrased not as an either/or but as a both/and. There is no reason that Latvia cannot be both a member of NATO and a friend of Russia; if Russians say otherwise, they are pursuing the policy reflecting the past rather than one pointing to the future.

Latvia, even more than its two Baltic neighbours, is able by virtue of its culture and its history to pursue a both/and

policy. Not only will that strengthen the Latvian state and people but it will be attractive to the West from which Latvia can expect help if not salvation. And such an approach will have the effect of forcing the Russian government to decide whether it wants to move toward the future or not.

Even if Latvia chooses all the right options, it will remain as it has always been in a zone of permanent insecurity. But the fact that it has these choices to make and the ability to make them highlights just how far Latvia has come in the last ten years.

Ms. Viola Furubjelke
Chairman, Foreign Affairs Committee, Parliament, Sweden

Important developments are taking place at the present time. To start with the European Union, the Amsterdam summit in June adopted a new treaty for an enlarged Union. It enabled member states to confirm that enlargement of the Union is on track.

EU-membership for our Baltic neighbours and for Poland should be seen as the single most important step towards stability and economic prosperity in the Baltic region. We advocate a simultaneous start of negotiations. We do it because it is the best way of maintaining the membership perspective and encourage continued reforms in all candidate countries.

To continue, we all know that NATO decided at the Madrid Summit on 8 July to invite Poland, the Czech Republic and Hungary to become new members of the Alliance. It was also made clear that NATO enlargement will be an open-ended process. The Baltic States were recognised as aspiring members.

As for co-operation between NATO and non-member states, important steps have been taken through the establishment of the Euro Atlantic Partnership Council, EAPC, and the signing of the Founding Act of Mutual Relations, Co-operation and Security, through which the formal basis for the NATO-Russia Council was established.

These developments, taken together, are important steps in the process towards a new pan-European security order. Although its final shape is not yet clear, we now know it will be based on certain fundamental principles.

First, in the new Europe, the right to choose your own security arrangement is

not only empty rhetoric. It is a political reality.

Second, it is now an established fact, that no country will be excluded from consideration for membership of EU or NATO because of its history or geographical location.

Third, the enlargements of the EU and NATO are two autonomous processes. Membership in one organisation is not a prerequisite for membership in the other.

With regard to security in the Baltic Sea region, these principles constitute a basis for the development of a new relationship between Russia and the Baltic States. Looking ahead, it is now vital to ensure that developments continue in the right direction.

Building a new security order - beyond the dividing lines of the Cold War and based on the principles and commitments of the Helsinki Final Act and the Charter of Paris - requires a constructive approach on the part of all countries involved. This means that political will is needed

It is also vital to avoid a regionalisation of military security, not least in the Baltic Sea area. Regional arrangements that have the effect of restricting the freedom of action of the countries concerned would undermine the new European order. This order must be based on an uncompromising respect for each country's right to choose security arrangements. The pan-European and Trans-Atlantic perspective must not be lost. European security is indivisible.

Turning to the practical dimension of regional security, Sweden pursues a policy which was outlined by Prime Minister Göran Persson last summer and

which has become known as "the five point programme". The cornerstone of our policy for the region is bilateral co-operation. The objective of our assistance is to build up security functions normal for every sovereign country.

We give increased emphasis in our programme to areas in which the Baltic States need to make progress in order to meet criteria for EU membership. Sweden has initiated a Nordic-Baltic task force that will focus on mobilisation of assistance in the area of the so-called third pillar.

Bilateral co-operation with Russia, focused on the north-western part of the country, is also increasing. Regional co-operation was boosted by the Visby Summit in 1996, where eleven Heads of Government met, together with the President of the European Commission. At that meeting, the Prime Ministers decided to establish a task force to combat organised crime in the region. Sweden co-ordinates this work. In order to further joint regional efforts, Sweden has allocated one billion SEK for the promotion of employment and trade in the region.

There will be a new summit here in Riga at the beginning of next year during which we should take qualitative steps in our regional co-operation. We are now in the process of consulting other governments on the objectives for the Riga summit.

The third element in the five-point programme is, as I already mentioned, European union membership for our Baltic neighbours and for Poland. The decision that the European Council will take in Luxembourg in one month's time will perhaps be the most important since Sweden became a member state.

Acceptance of new members will be a long and demanding process for the aspiring candidates. I would like to

underline that what is being assessed by the Commission and the Member States is not only the willingness of the Candidate Countries to take on common rules and regulations but also their ability to successfully implement them.

Partnership for Peace, the fourth element, is another structure with an important role to play in the Baltic Sea region. We want to see increased participation by both the Baltic States and Russia in the regional dimension of PfP.

This year Sweden has hosted three PfP exercises in the Baltic Sea region. Russia has participated in two. We have conducted mine-sweeping operations in the spirit of PfP in Latvian and Lithuanian waters. Next year we shall expand activities at our regional PfP training centre at Almnäs. And we would like to see the Russia participate in peace support operation exercise Co-operative Jaguar.

As regards the Euro-Atlantic Partnership Council, we see it as a forum for concrete and practical co-operation between NATO and partner countries. One relevant topic for the EAPC is the creation of a political-military framework for partner countries' participation in planning, decision making and political guidance of peace support operations to which they contribute troops.

The enlargement of NATO is a process of fundamental importance for the Baltic Sea region. It is not our task to tell NATO member states how to conduct enlargement. It is, however, crucial also to our security that this process continues in a way that enhances the security of all.

Ties with Russia are a fifth element of our policy for the region. Russian active participation in the EAPC and the PfP is vital. We share with Russia an interest in building a network of security and co-operation around the Baltic Sea. We have made important progress, but much remains to be done.

We welcome President Yeltsin's support for economic, ecological and humanitarian confidence building. We agree that we need to go further in this direction. The signing of the Russian-Lithuanian border agreement is an important contribution to this confidence building process. We urge Russia to take this step also in relation to Estonia and Latvia.

We are in the process of examining other aspects of President Yeltsin's proposal of October 24. But we can say even at this stage that we, for our part, see no need to

link confidence building to a regional security arrangement. For in the end, the security issues of the Baltic Sea region can not be isolated from the security of Europe as a whole. '

In this context it must also be mentioned that organisational structures alone do not guarantee peace and security. The every day working relations between governments, parliaments and people is of utmost importance to upholding confidence and long lasting friendship. This is an important aspect of the principle of indivisible European security.



SESSION 4

“Co-operation and Prosperity in the New Hanseatic Region”

Speakers:

H.E. Mr. Larry Napper, Ambassador to Latvia, United States of America

Dr. Otto Graf Lambsdorff, MP, Bundestag, Germany

H.E. Mr. Birger Dan Nielsen, Chairman, Committee of Senior Officials,
Council of Baltic Sea States

Mr. René Nyberg, Deputy Director General, Political Department, MFA,
Finland

Mr. Tormod Stene-Johansen, Managing Director, Varner Hakon
Investment Group

Mr. Igor Yourgens, Council for Foreign and Defence Policy, Russian
Federation

H.E. Mr. Larry C. Napper
Ambassador to Latvia, United States of America

America and the New Hanseatic Region

I begin by conveying to you Ron Asmus' deep regret that he is unable to participate in this important conference. He wanted very much to come, but became ill and was unable to travel over the weekend. He asked me to assure you of his best wishes for your success and his eagerness to visit Latvia again at his earliest opportunity. I am grateful to the organisers of the conference for offering me the opportunity to provide an American view on the very topical and challenging theme of this panel: "Co-operation and Prosperity in the New Hanseatic Region".

Seventy-nine years ago in Riga - one of the leading cities of the historic Hanseatic League - Latvia's founding fathers were poised to declare the first independent Latvian state. That new state was born into a Europe that was devastated by war and torn by turmoil. Now, as we stand on the verge of a new century, the situation in Europe is altogether different. For the first time in history, we have the opportunity to build a Europe free and undivided, in which all its peoples enjoy the benefits of democracy and expanding prosperity. The New Hanseatic region is at the heart of American thinking about that new Europe. All the states that surround the Baltic Sea must be secure and prosperous if we want a new European order that is both durable and just. The future of the New Hanseatic region and the individual states that comprise it cannot be secured by the diplomatic devices of the old Europe, such as spheres of influence, secret pacts, and security guarantees. Rather, the future of the New Hanseatic region lies in open and practical co-operation among the states of the Baltic lit-

toral and their full integration into the European and Euro-Atlantic structures that are the real guarantors of security and prosperity on this continent.

The integration of the New Hanseatic region into a peaceful, undivided, and democratic Europe has made dramatic progress. It must now be our task to make that process irreversible. That is why we in the United States see the strengthening of the OSCE and the enlargement of the European Union and NATO as serving vital and complementary strategic goals and objectives in the Baltic region. My European colleagues on this and other panels are better able to comment on the current state of enlargement of the European Union. While the United States is not a member of the EU, we would clearly like to see the quickest possible inclusion of Estonia, Latvia, and Lithuania into the European Union. At the same time, we understand that this depends on the performance of the Baltic States themselves.

The enlargement and transformation of NATO will also be of cardinal importance to security and prosperity in the New Hanseatic region. We can already see in the Baltic region the full array of potential relationships of countries to an enlarging NATO. Some states of the region are long-standing members of the Alliance. Others have not sought membership but are actively developing new and closer relationships with NATO through the Partnership for Peace and concrete co-operation on the ground in Bosnia. Russia has a special relationship with NATO based upon the NATO-Russia Founding Act and is also a valued participant in SFOR. Latvia, Estonia, and

Lithuania are actively seeking membership in NATO and are among the most committed participants in SFOR and the Partnership for Peace. For its part, NATO, in the Madrid Summit communiqué, recognised the aspirations of Latvia, Estonia, and Lithuania for membership and identified the Baltic region as vital to the overall Alliance objective of a free, prosperous and undivided Europe at peace.

The United States has a special interest in seeing an acceleration of integration and co-operation in the New Hanseatic Region. America has been enriched by the diverse contributions of emigrants from every country touched by the Baltic Sea. We share with the countries of the Baltic littoral a deep commitment to democracy, free markets, the rule of law, and respect for individual human rights. We believe that the future of this region will be perhaps the most sensitive barometer of progress in the building of the new Europe to which all of us in this hall and the countries we represents attach overriding importance.

That is why President Clinton has directed his Administration to intensify American support for the acceleration of integration and co-operation in this region. That is why we have worked with our friends in Latvia, Estonia, and Lithuania to prepare an American-Baltic Charter for signature by our Presidents. The signature of the charter will be a celebration of seventy-five years of friendship and co-operation, unbroken even by communist oppression. It will express our common vision of a new Europe and Trans-Atlantic community based on shared principles and shared values. While not a security guarantee or a substitute for NATO membership, the Charter will be a politically binding statement at the highest level of the strategic direction that the United States and the Baltic States do take in our bilateral co-operation in the years ahead.

