This report consists of a comprehensive analysis of the security and the defensibility of the Baltic states – Estonia, Latvia and Lithuania. In addition to traditional geopolitical aspects, economic and energy issues are integrated in the overall assessments. The concept of a Baltic Sea area 'security complex' is introduced in order to structure the analysis.

The Baltic states regard the NATO alliance, and particularly the United States, as their primary security provider. NATO's new strategic concept and its existing contingency planning are regarded as confirmation of NATO's viability and that NATO stands by its commitments. Belief in the EU as a security provider is much more limited. However, the Baltic states also see security building through cooperation with the Nordic countries as a means of defence.

In the event of open hostilities or war – albeit currently unlikely – the picture is not without problems. The difficulties related to deploying NATO heavy ground forces in the Baltic states, due either to the shortage of such assets or the problems of getting them there, will make it hard to conduct effective defensive operations. The most pressing problem from NATO's point of view is probably how to make it credible that a powerful air campaign can be launched at short notice.

In the economic sphere, integration by joining the euro – a means of defensibility as well – has already been embarked on by Estonia, and the other Baltic states are planning to follow. Keeping their financial and macro-economic houses in order is a key form of defensibility for all three countries, and they have succeeded remarkably well in doing so.

In terms of energy security defensibility, the picture is not so bright. Given the vulnerability of the Baltic states in this regard, energy security could be the weakest point in the security and defensibility of the Baltic states.

This report has been produced within the Northern European Security and Stability Project, which forms the nucleus of the Neighbourhood Programme at FOI.

The Security and Defensibility of the Baltic States

A Comprehensive Analysis of a Security Complex in the Making

Bo Ljung, Tomas Malmlöf, Karlis Neretnieks and Mike Winnerstig [ed.]

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Foreword

This report has been produced by the FOI project on Northern European Security and Stability (NOSS), which is the nucleus of the Neighbourhood Programme at FOI Defence Analysis. The project is funded by the Swedish Ministry of Defence. Its general objectives are to provide deep and comprehensive insights into the broad security situation in the Nordic-Baltic area and to accumulate knowledge about each country in the region, including their interactions and relationships.

A traditional approach to security, related to military and defence issues, has always been part of the project, but a broader approach is also taken in all the reports by the project and substantial emphasis is placed on non-military issues such as economics and energy.

Chapter 3 of this report is co-sponsored by the Atlantic Security and European Crisis Management (ASEK) project at FOI.

The report has been very helpfully reviewed by associate lecturer Magnus Christiansson of the Swedish National Defence College.

Mike Winnerstig

Project leader, Northern European Stability and Security Project

Sammanfattning

Denna rapport analyserar de baltiska staternas (Estland, Lettland och Litauen) säkerhets- och försvarspolitiska situation i bred mening, inklusive ekonomi- och energifrågor. Begreppet ‘säkerhetskomplex’ används för att strukturera analysen. Ett säkerhetskomplex utgörs av stater i ett område som dels har säkerhetsintressen som är så sammanlänkade att deras säkerhetssituationer inte kan betraktas åtskilda från varandra, dels att lokala problem och relationer har en dominant roll när staternas säkerhetsprioriteringar definieras. Följande forskningsfrågor är de centrala i rapporten:

1) Hur ser de baltiska staterna på sin säkerhetssituation, i bred mening?
2) Vilka är de primära hotbilderna som identifieras av företrädare för de baltiska staterna?
3) Kan de baltiska staterna försvaras mot denna typ av hot?

Vad gäller säkerhetssituationen i traditionell mening finns det en tydlig konsensus om att integrationen i NATO och EU är central för baltisk säkerhet. Den transatlantiska länken samt de bilaterala relationerna med USA är om möjligt av ännu större betydelse. Samtidigt kan det noteras ett ökat baltiskt intresse för EU som komplementär säkerhetspolitisk aktör. Vidare är nordiskt-baltiskt samarbete inom ‘NB8’-ramen en tydlig prioritering för alla tre länderna.

Officiellt ses i alla tre länderna alla typer av territoriella militära hotbilder som avlägsna. Samtidigt pågår en tydlig ominriktning av deras försvarsmakter från internationella insatser till territorialförsvar, vilket kan ses som ett tecken på en viss diskrepans. Centralt för de baltiska ländernas möjligheter att försvara sig mot militära attacker är NATO:s, särskilt USA:s, förmåga att snabbt komma till undsättning. Denna förmåga är inte problemfri på grund av de stora neddragningarna på försvarsområdet i Europa. Sannolikt kommer i händelse av en konflikt även svenskt och finskt luft-, sjö- och möjligen även landterritorium att vara av stor betydelse för utgången.

Beträffande ekonomisk och energirelaterad säkerhet är läget annorlunda i de tre respektive staterna. Estland, inte minst efter euro-introduktionen 2011, ser sitt läge som gynnsamt ekonomiskt. Det gäller även energisituationen. För Lettland och Litauen är både den ekonomiska och den energirelaterade säkerhetssituationen mer problematisk, inte minst vad gäller beroende av ryska energiintressen. Alla tre länderna har dock varit tämligen framgångsrika när det gäller att ‘multilateralisera’ sina energiproblem i en EU-kontext.

Avslutningsvis noteras att det är uppenbart fruktbart att betrakta Östersjöområdet, och de baltiska staternas roll i detta, som ett ‘säkerhetskomplex’. Alla stater i detta område är på olika sätt sammanlänkade säkerhetspolitiskt, och lokala pro-

blem och relationer tenderar att sätta agendan för den regionala säkerhetsproblematiken.

Nyckelord: Baltikum, Estland, Lettland, Litauen, Ryssland, USA, EU, NATO, säkerhetskomplex, försvarsplanering, GSFP, försvar, geopolitik, nationell säkerhet, energisäkerhet, ekonomisk säkerhet, NORDEFCO (nordiskt försvarssamarbete), NB8 (Nordisk-Baltiska 8).

Executive Summary

This report is a comprehensive analysis of the security situation and the defensibility of the Baltic states – Estonia, Latvia and Lithuania. The concept of a Baltic Sea area 'security complex' is introduced in order to structure the analysis. The fundamental research questions for this report are:

1) How does each of the three Baltic states conceive of its security situation?
2) What are the primary threat perceptions of the Baltic states, according to their own decision makers and officials?
3) Can the Baltic states be defended against these threats; and, if so, how?

Traditional Security Policy Perceptions

There is a remarkable similarity between the Baltic states when it comes to traditional security policy. First, they all underline the utmost importance of their memberships of the North Atlantic Treaty Organization (NATO) and the European Union (EU), and the international and collective solidarity that these memberships entail. Second, when it comes to the United States, all three countries regard the transatlantic relationship as crucial and clearly believe that their own relations with the USA are strong and enduring. Most critical, from a Baltic perspective, is how quickly the USA could assist Europe militarily in the event of a crisis.

Third, there is a growing interest in the EU Common Foreign and Security Policy/Common Security and Defence Policy (CFSP/CSDP). One reason for this is the realization that the CSDP in particular is no longer a competitor for either NATO or the transatlantic link, but an important platform for political dialogue and commitments within the EU context.

Fourth, collaboration with the Nordic countries is a priority issue for the Baltic states. After some years of a less active Nordic approach following the Estonian, Latvian and Lithuanian accessions to NATO and the EU, Nordic-Baltic interactions, not least under the label of the 'Nordic-Baltic Eight' (NB8) have achieved new momentum – at least rhetorically.[1]

[1] The NB8 countries are Iceland, Norway, Denmark, Sweden, Finland, Estonia, Latvia and Lithuania.

Perceptions of Economic and Energy Security

When the global financial crisis began in 2008, it initially hit the then bubble economies of the Baltic states very hard. After the implementation of severe austerity programmes, however, the Baltic economies began to recover in 2010. The decision by the Estonian Government to adopt the euro in 2011 was a triumph in this regard. The current economic outlooks of all three Baltic states are fairly good, albeit not without problems.

There is a clear difference between the energy security situations in the three countries. Estonia believes its energy security to be fairly good, whereas Lithuania sees the energy issue as a major source of national insecurity, given the country's dependence on Russian energy companies. However, the achievement of more multilateralized energy policies within the EU must be considered a major success for Baltic diplomacy.

Traditional Security Threats

For small and geopolitically exposed countries such as the Baltic states, issues of national security in the very traditional sense will always tend to take priority. However, there is a consensus in the Baltic states today that direct, military, existential threats are currently very limited. What have grown in importance, however, are new forms of threats that in the long run can also be very serious, and in some cases even existential. Here, Estonia tends to underline cyber threats, and Lithuania tends to underline energy security issues.

Lingering in the background, however, are future possible risks related to strategic change in Northern Europe. These risks tend to focus on the likelihood of a more assertive or revanchist Russia, but also on changing global US priorities and defence cutbacks in the major European NATO countries.

All three Baltic states are currently increasing their territorial defence capabilities. Thus, there might be some differences between current official statements regarding the lack of territorial threats and the genuine threat perceptions of the Baltic decision makers.

Economic and Energy Security Threats

It is largely non-military threats that concern the Baltic states today. This has been reinforced by the economic hardships felt across the world since 2008. One consequence of the Baltic economic crisis was that Scandinavian banks were identified early on as the main culprits in the excessive and rapid credit expansion. When the crisis hit, however, they played a stabilizing role in the banking sector, which is believed to have mitigated the outcome of the crisis considerably. In addition, it seems fair to say that, so far, Russia has abstained from directly exploiting the crisis in economic or political terms.

In the energy field, the failure to forge a common view on energy security among the EU member states has negative consequences for all, particularly the Baltic and other Eastern and Central European states which are more dependent on Russian energy suppliers. The reluctance of EU member states to sign energy agreements with third countries at the EU level, instead of on a bilateral basis, gives Russia a much stronger bargaining position, which it may exploit to play EU member states off against each other.

The Defensibility of the Baltic States

The Baltic states regard NATO, in particularly the USA, as their primary security provider. NATO's new strategic concept and its existing contingency planning are regarded as confirmation of NATO's viability and that NATO stands by its commitments. Baltic integration into Euro-Atlantic security structures has gone fairly well, although many problems remain of a practical or economic nature. Belief in the EU as a security provider is much more limited.

In the event – albeit currently unlikely – of open hostilities or war, the picture is not without problems. The difficulties related to deploying NATO heavy ground forces in the Baltic states, due either to the shortage of such assets or the problems of getting them there, will make it hard to conduct effective defensive operations. The most pressing problem from NATO's point of view is probably how to make it credible that a powerful air campaign can be launched at short notice. In such a context, Swedish and Finnish territory and airspace will probably be of considerable importance to NATO's options for defending the Baltic states.

However, the Baltic states also see security building through cooperation with the Nordic countries as a means of defence. They see good reasons for increased cooperation – and express an interest in participating in Nordic Defence Cooperation (NORDEFCO). Swedish and Finnish military non-alignment, however, are seen as impeding the full potential for Nordic-Baltic security and defence cooperation.

In the economic sphere, integration by joining the euro – a clear-cut means of defensibility as well – has already been embarked on by Estonia, and the other Baltic states are planning to follow. Keeping their financial and macro-economic houses in order is a key form of defensibility for all three countries, and they have succeeded remarkably well in doing so.

In terms of energy security defensibility, the picture is not so bright. Estonia, Latvia and Lithuania are well aware that a joint approach would be preferable for resolving their specific energy security issues. Nonetheless, like the rest of Europe, the Baltic approach to energy security solutions is frequently governed by national rather than multilateral considerations. Given the vulnerability of the Baltic states in this regard, energy security could be the weakest point in the security and defensibility of the Baltic states. The Energy Security Centre that is

currently being established in Lithuania might be one way of dealing with this – at least symbolically.