The special American interest in the future of the New Hanseatic region is also at the heart of what we call the Northern European Initiative. The first track of this initiative is to support the efforts of Latvia, Estonia, and Lithuania to become the strongest possible candidates for integration into the new Europe. Working together, we will create concrete facts of integration through expansion of political, economic, and security co-operation. We will also continue to support Latvia, Estonia, and Lithuania as they seek to join core Euro-Atlantic organisations, such as the European Union and NATO.

With regard to NATO, the United States welcomes the aspirations and supports the efforts of Latvia, Estonia, and Lithuania for eventual membership in the Alliance. We recognise the progress the Baltic States are making toward meeting the criteria for Alliance membership that all aspirant countries must meet. This must include development of modern military forces capable of making a modest but meaningful contribution to the core security goals and objectives of the Alliance. There will be no discrimination, no special treatment, and no pre-commitment. But we believe Latvia, Estonia, and Lithuania must have the opportunity to demonstrate that they can assume the responsibilities of membership and to make their case that NATO's strategic interests would be served by Baltic membership.

The second track of our Northern European Initiative seeks to broaden and deepen co-operation among all the states of the new Hanseatic region. The inclusion of Russia in this endeavour is fundamental to its success. Just as the old Hanseatic League included the cities of Northwest Russia, the new Hanseatic Region must include Russia if it is to enjoy stability and prosperity. We begin from the premise that it is possible to promote projects and initiatives — large

and small in which all the states of the region, including Russia, can co-operate for the common good. We want to get beyond the old calculus in which an advance for one country of the region was seen as a setback for another. As Secretary of State Albright has put it, we seek to find "win-win" solutions in which co-operation among all leads to progress and prosperity for all.

The list of potential areas for development of this new Hanseatic spirit is long and open-ended. Trade and investment, environmental protection, energy conservation and development, combating organised crime and corruption, and expansion of people-to-people contacts are illustrative but certainly not exhaustive areas for new Hanseatic co-operation. The presence at this conference of Pskov Oblast Governor Yevgeniy Mikhailov is a very welcome signal of quickening interest in commerce and communication across the Russian and Baltic borders.

The most heartening recent example of the new Hanseatic spirit was the signing of the border delimitation agreement between Russia and Lithuania. The courage and statesmanship of Presidents Yeltsin and Brazauskas has opened the way for a dramatic expansion of trade, investment, and human contacts for the benefit of the Russian and Lithuanian peoples. We very much hope that similar treaties already negotiated between the Russian Federation and Latvia and Estonia will soon be signed. Among the other vital tasks for the Baltic States and Russia is to complete accession to the World Trade Organisation so that the new Hanseatic Region will have an inter-

nationally agreed framework, and rules for trade, investment, and the protection of intellectual property.

The third track of our Northern European Initiative recognises that stability and prosperity in the New Hanseatic region depends on a broad partnership within the international community. The traditional links between the United States and the Nordic states are vital, as are our developing relationships with the Baltic States and Russia. But security and prosperity in the Baltic region is also a European and Transatlantic responsibility. So we want to work with other partners including countries such as Germany, Poland, the UK, and France, as well as the European Union and the OSCE. A prime focus of this international co-operation must be the existing multinational organisations in the region, such as the Barents Euro-Arctic Council and the Council of Baltic Sea States. The first CBSS summit to be held on Baltic soil, in Riga next January, will be an event of special significance for the development of the new Hanseatic region. We do not seek to americanize these institutions or to create new ones. But, if invited, we are ready to engage in those institutions where our co-operation is desired and can add value.

The United States did not exist during the heyday of the old Hanseatic League. But we want very much to be present at the creation of a new Hanseatic region of peace and prosperity around the Baltic Sea. In this spirit, I appreciate the opportunity to express an American view and to applaud the organisers of this conference for their contribution to a remarkable burst of energy and creativity in this strategic corner of Europe.

This conference has been a great success. I'm sure that the panel discussion and our meetings with Foreign Minister Birkauskas and Prime Minister Krastins will be as interesting and important as this morning's debates. I would especially like to thank Larry Napper for his remarks. The US administration's activities in the Baltic area have increased significantly over the last few years. This is well deserved. The Baltic area has great potential.

Economically speaking, we are seeing the region's countries making great strides. An ever denser network of personal and commercial ties is woven across the Baltic Sea. Estonia has 1.5 million inhabitants. Still, more than 100 sister-city programs connect Estonia with Finland. German trade with Lithuania has increased by more than 50 % in the first six months of 1997 alone. And this conference proves again that our host country Latvia plays an important role in Baltic co-operation.

We witness the emergence of a new Hanseatic League. The old one was a community dedicated to commerce and peaceful co-operation. Our forefathers in the Middle Ages knew very well that trade was the key to prosperity. Trade without security was impossible back then - as it is today.

The key to security is co-operation. The Hanseatic League was peaceful and inclusive. But when push came to shove, it was also most capable to force its interests upon others. Thus the League provided security and prosperity for its members. It was so successful that cities from all over Europe queued up to join. In our days, we again have an organisation all of Europe is queuing up to join. No organisation has done more to ensure

prosperity in Europe than the European Union. Like the League, the Union combines economic and political co-operation in pursuit of stability and prosperity. The peoples of Central and Eastern Europe know that. They want to join the Union for these very reasons. I am looking forward to the day when the first country from that group will be welcomed in Brussels as a full-fledged member of the world's most successful regional organisation. Personally, I would have liked to see the Union invite all applicants for membership for an initial round of negotiations. The Union has decided otherwise. It favours a sequenced approach. Starting from that premise, I believe it is a great success for all three Baltic States that Estonia has gained a berth in the first group. I know that some were disappointed in Vilnius and Riga. Let me tell you very clearly that the nomination of Estonia for the first round will silence even the slightest suggestion that the Baltic States might remain in a security limbo between East and West.

Estonia's nomination has put all three States on the political map of the new Europe - very clearly so. And any attempt to belittle Estonia's achievements would get her out of the first group rather than the other two countries in. I need not tell you what that would mean for the Baltic region at large and for the three republics in particular. It would be a political disaster of the first degree.

European integration is a process. The best analogy is with a stadium. Some countries are on the tracks already. Others are still warming up, preparing for the competition. If someone prepares particularly well, that country may join the others on the tracks and may even overtake them in the race for member-

ship. It also means that countries already on the tracks may fall behind if they fail to achieve good results. So there is no reason to slack off. Neither for the "ins" nor for the "pre-ins". This so-called stadium model has been developed and suggested by Germany. It now finds increasing support among other member states. Our goal as current members of the Union must be to ensure that there is a credible fast track for the pre-ins.

And this is what the Lithuanian and our host government should keep in mind: we want you in as soon as you are ready. And preparing well will get you on the fast track for membership.

This applies to both the economic and political realms. Estonia has vehemently pursued economic reforms from the outset. Starting in 1991, the country has conducted an admirable program of vigorous privatisation combined with sensible monetary policies. The *Economist* recently noted that Estonia is a more perfect market economy than most members of the European Union. That newspaper went as far as suggesting that Estonia rather than applying for membership in the EU, should think about joining NAFTA. I doubt that they were entirely serious about that suggestion. But it shows that the market economy is a recipe for success.

By now, however, Estonia also has achieved a good track record in the political realm, especially concerning the status of minorities. The Council of Europe has approved of her measures in this field. Now it is up to the authorities to implement faithfully what has been codified in law. The Estonian cabinet's professed intention to extend the OSCE mission's mandate through 1998 is an encouraging signal that it intends to do so.

I know that Latvia and Lithuania have recently sped up their reform efforts as

well. This has been recognised by most observers. Politically we have seen progress as well. The recent signing of the Lithuanian-Russian border agreement will contribute to stability in the region. Some issues still need to be resolved, though. The status of the Kaliningrad enclave should be clarified. A transit arrangement would be an important step towards a lasting settlement.

Stability in the Baltic area is important to all of us. The political state of affairs for the entire continent can be gauged simply by looking closely at the successes and failures in this part of Europe. This is why Baltic co-operation is a central pillar of the European security architecture. If that pillar doesn't hold, the European house will not be safe.

In this particular notion of "Europe", the United States are included, emphatically so. Secretary Albright said that while the NATO summit at Madrid redressed the injustices of 1945, the next round will have to take on the injustices of 1939. The US-Baltic Charter about to be signed clearly shows that the US will remain involved. NATO has recognised the right of the Baltic countries to join. All three countries are serious candidates for NATO membership. I believe that the Alliance should have been more courageous in its approach to the Baltic States right from the start. It does not bode well for the future of European security if the states most at risk are left out of the Alliance for too long. NATO stands for our common western values. The Baltic republics share these values. The Alliance would turn against its own basic rationale if it were to leave them out for too long. They have the right to join. They want to join. There is no reason why they should not join.

We all agree that membership in NATO is not directed against Russia. It would be ludicrous to suggest that Germany

pursues anti-Russian policies. And yet Germany is - and will remain - a faithful member of the Atlantic Alliance. Russia has nothing to fear from the West, and from NATO in particular. A stable security framework on its western border would give Russia the chance to deal effectively with the challenges arising on its southern one. Russia's position is challenged there, in the South - from within (Chechnya) and without (Tadjikistan, Iran):

The Baltic States have much to gain from membership in NATO, while Russia has nothing to fear. Germany made sure that the Baltic States were mentioned as candidates for membership in NATO's Madrid summit declaration. When it comes to the next summit, we should ensure that our Baltic friends can

join the alliance. That way we would not only redress the injustices of 1939. We would also create stability and security, the crucial prerequisites for prosperity in the 21st century.

Let me conclude by saying that on their way into the Euro-Atlantic structures, the Baltic republics can count on their friends in Western and Northern Europe. We welcome your great efforts and encourage you to follow through on your reform policies. At this stage, no one has a reason to slow down. On the contrary, both the "ins" as well as the "pre-ins"? must continue to improve their performance. It is your responsibility to prepare well in order to perform well. Remember that everyone is inside the stadium. Sometimes perhaps, you may need our support in your efforts. I assure you that you will continue to receive it.

I am somewhat unhappy about the title of the session. We have always considered ourselves the first oppressors in this part of the world. The Vikings were the first crusaders. The Danish flag dates back to the time when we conquered Tallinn and christened the Estonians. In fact, Tallinn means "Town of the Dane". The Hanseatic League came later. The Vikings were free traders, the Hanseatic League was, if not monopolistic, then at least selective in choosing its partners. So while I agree with the previous speakers on the objectives for the development of the region, I think that we should have some creative ambiguity and find some new headlines for what we are doing.