The Security of the Baltic States as part of the Baltic Sea Area Security Complex

Throughout the analysis in this report, the concept of a Baltic Sea security complex has proved highly fruitful. The concept entails two central ideas. First, the states of the region have primary security concerns that link together sufficiently closely that their national security concerns cannot realistically be considered separately from one another. Second, local issues and relations have a dominant role in defining the national security priorities of each state within the complex. Both these factors are present in abundance in the Baltic Sea area and its security interrelations.

Keywords: Baltic states, Estonia, Latvia, Lithuania, Russia, security complex, contingency planning, NATO, EU, CSDP, defence, national security, geopolitics, energy security, economic security, NORDEFCO, Nordic-Baltic 8 (NB8).

Abbreviations and Acronyms

BALTDEFCOL	Baltic Defence College
BEMIP	Baltic Interconnection Plan
CCD COE (NATO)	Cooperative Cyber Defence Centre of Excellence
CFSP	Common Foreign and Security Policy
CSDP	Common Security and Defence Policy
ECT	Energy Charter Treaty
e-PINE	Enhanced Partnership in Northern Europe
ESDP	European Security and Defence Policy
EU	European Union
EU ETS	EU Emissions Trading Scheme
FDI	Foreign direct investment
FMF	Foreign Military Financing
IMET	International Military Education and Training
LNG	Liquefied natural gas
NATINADS	NATO Integrated Air Defence System
NATO	North Atlantic Treaty Organization
NBG	Nordic battle group
NB8	Nordic-Baltic Eight
NEI	Northern European Initiative
NORDEFCO	Nordic Defence Cooperation
NRF	NATO Response Force
QMV	Qualified majority voting
SC	Strategic concept (NATO)
TPES	Total primary energy supply
UCTE	Union for the Coordination of the Transmission of Electricity

Table of Contents

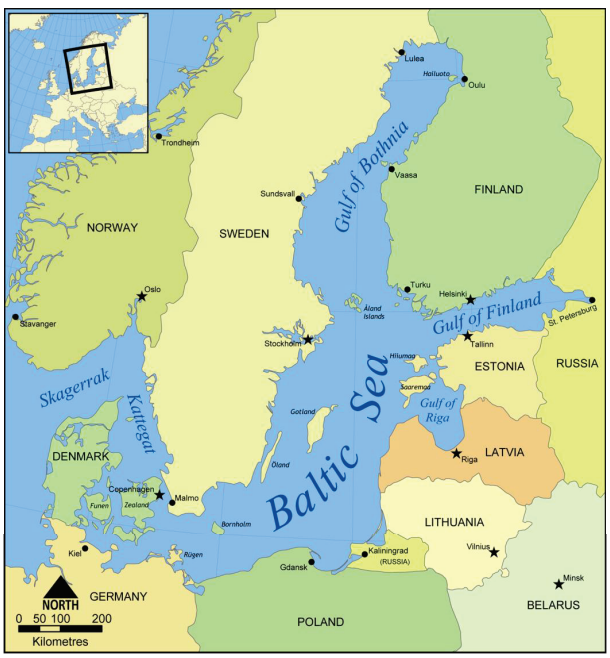
1 Introduction

1.1 The Baltic States and their Security Context

1.1.1 The Context

This report presents the results of a comprehensive analysis of the security and defensibility of the Baltic states. The Baltic states do not exist in a vacuum, either in terms of security or in other ways. The Baltic Sea area, here politically defined as Denmark, Sweden, Finland, the three Baltic states, Poland, Germany and the westernmost parts of Russia, is not an area that is currently associated with military conflicts. On the contrary, at least since the early years of the 1990s it has been a remarkably peaceful part of the world. At the same time, there have been several signs in recent years that tensions are increasing between some of the countries in the area.

Picture 1: The Baltic Sea area[2]



[2] Source: Webster`s Online Dictionary.

Increasing tensions in the Baltic Sea area used to be something that Sweden was affected by but did not take an active part in. However, since 2009, official Swedish policy has been to become involved, at least in some way, should any form of attack be launched against its Nordic and European Union (EU) neighbours, including the Baltic states.

There are, therefore, from a Swedish perspective, ample reasons to conduct a study related to the security and defensibility of the Baltic states. That is not to say that an attack against these states is in any way to be expected, or that it would come only in the traditional military fashion, but rather to explore and analyse the security policy settings and contexts of the Baltic states, and the consequences of increased tensions – should they appear – in the Baltic Sea area.

1.1.2 The Baltic Sea Area as a Security Complex

From a security policy perspective, the Baltic Sea area can be defined in several ways. All the countries except Russia are members of the European Union, which is an international and partly supranational organization. The scope of EU integration is very wide, and EU-related transnational cooperation takes place in most areas of politics. Most of the Baltic Sea area countries – with the exception of Sweden, Finland and Russia – are also members of the North Atlantic Treaty Organization (NATO), which is a strictly international political-military alliance. NATO is hugely important for the whole transatlantic security area, including Canada and the United States, and for the military integration of its members' armed forces.

Thus, it could be argued that the Baltic Sea area is currently a highly integrated area when it comes to military security. According to many theorists of international relations, this means that wars are highly unlikely; the processes of integration – within both the EU and NATO – function in such a way that tensions between countries are not allowed to grow into military conflicts. The peaceful effects of increased integration are often mentioned in solemn speeches by political leaders in the area.

It is also possible, however, to see the Baltic Sea area in another way. During the Cold War, the Baltic Sea area was a border country between East (the Soviet Union and the Warsaw Pact) and West (the United States and the rest of NATO). Finland was not part of either military alliance but, through the Treaty of Friendship, Cooperation, and Mutual Assistance between Finland and the Soviet Union, had to finely balance Soviet interests and its own inclination to side with the West. Nor was Sweden a member of either military alliance, although research has since revealed that Swedish military and security policy-related linkages with

the West and NATO (especially the USA and the UK) were much stronger than was publicly known at the time.[3]

During the Cold War, however, it was perfectly possible for both Sweden and Finland to argue that the interactions or conflicts of other countries in the Baltic Sea area did not affect them. It was an explicit goal of Swedish security policy for most of the Cold War, for example, to keep Sweden out of any conflicts in its own neighbourhood.

Today, the situation has changed profoundly. Sweden's recently adopted 'solidarity declaration' was included in a major 2009 defence bill. The declaration makes two major changes to traditional Swedish security policy. First, it states that Sweden will not remain passive if a disaster or an attack should afflict another EU member state or Nordic country, and that Sweden expects these countries to act in the same manner if Sweden is attacked. Second, in order to operationalize this, the government has asked the Swedish armed forces to be prepared to both give and receive military assistance.[4] At least in principle, therefore, Sweden will become engaged if some kind of attack is directed towards any of the Baltic states. Finland has adopted a similar, although not identical, solidarity declaration based on the EU Lisbon Treaty.[5]

It might therefore be more fruitful to regard the Baltic Sea area as what the British international relations theorist, Barry Buzan, has labelled a 'security complex', that is, a group of states 'whose primary security concerns link together sufficiently closely that their national securities cannot realistically be considered apart from one another'.[6] According to Buzan, a security complex often contains a number of states with highly varying power bases – essentially both small and big states – and their local issues and relations have a dominant role in defining the national security priorities of each state within the complex. The issues involved can be of both a domestic and an inter-state character, and these issues define the principal binding insecurities, that is, the bases of possible conflict, of the complex as a whole.[7]

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[3] For two recent examples of this see Robert Dalsjö (2007). *Life-line Lost: The Rise and Fall of 'Neutral' Sweden's Secret Reserve Option of Wartime Help from the West* (Stockholm: Santérus); and Mikael Holmström (2011). *Den dolda alliansen: Sveriges hemliga NATO-förbindelser* [The Hidden Alliance: Sweden's Secret NATO Linkages] (Stockholm: Atlantis).

[4] Ministry of Defence (2009). *A Useful Defence*, Swedish Government Bill 2008/09:140, esp. p. 9. See http://www.regeringen.se/content/1/c6/12/29/57/853ca644.pdf.

[5] See e.g. the 2009 declaration of the Finnish government on security policy, available at http://www.eduskunta.fi/triphome/bin/thw/?${APPL}=akirjat_ru&${BASE}=akirjat_ru&${THWIDS}=0.20/1340203040_21932&${TRIPPIFE}=PDF.pdf, esp. p. 71.

[6] Buzan, B. (1983). *People, States and Fear: The National Security Problem in International Relations* (Worcester: Wheatsheaf Books), p. 105.

[7] Ibid. p. 106f.

To Buzan, a security complex offers an approach to security that deals with both the macro-level of the international relations of the states involved and the micro-level of their local issues, such as ethnic groups from one state living within the borders of another. In taking this approach, Buzan noted that security complexes can lead to 'external influences tending to amplify local problems, and local problems shaping and constraining external entanglements and influences'.[8]

Buzan introduced this concept almost 30 years ago, and his own pet example of a security complex was South Asia, a corner of the world very different from the Baltic Sea area. Nonetheless, the security complex notion is not only theoretically appealing, but also potentially of practical use when it comes to dealing with the security problems of the countries of the Baltic Sea area and their neighbours. Many of the current political issues in the area – such as ethnic minorities in the Baltic states, the military relationship between, for example, Sweden and NATO, and the assertiveness of Russian foreign policy towards its Western neighbours – can be understood within the framework of a security policy complex. The issues might have local roots, but they affect all parties in the complex and they tend to persist for as long as the complex as a whole does not transform into something else.[9] In a later work, though, Buzan and his colleagues developed the security complex idea into a theory of "regional security complexes" (RSC).[10] This is not the approach we will adhere to in the following, since the RSC notion entails much larger areas. Thus, we adhere to the Baltic sea area as a security complex in its own right, which perhaps could be labeled a "local security complex".[11]

Taken together, however, the factors mentioned above mean that, in contrast to the Cold War era, Sweden's security situation is highly integrated with – and

[8] Ibid. p. 112.

[9] For an extensive analysis of the application of the security complex notion in the Baltic Sea area setting see Winnerstig, M. (2012). 'Defense Integration in the Baltic Sea Security Complex: A Conceptual Approach', in K. Volker and I. Kupce (eds), *Nordic-Baltic-America Cooperation: Shaping the US-European Agenda* (Washington, DC: Center for Transatlantic Relations, Johns Hopkins University), pp. 61–77.

[10] See Buzan, B. and Waever, O. (2003): *Regions and Powers: The Structure of International Security* (Cambridge, UK: Cambridge University Press), especially ch. 3. It can be noted that Buzan and Waever exclude the Baltic states from the "European RSC" and instead include them in the "post-Soviet RSC" (see ibid. p. xxvi). After the accession of the Baltic states to both NATO and the EU in 2004, this approach must, in our mind, be revised.

[11] Some analysts, however, have been arguing that it is difficult to consider the Baltic Sea area as a security complex (regional. local or otherwise) since so much of its crucial driving factors are emerging from outside the complex - such as the impact of the United States' policies on the region (see e.g. Christiansson, M. "The Military Balance in the Baltic Sea Region: Notes on a Defunct Concept", in Fels, E. Kremer, J-F and Kronenberg, K [eds.] *Power in the 21st Century: International Security and International Political Economy in a Changing World* (Berlin/Heidelberg: Springer), pp.133f. We tend to disagree with this view, since the interactions within the security complex can be analyzed in their own right.

dependent on – not only Finland's security situation but also those of the Baltic states, Poland, Germany and Russia. The biggest differences between the situation today and that of the Cold War are that there is a new set of independent states within the complex and some of its 'older' members, such as Sweden and Finland, now voluntarily integrate themselves into the security relations of the complex as a whole.

This line of reasoning alone merits an investigation of the area's conflict potential, the factors that are non-traditional from a security policy perspective but might become sources of conflict including, for example, cyber security and energy security, as well as various economic factors that could promote either conflict or cooperation.

1.1.3 The Baltic States as the Focus of Future Developments in the Baltic Sea Area

As is stated above, the purpose of this report is to provide a comprehensive analysis of the security and defensibility of the Baltic states. Even though these form only part of the Baltic Sea area security complex, it is highly appropriate to study the Baltic states and their security situation in their own right – not least because the most discussed sources of tension in the area are to be found in the context of Baltic-Russian relations.