Turning to the main theme of this conference - security and prosperity. In the Danish view, prosperity is security. We have a concept consisting of three elements for how we see the region; we have a security concept, a concept for economic growth and a concept of integration. With regard to security we are certainly in favour of the Baltic countries getting hard security guarantees, i.e., NATO membership, as soon as possible. However, we also realise that hard security guarantees are not available today or tomorrow and therefore we should develop the concept of soft security guarantees. That means developing prosperity, shaping societies that are based on a market economy and that are using integration into the EU as the instrument for creating this situation.

In analysing the situation in the region we see many parallels to what happened in, what I call, the second industrialisation of Denmark in the first half of the 1960s. Many people here may still consider Denmark an agricultural country, but in fact only 2 % of the workforce is

employed in the agricultural sector. However, in the early 1960s Danish industry began its period of growth by supplying industries in Germany, Britain, Sweden and France. A similar development is taking place in the three Baltic countries and Poland. These countries have a strong, educated and competitive workforce as well as good infrastructure. We have witnessed an increase of co-operation between Western and local companies in a wide variety of industries. Sectors that are in deep crisis in Western Europe, like shipyards, can compete in this part of the world by supplying ship parts to shipyards in Western Europe. The textile industry, also on the decline in Western Europe, is experiencing growth here. In a way the Baltic Sea region can play the role that the ASEAN countries are playing for Japan and for the United States, allowing them to reach a comparable level of development to Western Europe in a few years.

Denmark sees the economic and political integration of the Baltic countries as the instrument for this development. Fifty years under a different system at times makes it difficult to understand in which direction to move. However, by having EU membership as the objective and using the whole body of EU legislation as your guideline, you will be able to create a rather different society within in a very short time span, thereby becoming ready to join the EU. There is too much talk about enlargement negotiations. Count Lambsdorff stated that ideally the EU should start negotiations with all applicant countries simultaneously. I can assure you that the Danish government will stick to that position. In our view this is the only way to proceed. There is also too much talk about the concept of enlargement negotiations. The Danish

view is that there is really not much to negotiate about, because all applicant countries will have to take the whole *acquis communautaire*. One question that can be discussed is the length and the character of the transitional period as well as the question of when and how access is gained to the financial resources of the EU. It is therefore up to the three Baltic countries to prepare themselves and convince the existing fifteen EU member states that they are able to live with all the *acquis*. Once this has been achieved the door to EU membership is open.

In my capacity as the senior official of the CBSS, I would like to say a few words about its activity. The highlight during the Danish Presidency of the CBSS will be the meeting of the Heads of State in Riga on 22-23 January 1998. Denmark assumed the Presidency from Latvia on 1 July and in the few months since then we have had discussions and consultations about the possible outcome of the meeting. While the CBSS concentrated mostly on so called pillar issues in the beginning, the time has now come to put more emphasis on economic co-operation.

There are a number of conclusions, concerning economic co-operation that hopefully will be reached at the Head of State meeting in Riga. First, the enlargement process should be used to develop a link between it and co-operation with Russia. It is important that the enlargement process does not create new frontiers. The CBSS will not be the forum for enlargement negotiations, but it will be the forum for the dialogue with Russia on the consequences of enlargement. That way Russia can be prepared for what is going to happen and take measures to ensure that the movements of goods, persons and capital remain free.

The second conclusion of the meeting should be a signal to the international financial institutions, in particular the Nordic Investment Bank and the European Investment Bank in Luxembourg, to be more attentive to the investment needs in the field of transport, energy and environment in this region, not only in the Baltic States and Poland, but also in Russia. The marginal utility of investment in environment facilities in the Baltic countries will fall over time and we will see that the pollution coming from farther east will assume increased priority. It is necessary to also open up for investment in those three areas in Russia.

Another topic at the meeting will be linked to the question of higher education and the administrative capacity of the Baltic countries and Poland in particular. The conclusions drawn by the European Commission, based on the application of the three Baltic countries and Poland, show that the main constraint for taking on the obligation of membership is still a lack of administrative capacity. The Nordic countries and Germany have for some time supported higher education institutions in the Baltic countries. The question that I see the Heads of State discussing are ways in which the Euro Faculty and similar institutions can be made more demand driven, i.e. producing the necessary university graduates for the future administrations in this part of the world. Another question is how to make education more accession driven, i.e. giving university graduates a special understanding of EU law, EU co-operation, so that they can help, not only in harmonising and preparing legislation and building institutions, but also in preparing the whole of society for membership.

(Edited version of transcript)

A Study in Interdependency:
Russian Transport Needs and Economic Development in the Baltic Sea Area

In order to grasp the changes in our immediate neighbourhood the Finnish Government has tried to study trends and risks emerging out of the new dynamism of European integration.

We have introduced in the European Union a new concept called "The Northern Dimension of the European Union", encompassing existing co-operation in the Baltic Sea and the Barents Sea areas. With this we want to describe the change that has already occurred. With Finland's and Sweden's accession the EU has physically become a neighbour of the Russian Federation. With the accession of Poland and Estonia as well as that of Latvia and Lithuania the interface of the EU with Russia will grow considerably. It suffices to note that with Polish and Lithuanian membership Kaliningrad, which today is a Russian enclave, will become a EU enclave surrounded as it is by Lithuania and Poland.

The Northern Dimension of the EU entails growing trade, chances and risks. But what is most important The Northern Dimension of the EU demonstrates the degree of interdependency already existing between the two parts of the European continent.

To mention but one risk I would like to draw your attention to decaying nuclear plants and especially the nuclear time bomb ticking on the Kola Peninsula. I am referring to the untreated nuclear waste of military origin.

To mention chances and challenges I would like to point out that in some twenty years Europe will need more gas

than any of the present sources can provide. The largest energy reserve waiting to be tapped lies in the North West of Russia, especially on the bottom of the Barents Sea. Gas will remain for the foreseeable future the singular most important export commodity of Russia and Europe its market.

The degree of interdependency is very large. Indeed, larger than probably understood even by the political elites, to say nothing about the general public. Let me demonstrate this by presenting in detail findings of a study in interdependency between Russia and the Baltic States in the field of transport needs.

A degree of mutual dependency between Russia and the Baltic States arises from the interconnected nature of their infrastructures. This is reflected in the growing level of transit traffic and trade between Russia and the Baltic States. Positive interdependency is the essence of any mutually beneficial relationship. For countries as dependent on foreign trade as Finland and all the member states of the European Union, this is self-evident and does not require further elaboration.

The Russian Federation of today is more dependent on foreign trade than the Soviet Union ever was. The European Union is by far the largest trading partner of Russia, with a share of its overall trade of around 40 %. The widely dispersed and decentralised industrial production of the Soviet Union may have helped save the country from the onslaught of Hitler, but the total disregard for transportation costs and the non-existence of

railway tariffs as an economic factor have bequeathed to Russian industry a major economic liability. The use of freight transport in the Soviet Union, in terms of tonne-kilometres per head, was almost six times as high as in the United States according to World Bank estimates. Indeed, the cost of transport is an important contributory factor in the continuing contraction of the Russian economy, both in economic and geographical terms. The decaying rail network still carries the bulk of Russian goods (83% of total tonne-kilometres in 1995 compared with 11% by road and 6% on inland waterways.)

Transport-wise Russia is all but landlocked. Russia has retained only half of the major ports of the former Soviet Union. At present, of Russia's ten most important international ports, four are located in the Far East, two on the Barents Sea and the White Sea (Murmansk, Archangel), one on the Black Sea and one on the Baltic Sea. The Far East and the Barents Sea ports today cater to more or less local transport needs. The Black Sea ports (Novorossisk, Tuapse) and the Baltic Sea ports (St. Petersburg, Kaliningrad) serve most of European Russia. Half of Russia's sea trade is handled by the country's own ports; the remaining half uses the old routes through Baltic and Ukrainian ports. A small proportion, mainly high-value goods, is transported through Finnish ports.

The Baltic States' ports have proved to be competitive and their share of all Russian sea trade has increased from some 35% in 1990 to about 45% today. The opening up of Russia to Europe has increased the importance of the Baltic Sea region. Currently, over two thirds of Russian maritime trade uses the Baltic Sea routes, including the two Russian Baltic ports. The routes with a declining share of Russian sea trade appear to be those via the remote northern ports and

the ports of Ukraine. The two Russian Black Sea Ports are thriving, mainly because of a strong demand for oil transport from the countries of the Caspian Sea area.

This also explains the fact that the Baltic Sea is the primary focus area for planned port investments in Russia. Important port developments are underway in the Leningrad oblast, including modernisation of the port of St. Petersburg, which is located at the end of a maritime channel that has to be dredged annually because of the alluvial sands. The construction of any major port in Russia will nowadays need a strong commitment from the private sector. So far, the Russian business community has not been able or willing to make the necessary commitments and provide adequate backing for the projects. It is unlikely - although not impossible - that the Leningrad oblast port investments would change existing transport patterns in the near or mid-term future. The port of St. Petersburg is one of Russia's most significant underused infrastructural assets.

The export of oil via sea terminals is the sole example of export capacity being almost fully used; currently excess capacity (some 40%) exists only in the Druzhba oil pipeline leading from Russia to the old East European refineries. The Latvian port of Ventspils is the only sea terminal on the Druzhba pipeline route, and its pipeline capacity of approximately 20 million tonnes is already utilised and cannot be increased without considerable new investments because of the worn-out condition of the pipeline. The Latvian authorities are conducting feasibility studies on building a parallel pipeline.

The Russian oil pipeline system is essential for the country's oil exports. However, future options are limited. The Caspian Sea oil will use up most of the capacity of the Novorossisk and Tuapse

terminals, and so new alternative routes for pipelines and export terminals will be needed. Studies and negotiations are underway to examine the feasibility of a pipeline terminal in the Leningrad oblast (Primorsk/Koivisto) and/or the use of the Finnish oil terminal at Porvoo.

As oil revenues are very important for Russia, it is generally believed that it will maintain its exports to the West. Under the threat of declining crude oil production this will, however, require a massive restructuring of the country's oil refining capacity and a major increase in its efficiency as well as the implementation of comprehensive energy savings measures. Whether this can be done in the next five to ten years remains to be seen, especially when the Russian economy is likely to pick up and thereby raise domestic oil consumption.

The transport and energy infrastructures of Russia and the Baltic States are closely intertwined. News about major port investments in the Leningrad oblast would be conveying the wrong message if they were to be interpreted as a sign of a lack of overall port capacity. Despite rising trade figures the problems are of a different nature. During the 1990's several studies have predicted slow growth in Russian cargo traffic through the Baltic ports. In reality, however, the ports of the Baltic States in particular have enjoyed steady growth, contradicting the conclusions of these studies.