One of the most important explanations for this fact is the existence of sizable Russian-speaking ethnic minorities, in particular, in Latvia and Estonia. Relations between these minorities and the ethnically Baltic populations – and their societal structures – have been tense at various times since Baltic independence in the early 1990s. Few currently believe that such ethnic issues make a Russian attack on any of the Baltic states likely, but there are political forces in the area that tend to foment tensions based on 'ethnopolitics'.

Other non-military issues might lead to increased tensions, including energy issues such as the market dominance in natural gas and other energy assets enjoyed by Russian companies such as Gazprom, and issues related to what could be called 'identity security'. The latter are related to the media and entertainment industry in the Baltic states, which is becoming increasingly dominated by Russian companies. In the long run, according to the identity security argument, media outlets being owned by companies with more or less close links with the Russian state might help transform the public discourse in the Baltic states to

something that is less 'Baltic' and more 'Russian' – which in turn could be a severe threat to the conception of independent Baltic states.[12]

Regardless of whether any of these threat perceptions are real, developments in terms of Baltic security and defensibility are crucial to Swedish security. This means that Swedish decision makers today – perhaps more so than at any time since the end of the 18th century – need to understand how the security situation and posture of the Baltic states might affect Sweden.

1.2 The Outline and Methodology of the Report

The basic research questions of this report are:

1) How does each of the three Baltic states conceive of its security situation?
2) What are the primary threats to the Baltic states, according to their own decision makers and officials?
3) Can the Baltic states be defended against these threats; and, if so, how?

The report is divided into four empirical chapters and a concluding chapter on the results of the former. Chapter 2 deals with the official views of the Baltic states and their officials on the security situation in the three states. The results build on a qualitative analysis of the official security documents of the Baltic states and on extensive interviews conducted with officials in all three countries in 2011. All the interviews were made on "background" conditions, i.e. we do not attribute any of the information obtained in the interviews to the actual interviewees. This is done in order to respect the integrity of the sources, and to be able to perform more open, forthcoming and straightforward interviews.

Chapter 3 discusses the integration of the Baltic states into the Euro-Atlantic security structures – primarily the EU and NATO. The methodology is similar to that of chapter 2. Chapter 4 analyses the defence capabilities of the Baltic states

[12] For excellent analyses of what could be called Russian "soft power" (i.e. the power of attraction) in the context of the Baltic states, see Conley, H and Gerber, T. P. (2011*): Russian Soft Power in the 21st Century: An Examination of Russian Compatriot Policy in Estonia* (Washington, DC: Center for Strategic and International Studies), Grigas, A. (2012): *Legacies, Coercion and Soft Power: Russian Influence in the Baltic States* (London: Chatham House) [Chatham House Briefing Paper], and Kudors, A. (2012): "Latvia Between the Centers of Gravitation of Soft Power: the USA and Russia", in Indans, I. [ed.]: *Latvia and the United States: A New Chapter in the Partnership* (Riga: Centre for East European Policy Studies).

and the collective defence efforts of NATO on behalf of the Baltic states. It examines the potential and respective capabilities of the Baltic states and NATO to defend the Baltic states in the event of a military attack.

Chapter 5 analyses the non-traditional, non-military aspects of the security of the Baltic states, primarily related to energy and economics. This builds on not only official documents and statements but also an empirical analysis of the economic and energy-related situation in the Baltic states, as seen from abroad.

Finally, chapter 6 weighs and analyses the results of the study and discusses the implications for the future of Baltic security and defensibility in the context of the notion of a security complex, described above.[13]

[13] Chapter 2 is written by Bo Ljung and chapter 4 by Karlis Neretnieks. Chapters 3 and 5 are written by Tomas Malmlöf and chapters 1 and 6 by Mike Winnerstig, who also has served as the project leader and the editor of this volume.

2 The Baltic States' Interpretation of their Security Situation

2.1 Introduction

This chapter uses official reports (section 2.2) and interviews conducted in the spring of 2011 (section 2.3) to discuss the security situation of the Baltic states. Section 2.4 summarizes the results and provides conclusions.

The way the Baltic states view their respective security situations is expressed publicly in a multitude of official documents, statements and speeches by government representatives, as well as press releases. For the purpose of this chapter we have based our findings on: documents from the three countries on their national security concepts or strategies; and interviews with authoritative officials, government representatives and academics. Our findings, however, are not attributed: for the sake of openness the interviews were conducted 'off the record'.

Of particular interest is how – in documents and interviews – the Baltic states emphasize their views on threats, risks and challenges, as well as on multilateral organizations and bilateral arrangements, especially their expectations of the North Atlantic Treaty Organisation (NATO), the European Union (EU) and the Nordic countries.

The Estonian National Security Concept (2010), the Latvian National Security Concept (2008 and 2011) and the Lithuanian Security Strategy (2005) are similar in that they cover a broad range of threats, risks, and challenges, military and other, and outline measures and methods to counteract them. An outsider's impression may be that the Baltic states are very alike. This, however, is somewhat misleading. There are differences in terms of self-image, perceived options, economic and industrial structure, and the levels of entrepreneurial skill. Nor do they wish to be lumped together. They are well aware of their similarities and differences and sometimes tend to make a point of the latter. In terms of security policy outlook, their similarities are obvious. More specifically, however, Estonia has made cyber security a priority while Lithuania has made energy security its flag issue.

2.2 The Security Strategies as Presented in Official Documents

This section highlights the aspects of the official national security concepts and strategies of the Baltic states that are of special interest in this study.[14] The purpose is not to reflect the contents of these documents in their entirety.

The goals of the national security concepts published by the Baltic states correspond with the concepts and goals of other democratic states: preservation and protection of national sovereignty, independence, territorial integrity and national values. The challenges perceived in their official documents cover the whole range of exterior and interior threats. In line with NATO and EU appraisals of the international security situation, their perspectives are primarily global and European. This corresponds with their aims as active and loyal members – to contribute to deepened cooperation within these institutions and strengthen their international role. Active bilateral relations with the United States are also seen as decisive.

2.2.1 Baltic Security Interests

The security situation of the Baltic states, according to their own assessments, is primarily characterized by the positive effects of their inclusion in the Euro-Atlantic security structures. Integration within and the expansion of NATO and the EU have considerably reduced the threat of military conflict in Europe. However, the assessments highlight that their security situation is related to the larger international security situation, which cannot yet be deemed stable.

The ongoing development of cooperation within the Euro-Atlantic organizations is seen as favourable and important – an assessment that applies to bilateral relations with the United States as well. The expansions of NATO and the EU have positively influenced security in the Baltic Sea area. For the Baltic states, these expansions have created opportunities and provided experience. By participating actively and loyally they can win support for their national security interests.

Extended security cooperation between the Baltic and Nordic countries, within these organizations as well as regionally, is seen as both logical and desirable. In addition, it is pointed out that security must also include a consolidated domestic

[14] National Security Concept of Estonia, adopted by the *Riigikogu* on 12 May 2010; National Security Concept of Latvia, approved by the *Saeima* 2 October 2008 and March 2011; and National Security Strategy of the Republic of Lithuania, approved by the Republic of Lithuania *Seimas* Resolution 20 January 2005 and – as a new, revised document – on 26 June 2012, available at www.vm.ee/eng, www.mfa.gov.lv/en and www.urm.lt, respectively.

situation within the Baltic states themselves – one that is politically, economically and socially stable.

Accession to NATO and the EU has widened the security interests of the Baltic states. These now include developments and regions that influence the international security situation as a whole, and thus the EU and NATO as organizations as well as their members. Consequently, the Baltic states realize that they may face problems and threats that originate far beyond their borders. These include non-conventional threats, such as international terrorism and the proliferation of weapons of mass destruction. To counter such threats, they see an increased need, together with other NATO and EU member states, to develop suitable instruments and states of readiness.

Primarily, the Baltic states regard their EU and NATO memberships as vital for the preservation of their independence, integrity, civil order, economic security and democratic systems. They also rely on these memberships to develop relations with their Eastern neighbours, both bilaterally and by participating in the formulation of NATO and EU policies towards these countries.

It is a primary security interest of the Baltic states that NATO and the EU should remain effective and capable of promoting international peace. It is a declared vital national interest of all three Baltic states to take an active part in the further development of the organizations. The Baltic states support the open door policy and see future enlargement as central to Euro-Atlantic stability. Participating in operations to bring peace to war-torn regions and to combat terrorism is also important. In this respect the Baltic states recognize the need to improve their capabilities for crisis management and civil-military cooperation. This is declared important also with regard to their own national security and their ability to receive support from NATO in accordance with article 5 of the North Atlantic Treaty, should a crisis arise.

The Baltic states want to further transatlantic cooperation, and highlight bilateral cooperation with the United States as fundamental to their security. They also want to promote continued dialogue between NATO and the EU.

2.2.2 Challenges, Threats and Risks

The threats that the Baltic states perceive are transnational in character and constitute new challenges. They may originate from political, military or economic crises in certain countries or regions. Such often unforeseen crises can give rise to uncontrollable international developments and result in concrete threats. As the security of the NATO countries is seen as indivisible, unforeseen crises can affect the Baltic states as well as their allies.

By belonging to the EU and NATO, the Baltic states secure their own position and contribute to the security of other members states. This implies a prepared-

ness to receive and give help. Even if the NATO and EU enlargements have broadened and strengthened European security, the Baltic states do not rule out the possibility that threats against them could arise as a consequence of the foreign policies or incomplete democratization of some neighbouring countries.

The Baltic states highlight non-military as well as military threats. Terrorism, partly connected to increased globalization, is one such non-military challenge to be dealt with not only by individual states, but also by the international community as a whole. A politically motivated terrorist attack against any of the Baltic states, their allies or neighbours might lead to a military crisis.

Even if the risk of a military conflict or confrontation in the Baltic Sea area has been reduced to a minimum, the Baltic states assess that other risks of a military nature remain. These include demonstrations of, or threats to use, military strength related to the existence of unstable states, frozen conflicts or democratically uncontrolled armed forces in the vicinity.

In a longer term perspective, a direct military attack against a NATO member state is seen as highly unlikely but is not totally excluded. However, the use of military force might take the form of the massing of military resources or undertaking large scale exercises close to the borders of the Baltic states, intended to influence their decision-making or to obtain concessions. However, the likelihood of the use of such forms of coercion – including the activities of foreign intelligence organs or politically motivated economic pressure by foreign powers – is seen as low and the Baltic states see themselves as capable of countering such threats.

On the whole, the Baltic states, by basing their security primarily on NATO's collective defence system, consider the Baltic Sea area to be secure and stable. Hence, it is in their interests that NATO maintains effective capabilities. In addition, through their membership they take on responsibility for wider international security.

2.2.3 Terrorism, Cyber Threats, and Economic and Environmental Threats

International terrorism and the proliferation of weapons of mass destruction are highlighted as threats to international stability and the security of the Baltic states. These threats are often connected to organized or financial crime and corruption. The risk that the Baltic states might suffer from such threats is seen as low, but it is a strategic goal that they be met through national measures and in international cooperation.

Attacks by electronic means directed at information and communications systems will tend to become more frequent, in the estimation of the Baltic states. Such attacks would constitute a threat to national security and economic interests

if they affect vital systems. Therefore, protecting critical infrastructure and better coordinated measures against cybercrime are priorities.

Other threats indicated by the Baltic states arise from the increased traffic of tanker transport in the Baltic Sea and the aging nuclear power plants in the vicinity. Climate change and related environmental risks may increasingly have local and unforeseen consequences.

Dependency on gas and electricity from foreign monopolistic energy suppliers, dependency to a large degree on strategic natural resources from a foreign country, and the accumulation of foreign capital from countries without free or stable markets in important sectors are regarded as potential threats to national security. Foreign takeovers of important national assets may be politically aimed at harming economic security. Increased levels of illegal immigration may also be a risk factor for national security.