Despite all the geopolitical hyperbole, the cost of transport has become the decisive factor in route selection. The Baltic Sea route seems to have responded best to the changed transport needs of commodity exporters. Securing currency income, or income in general, has been one of the main objectives of Russian exporting companies, almost at any cost. This has kept export levels high despite the poor profitability of many of these transactions. Distorted pricing structures

in several sectors, including transport, have enabled profitable deals to be made at the expense of the Russian treasury.

The flow of goods through the ports of the Baltic States is an excellent illustration of economic integration - and the invisible hand of the market. It should be noted that while the railways, ports and airports were run by national organisations, the roads were left entirely to local and regional authorities. The Baltic States seem to have recognised the importance of the road network and have managed to build and upgrade quite adequate and good quality road systems in each country. By 1991, Lithuania had more than half of the total length of motorways in the entire Soviet Union. By contrast, the road system in Russia is very sparse and only a limited number of road links carry any substantial volumes of long distance road freight. Furthermore, almost all of them depart radically from Moscow to other parts of the country. The role of roads was and still is to serve the railways as feeders. To improve its road network, Russia has recently embarked on a road rehabilitation programme with loans from the World Bank. It is worth noting, however, that the roads between Russia and the Baltic States are not included in this phase of improvements. The two so-called Crete transport corridors: Moscow-Minsk-Warsaw-Berlin and Moscow-St. Petersburg-Helsinki will receive the bulk of all upgrading resources. Nevertheless, the cross-border haulage traffic to the Baltic States is considerable, although it cannot be compared to the level of transit freight through Finland and Poland.

The Baltic States have managed to achieve a considerable turnaround in their national economies and foreign trade. The earlier almost total reliance on the former Soviet Union, more particularly Russia, has now come to resemble the normal European pattern of foreign

trade. The European Union has emerged as the largest trading partner, and the importance of the CIS countries has declined. This is particularly true in the case of Estonia. In spite of the difficulties, for example Estonia is one of the few countries to which Russia does not give MFN status, trade with Russia and the rest of the CIS countries remains a high priority for the Baltic States. Russian and CIS transit freight is especially important. To illustrate this, it is worth noting that the bulk of Uzbekistan's cotton exports are shipped through the port of Riga. Before the war, the most important export commodity of the Baltic States was flax; "Livonian flax" was much in demand as a cotton substitute.

The attractiveness of the Baltic ports is not new. During Czarist times, nearly one quarter of Russian imports and exports went through Latvian harbours. The value of Riga's foreign trade was even greater than that of St. Petersburg. Pre-revolutionary Riga compared itself with Hamburg. The Polish schemes of the early 1920's, when Warsaw coveted Latvian ports, are by now all but forgotten, too. With Danzig/Gdansk closed for Poland, and Gdynia still a fishing village until the mid-1930's, Poland had no commercial access to the sea. Polish efforts were concentrated in two directions: an attempt was made to secure extraterritorial rights in the Latvian port of Liepaja protected by a Polish garrison; Liepaja was especially attractive because it could be reached through the occupied city of Vilnius by a European - gauge railway. The other alternatives were Romanian ports on the Danube delta.

The high degree of interdependency created through reliance on transit traffic is but one example of the interdependency of the Baltic States with Russia. As the trade figures show, Latvia is a major country for transit traffic. According to some estimates, transit freight accounts

for approximately 20% of Latvia's GDP. In Estonia and Lithuania the share is considerably lower. Despite the fact that recent history shows that the transit traffic markets in the Baltic Sea area can be highly volatile, it is unlikely that the main trend, Russia's heavy reliance on the Baltic Sea ports (Russian and foreign) will change, even in the long term.

The patterns described demonstrate the strong linkages. There is also a strong interdependency in the natural gas and electric power sectors. The Baltic States have become dependable, though small, foreign customers for Russian gas suppliers. Estonia has even allowed Gazprom, together with Ruhrgas, to obtain an interest in the Estonian market. In the foreseeable future, Russia will remain the sole supplier of natural gas for the Baltic States. The relationship between the supplier and the customer is nonetheless mutually beneficial here. Latvia has large underground storage which is an important component of the gas supply system of the Leningrad and Pskov oblasts, and Kaliningrad is supplied with gas via Lithuania. This strong interdependency can only be changed at great cost.

At present, the Baltic States are quite well supplied with their own electricity. Lithuania generates much of its electricity at the Ignalina nuclear power plant, and Estonia also has a high degree of self-sufficiency in domestic fuels (oil shale). Nevertheless, the Baltic States and Russia are very dependent on each other in the electric power sector due to the characteristics of the common power grid. Any changes would be costly and the separation of the systems would not be warranted on economic ground alone.

The number of common denominators between the Baltic States and Russia and the growing transit and trade, not forgetting also the large Russian speaking population living in the Baltic

trade. The European Union has emerged as the largest trading partner, and the importance of the CIS countries has declined. This is particularly true in the case of Estonia. In spite of the difficulties, for example Estonia is one of the few countries to which Russia does not give MFN status, trade with Russia and the rest of the CIS countries remains a high priority for the Baltic States. Russian and CIS transit freight is especially important. To illustrate this, it is worth noting that the bulk of Uzbekistan's cotton exports are shipped through the port of Riga. Before the war, the most important export commodity of the Baltic States was flax; "Livonian flax" was much in demand as a cotton substitute.

The attractiveness of the Baltic ports is not new. During Czarist times, nearly one quarter of Russian imports and exports went through Latvian harbours. The value of Riga's foreign trade was even greater than that of St. Petersburg. Pre-revolutionary Riga compared itself with Hamburg. The Polish schemes of the early 1920's, when Warsaw coveted Latvian ports, are by now all but forgotten, too. With Danzig/Gdansk closed for Poland, and Gdynia still a fishing village until the mid-1930's, Poland had no commercial access to the sea. Polish efforts were concentrated in two directions: an attempt was made to secure extraterritorial rights in the Latvian port of Liepaja protected by a Polish garrison; Liepaja was especially attractive because it could be reached through the occupied city of Vilnius by a European - gauge railway. The other alternatives were Romanian ports on the Danube delta.

The high degree of interdependency created through reliance on transit traffic is but one example of the interdependency of the Baltic States with Russia. As the trade figures show, Latvia is a major country for transit traffic. According to some estimates, transit freight accounts

for approximately 20% of Latvia's GDP. In Estonia and Lithuania the share is considerably lower. Despite the fact that recent history shows that the transit traffic markets in the Baltic Sea area can be highly volatile, it is unlikely that the main trend, Russia's heavy reliance on the Baltic Sea ports (Russian and foreign) will change, even in the long term.

The patterns described demonstrate the strong linkages. There is also a strong interdependency in the natural gas and electric power sectors. The Baltic States have become dependable, though small, foreign customers for Russian gas suppliers. Estonia has even allowed Gazprom, together with Ruhrgas, to obtain an interest in the Estonian market. In the foreseeable future, Russia will remain the sole supplier of natural gas for the Baltic States. The relationship between the supplier and the customer is nonetheless mutually beneficial here. Latvia has large underground storage, which is an important component of the gas supply system of the Leningrad and Pskov oblasts, and Kaliningrad is supplied with gas via Lithuania. This strong interdependency can only be changed at great cost.

At present, the Baltic States are quite well supplied with their own electricity. Lithuania generates much of its electricity at the Ignalina nuclear power plant, and Estonia also has a high degree of self-sufficiency in domestic fuels (oil shale). Nevertheless, the Baltic States and Russia are very dependent on each other in the electric power sector due to the characteristics of the common power grid. Any changes would be costly and the separation of the systems would not be warranted on economic ground alone.

The number of common denominators between the Baltic States and Russia and the growing transit and trade, not forgetting also the large Russian speaking population living in the Baltic

States, open up important opportunities for the future. The future accession of the Baltic States to the European Union together with the integration of Russia into European and world structures will only enhance the gateway role of the Baltic States. It is a win-win situation on all fronts. These fronts are geo-economic rather than geopolitical. It is evident that the stability generated by the continuous

European integration process will greatly benefit Russia, not otherwise blessed with too many stable neighbours. A democratic Russia ruled by law will be a partner of growing importance to the EU. The Baltic States with their gateway position and infrastructure will play a key role in the Northern Dimension of the EU. The Baltic States are a bridgehead not an outpost (most - forpost). The future belongs to trading nations!

Mr. Tormod Stene-Johansen
Managing Director, Varner Gruppen, Norway

I am here as the representative of the Varner-Hakon Group. It is a joint venture between two Norwegian retail groups that have joined efforts to reach the best position in a region of Europe, which I find most promising in terms of business.

The Varner Group is one of the largest textile retailers in Northern Europe, with more than 400 shops throughout Scandinavia, 3000 employees and an annual turnover of approximately 500 million USD. The Hakon Group is the leading food retailer in Norway with more than 1500 shops, 12.000 employees and an annual turnover of 2 billion USD. They may not be very large companies by international standards, but Norway they rank among the largest.

In the course of my presentation I would like to address some of the reasons for choosing Latvia, evaluate the current investment climate as well as raise the importance of improving the reputation of the countries in this region.

In my capacity as manager for international business development in the Varner Group, I have had the pleasure and the challenge of working with the set-up here in Latvia since 1994. Why are we in Latvia? The reason is simple. Both companies have such a large market share in the home market that further expansion is only possible by looking for investment opportunities abroad.

The company's strategy for accessing a new market was divided into two parts: one for the over-developed and extremely competitive market in Western Europe and one for the under-developed market in Eastern Europe. After considering almost every country in Central and Eastern Europe, we decided on Latvia as

the pilot area for further expansion. Latvia and the Baltic were chosen because the region is prosperous and the investment climate better than expected. However, the main reason for expanding to Latvia was the choice of good partners we could trust and with whom we could co-operate. Our investment is not the largest, but maybe one of the more visible ones. The company owns five shopping malls, two hotels and several retail chains in Riga, which means that it is visible to the common people.

In comparison to other foreign investors, the company is not only visible but also different in the sense that it has entered a great variety of different business fields. The fact that both the Varner and Hakon Group are owned and run by the entrepreneurs and founders of the companies means that they incorporate culture based on their entrepreneurial ideal. The large number of business opportunities in the region and has also made us introduce several other investors to Latvia in a variety of industries. We have so far introduced more than 15 Scandinavian companies that have invested, or are planning to invest, in the region, together with us.

Drawing upon our experience, I would like to say a few words about our assessment of the investment and business climate in the Baltic, and especially in Latvia. First of all, the investment climate here is different from the one in Scandinavia. Therein lie the challenges and the possibilities. This is what makes the region interesting.

The development of private business has been accelerating. Changes are visible every week and new businesses are established everywhere. In order to be a successful part of this trend, it is impor-

tant to participate and observe developments on the local market. It is important for foreign investors to understand that this is a moving train and that they will have to get on at an early stage.

The political establishment in Latvia is very business friendly and we feel welcome as foreign investors. The backing and the encouragement by the political establishment have been very important for our investments in Latvia. The politicians have understood the importance of opening up Latvia to international trade and investments.

The Baltic countries possess a large, very skilled, hardworking and professional workforce. For an investor a good workforce coupled with good management are essential for success. There is no discrimination of foreign investors in relation to local companies and the tax legislation is competitive in comparison to many other countries. The money transfer and bank services are working well and the common market with Estonia and Lithuania is developing. The strong relations with Russia also make Latvia a potential gateway to the vast market in the East.

Of course there are some areas that need to be developed, but we feel that the

process of getting closer to the European Union is developing the investment climate very rapidly. We have had no major problems since coming to Latvia, although there have, admittedly, been a lot of minor problems and challenges.

It is also essential to us that people in this region are open to co-operation and strong relations, as further development of relations between the countries in Northern Europe are based on co-operation between peoples of different cultures. Therefore it is important to remember that whatever plans we make, we need to learn to trust each other and have trust as starting point for relations. This does not yet seem to be the case.

Certain sections of the Scandinavian press are still leading people to believe that the Baltic region is controlled by the Mafia, that the economy is totally out of control, that Russian tanks are waiting at the border, or that simply walking in the streets is likely to result in a deadly infection. Despite some success stories, the stereotypes still persist. Therefore it is very important that people with experience of the region, contribute to breaking down the stereotypes which make reliable co-operation, based on mutual trust, so difficult. Only by understanding each other, do we have the possibility stronger co-operation in the future.

(Edited version of transcript)

The New Agenda in the relations of Russia and the Baltic States

The Council of Foreign and Defence Policy, which is not connected to the state structures, being an NGO, welcomes Russia's change from reactive to proactive policy in the region. I will not dwell on the reasons for this reactive policy, sufficed to say that time after the independence of the Baltic States was one of crisis resolution. I think this crisis resolution period is almost over.

The Ministry of Foreign Affairs and other institutions, dealing with international policy, have entered a period of serious conceptual reflection on what to do in the Baltic region and how Russia can contribute to this reflection. From both sides we hear that normal, brotherly and good neighbourly relations between our countries are very much on the agenda and I think this is true. However, behind the scenes there is still Russia's instinct to be a leading power on the post-Soviet stage and the Baltic States' instinct to be as far removed from Russia as possible. Between those two basic instincts we have to find some resolution. This can only be found, from our point of view, through very intense diplomatic negotiations on a bilateral basis.

Since 1991, both sides have been looking for mediation through international organisations and third countries. It is essential to begin a more intense diplomatic dialogue that will produce positive results. I would like to propose to the Russian diplomatic community, for example, on the question of guarantees which were received in a lukewarm manner by the Baltic States, that it starts to develop these guarantees as a concept together with the diplomatic communi-

ties of Latvia, Lithuania and Estonia, similar to the way the United States worked out its Baltic Charter. The result would probably be that some of the unwelcome criticism that we have heard would not be on the agenda. The priority, in any case, is definitely a very respectful dialogue on all questions of security in the region, including human rights and economic co-operation.

Concerning NATO, let me just remark that NATO membership of the Baltic States will, in the end, be solely decided by the Baltic States and NATO. I do not think it is for Russia to intimidate or block it. Of course it is not Russia's choice and I can understand Russian diplomatic and military circles as well as other communities, because if we are dealing with a Russia that is a G8 member then there is no need for security guarantees. However, if we are dealing with a Russia similar to Saddam Hussein's Iraq, then a Desert Storm option is available to the Baltic States. This was stated very plainly by NATO officials today. From this point of view, it would probably be better to play on time and work out a new basic theory of international security. However, let me stress again that it is for the Baltic States to choose and that Russia should respect that choice.

As far as the conflicts in Russo-Baltic relations are concerned, the main issue still remains the Russian-speaking minority in the Baltic States. However, we would like to note, with satisfaction, that considerable progress has been made. For instance, today I learnt from the material that was distributed to participants, that a number of bans preventing Russian speakers from being lawyers

or pharmacists are supposed to be abolished by the Latvian *Seimas*. This is very positive development.

We are also pleased that Russian national minority received a legal status and can now be a vocal point for some of the legitimate concerns the Russian population has in Latvia. My personal observations have convinced me that the conditions of the Russian population in the Baltic States is gradually becoming an integral part of those nations and are far better than in some ex-Soviet republics of Central Asia. This should be taken into consideration when analysing the situation.

In our opinion the economic aspects of our relationship will tackle many of the bilateral problems that still exist. Some of the major Russian companies, like Gazprom and Lukoil, who deal locally and want to further participate in privatisation in the Baltic States, see the economic development between Russia and the Baltic States quite positively. Therefore, I would like to address myself to the organisers and suggest that they participate in a forum of Baltic entrepreneurs, managers and employers and their Russian counterparts, organised by the Council next year, to discuss ways of furthering economic co-operation between the countries in private enterprise. The Council welcomes negotiations and further reflections on EU issues and of course Russia aspires to become a member of the same economic structure in the future.

It is not necessary to reiterate the arguments why Russia supports the idea of Baltic States' EU membership. Having observed Finland's EU accession, it is clear that this will take some time, effort and sacrifices, but I do hope it will take the Estonians less time than the Finns to join.

Russia hopes to follow suit and is cur-

rently preparing by carefully studying what needs to be done with national legislation. Since President Yeltsin signed an agreement on Corfu with the European Union, Russia is dealing with the very difficult issues of how to protect its own market that is very vulnerable to the infusion of foreign capital, according to EU rules.

The Council is in favour of regional co-operation in the Baltic region and is urging the Russian government to be more active in the CBSS, especially since often the Russian representatives, who are sometimes from the North West of Russia, are not very active in this region. However, I know from personal contacts that they do appreciate what is being done in this region.

I would like to reiterate that multilateral co-operation does not substitute the high level co-operation between our states, especially since developments in Russia depend a lot on personal, high level meetings. The Council is urging the President, the Ministry of Foreign Affairs and Russian diplomats, to hold regular meetings and negotiations to dissipate some of the worries that still cloud the horizon of our relationships.

We are looking forward to more co-ordination of efforts of both state bodies and civic society. I remember participating in the Social Dimension Co-operation of the Baltic States, which deals with the co-operation between the trade unions of different countries, and was largely financed by the Foundation for Democracy in Denmark. It produced wonderful results for the trade union movements of the Baltic region. This kind of co-operation within civic society, complemented by the co-operation on the multilateral and inter-governmental level, will produce results and we are looking forward to further co-operation.

It is clear that nothing will happen with-

out the constructive role of the mass media. This brings me to the second initiative of the Council. I would like to suggest to our colleagues from the Baltic States to look into the possibility of sending us some documentaries on the national cultures of the Baltic States. The Council has access to a television programme called 'Together', which is broadcast on Channel 1 of the Russian television every day and could therefore televise a 10-15 minutes presentation of the Baltic States. Without the mass media's constructive role, we will always remain on different sides of the barricades.

If we exclude the very complex security issues, including NATO, I believe that we have a great programme in front of us, if the will is there. The Council and other organisations in Russia, interested in improved relations with the Baltic States, would like to do so. I would like to finish by saying that we extend our hand to some of the prominent Latvian organisations, like the Baltic Stability Foundation, the Latvian Institute for International Affairs and some other organisations, in trying to deal with the very complicated, but at the same time, very promising issue of Russo-Baltic relations.

(Edited version of transcript)



DINNER ADDRESS

Mr. Carl Bildt
Chairman, Moderate Party

The Lessons of Bosnia

Coming back to Riga, after a few years of absence from this region, one is struck by all of the changes that have been happening. Too often we taken them just for granted. But they were not. Barely ten years ago, we were living in a very different Europe from the one that we have today. Then, peace was supposed to be based on the recognition of the existing so-called realities, without taking into account either how they had been established or what kind of future they had.

There was a Soviet Union, which occupied also the three European countries of Lithuania, Latvia and Estonia. There was a German Democratic Republic, separated from the rest of Germany by a brutal wall, minefields and barbed wire. There was a Yugoslavia that was

seen as a successful example of peoples living together in relative harmony. And there was the belief that nothing of this could or should be challenged. To call for freedom and independence for the three Baltic States was to endanger stability. To call for the dismantling of the wall in Berlin was to endanger the peace. To question the future stability of Yugoslavia was to question the entire post-war order in that volatile part of Europe.

When change came in the late 1980's it was, to a very large extent, change from within. Outside, the flames of freedom had been kept alive by all those who had refused to accept the so-called realities. But it was inside the rotten systems that the revolution of liberation of Europe really started.

Since then, we have had to master three key challenges in the transformation of Europe. Two of them have been mastered much better than anyone could have anticipated ten years ago. The third resulted in a larger catastrophe than anyone then could imagine. And I have had the fortune - or bad luck - to be an active part of two of these challenges as well as a close observer of the third.

The first key challenge was the peaceful unification of Germany. I still remember the strange feeling when I, in late November 1989, could just walk through what was once Checkpoint Charlie in Berlin without even being stopped. And then, within a very short period of time, I could witness the revolution on the streets of that part of Germany, the calls for unity and freedom, leading to the peaceful integration of these eastern parts of the country into the Federal Republic of Germany in October of 1990.

The second was the liberation of the three Baltic States and the withdrawal

of remaining Russian military installations from these countries. Here, we were no longer, as in the case of the former GDR, dealing with the forward bastion of military and political Soviet power, but with areas which were considered part of the Soviet Union, and with military assets which could be described as of importance for the defence of the Russian homeland itself.

The history of the series of events and negotiations through which this key challenge of European security was mastered has yet to be written. At times, it was truly dramatic. At times, it seemed as if failure was certain. At times, we were hovering on the brink of a very large international crisis.

My country - and myself - were able to play a certain role in furthering this process. It was the result, not least, of very intense diplomatic activity, linking Riga with Stockholm and key Western capitals, not least Washington, which paved the way for the agreement between Latvia and Russia in March 1994 and the resulting withdrawal of Russian forces, including over time from the Skrunda installation, as part of the general withdrawal from the territories of the independent Baltic States.

But as we were working intensely with these issues here in north-western Europe, the south-eastern part of our continent was already at war. The break-up of Yugoslavia, and the resulting series of wars, primarily Croatia and Bosnia Herzegovina, were as great a failure for the process of European transition as the peaceful unification of Germany and the establishment of the full independence of Estonia, Latvia and Lithuania were great successes. This was the key challenge we did not master.