Long term stable economic growth is mentioned as a prerequisite for economic security and the exercise of sovereignty. Developing trans-European transport and energy networks, and new construction for electricity generation are seen as priorities. Latvia has set itself a goal to maintain and strengthen its role as a transport hub in the region.

2.2.4 Relations with Russia and Other Eastern Neighbour Countries

It is the stated goal of the Baltic states to create and strengthen mutual confidence with Russia on security questions. They wish to increase openness through confidence-building measures and unilateral initiatives. They also support multilateral initiatives aimed at including Russia in practical and relevant cooperation with NATO and the EU. However, increased levels of Russian armaments located in the vicinity of the Baltic states as well as Russia's decision no longer to observe the conditions of the Treaty on Conventional Forces in Europe (CFE) may reduce trust and predictability.

Kaliningrad is of special concern to Lithuania, and it is in the Baltic states' interests that the oblast is politically, economically, socially and ecologically stable. It is feared that instability would result in serious problems for the surrounding countries. Thus, it is an aim of the Baltic states to further economic and social development there, and to include the oblast in wider European cooperation.

It is also in the interests of the Baltic states that democratic norms and principles be established in Belarus. Selective cooperation is carried out with this country and the democratic opposition is supported. The Baltic states actively contribute to the formulation of EU policy on Belarus. Increased cooperation between Ukraine and the EU and NATO is also supported, as is the development of an EU neighbourhood policy on Ukraine. It is also in the Baltic states' interests to share

information with countries in the South Caucasus region on their experience of security building and cooperation in the Baltic Sea area.

2.2.5 NATO and EU Membership, and Relations with the United States

Membership of NATO and the EU has, in the judgement of the Baltic states, significantly improved the security environment and to a great degree reduced external political and military threats. As member states they have common responsibility for European security. Membership also gives them a visible international role and the opportunity to influence international processes, internal reform of the organizations, and cooperation with neighbouring countries.

The Baltic states have a common policy of strengthening cooperation within NATO and the EU, as they see both organizations as invaluable for international security. Moreover, continued enlargement would in their view improve the security of the Baltic states as well as the long-term stability of the region as a whole.

Because NATO membership is seen as a guarantee of their independence and military security, the Baltic states aim to conduct their security policies according to their membership undertakings and rights. It is regarded as critical that NATO is capable of carrying out its main task: collective defence. Levels of military defence and preparedness in the Baltic states are claimed to be in line with NATO obligations and plans. Participation in NATO's active cooperation with partner countries is believed to contribute to international security.

In addition, accession to the EU has in their view strengthened national security and created preconditions for economic growth. The Baltic states contribute to developing the EU's Common Foreign and Security Policy. Participation in EU international operations is described as an essential part of their national security policies, and their national military and civilian capabilities should be developed accordingly.

A functioning partnership between NATO and the EU is regarded as fundamental to European security. Military planning processes in the EU and NATO should be better coordinated in order to increase capabilities. Cooperation within the EU should not duplicate existing cooperation within NATO.

It is pointed out that cooperation within the Baltic Sea area directly influences the ability of the Baltic states to attain their security policy goals. The importance of NATO and the EU to increase such cooperation is continually growing.

The USA is seen as a strategic partner. Bilateral relations with the USA are regarded as of the greatest importance for the security of the Baltic states, and the aim is to further develop these. An active US interest in security in Northern

Europe and the Baltic Sea area is seen as vital. Strong transatlantic cooperation and a US presence in Europe are regarded as the basis for Euro-Atlantic security.

2.2.6 Neighbourhood Relations and Regional Cooperation

The Baltic states wish to further good neighbourly relations and regional cooperation within the Baltic Sea area and Northern Europe, thereby positively influencing the security environment. They also wish to further multilateral initiatives that involve the USA in the region's problems.

The Baltic states claim to have good mutual relations, bilaterally as well as within the Baltic Assembly and the Baltic Council of Ministers. The continued development of cooperation between them is seen as important. In the military field, close cooperation is regarded as important for stability and security in the region.

In addition, the Baltic states consider that they have good cooperative relations with the Nordic states. They express an interest in increased cooperation between the Nordic and Baltic states, both regionally and in an international context. This includes strengthened multilateral and bilateral relations with the Nordic states in the field of defence and security policy.

Bilateral relations with Germany and Poland are seen as multifaceted and developing well, concerning both Baltic Sea area questions and the promotion of European security. In particular, Lithuania regards Poland as an important partner and a link to continued integration into the EU, in terms of the economy, energy and transport. However, as is noted below, this attitude has undergone changes recently due to the increasing differences between Lithuania and Poland regarding the Polish minority in Lithuania.

As for the Eastern neighbours, particularly the border regions, developing democracy and increasing living standards there are seen as important for security in the Baltic Sea area as a whole. Thus, the Baltic states wish to exploit opportunities for cooperation. Recognizing that this coincides with NATO and EU strategies for partnership and cooperation with their Eastern neighbours, they wish to participate in the development and implementation of these strategies.

2.3 Baltic Security Outlooks: Interviews in Tallinn, Riga and Vilnius

A number of interviews were conducted during April and May 2011 to obtain up-to-date information and the off-the-record views of officials and academics in the three Baltic states on central security topics. The results of the interviews are summarized below.

2.3.1 NATO and the EU

Views on regional security and expectations of NATO and the EU in the Baltic states are closely linked. Nevertheless, certain aspects of the roles and workings of these two organizations were raised during the interviews. Several of these concern cooperation, or the absence of it, between the two in areas of wider security.

The Lisbon Summit

Our interviewees expressed the three countries' appreciation of the results of the Lisbon summit and of the new strategic concept. From their point of view the concept constitutes a good compromise. NATO is moving in the right direction, which includes exercises and visibility in the Baltic Sea area. Deterrence is of paramount importance and must be permanently maintained. In this context it was pointed out that Russia is now setting up a brigade equipped with Iskander missiles in the vicinity of the Baltic. A recurring Baltic view was that the NATO missile defence system is not part of deterrence as it only deals with US-Russian circumstances.

Interviewees pointed out that the three Baltic states received support from Poland at Lisbon and during the drafting process of the strategic concept. In Baltic eyes NATO is viable and relations with NATO work well. However, NATO needs to shorten its reaction time to make prevention of potential crises more effective. Although the Baltic states are satisfied with US exercises in the Baltic Sea area, it was argued that NATO exercises on Baltic soil should be carried out.

Since the end of Cold War, the threat assessments of various NATO member states have started to diverge. For the Baltic states, keeping NATO united with regard to Baltic apprehensions is a legitimate aim. Sweden and Finland share similar views with the Baltic states, but according to several interviewees there is an absence of synergy in Nordic-Baltic positions.

The outcome of the Lisbon Treaty and the summit also answered other concerns, not least that conventional threats should not and cannot be ruled out. This goes to the heart of NATO's role, which is collective defence. The Lisbon results also address new challenges. The Baltics had argued that NATO should take on a stronger role in non-conventional areas such as cyber and energy threats. Cyber-related defence issues are important to securing effectiveness during a crisis and to protecting NATO and national networks. The new strategic concept now includes references to such areas.

Among the positive implications for the Baltic Sea area of the Lisbon summit, it was agreed that the drafting process was an important exercise for the Baltic states. They wanted article 5 underlined, and it was. The strategic concept will

become a reference document. Defence plans will need successive overviews, but linkage to a basic document is needed and that is now the case.

Interviewees raised the fact that Norway has initiated a debate on greater NATO visibility and activity. Given the flexible role for preferred partners made possible in the new strategic concept, the package allows Sweden and Finland to participate more closely in exercises. During crises, however, modalities for possible cooperation would still have to be worked out.

Missile Defence

Our interviewees pointed out that it is unclear what defensive value missile defence will have from a regional perspective. Nevertheless, the sector-divided missile defence set-up proposed by Russia is unacceptable. NATO must stay apart from Russia.

In any case, the Russian sector proposal has now been taken off the table. Thus, Russia cannot interfere with independent NATO decision processes. The partly integrated (common) missile defence centre that is to be set up is there merely to acknowledge Russian wishes. Interviewees believed that the Russian proposal was a miscalculation of opinion in the NATO countries.

Deterrence and Capabilities

Interviewees stated that capabilities are in place to implement article 5, but there are questions over what will happen to US forces in Europe. A reduction in the number of brigades is planned. What is important, however, is deterrence and article 5 capability – not the number of brigades. US forces in Europe are there for the protection of Europe but also for global power projection.

The ability to achieve deterrence with conventional weapons was highlighted in all three capitals as crucial for the West – this was made clear not least from the Russian Zapad and Ladoga exercises carried out close to the borders of the Baltic states. In the light of this, some interviewees underscored that the Baltic states are not happy with US force withdrawals from Europe. As for diminishing European defence resources, interviewees stated that the UK downsizing its armed forces is more worrying than Germany downsizing.

The EU and the CSDP

Interviewees mentioned that even if NATO remains the focal point in Baltic security thinking, the EU's CSDP is growing in importance. However, it is important that the EU and NATO should cooperate much more. No great changes are expected, however, and the Baltic states have a mainstream attitude to EU cooperation and to EU affairs in general, compared to other EU countries.

Talking about German-Russian relations, one interviewee said that, if anything, Germany has rather low visibility in the Baltic states. There is also a certain level of Baltic disappointment regarding some German positions on NATO-Russian relations.

The Baltic states do not see diverging interests between the EU member states as a major problem. It just makes everyday life a bit more complicated for the smaller countries. In a crisis such as the Georgian war, however, the EU is expected to be able to act in a united way.

However, some interviewees voiced some scepticism about the CSDP, its extent and limited rapid reaction capability. The EU should instead play to its strengths. A separate CSDP headquarters is not needed. The NATO command structure should be used and interaction between EU and NATO decision-making should be better coordinated. These lessons have been learned but not put into practice.

Other interviewees said that they would prefer a stronger CSDP. Current operations are rather limited. Preferably, the EU solidarity clause, which at present primarily concerns civil emergencies, should be extended to defence and military aspects. Should an EU operations headquarters be set up, there must be no duplication vis-a-vis NATO's structures.

2.3.2 Other Aspects of Baltic Security

The Security Context

Our interviewees in all three countries believed it to be self-evident that regional security in the Baltic Sea area is dependent on the active presence of NATO, the EU and in particular the USA. The US footprint here is the priority. They acknowledged that the USA might to some extent withdraw towards the Pacific, but it still has the capacity to deploy forces in the region. Lobbying in Washington to maintain support for the Nordic-Baltic region may become increasingly important, even if things are fixed and stable now.

Baltic representatives did not find the idea of potential strategic competition between the Baltic Sea area and the High North very worrying – it is not a zero-sum game, but a tactical issue that can be resolved. Interviewees mentioned e.g. that Estonia has supported Norwegian (and Canadian) positions in NATO.

Interviewees from all three countries concluded that a Nordic-Baltic Eight (NB8) block would provide a voice and increase visibility, but it would be difficult to create such a block. The countries concerned have different agendas, historical experiences and societies.

One interviewee described how the interests of the UK, the Nordic countries and the Baltic states – formerly called the Northern grouping, now the Northern Group – coincide on security issues. The UK is trying to see if it has a reliable

group to lean on because the so-called special relationship with the USA might change in the future, but this has yet to develop into anything concrete.

The creation of such a new grouping consisting of the UK and the Nordic-Baltic countries, and perhaps also Germany and Poland, would be favourable to many interviewees. This idea, however, is in its early stages and currently more conceptual in outlook. Such a region would have potential in many ways, however, not least concerning security policy.

Territorial Defence, Contingency Plans and Exercises

Estonia expresses its determination to meet its defence obligations: its attitude to the 2 per cent target, its international operations and territorial defence are all signs of this. A National military strategy – following the recently (2010) published National security concept – was planned to be finalized by the end of December 2011. In addition, work is in progress on a cyber-defence concept.