There were two key ingredients for success in the two cases of the unifica-

tion of Germany and the liberation of the Baltic countries. The first was the coherence and firmness of Western policies. In the German cases the Quad group of Western allies coming out of the joint responsibility for the divided city of Berlin could negotiate from a position of firmness in policy and determination in pursuit. And in the case of the Baltic countries, the informal *ad hoc* group, under Swedish chairmanship, could co-ordinate the actions and activities of all the key Western governments throughout this period, giving a coherence to our actions which otherwise would not have been possible.

The second key ingredient for success was a Russia which, at the end of the day, and after much hesitation, saw the logic of events and was more interested in forming a new relationship with the outside world than in just trying to preserve the past. At the end of the day, it was Gorbachev who agreed to the unification of Germany, also accepting its *de facto* integration into NATO. And at the end of the day, it was Yeltsin who recognised the independence of the Baltic States and eventually agreed to the withdrawal of the military forces.

In the case of the crisis in former Yugoslavia, none of these factors were present. There was, first and foremost, no coherence on Western policy during the years when war could perhaps have been prevented. As the break-up of Yugoslavia gathered speed in 1991 and 1992, the European Union had the ambition to deal with the situation, even proclaiming this to be the 'hour of Europe', but very clearly lacked the ability to do so, while NATO certainly had the ability, but lacked the ambition and the political will to use its assets and possibilities.

The European Union had not yet developed anything resembling a common

foreign and security policy, thus lacking the instruments necessary to conduct any sort of effective policy, while NATO was hampered by the reluctance of the United States to get involved in a crisis which was seen as essentially European, and not affecting its wider strategic interests.

In retrospect, it is far from clear whether it would have been possible to prevent the war which broke out between Croats and Serbs, primarily within what is today the Republic of Croatia, as they both sought to secure their rival claims of self-determination in an area of mixed cultural traditions. But I do believe, that a combination of strong and far-sighted diplomacy, linking diplomatic recognition with firm guarantees and structures for the security of non-majority groups, in combination with the willingness to use military force to stop for example the shelling of Dubrovnik and Vukovar, would have had at least a chance of averting the slide to catastrophe.

With Croats and Serbs at war over their competing claims to the different parts of the vanishing Yugoslavia, Bosnia, with its complex set-up of Muslims, Serbs and Croats, was bound to be dragged into the conflict. And when consensus within Bosnia between the three groups broke down, as they had to face the issue of independence or not, making a true power-sharing arrangement impossible, war came as a consequence of the combination of the unresolved wider Croat-Serb conflict and the failure to secure internal power-sharing in the country of Bosnia itself. It can be argued, not only that the international community failed to avert the slide towards war, but that its actions actually accelerated the process.

The war quickly turned far more bitter and far more brutal than anyone had expected. Within a year, more than a

million people had been forced to flee to other countries across the globe, as brutal ethnic cleansing and terror caused the worst humanitarian catastrophe of Europe since 1945.

Once more, we saw concentration camps, women and children brutally murdered, ethnic savagery on a scale we thought we would never more have to confront. Just as we were celebrating the dawn of a new era of freedom, dignity and independence in Europe, we woke up to the horrible realisation that we were no longer living in the post-war period. War had come to Europe again.

Efforts to end the war went through a number of phases. An elaborate joint machinery between the United Nations and the European Union produced the Vance/Owen Peace Plan in 1993, but its possibilities were severely limited by the fact that it was not supported by the new Clinton administration in the United States. A result of this divergence in the international community was the setting up of the so called Contact Group in 1994, linking the United States and Russia directly with the efforts of London, Paris and Bonn, producing a half-baked and only half-serious plan in the summer of 1994, which in the end came to nothing.

When I was asked to assume the function of European Union Co-Chairman of the International Conference on former Yugoslavia in late spring 1995, the war was quickly going from bad to worse. And during the course of just a couple of months, one drama was to follow the other, with the most serious war crime in Europe since 1945; in Srebrenica, with the large single ethnic cleansing of the war in Croatian Krajina, with the introduction of new more capable European forces in the area and with the large scale use of NATO air power.

Throughout this period, intense efforts were underway to find a coherent international strategy for a political settlement. There were increasing tensions, not only in Bosnia and the region itself but also across the Atlantic, not least within the American political system itself, with a dramatic confrontation between the President and Congress looking increasingly likely.

All these events had the effect of forcing all the key actors to look at the situation with a new seriousness. And as a result European, American and Russian political perspectives came together, producing a cohesive and clear international strategy, using concerted pressure on all of the parties to the conflict and eventually producing the peace agreement negotiated in Dayton and signed in Paris.

It was a remarkable document. Bosnia was preserved as a united state, but with most public powers devolved to the two entities of the Federation and the Republika Srpska, and with the possibilities for the two entities to develop special and parallel relations with the neighbouring countries. With elaborate provisions also for the internal structures and principles of the country, it was and remains the most ambitious peace agreement in modern history, perhaps in history all together. In Bosnia, there had then been 44 months of the most bitter and brutal war in Europe during the second half of this century. Since then, we have now had 24 months of gradual implementation of the elaborate provisions of the peace agreement. These months amply demonstrated that it is far easier to start a war than to build a peace, that a society torn apart takes a long time to bind together again, and that the military issues are straightforward and simple in relation to all the political, social, economic and humanitarian ones.

During the early days of peace implementation, the focus of the international debate was on the military issues, and on an early exit strategy for the international community from the area. But this was naive from the start. Today, the political and civilian implementation efforts are far more in focus and the debate is gradually shifting towards the necessity of an entry strategy of Bosnia and the region into the structures of European and international integration.

It will take time for a more long-term strategy to evolve. It must have several components:

A military one, with a NATO-lead deterrent presence effective throughout the region, not limited by one arbitrary time limit after the other, but committed to its essential task for the time needed. There was no time limit on the US military presence in Berlin, and there must be no time limit to our presence in Bosnia and the region.

An economic and political one, with the European Union taking the lead in extending the structures of European integration to the wider area of south-eastern Europe. A tentative start has been made with the so called regional approach, but the Union is still to develop the far reaching and credible policies of gradual integration which are called for.

A democratic one, with a program of political and economic reforms, paving the way for open economies and free societies, as a key part of the process of integration. In this region, we are confronted not only with the evils of virulent nationalism, but also with the evil remnants of both communism and fascism.

These international efforts are and will remain of crucial importance. But at

the end of the day, the present fragile state of Bosnia will only survive if there is true power-sharing between the three constituent peoples, and if the common state of the country will gradually be seen as their own by all three, thus making power-sharing natural and strong.

No state and no country can be expected to withstand pressures of more turbulent times, which history has a tendency to throw at us from time to time, if it is overtly rejected or tacitly not accepted by substantial segments of its population.

And this combination of internal and external integration and reconciliation is the key to the future. As the country comes together, and the state becomes the state of every single one of its citizens, the country itself will enter the structures of co-operation and security, which will then reinforce the prosperity and security of the country. A good circle of integration - external and internal - will then replace the vicious circle of disintegration - external and internal - which produced the war and destroyed so many lives, so many possibilities, so many futures.

There are many lessons to be learnt from the experience of Bosnia. Those having to do with different cultures or nations living together within the same state should certainly not be neglected. They are only neglected at one's own peril.

But those that have to do with the international structures of war and peace are of no lesser importance. And since the collective failures of 1991-1992, 1993- 1994 and parts of 1995 we have come some way.

We now have a new NATO, no longer centred on nuclear deterrence right through the divided Germany, but

instead on building broad coalitions of peace implementation in Bosnia and the region. In the northern parts of Bosnia, the US-lead division includes not only a Russian, but also a Nordic-Polish brigade and the Swedish battalion that has also included Latvian peacekeeping units. Thus a structure of military integration of far-reaching importance, also for other parts of Europe, has been created.

The reform of NATO will continue during the years to come. It is my conviction that the broader we can make NATO, while preserving its military effectiveness, the more important will be its contribution to peace and stability. The further reform of its structures, the further enlargement of its membership and the further development of its strategic relationship with Russia will make it an even more effective instrument.

We now have a European Union engaged in both the deepening of its integration through economic and monetary union, and in the process of gradual widening which will stretch over the years to come. This would bring in one group of countries after the other, in my opinion, not by treating them all as identical and one, but by letting them all, over time, enter in accordance with their individual qualifications, as determined by their commitment to the reform policies necessary.

We have also learnt important lessons for the future as concerns the vitally important Trans-Atlantic partnership with the United States. Indispensable to the security of Europe, it must have a strong partner in the form of a truly common foreign and security policy of the European Union, having the ability not only to co-ordinate policies but also to execute and implement them. Europe must be ready to be far more

than only the paymaster of policies decided on the other side of the Atlantic. A step forward has been taken in Amsterdam but more must come if Europe is to be able to muster its responsibilities, in partnership with the

United States, and in co-operation with Russia.

I started by mentioned the dramatic changes over the past ten years. History certainly did not end. If anything it accelerated.



CONCLUDING REMARKS

Dr. Valdis Birkavs
Minister of Foreign Affairs,
Republic of Latvia

After many speakers and many words it happened to be George Bernard Shaw taking his turn as the last speaker; after the applause subsided, he remarked: "Ladies and Gentlemen, the subject may not be exhausted but we are." And then he sat down. Sorry, but I will not do the same.

It gives me pleasure seeing you all here on a Latvian holiday. Special pleasure also to see, upstairs and downstairs, so many students who could have spent the day in freedom and yet have chosen to spend it in a classroom, so-to-speak, listening and learning. I extend my compliments to you all for your choice of holiday venues, and suggest that your enthusiasm is something which could be useful as you begin the marathon run to Europe which Gnter Burghardt mentioned earlier. We all wish for the stamina of youth in the long meetings and negotiations that stand between us and Europe.

Besides enthusiasm, we in Latvia need co-operation and constant practice working together. Co-operation makes the Baltic States and Latvia attractive. Without it, the Baltic States are interesting - with a question mark - but not attractive. Co-operation is good advertising.

I think this conference gave us some practice also with internal co-operation. You see here the representatives of all parties who made this event happen. It is not a *one*-party conference. And we have not merely invited speakers who wanted to say nice things about us and boost Latvia. Our friend from Lockheed Martin reminded us that our tender processes could be more transparent and a friend from Russia wished us bad luck in our efforts to join NATO. And this is good; we wanted a free discussion. For me, a main point of the conference is co-operation.

We are always asking what is the substance of co-operation. The substance is in meetings like this one. Co-operation is palpable and visible in the presence of many participants from our region and beyond.

Some participants of this conference have in the past hour received the Latvian *Three Star Order* for their extraordinary and special personal gift, having facilitated Latvia's co-operation with their countries. I congratulate them.

Another event cannot fail to influence Latvia's prosperity and security. I refer to the December meeting in Luxembourg. The main task and challenge of the Luxembourg Summit is to arrive at a decision that is politically balanced.