Regarding the future development of Latvian armed forces, the direction of travel is to marry the country's own operational requirements with NATO operational requirements. However, fiscal austerity places limits on its capabilities for now and the next few years.

A Lithuanian interviewee pointed out that regional defence has a role in the context of NATO contingency plans, and that Lithuania has a tradition of regional cooperation. Poland is preparing a proposal for a joint Ukrainian-Polish-Lithuanian battalion. Lithuania has a strategic relationship with Poland, but is somewhat undecided on such a proposal. In this context, it must be mentioned that Lithuania is disturbed by Polish support for the Polish minority in south-eastern Lithuania.[15] Although interviewees in Vilnius underlined that strategic issues and bilateral relations should not and would not be affected by the issue of the Polish-Lithuanian minority, the problems surrounding it have not gone away and have in some cases become more serious.[16]

With contingency planning now complete, interviewees mentioned that there is a case for holding exercises related to article 5. 'Baltic host' exercises related to article 5 are planned for 2013, as well as the major live exercise 'Steadfast Jazz'. In general, there is a linkage between Baltic exercises and NATO exercises. The

[15] In the 1920s and 1930s, Vilnius and the surrounding areas was occupied by Poland, which made claims on this part of Lithuania, forestalling a plebiscite planned by the League of Nations on the area's future. Kaunas was Lithuania's provisional capital at that time.

[16] For example, at the time of writing, Polish sources have suggested that the Baltic air policing mission now operating from the Siauliai air force base in Lithuania should be moved to the recently upgraded Ämari air force base in Estonia. The Lithuanian side has strongly rejected this idea. See Jones, B. (2012): 'Baltic air policing spat continues', *Jane's Defence Weekly*, 2 May, p. 14.

Baltic host exercises serve as preparations for the NATO contingency planning. They also help to assess developments and defence postures. More exercises are envisaged in the Baltic Sea area within the framework of collective defence.

Several Baltic interviewees highlighted the existence of tactical nuclear weapons in Kaliningrad as a hot topic. They would like to see this question given more attention. Russia is unwilling to discuss the matter and, moreover, is moving these weapons from strategic to operational command.

A new national security strategy and national defence strategy are to be adopted by the Lithuanian Parliament. These will highlight energy security, information security and territorial defence. There are concrete, funded plans to increase energy security; the issue is here to stay. The Lithuanian government suspended conscription in 2008 in order to create more flexible forces. There are however few structural changes planned for the armed forces.

2.3.3 Cooperation and Solidarity

The Baltic states' defence cooperation is primarily NATO-related, such as the NATO Response Force (NRF) and air policing. Interviewees mentioned that there is also a rational basis for Baltic cooperation on education, training, acquisitions, and so on.

Interviewees described defence cooperation as comprising three layers: cooperation between the Baltic states, Nordic-Baltic cooperation, and cooperation within the EU and NATO (including the transatlantic link). The transatlantic relationship and the strategic partnership with the USA are important, as was the outcome of the Lisbon summit. Cooperative efforts are focused on geographically adjacent risks and contributions to international operations. Current threats place demands on both EU and NATO capabilities and, specifically, for increased 'jointness'. Moreover, there is a new need to cooperate due to the budgetary constraints in most countries.

Baltic Cooperation

Our interviewees in the three capitals pointed out that Baltic defence cooperation is regarded as an indivisible part of the security of the Baltic states. Close Baltic cooperation has been established in the past 20 years, including pooling and sharing activities. A joint paper on Baltic defence integration is currently in production. Challenges remain in defence integration, including converging political goals, institutionalization, and readiness to give up some national interests and national ways of doing business.

Interviewees underscored the fact that Baltic security and defence cooperation has been successful (the Baltic Defence College in Tartu was frequently mentioned as a prime example). In addition, Nordic-Baltic cooperation is developing

– an example put forward was the joint Finnish-Estonian radar acquisition in which, through volume discount, Estonia received two stations for the price of one.

Nordic-Baltic Cooperation

Our interviewees perceive intra-Baltic defence cooperation as functioning well, not least in terms of pooling and sharing, but the volumes are too small. Consequently, the Baltic states express an interest in expanded Nordic-Baltic cooperation in the fields of training, exercises and procurement. They would like to see NORDEFCO opened up for them.

Interviewees pointed out that the Baltic and Nordic states have different models for cooperation. They want Baltic and Nordic cooperation within the NORDEFCO arrangement to be brought closer, thereby laying the basis for extended joint acquisitions. Nordic-Baltic cooperation has transformed since the 1990s and active membership of NATO and/or the EU, but there are demands for more integration in the Baltic Sea area.

Thus far, Nordic-Baltic cooperation is not regarded by interviewees as all that successful – a lot of discussions have taken place but little has happened. It is also seen as somewhat regrettable that the Nordic-Baltic countries have been limited to cooperation on international operations. In that connection, the NRF and the Nordic battle group (NBG) could be used as a framework for developing the armed forces of all the states involved.

Estonia regards itself as the most integrated country in the Nordic-Baltic cooperation, and has taken the initiative to create further cooperation. Education and training are seen as areas for increased cooperation. Estonia has already taken part in the NBG and is planning to participate again in 2014. There is a perceived need for more Nordic-Baltic cooperation in the cyber defence area. The Estonian president recently called for a Nordic-Baltic cyber unit to be established.

Interviewees raised the issue of how far Nordic-Baltic cooperation could be taken. There are few problems between the respective military organizations, but there is a gap politically – although this would change should Finland and Sweden join NATO. Swedish and Finnish non-membership of NATO is seen as the largest single obstacle to Nordic-Baltic cooperation. Interviewees underscored the existence of Baltic expectations of the Nordic countries, but that more concrete results have yet to emerge. All agreed that Nordic-Baltic cooperation is not an alternative to NATO.

The Swedish Solidarity Declaration

That Sweden is now showing an interest in regional security – as expressed inter alia through the Swedish solidarity declaration – is appreciated. A more active Swedish stance is seen as beneficial for the Baltic states.[17]

However, interviewees questioned the extent to which Sweden could be an integral part of crisis management. Crises build up slowly and Sweden might be instrumental politically in managing the pre-military phase. Swedish resources might be of use in the military phase, but it is up to Sweden to demonstrate the scope and practical content of its expression of solidarity.

Interviewees believed that the Baltic states would have no problems with Sweden taking part in article 5 exercises. Swedish participation in air policing, however, was not seen as relevant as it might be regarded as infringing on NATO commitments and reducing NATO visibility in the Baltic states.

2.3.4 The Russian Factor

Baltic Situation Improved but Concerns Remain

Although our interviewees in the three Baltic capitals acknowledged that the security situation of their countries has improved in the past few years, they expressed some concerns about developments in Russia. This country remains a common factor in their defence and foreign policies. In the back of their minds they see European Monetary Union (i.e. adopting the euro) as a security measure.

Interviewees pointed out that for Western countries (Germany in particular) it may be advantageous to have Russia as a partner, with Russian natural resources and European knowledge combined, but economics is a matter of strategic policy for Russia. In this respect, Russia remains unchanged – and the Western countries need to realize this. Interviewees said there is some apprehension that such partnerships might include elements that could be disadvantageous to the Baltic states.

Also, Russian influence over the media creates some concern in Estonia and Latvia. As an example, it was mentioned that the Russian-speaking population tends to watch Russian television, and thus have their notions and ways of looking at things shaped by Russia.

[17] Interviewees noted in this context the likelihood of an increased role for Poland in the region.

Russia at a Crossroads

Interviewees pointed out that the current situation in Russia is not stable. They questioned whether the trend is towards modernization or a 'black' reaction. Continuation of the status quo will tend to increase instability and polarization. The challenges that Russia faces concern: its finances (its dependency on energy prices, and the distribution of national income between welfare and the military); systemic corruption; the need for reform in the military and the police; industrial modernization; the Caucasus and Islamization; increasing opposition between Moscow and the regions; and increased inter-ethnic tensions. There are also signs that parallel power centres, besides Putin's, are developing.

There is a gap in Russian foreign policy between ambition and reality. The increasing number of power centres in foreign policy, such as Gazprom, result in increasing contradictions. Economic self-interest has a tendency to take over. Our interviewees pointed out that Russia is trying to exploit different agendas in the Western countries, which explains why Russia prefers bilateral relations. Russia is also using a compatriot policy to influence countries with Russian minorities. However, there is a more rational approach towards the USA and the West in general, including more openness and improving relations.

The interviewees underlined that Russia has vital foreign policy interests in Belarus and Ukraine. The military industry in Belarus, especially in terms of components, i.e. parts of military equipment, is vital to the Russian military industry. Consequently, Russia is very sensitive about Belarusian contacts with the EU and will not accept a reduction in military cooperation with Belarus. Ukraine is still trying to balance between Russia and the West. The president in Kiev is tightening his grip on the country, and he is trying to create a powerbase of his own. He is in no hurry to bring the country closer to Russia culturally, but militarily Ukraine is getting closer to Russia.

Finally, however, the interviewees concluded that the debate in Russia is not focused so much on the Baltic states: Russia has other worries. There is an absence of sufficient Baltic cooperation with Russia and Belarus. It is important to keep working relations open, not least concerning trade.

Russian Leverage Potential

Russia wants to negotiate with the Baltic states separately on economic and energy concerns in order to maintain leverage with each of them. The planned nuclear power plants in Kaliningrad and Belarus constitute security risks, as they might increase Baltic dependency on the electricity generated from them. There is a similar risk with the gas supply, because of the existence of a single producer, a single supplier and a single distribution network. Interviewees underlined that it is necessary to securitize the energy issue, and support is needed from

NATO and the EU in order to reduce dependency. Finally, in contrast to some other countries, the Baltic states actually pay their gas bills.

2.4 The Baltic Security Situation: Concluding Comments

2.4.1 General Observations

As is mentioned above, the three countries' national strategies or concepts do not, on the whole, differ in substance. Furthermore, there were no obvious contradictions between what is stated in the official documents and what was brought up in the off-the-record interviews. Some general observations can, however, be made when analysing these results.

In the first place, for the 'Western' actors concerned here – the Baltic states as well as the Nordic states, the EU, NATO, the USA and, as Baltic Sea area countries, Poland and Germany – continued stability in the region is vital. There are some lingering risk factors that could develop into crises or even conflicts. This calls for preparedness, on the part of the institutions and the individual states, to undertake suitable measures if and when needed – not least for the benefit of the Baltic states.

There are also risks related to changes in the wider strategic pattern, such as a US 'pivot' towards Asia. As was made clear in the interviews, the Baltic states are well aware of the risks connected to change. However, they generally regard them with some caution, and the opportunities for them to influence these potential developments are in any case limited. In some of the interviews a certain underlying unease emerged related to current economic problems in the EU and the USA – the worry being that these might influence, at least in the short run, the coherence of the EU and NATO, and possibly weaken their ability or willingness to oppose Russian interests.

Second, it appears that the Nordic and Baltic states are already slowly beginning to be seen as a bloc with interests that increasingly coincide – at least in the international security policy discourse. The NB8 designation seems to be getting increasing traction. At the same time, however, the problems and somewhat marginal success stories associated with Nordic as well as Nordic-Baltic defence cooperation are recognized. In any event, as ongoing defence reductions among the Western countries slowly change the geopolitical landscape, the push for increased Nordic-Baltic cooperation could gain momentum.

Third, when it comes to defensibility, a picture emerged from the interviews that Estonia and Lithuania have more pronounced confidence in their own capabilities. This no doubt reflects the fact that Latvia was hardest hit by the economic

crisis of 2008–2009, but perhaps also the differing political landscapes and levels of Russian investment in the three Baltic states. These facts should be taken into account in relation to levels of support from NATO and the EU as well as Western neighbours.

2.4.2 Summary of the Results

This section summarizes our findings on the Baltic states' national security documents and the interviews conducted in the three capitals.