The decision-makers in Luxembourg should discuss a mode for conveying maximum support to the people in the Baltic States who are directing their futures toward Europe. Such a communi-

cation or indication will strengthen the reform process. This decision has to clearly demonstrate that the EU enlargement will be non-discriminatory and all-inclusive.

I see the evolution of relations between Latvia and the EU developing in three dimensions. The first dimension is based on strengthening relations with EU member states using the instruments of the European Agreement, the bilateral political dialogue, bilateral technical assistance, and the European Conference.

EU enlargement is not only the reunification of two forcibly divided parts of Europe. Enlargement is a test of the capability of the EU to respond to interests of the different EU regions. Without Latvia, Estonia, and Lithuania, the EU does not reflect these regional interests. The results of the "enlargement test" will determine the future of the EU as an institution.

The second dimension is represented by a further realisation of the potential in relations with the European Commission through Accession Partnership, the National Program for Adoption of the *Acquis*, and PHARE.

Latvia's relations with the European Commission (EC) are assuming a more individual character, and this is positive. Accession Partnership documents developed jointly by the EC and the Latvian Government will serve as an individual "road map" - or a kind of Michelin Guide - to Brussels.

Latvia is advocating greater national involvement of the EU member states in control of the implementation of the Accession Partnership. While speaking on compliance with EU directives, one should not lose a vision of the entire process.

A third dimension, not less important than the others, is the opinion of the Latvian people. The understanding and support for the process of European integration among residents of Latvia is crucial for the success of European integration. I hope that the Latvian people here today have seen that our visitors from the European Union want to help us otherwise they might choose a warmer sea state for a mid-November trip. Your long trip is a good example for us who are running Mr. Burghardt's marathon. My own idea is that of a triathlon. We have a long distance, three pillars, and three challenges.

In 1989, millions of Latvians, Lithuanians and Estonians joined hands across the Baltic States in a human chain that became known around the world as "The Baltic Way". This "Baltic Way" runs through the heart of a new broader regional identity. This is an idea that needs to be developed with the help of all who are interested in our region.

For the sake of philosophical exploration, let's call it the "Amber Gateway." The idea of a Baltic region connected globally along world trade routes represents a way of life and a way of business that we want and need in our region. The "Amber Gateway" is a vision of regional development in the area where Hanseatic merchants once traded but it is a larger vision even than the Hanseatic League which was, after all, a cartel. Some commercial interests were in, some were out. Our vision is one of inclusion, co-operation, and integration.

We all imagine the conditions needed for achieving a bold new era of regional development, co-operation and trade. The Hanseatic spirit of trade needs to be re-kindled in our region so that it can inspire a new kind of regional relationship - one that is tailored to the new demands and new opportunities of 21st century systems of transport and communication.

The “Amber Gateway” is a co-operative network of markets, linked by ports and airports, fuelled by free enterprise and supported by democratic governments sharing a common vision of peace, trade and prosperity.

It is a vision of how we in the Baltic region will do business in the 21st century. I hope that the vision of the “Amber Gateway” is not just a Phantom of the Opera. Latvia believes that it is in all our interests to build a unique and vital identity for our region. If the “Amber Gateway” describes its spirit, then Council of Baltic Sea States (CBSS) is a group which brings the vision down to earth in the form of practical measures to improve the climate for business, ecology, and civic security.

The CBSS is a relatively new organisation, but that may also be its strength and promise. As members of the CBSS we are all presented with the challenge of defining its role and realising its true potential.

Regional co-operation stimulates economic growth, and the CBSS can be a motor that drives development of the Baltic Sea region. Though intra-regional co-operation is important, it is equally important that the region as a whole continue its full integration into European structures and institutions, and play a role in the Trans-Atlantic relationship. This notion of trans-regional co-operation is implicit in the “Amber Gateway” idea.

The “Amber Gateway” reaches out in all directions, enabling the free flow of both East-West, and North-South trade. It is also inclusive, in that it serves all coun-

tries that lie on these vital Northern European trade routes, regardless of whether they border the Baltic Sea or not. The 21st century, if it is to be a prosperous time, must bring together the people, products and interests of the countries from many regions stretching from the United States to Russia.

We welcome the Northern European Initiative in this context and the more active role the United States is playing in the Baltic region. We believe that the development of an “Amber Gateway” concept - the concept of a Baltic Sea region more strongly linked in a global context - will encourage the United States and other distant powers to participate in the economic rebirth of this region through joint investment projects.

Those participating in this conference came here with an instinctive understanding of the potential dynamism of the Baltic Sea Region in a newly united Europe. It is up to all of us to find concrete ways to tap this potential.

To prepare and participate in a conference is like climbing a mountain. You climb from ledge to ledge. The higher you get, the more tired and breathless you become but your views become more and more extensive.

I would like to thank all the participants, the organisers, all the staff, and the Opera people for making this event possible. To those from Latvia, I give congratulations for our National Day and to those who are visiting I thank you for helping us celebrate it. Your good voices have now been added to the history of our Opera !

LIST OF FOREIGN PARTICIPANTS

Aalbu, Torbjörn	Ambassador, Inspector General, MFA	NORWAY
Akbiyeva, Gulmira	Embassy to Latvia	KAZAKHSTAN
Akhramovich, Gennady	First Secretary, Embassy to Latvia	BELARUS
Alatalu, Toomas	Member of Parliament	ESTONIA
Albons, Bengt	<i>Dagens Nyheter</i>	
Alhovaara, Pekka	Research Officer, Institute of Strategy	FINLAND
Allen, Roger	Embassy to Latvia	USA
Andrusyszyn, Walter	Chargé d'Affaires a.i., Embassy in Tallinn	USA
Anstead, Alan	Deputy Head of Mission and Consul, Embassy to Latvia	UK
Apinis, Paulis	Konrad Adenauer Foundation	GERMANY
Areskoug, Katarina	DG IA	EUROPEAN UNION
Austin, Daniel	Office of the Special Adviser for C&EE Affairs, NATO HQ	NATO
Baber, Abdul Sattar	Ambassador to Latvia	PAKISTAN
Bahanovska, Laura		World Bank
Bäckman, Per	MFA	SWEDEN
Baranovskis, Anatolijs	<i>RIA Novosti</i>	
Barret, Geoffrey W.	Charge d'Affaires, a. i.,	
Delegation to Latvia		EUROPEAN COMMISSION
Belousovs, Vitalijs	<i>ORT</i>	
Ben-Hur, Oded	Ambassador to Latvia	ISRAEL
Biaudet, Erik Gabriel	Honorary Consul	FINLAND
Bildt, Carl	Chairman, Moderate Party	SWEDEN
Binyon, Michael	<i>The Times</i>	
Blaabjerg Sørensen, Leo	Director, House of Prince, Riga Ltd.	DENMARK
Bogatkins, Vladimirs	<i>ORT</i>	
Bombins, Mihails	<i>Radio Liberty</i>	
Bornøe Kofoed, Bent	Honorary Consul of Latvia	DENMARK
Bratkiewicz, Jaroslaw	Ambassador to Latvia	POLAND
Breitner, Lena	Department of Economic History, Lund University	SWEDEN
Briel, Juan Luis Lozano	Chargé d'Affaires a. i.	CUBA
Bro, Charlotte	Head of Section, Ministry of Defence	DENMARK
Burghardt, Günter	Director- General, DGIA, Commission of the European Union	EUROPEAN UNION
Casper, Henrik	Embassy to Latvia	DENMARK
Carlsen, Per	Ambassador to Lithuania	DENMARK
Catrina, Christian	Deputy Head, Security Policy, General Secretariat, Swiss Federal Military Department	SWITZERLAND
Chaichits, Victor	Head of the Second Political Department, MFA	BELARUS
Chang-Bum, Lee	Ambassador to Latvia	REP. OF KOREA
Cheshire, Sir John	CINC, AFNORTHWEST Europe	NATO
Clifford, Robert	President, Eastern Europe, Lockheed Martin International	USA
Coleman, Mary	Second Secretary and Consul, Embassy to Latvia	USA

Crona, Elisabeth	<i>Svenska Dagbladet</i>	
Dahlmann, Niels	Honorary Consul of Latvia	BELGIUM
Dalsjö, Robert	FOA, Department of Defence Analysis	SWEDEN
Dane, Michael	First Secretary, Embassy to Latvia	USA
de Lima de Castilho, P.G.P.	Ambassador to Latvia	PORTUGAL
Debray, Michel	Member, IDAB	FRANCE
Demekas, Dimitris J.	Resident Representative to Latvia, International Monetary Fund	IMF
Demurin, Mikhail	Minister-Counsellor, Embassy, Riga	RUSSIA
Dong-Sil, Park	First Secretary, Embassy to Latvia	REP. OF KOREA
Donnelly, Chris	Special Advisor to the Secretary General, NATO HQ	NATO
Dubey, Sushil	Ambassador to Latvia	INDIA
Dvoráček, Vaclav	Chargé d' Affaires, a.i.	CZECH REP.
Egardt, Peter	President, The Stockholm Chamber of Commerce	SWEDEN
Elftmann, Gregory B.	First Secretary, Embassy to Latvia	USA
Eriksen, Peter Munch	Operations Manger	The World Bank
Foghelin, Jan	Director, Department of Security Analyses, FOA	SWEDEN
Furubjelke, Viola	Chairman, Foreign Affairs Committee, Parliament	SWEDEN
Garcia-Villamil, Camilo Barcia	Ambassador to Latvia	SPAIN
Gaudenz, Ruf	Ambassador to Bulgaria and FYROM	SWITZERLAND
Genschel, Dietrich	Member, IDAB	GERMANY
Girgensons, Valdis	<i>Lietuvos Radio</i>	
Gnollik, Peter	<i>Kieler Nachrichten</i>	
Goble, Paul	RFE/RL, Director of Communication Department	USA
Grimaldi, Saverio Vertone	Senator	ITALY
Grundekjøn, Arvid	Honorary Consul General of Latvia	NORWAY
Grunditz, Wale Catharina	Head of Section, MoD Sweden	SWEDEN
Gulens, Valdemârs	Latvia Relief and Development Fund	CANADA
Gustavsson, Eva	Mr.Bildt's Assistant	SWEDEN
Halaris, Antonios	Honorary Consul of Latvia	GREECE
Halgas, Vladimir	Chargé d' Affaires, a.i.	SLOVAKIA
Hämäläinen, Hannu	Ambassador to Latvia	FINLAND
Hansen, Eigil	Vice President, Business Development Department, Tele Danmark International	DENMARK
Hartelius, Dag	Vice President for the European Security Program, Institute for East-West Studies	USA
Harris Nikolaj	Embassy to Latvia	DENMARK
Haure, Brian J.	<i>Baltic Highlights</i>	
Hegedüs, Gábor	Envoy	HUNGARY
Hellenberg, Timo	Project Manager, Alexander Institute	FINLAND
Heuvel, Jon Vanden	Investment Banking, Credit Suisse First Boston Corp.	USA
Hillingsø, Kjeld	Member, IDAB	DENMARK
Hlavin, Lev	Honorary Consul of Latvia	ISRAEL
Hopkinson, Nicholas	Senior Associate Director, Wilton Park	UK
Horstmann, Hans-Henning	Deputy Political Director, MFA	GERMANY
Hreggvidsson, Emil Breki	Secretary, Embassy to Latvia	ICELAND

Hübschen, Jürgen	Alternate Representative to the Joint Committee on the Skrunda Radar	OSCE
Hugemark, Bo	Colonel	SWEDEN
Huldt, Bo	Swedish National Defence College,	SWEDEN
Ibler, Mladen	Ambassador to Latvia	CROATIA
Jazbec, Milan	Chargé d'Affaires, a.i.	SLOVENIA
Jensen, Kresten Munk Skov	Embassy to Latvia	DANMARK
Jeppson, Hans	Vice President, The Stockholm Chamber of Commerce	SWEDEN
Jeslinkova, Jaroslava	Ambassador to Latvia	CZECH REP.
Johansson, Erling	Defence Attaché	SWEDEN
Johnson, Garry Sir	Chairman, IDAB	U.K.
Jonsson, Jonas	First Secretary, Embassy to Latvia	SWEDEN
Kalpadakis, Emmanuel	Ambassador to Latvia	GREECE
Karazija, Rimantas	Ambassador to Latvia	LITHUANIA
Kazakovs, Aleksandrs	<i>Russkaja Gazeta</i>	
Kazocins, Jānis	Chief of Staff, 4th Division, UK Army	U.K.
Kioh, Choo Siew	Ambassador to Latvia	MALAYSIA
Kivinen, Olli	<i>Helsingin Sanomat</i>	
Klaiber, Klaus- Peter	Assistant Secretary General for Political Affairs	NATO
Klaucens, Norberts	Honorary Consul of Latvia	USA
Knuuti, Jukka	Security Policy Advisor, MOD	FINLAND
Koskins, Vidvuds	Honorary Consul of Latvia	AUSTRALIA
Korniiuk, Ihor	Third Secretary, Embassy to Latvia	UKRAINE
Kowlows, A.	<i>Die Zeit</i>	
Kozusnik, Anton	Ambassador to Latvia	AUSTRIA
Kristensen, Allan Pagh	First Secretary, Embassy to Latvia	DENMARK
Kucina, Galina	<i>ITAR-TASS</i>	
Kumuszhan, Omerbayeva	Charge d'Affaires a.i.	KAZAKHSTAN
Laanamäe, Mart	Deputy Under-Secretary, MFA	ESTONIA
Laar, Mart	Member of Parliament	ESTONIA
Laine, Päivi	Second Secretary, Embassy to Latvia	FINLAND
Lambsdorff, Otto Graf	Member of Parliament	GERMANY
Lange, Falk	Deputy Head OCSE Mission to Latvia	OSCE
Lange, Peer H.	Stiftung Wissenschaft und Politik	GERMANY
Lannin, Patrick	<i>Reuters</i>	
Lapukins, Niklavs	<i>Uppsala Nya Tidning</i>	
Larsen, Frank Norman	Deputy Managing Director, The Investment Fund for Central and Eastern Europe	DENMARK
Lassinantti, Gunnar	The Olof Palme International Center	SWEDEN
Lentz, Rüdiger	<i>Deutsche Welle TV</i>	
Leshanu, Ion	Ambassador to Latvia	MOLDOVA
Lindenberg, Jaroslaw	Ambassador	POLAND
Löffelholz, Thomas	<i>Die Welt</i>	
Lucas, Edward	<i>The Economist</i>	
Luciri, Pierre	Ambassador to Latvia	SWITZERLAND
Mørch, Michael Metz	Ambassador to Latvia	DENMARK
MacCallum, Fiona	Second Secretary, Embassy to Latvia	U.K.
McCullagh, George	Honorary Consul to Latvia	IRELAND

Magnusson, Hans	Ambassador to Latvia	SWEDEN
Mahnicka, Barbara	<i>PIA</i>	
Manig, Wolfgang	Chargé d' Affaires, a.i., Embassy to Latvia	GERMANY
Marchand, Jol	Assistant Director, Co-operation and Regional Security Division, International Military Staff, NATO	NATO
Markakis, Georgios	Representative of the Minister of European Affairs	GREECE
Marmeï, Eerik	Director, International Organisation and Security Policy Section, MFA	ESTONIA
Martynenko, Mykola	Counsellor, Embassy to Latvia	UKRAINE
Matulonis, Davidas	Head of Northern European Division, MFA	LITHUANIA
Mavlanov, Ibrokhim	Counsellor, Chargé d' Affaires	UZBEKISTAN
Medalinskas, Alvydas	Baltic Assembly	LITHUANIA
Meier-Preschany, Manfred	Honorary Consul of Latvia	GERMANY
Mihailov, Yevgeny	Governor of the Pskov Oblast	RUSSIA
Mykhaylovsky, Victor	Ambassador to Latvia	UKRAINE
Napper, Larry C.	Ambassador to Latvia	USA
Nehring, Niels Jürgen	Director, Danish Institute of International Affairs (DUPI)	DENMARK
Nielsen, Birger Dan	Ambassador, Council of the Baltic Sea States	DENMARK
Nikonov, Vyacheslav	President, "Polity" Foundation	RUSSIA
Nyberg, Rene	Ambassador, Deputy Director General, Political Department, Ministry of Foreign Affairs	FINLAND
Pajuste, Margo	<i>Eesti Päevaleht</i>	
Papadopoulos, Adonis	Honorary Consul General of Latvia	CYPRUS
Pavlovskis, Valdis	President, Baltic American Freedom League	USA
Pedersen, Connie	<i>DR TV</i>	
Pedersen, Klaus Carsten	Director, Danish Foreign Policy Society	DENMARK
Pesola, Tauno	Counsellor, Political Department, MFA	FINLAND
Petit, Jean Pierre	Centre d' Analyse et Prevision,	FRANCE
Petrescu, Adrian	Charge d' Affaires a.i.	ROMANIA
Pietromarchi, Alessandro	Ambassador to Latvia	ITALY
Poberiy, Valery	Chairman, Foreign Affairs Committee, Pskov Region	RUSSIA
Podhorny, Pavel	Deputy Director, International Military Security Policy Department., MOD	CZECH REPUBLIC
Poncet, Bernard	Ambassador to Latvia	FRANCE
Prodromou, George	Honorary Consul of Latvia	CYPRUS
Raisters, Alfreds	Honorary Consul of Latvia	USA
Reck, Ralf	<i>MDR</i>	
Romare, Ebba Sävborg	Senior Analyst, Swedish Institute of International Affairs	SWEDEN
Rumyanzev, Vladimir	First Secretary	RUSSIA
Rybkovskiy, Vladimir	First Secretary	RUSSIA
Samek, Lotta	<i>Dagens Nyheter</i>	
Samuel, Richard C.	Head of OSCE Mission to Latvia	OSCE
Sarnet, Väino	Head of the Privatisation Agency	ESTONIA
Schmidt, Anne	Counsellor, Embassy in Riga	FRANCE

Schuur, Jan	Honorary Consul of Latvia	NETHERLANDS
Serdarevic, Izet	Ambassador to Latvia	BOSNIA AND HERZEGOVINA
Sevcikova, Hana	Director, 2nd Territorial Department Ministry of the Foreign Affairs	CZECH REP.
Sexenalimov, Kuat	Attaché	KAZAKHSTAN
Shpungin, Ruven	Honorary Consul General of Latvia	ISRAEL
Shustov, Vladimir	Ambassador-at-Large, MFA	RUSSIA
Sjöberg, Sven-Erik	<i>Dagens Nyheter</i>	
Skov, Kresten	Project Assistant to The Defence Attaché in Riga	DENMARK
Smeltzer, James E.	Second Secretary, Embassy to Latvia	USA
Smith, Keith	Ambassador to Lithuania	USA
Smolén, Robert	Under-Secretary of State in Polish National Security Office	POLAND
Smrstik, Caroline	<i>DPA</i>	
Sorensen, Poul Erik	Director, Krüger A/S	DENMARK
Sproge, Iveta	<i>Lietuvos Aidas</i>	
Stoltenberg, Thorvald	Ambassador to Denmark	NORWAY
Stredel Balliache, Lisan	Ambassador to Latvia	VENEZUELA
Streeter ,Christiaan Jacobus	Ambassador to Latvia	SOUTH AFRICA
Syam, Ridhwan	Counsellor	INDONESIA
Szander, Alexander	<i>Der Spiegel</i>	
Szlajfer, Henryk	Director of the Policy Planing and Studies Department, MFA	POLAND
Tamm, Eino	Chairman, Foreign Affairs Committee, Parliament	ESTONIA
Terk, Eric	Estonian Institute for Futures Studies	ESTONIA
Tiivel, Toomas	Ambassador to Latvia	ESTONIA
Tikjob, Rud	<i>The Baltic Times</i>	
Tøraasen, Knut	Ambassador to Latvia	NORWAY
Udaltsov, Alexander	Ambassador to Latvia	RUSSIA
Uhrenholt, Frank	Honorary Consul of Latvia	DENMARK
Üksvärav, Raoul	Member of Parliament	ESTONIA
Vaikutis, Arunas	<i>Lietuvos Radio</i>	
van de Roemer, Hendrik J.	Honorary Consul of Latvia	NETHERLANDS
van Rijckevorsel, Wouter H.J	First Secretary, Embassy to Latvia	NETHERLANDS
Varrak, Toomas	Estonian Defence Academy	ESTONIA
Veselovsky, Andrej	Head of the Policy Planning Department, MFA	UKRAINE
Vestmann, Bjarni	First Secretary, Embassy of Iceland	ICELAND
Vipotnik, Matej	<i>Financial Times</i>	
von Altenbockum, Jasper	<i>WIR Baltica SIA</i>	
von Lawis of Menar, Henning	<i>Deutschland Radio</i>	
Vorpahl, Hans-Uve	<i>Frankfurter Allgemeine Zeitung</i>	
Wahlgren, Lars-Eric	Member ,IDAB	SWEDEN
Wilson, C.C.	NATO	NATO
Withers II, John L.	Deputy Chief of Mission and Consul, Embassy to Latvia	USA
Yourgens, Igor	Council of Foreign and Defence Policy	RUSSIA
Zacchera, Marco	Chamber of Deputies of the Italian Parliament, Member of Foreign and European Affairs Commission	ITALY
Zadaroznaja, Jelena	<i>ORT</i>	