Securing the Baltic Sea Area

- The national security strategies of the three Baltic states do not differ in substance. They connect with the views of NATO and the EU on current security challenges. Thus, participation in international operations is part of Baltic security policy.
- National security always takes priority. With existential threats for the present eliminated (through NATO and, to a lesser extent, EU membership) the three countries direct their attention to energy dependency, cyber threats and other threats to society.
- The Baltic states are aware of possible risks connected to strategic changes in Northern Europe (a more assertive Russia, the rise in importance of the Arctic region, changing US global priorities, etc.) but see no reason for concern at present.

The Western Connections

- The Baltic states emphasize NATO and the USA as the primary providers of security. The EU provides security in a wider sense, but they note with some concern the inability of the EU to formulate a comprehensive policy on Russia.
- NATO's new strategic concept and military contingency planning are regarded as confirmation of NATO's viability and that NATO stands by its commitments.
- The current reduction in military forces in Europe and the USA is not thought to negatively affect NATO's deterrence capability.
- That certain NATO/EU member states deal bilaterally with Russia creates some concern. The Baltic states are anxious to make certain that such direct relations are not disadvantageous to them.

Cooperating with Friendly Neighbours

- Security building through cooperation with the Nordic countries is a declared goal.

- Such cooperation is, however, no alternative to NATO or the EU. Regionalization of security in the Baltic Sea area is not in the interests of the Baltic states – nor is it, they point out, in the Nordic interest.
- The three countries see good reasons and the conditions for increased cooperation – and express an interest in becoming involved in NORDEFCO.
- Increased cooperation could be interpreted as growing common interests and a common responsibility for security. How this might relate to Sweden's declaration of solidarity is still to be clarified.

The Image of Russia

- The image of Russia is a disciplining factor for the Baltic states, ever present in their strategic considerations.
- The risk of military conflict has reduced to a minimum but demonstrations of force close to their borders are seen as a remaining threat. Non-military threats are now the focus.
- The Baltic states express their willingness to cooperate with Russia – provided it is on equal terms.
- In the view of the Baltic states, NATO/EU relations with Russia must include elements of prevention and defence as well as cooperation. Functioning relations with Russia and a Russian acceptance of their sovereignty require continued support from NATO, the EU and their Nordic neighbours.

3 Baltic Integration into the Euro-Atlantic Security Structures

3.1 European Integration: The EU and its Common Foreign and Security Policy

This chapter takes a closer look at one key issue related to the defensibility of the Baltic states: their integration into the Euro-Atlantic security structures. In a number of ways, this integration is the most crucial of all the aspects of Baltic defensibility, and thus an in-depth analysis of the results of the integration is warranted.

As the fifth enlargement (2004) of the European Union (EU) approached, it became apparent that in the accession negotiations with the Baltic states, there would be no problem with adopting chapters 26 and 27 of the community acquis.[18] These chapters regulated EU external relations and the central Common Foreign and Security Policy (CFSP).[19] Nor did Estonia, Latvia or Lithuania have any objection to the launch of the European Security and Defence Policy (ESDP), which happened to coincide with their accession preparations.

In fact, the interest in these matters was quite small in the Baltic states. Common EU security and defence policies were understood as something that lacked any serious military basis and involved no credible defence guarantees. With the Petersberg tasks as its sole foundation and no guarantees on hard security, the ESDP was not a realistic alternative to North Atlantic Treaty Organization (NATO) membership for the Baltic states. Furthermore, there was concern in the Baltic states that the ESDP, and its successor, the Common Security and Defence Policy (CSDP), would undermine the transatlantic link and even the North Atlan-

[18] The Community acquis is the accumulated body of European Union law. For the subsequent negotiations with Croatia and Turkey, the acquis was split into 35 chapters. New chapter divisions mean that chapters 26 and 27 have become chapters 30 and 31.

[19] The current framework of EU foreign policy originates from the Maastricht Treaty, which set up the European Union in 1993. This treaty launched the CFSP as one of the three pillars of the European Union. The ESDP was introduced as an integral part of the CFSP at the Cologne European Council of June 1999. The Amsterdam Treaty, which entered into force in December the same year, settled that the ESDP should be based on the so-called Petersberg Tasks. These had been designed within the Western European Union in 1992 to cope with the challenges of a possibly destabilized Eastern Europe, and comprise humanitarian and rescue tasks, peacekeeping tasks, and crisis management tasks for combat forces – including peacemaking. They were transferred to the ESDP as part of the so-called Berlin+ agreement between the EU and NATO. When the Lisbon Treaty entered into force on 1 December 2009, the ESDP became the Common Security and Defence Policy (CSDP).

tic Treaty Organization (NATO). Hence, Baltic representatives argued strongly against the EU developing its own policies to avoid this danger materializing.[20] Similar objections have been raised by other EU member states. Institutionalization of a common foreign policy within the EU therefore remains weak, in spite of the establishment of the CFSP and the CSDP. Different geopolitical priorities mean that member states often lack a common or cohesive strategic culture, which hampers further progress.[21] Estonia, Latvia and Lithuania are no exception to this rule.

As new members of the EU, the three Baltic states quickly established a reputation for being 'stubbornly anti-Russian, inexplicably pro-US and inherently "CFSP-sceptic"'[22]. Baltic anti-Russian attitudes stem from historical experiences of their eastern neighbour and its demonstrable willingness from time to time to treat the three states as its 'near abroad', with exclusive rights of interference in their internal affairs. In the early post-Cold War environment, in the light of some of the Western European states' takes on Russia, the Baltic states quickly reached the conclusion that a close relationship with the United States was their best bet in order to preserve their newly gained freedom. The United States was an early and fervent supporter of the Baltic states' membership of NATO and possibly played a decisive role in Estonian, Latvian and Lithuanian admission to the EU as well. US policy in the Baltic Sea area was therefore in positive contrast to the tentativeness of many Western European states.

Baltic scepticism about the CFSP and the CSDP has taken multiple forms. When it comes to the question of the cohesiveness of the CFSP, Baltic governments have preferred intergovernmental consensus instead of qualified majority voting (QMV), as a strong CFSP has been perceived as threatening to a viable transatlantic link.[23] Estonia, Latvia and Lithuania have participated actively in Council meetings when Russia or other Eastern neighbours have been discussed, but at the same time abstained in discussions or avoided meetings devoted to topics of great importance to other EU member states.[24] The three states have as a rule prioritized participating in NATO- or US-led operations over those under the auspices of the ESDP or the CSDP.[25]

[20] Missiroli, Antonio [ed.] (2002). 'Bigger EU, wider CFSP, stronger ESDP?', *ISS-EU Occasional Paper* 34 (April), pp. 7–8, 11–12, 14–15 and 59.
[21] Margaras, Vasilis (2010). 'Common Security and Defence Policy and the Lisbon Treaty Fudge: No common strategic culture, no major progress', *EPIN Working Paper* 28 (June), p. 6.
[22] Paulauskas, Kestutis (2006). 'The Baltics: from nation states to member states', *ISS-EU Occasional Paper* 62 (February), p.5
[23] Ibid., p. 32.
[24] Ibid., p. 34.
[25] Ibid., p. 35.

Official policy documents modulate the notion of Baltic CFSP and CSDP scepticism. The *National Security Concept of Estonia* was adopted by the *Riigikogu* in May 2010, and stands out as the most up-to-date Baltic security doctrine when it comes to assimilating the experience gained from European and transatlantic cooperation within the EU and NATO frameworks.[26] On the one hand, unsurprisingly, traditional wording about the significance of a US presence in Europe and NATO as a cornerstone of European security and defence live on. On the other hand, there is an awareness that any institutional development enhancing the coherence of the CFSP contributes to an improvement in the security of the EU as a whole as well as of its member states. Estonia welcomes this development and is committed to promoting it. For instance, in addition to participation in NATO and EU CSDP missions, Estonia has broadened its foreign policy beyond its traditional focus on the Baltic Sea area to include countries and regions that are of greater interest to other EU member states.[27] The Estonian *National Defence Strategy*, approved on 30 December 2010, defines the CSDP as 'an essential factor alongside NATO's collective defence that contributes to Estonia's security'.[28] This view was also reflected in our discussions with Estonian officials in May 2011. It is not clear what role the CSDP plays in Estonia's perception of its security situation, but it is evident that it plays some – albeit a small – role. From an Estonian perspective, the EU's close relations with Russia might be a problem when it comes to day-to-day issues. Experience shows, however, that the EU can remain united when it comes to hard security.[29]

The official position has changed somewhat in Latvia in recent years. Latvia's *Foreign Policy Guidelines 2006–2010* states that Latvian integration into the EU has made possible a much broader foreign policy with opportunities to develop relations with regions in which such opportunities were previously limited. It is also noted that Latvia can now have more influence than before on different European policy areas, through active participation in the CFSP processes. At the same time, when it comes to European security, the Guidelines state that NATO is the unifying factor. Only NATO can offer a military infrastructure and a mechanism for rapid reaction, as these do not exist within the framework of other organizations. Latvia therefore supports the strengthening of military capabilities within the EU, based on an understanding that NATO is not threatened and that the ESDP (now CSDP) does not develop into an alternative to NATO. The Guidelines support a policy development that takes into account the security and

[26] *National Security Concept of Estonia*, Riigikogu 12 May 2010. Unofficial translation, mod.gov.ee/files/kmin/nodes/9470_National_Security_Concept_of_Estonia.pdf.
[27] See, for instance, *Estonia's European Policy 2007–2011*, approved by the Government of Estonia on 25 October 2007, www.riigikantselei.ee/failid/ELPOL_2007_2011_EN.pdf.
[28] *National Defence Strategy Estonia*, Estonian Ministry of Defence, www.mod.gov.ee/files/kmin/img/files/KM_riigikaitse_strateegia_eng(2).pdf.
[29] Interviews in Estonia, May 2011.

defence interests of all EU member states. Nonetheless, the geographic scope of Latvian interests is limited to a regional perspective.[30]

Much of the wording in the Guidelines lives on in the Latvian *National Security Concept*, updated in 2008, even if the presumed dichotomy between NATO and EU security and defence policy has been played down substantially. A stronger EU military capability might even be of use to NATO, according to the Concept, as it, in turn, would promote the contribution of European countries to the development of NATO military capabilities.[31] This idea was sometimes put forward directly by Latvian interviewees in April 2011, but NATO's role as guarantor of military security, and a clearer division of responsibilities between the EU and NATO, were the primary issues discussed. On the one hand, there is an increasing interest in the CFSP. On the other hand, in the words of one interviewee, 'it is not new news' that there is no European headquarters capable of running a genuine operation. Smaller scale operations are the EU's strength and its comparative advantage vis-à-vis NATO.[32]

The *National Security Strategy* of Lithuania of 2005 was revised in the summer of 2012.[33] There are some changes made between the two editions that can be mentioned here.

In the 2005 strategy, the Lithuanian view of the world was still strictly regional. Its priorities are the Baltic Sea area, Russia – especially the Kaliningrad exclave – Belorussia and the new eastern neighbours of the European Union. One of the leitmotifs of the strategy is the primacy of NATO and the transatlantic link over the CFSP – Lithuania should certainly actively participate in the CFSP but the main outcome of Lithuanian engagement should be a stronger transatlantic partnership.

Similar sentiments about the relationship between NATO and the CFSP can be found in a 2006 Lithuanian white paper on defence policy, albeit in a slightly softer formulation: 'The EU must assume a greater responsibility for strengthening European security. Lithuania actively contributes to the development of the European Security and Defence Policy as a way to build up the readiness of the Euro-Atlantic community to deter contemporary threats.'[34] In the Lithuanian *Law on the Basics of National Security*, last updated in November 2009, neither the

[30] *Foreign Policy Guidelines 2006–2010*, Ministry of Foreign Affairs of the Republic of Latvia, www.mfa.gov.lv/en/policy/guidlines/.
[31] *National Security Concept 2008* as reproduced in English at the website of the Latvian Ministry of Defence, www.mod.gov.lv.
[32] Interviews in Latvia, April 2011.
[33] *National Security Strategy*, no IX-907 of 28 May 2002 (Version of the Resolution of 20 January 2005), Republic of Lithuania.
[34] *White Paper on Lithuanian Defence Policy*, Ministry of National Defence of the Republic of Lithuania, Vilnius, 2006, p. 18.

CFSP nor the EU is mentioned as a basis for Lithuanian national security. Other international treaties and agreements such as the Charter of the United Nations, documents of the Organization for Security and Co-operation in Europe and the North Atlantic Treaty are listed as sources of Lithuanian national security besides the relevant national legislation.[35] In the 2012 revised National Security Strategy, however, it is stated that Lithuania will "contribute to the creation of an effective EU foreign, security and defence policy (…) contributing to the development of European civilian and military capabilities".[36]

During our field trip to Lithuania in May 2011, it was apparent that this perception of NATO and the CSDP, as well as their relative order of priority in Lithuanian security policy, remains largely intact. Public opinion sees NATO as the only guarantor with respect to military and other security. Lithuania would like to see a stronger CSDP but, as things stand, the only visible result of the CSDP is some 20 different missions scattered around the globe. Lithuania has also noted that EU member states have been slow in building up a civilian capacity in Afghanistan. The mutual solidarity clause in the Lisbon Treaty[37] is a positive development – an additional assurance – but it is not, according to our interviewees, a substitute for NATO.

Meanwhile, the EU's role in the energy sector is growing, and energy security is presented as an essential part of Lithuanian security policy. This probably means that the EU – to the extent that it can create a common, or more common, energy policy, particularly when it comes to Russia – will become a more important security policy actor in Lithuanian security doctrines.

As a tangible manifestation of the CSDP, Estonia has been involved in the Nordic battle groups (NBGs), set up in 2008 and 2011, and plans to participate in 2014 as well.[38] Latvia and Lithuania have discussed taking part in NBG 2014 for some time. The economic difficulties that both countries are currently suffering, however, makes this highly uncertain.

In sum, it can be concluded that the official Baltic security doctrines still largely embrace a traditional Atlanticist stance, and that the EU and the CSDP are useful security policy instruments in the sense and to the extent that they strengthen the transatlantic link and NATO. At the same time, the three Baltic states advocate a strengthened or more developed CSDP, which would allow for more coherent

[35] *Law on the Basics of National Security*, no VIII-49 of 19 December 1996 (As last amended on 12 November 2009 – No XI-480), Republic of Lithuania.
[36] *National Security Strategy*, approved by the Seimas of the Republic of Lithuania on June 26, 2012 (Resolution No. XI-2131).
[37] European Union (2010). Consolidated version of the Treaty on the Functioning of the European Union, article 222, *Official Journal (2010/C 83/01*), available at eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:FULL:EN:PDF.
[38] Interviews in Estonia, May 2011.

international EU operations. In this sense, Baltic interest in the CSDP is growing. There is also, as is mentioned above, a related interest in participating in the upcoming NBG rotations, which, for financial reasons, might be very difficult.

3.2 Transatlantic Integration: NATO Contingency Planning

As is noted above, since independence 20 years ago all three Baltic states have chosen NATO as the preferential basis for their military security. This fact is underlined by every single strategic document or security doctrine of relevance. Partly as a logical outcome of this policy choice, all three states consider a strong transatlantic link and solid support for the United States in various international forums to be necessary preconditions. The impact this has had on relationships with some other European countries, combined with their already complicated relations with Russia, has often given the Baltic states a reputation for being relatively awkward actors, not least in French and German eyes. Thus, the Baltic position has come with a certain price, for example, a German reluctance to accommodate the Baltic region on matters beyond pure security policy, such as energy security.

The real litmus test for the success or failure of Baltic security and foreign policies, however, is how well they have paid off by being mirrored in transatlantic, that is, principally NATO-related, policies and planning processes. One way to assess the Baltic impact is to analyse the new NATO strategic concept (SC 2010), adopted at the North Atlantic Council Lisbon summit in November 2010, in the light of Baltic interests. The purpose set for the summit was to renew the NATO alliance and make it better fit to cope with the threats of the 21st century by making it more efficient, effective and engaged with the wider world. SC 2010, the most important outcome of the summit, is now supposed to serve as NATO's roadmap for the next 10 years.[39]

SC 2010 is a mixture of old and new threat perceptions, interests and strategic instruments. The most interesting point from a Baltic perspective is that traditional collective territorial defence in accordance with article 5 of the Washington Treaty has been emphasized as the first of NATO's three core tasks. At the same time, its definition has been widened to cover defence against all types of attack, including non-military.[40] SC 2010 also makes clear that defence planning

[39] NATO News (2010). 'NATO summit paves way for renewed Alliance', 20 Nov. 2010, www.nato.int/cps/en/natolive/news_68877.htm.

[40] Lindström, F. et al. (2010). *Nytt strategiskt koncept ger NATO nytt ramverk*, 2010-12-01, FOI Memo 3391 (Stockholm: FOI), p.1.,

– or contingency planning in NATO parlance – should be implemented across the whole NATO territory.[41]

From a Baltic perspective, defence planning has everything to do with Russia. This notion has been met with scepticism by some other NATO countries. German defence planners, for instance, pride themselves in not knowing where the next war will start, in stark contrast to Estonia, Latvia, Lithuania and Poland.[42] The fact that the whole of NATO now emphasizes contingency planning as an inseparable part of NATO's first major task of collective territorial defence – which was not the case in SC 1999, the previous strategic concept – might be interpreted as a somewhat altered view of Russia. However, SC 2010 underlines that NATO considers Russia to be a strategic partner and welcomes closer NATO-Russian cooperation, in parallel with wording that allows the reader to understand that NATO and Russia do not have all their interests and positions in common.[43] Accordingly, this understanding of the NATO-Russia relationship gives NATO more leeway for a discretionary, perhaps more realistic, dual-track approach to Russia. From a Baltic perspective, this must be considered a significant success.

SC 2010 follows a similar two-track strategy on nuclear weapons – another Russia-related concern in the Baltic states. As long as nuclear weapons exist, NATO intends to remain a nuclear alliance. On the other hand, it will also actively seek to cooperate with Russia on nuclear issues.[44] A related topical issue – the US missile defence plan for Europe – is seen as important in the Baltic states mainly because it retains a US interest in Europe, not because it would necessarily counter any military threat. Therefore, according to several interviewees, Baltic representatives have worked to give missile defence a prominent position in NATO.

New threats, such as cyber threats and energy issues, are also covered in the SC 2010, but in different ways. Cyber threats – a primary concern in Estonia – are perceived as a growing problem, and SC 2010 is relatively detailed in its descriptions of how NATO should respond.[45] Energy security – a Lithuanian priority – is a new matter for NATO that was not even mentioned in the 1999 strategic concept.[46] In comparison with cyber security, it is not dealt with in de-

www.foi.se/upload/ASEK/101201%20Nytt%20strategiskt%20koncept%20ger%20Nato%20nytt%20ramverk%20FOI%20Memo%203391.pdf.

[41] Ibid., p. 4.

[42] Interviews at NATO Headquarters, Brussels, March 2011.

[43] Lindström et al. 2010, op. cit., p. 4.

[44] NATO (2010). *Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organisation*, article 19, Lisbon, 19 November 2010.

[45] Ibid.

[46] As a high-tech military organization dependent on fuel and electricity in order to carry out its tasks, NATO has had to provide for its own security of supply since its foundation, but it has not dealt specifically with the energy security of its members.

tail. NATO ambitions in this field are to develop a capacity to contribute to energy security based on strategic assessments, and – which is potentially very important – on contingency planning and protection of critical energy infrastructure.[47] Although cyber and energy threats are handled differently in SC 2010, it can be argued that Baltic interests in these matters have largely been met.

The second core task listed in SC 2010 is crisis management. For this task, NATO recognizes the importance of cooperating with other organizations, but also of building up a civil crisis management capability of its own – something that has so far been missing,[48] and something that France and some other countries have long opposed.[49] This development is also in line with Baltic interests.

The third NATO core task, according to SC 2010, is to build security through cooperation with others, that is, cooperative security. NATO welcomes closer cooperation on European security with an active and effective European Union. In NATO's view, the EU also has a complementary and mutually reinforcing role to play together with NATO in promoting international security.[50]

The wording of SC 2010 on cooperation with the EU reflects an ambition to further reduce tensions between NATO and the EU and to promote closer cooperation. If NATO and the EU can forge a functioning strategic partnership based on complementary roles in supporting international peace and security, this would reduce friction between the European Atlanticists and the 'good Europeans' within the two organizations. This approach can be considered to be in line with the Baltic view of the EU and the CSDP. Due to their small size, it is unlikely that they will be able to allocate resources for participation in both NATO and CSDP operations and missions. It is another matter, however, that for various reasons – not least the Greek-Turkish conflict over Cyprus – the EU-NATO relationship rarely operates on the same level as their political ambitions.[51]

One overall impression of SC 2010 is that it reflects NATO's quest for a new purpose in a constantly and rapidly changing post-Cold War world. The result has been described as a compromise between traditionalists promoting collective security and territorial defence, and reformists endorsing continual reaction to new security challenges.[52] In either case, SC 2010 makes encouraging reading for the Baltic states. This was also the impression gained from our field trips to the Baltic states in the spring of 2011 and to NATO headquarters in Brussels in

[47] Lindström et al. (2010), op. cit., p. 8; NATO 2010, op. cit., articles 13, 19.
[48] NATO (2010), op. cit., articles 20–25.
[49] Lindström et al. 2010, op. cit., p.7.
[50] NATO (2010), op. cit., article 32.
[51] Lindström et al. (2010), op. cit., p.7.
[52] Lindström et al. (2010), op. cit., p. 2.

March 2011. In many areas, the concept is in line with Baltic priorities, not least with regard to military matters.

It is in the nature of things that substantive military matters, in particular NATO contingency planning for the Baltic Sea area – the Baltic states included – are secret and not subject to open discussion. Nonetheless, quite a lot of information has been circulated in the form of leaks and media articles, most of it based on the US diplomatic cables published by the Wikileaks organization in 2010. Whether this information is completely accurate or up to date is difficult to say, but it provides an interesting insight into how NATO has handled the defence of the Baltic states.

In January 2010, press reports said that the Baltic states had finally been included in NATO contingency planning. These were indirectly confirmed when the NATO Secretary General, Anders Fogh Rasmussen, gave assurances that NATO had all the necessary plans in place to secure and protect all its members.[53] The wording on article 5 in the strategic concept therefore legitimizes the contingency planning for the Baltic states *ex post facto.*

The major Wikileaks disclosure in 2010 also confirmed the existence of NATO contingency planning for the Baltic Sea area. According to these sources, by updating the existing plans for Poland and adding an annex for the Baltic Sea area, NATO now has a regional approach to the defence of the Baltic Sea area. Up to nine divisions (four Polish and the rest British, German and US) have been allocated for this task.[54] There are significant uncertainties regarding these data – not the least because several of the British and German military units that are presumably involved will be disbanded in a few years.

NATO contingency planning was discussed in broad terms by our interviewees and was associated with their generally positive view of SC 2010. Some Latvian representatives underlined that it is better to take early, small-scale countermeasures in the event of a crisis than to plan to bring in large reinforcements later on, and that current NATO planning is built on this principle. At the same time, they were somewhat concerned about the fact that several major NATO countries are cutting defence expenditure, and the risk that NATO's new command structure will not be capable of handling larger article 5-related operations. Most worry-

[53] 'Border controls: Thanks to Poland, the Alliance will Defend the Baltics', *The Economist*, 14 Jan. 2010, www.economist.com/node/15268095/print; NATO (2010). Joint press point with NATO Secretary General Anders Fogh Rasmussen and Nikola Gruevski, Prime Minister of the former Yugoslav Republic of Macedonia, 15 Jan. 2010, www.nato.int/cps/en/natolive/opinions_60762.htm.

[54] 'Nine possible divisions for defence of Baltic states and Poland', *Lithuania Tribune*, 11 Nov. 2010, www.lithuaniatribune.com/2010/11/18/nine-possible-divisions-for-defence-of-baltic-states-and-poland/, last accessed May 2010; Traynor, Ian (2010). 'Wikileaks cables reveal secret NATO plans to defend Baltics from Russia', *The Guardian*, 6 Dec. 2010.

ing, according to our Estonian interviewees, is the growing US engagement in Asia and the Pacific at the expense of US troop levels in Europe. In addition, when it comes to self-defence and article 5-backed NATO defence of the Baltic Sea area, the Estonians are worried about Latvian and Lithuanian capacities. As things stand, the Estonian defence budget is the largest of the Baltic states, in spite of the fact that it is the smallest country.[55] Lithuanian representatives were very pleased that the NATO focus is being partially redirected away from international missions to territorial defence. At Lithuanian quarters, it was also noted that NATO contingency planning is 'clearly dependent on full Swedish cooperation'.[56] Concern about access to Swedish airspace and territorial waters for potential NATO operations is probably an issue that should be read into this statement.

All the representatives of the Baltic states interviewed stressed very strongly that the military exercises that NATO (and the USA, mainly in a bilateral format) plan to carry out in the Baltic Sea area are central to ensuring NATO's ability to defend the Baltic states.

In sum, the broad assumption is that Baltic integration into NATO security structures has gone fairly well thus far, although many problems of a practical and economic nature remain. NATO's new strategic concept is very much in line with the main Baltic priorities. NATO contingency planning is in place for the Baltic states and, provided that article 5 exercises are carried through on a larger scale, it should be possible to show that this planning is clearly linked to reality.

3.3 The Impact of Baltic Issues in Washington

Baltic-US relations date back to 1922, when Estonia, Latvia and Lithuania were first recognized by Washington as sovereign and independent states. The Welles Declaration, issued in 1940 in reaction to the Soviet annexation of the three Baltic states, established a five-decade *de jure* and de facto non-recognition of their incorporation into the Soviet Union.[57] In this way, the three states were able to keep their diplomatic missions in Washington intact and their financial assets on US soil were protected during the years of occupation.

The consistency of the US non-recognition policy, and that of the 50 other states which followed the US line, facilitated the restoration of Estonian, Latvian and

[55] Interviews in Estonia, May 2011.
[56] Interviews in Lithuania, May 2011.
[57] Clinton, H.R. (2010). *Seventieth Anniversary of the Welles Declaration*. [press statement] 22 July, available at www.state.gov/secretary/rm/2010/07/144870.htm.

Lithuanian pre-war statehoods and paved the way for close US-Baltic cooperation as soon as they regained their independence in 1991. In 1997, the US Department of State launched the *Northern European Initiative* (NEI) to promote security, stability and prosperity in the Baltic Sea area. This programme encompassed all of the countries and areas bordering the Baltic Sea plus Iceland.[58] From a Baltic perspective, the NEI was complemented in 1998 by the *US-Baltic Charter of Partnership*, which set out the USA's 'real, profound and enduring interest in the independence, sovereignty, and territorial integrity and security of Estonia, Latvia and Lithuania'.[59] The charter provided a deepened framework for cooperation and has been the cornerstone of US-Baltic relations ever since.

When the Baltic states approached their principal strategic goal of membership of NATO and the EU, the United States decided to revisit the NEI, which was replaced with the *Enhanced Partnership in Northern Europe* (e-PINE) in 2003. Amid local fears of a diminished US role in Northern Europe, e-PINE signalled US interest in remaining an actor in the multilateral network of cooperation that had evolved since the early 1990s, and in deepening the dialogue with the Nordic and Baltic countries on ways to address the remaining challenges in the region.[60] The United States has consolidated three major areas for cooperation under the e-PINE umbrella. The first is cooperative security based on NATO and Organization for Security and Co-operation in Europe agendas and programmes, as well as those of other multinational groups of interest to the Nordic and Baltic countries to which the United States has some kind of access. The second concerns matters such as health issues, corruption, trafficking in persons, the environment and civil society – in e-PINE parlance, the key areas for healthy societies. The third area, vibrant economies, deals with entrepreneurship and enhanced business relations between US firms and their Nordic and Baltic counterparts.[61] The United States is also an active participant in Baltic regional defence cooperation. Its engagement has shifted over the years, but is currently focused on different forms of staff and training support to the Baltic Defence College (BALTDEFCOL).[62]

[58] Department of State (n.d.). *Northern European Initiative* [online], available at www.state.gov/www/regions/eur/nei/index.html.

[59] *A Charter of Partnership among the United States of America and the Republic of Estonia, Republic of Latvia, and Republic of Lithuania*, 16 January 1998, Washington, D.C., available at www.state.gov/www/regions/eur/ch_9801_baltic_charter.html.

[60] Conley, H. (2003). 'Enhanced partnership in Northern Europe (e-PINE) Launched' [remarks at the School for Advanced International Studies, Washington D.C.], 15 October, available at www.america.gov/st/washfile-english/2003/October/20031017162939samohtj0.6058313.html.

[61] US Department of State (n.d.). *Enhanced Partnership in Northern Europe (e-PINE)* [online], available at www.state.gov/p/eur/rt/epine/index.htm (Accessed October 2011).

[62] Estonian Ministry of Foreign Affairs (2011). *Estonia and the US*. [online] (12 September), available at www.vm.ee/?q=en/node/66.

All three Baltic states assess their bilateral relations with the United States as strong and enduring. Estonia is of the opinion that it has helped to maintain US interest in the region and Estonia, not least through its involvement in Afghanistan where the Estonian contingent is located in the more troubled southern part of the country along with US and British troops. Estonia is also one of the few NATO member countries that are close to meeting the common target for defence spending of 2 per cent of GDP. It expects to reach this threshold in 2012.[63]

Although important, Estonia's economic relations with the United States are in no way critical for its export revenues or foreign investment, compared to the significance of some of its nearest neighbours. Estonia would be pleased, however, if the United States were to invest in its energy sector, thereby improving Estonian energy security. Its energy market is too small to attract any interest from US energy companies, however, and the Estonians are aware that this is an unrealistic expectation. Nonetheless, state-owned *Eesti Energija* (internationally known as *Enefit*) has recently invested in the US oil shale industry in Utah.[64]

On military cooperation, the United States has supported Estonia in recent years through the *Foreign Military Financing* (FMF) and the *International Military Education and Training* (IMET) programmes. The United States has allocated USD 40 million via FMF since 1995 for different procurement programmes.[65] US interest in Estonian cyber defence capabilities is also valued in Tallinn. US support for NATO the *NATO Cooperative Cyber Defence Centre of Excellence* (CCD COE) is much appreciated.[66] By coincidence, the Maryland National Guard, which carries out extended cooperation with the Estonian Defence League through the *National Guard State Partnership Program*, happens to be the only US military reserve force with a cyber defence unit.[67] It has served as a model in Estonia, which has now created its own cyber defence league.[68]

The Estonian view of the US reset policy on Russia is that it has handled it better than, for instance, Latvia. As one of our interviewees said, 'No one in Estonia believes that Russian tanks will be back on their streets but when it comes to soft power, Russia is using it quite well – therefore it is more dangerous for the moment.'[69] The only remedy to counter Russian efforts to increase divisions be-

[63] Estonian Ministry of Foreign Affairs (2011), op. cit.; Interviews in Washington, September 2011.
[64] Enefit (2011). *Development Projects: Enefit American Oil* [online], available at www.enefit.com/en/oil/projects/usa.
[65] Estonian Ministry of Foreign Affairs, 2011, op. cit.
[66] The United States still has observer status at the centre, but has pledged to become a full member.
[67] Similarly, the Michigan National Guard and the Pennsylvania National Guard are cooperating with Latvia and Lithuania, respectively, see www.arng.army.mil/News/publications/ApostureStatements/2011_ngps.pdf.
[68] Interviews in Washington, DC, September 2011.
[69] Ibid. For an analysis of Russian soft power in Estonia see, for instance, Conley, H.A., Gerber T.P., Moore, L. and David, M. (2011). *Russian Soft Power in the 21st Century: An examination of Rus-*

tween Russian-speakers and the other populations in the Baltic states is to build a strong state with strong institutions. This is certainly something that the three states have to deal with themselves, but indirect US support in the form of high-level meetings is much appreciated, as it sends a strong signal to the local population as well as to Moscow.[70]

Latvia's bilateral relations with the United States follow the same basic pattern: the United States played a significant role in the restoration of Latvian independence and its later admission to NATO and the Euro-Atlantic security community. Latvia, for its part, supports US policy on many international issues, and it has contributed troops to Iraq and Afghanistan. The port of Riga serves as a transport hub for the Northern Distribution Network, which is used to send non-military goods to the US-led International Security Assistance Force (ISAF) in Afghanistan.[71] Economic exchange is noticeable but minimal, compared to the role of neighbouring countries. Military cooperation consists of US support to Latvia through the FMF and IMET programmes – in a similar way as in Estonia and Lithuania, Activities are coordinated through the Office of Defense Cooperation, which is an organization based in the US embassy in Riga and is also part of the US European Command in Stuttgart.[72]

Currently, Latvia's relations with Russia seem to be in line with the US reset policy, but this has not always been the case. In 2007, Russia and Latvia finally agreed on the demarcation of the Latvia-Russia border, and work began on site in the summer of 2011.[73] In late December 2010, then-president Zatlers made the first Latvian state visit to Russia, which was considered a great success from the Latvian side.[74] With this recent record of accomplishment, Latvians regard themselves as belonging to 'the good guys' in terms of Baltic-Russian relations.[75]

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sian Compatriot Policy in Estonia. [pdf] Washington, DC; and CSIS, CSIS Europe Programme, August 2011, available at csis.org/publication/russian-soft-power-21st-century. For a recent tri-state overview see the special report 'Russia's soft power in the Baltics', *Baltic Times*, 22-28 March 2012, p. 10f.

[70] Ibid.

[71] Kolyako, N. (2011). Ambassador Pildegovics: transport corridor to Afghanistan attracts US businessmen to Latvia, *Baltic Course*, 25 February [online], available at www.baltic-course.com/eng/interview/?doc=37747.

[72] US Embassy, Riga (n.d.). *Office of Defence Cooperation* [online], available at riga.usembassy.gov/office_defense_coop.html.

[73] Ministry of Foreign Affairs, Latvia (2011). 'Works to be launched for demarcation of Latvia-Russia border on site' [press release], 8 June 2011, available at www.mfa.gov.lv/en/news/press-releases/2011/june/08-4/.

[74] Ibid.; and TBT Staff (2010). 'Zatlers makes historic Russia visit'. *Baltic Times* [online], 20 December, available at www.baltictimes.com/news/articles/27578/.

[75] Interviews in Washington, March 2011.

Lithuania perceives itself as a loyal ally of the United States with strong relations based on common values, common goals and a common agenda.[76] Its relative size and geographical location makes it a more interesting partner than Estonia and Latvia for international efforts to promote security and stability, and advance democratic development in Eastern Europe. Among its major commitments in these fields are its support for the Belorussian *European Humanities University*, which was relocated to Vilnius in 2005 after it had been closed down in Minsk by the Belorussian authorities the year before. Within the Common Security and Defence Policy, Lithuania has committed itself to promote closer cooperation between the United States and the EU on issues of common interest. Similarly, Lithuania's almost unconditional loyalty to the US 'war on terror' has been noted in Washington. At the same time, however, Lithuania was politically damaged when it was alleged in the media that its national security agency had helped the CIA to set up two clandestine prisons on Lithuanian soil in a move to allow interrogation of terrorist suspects to take place beyond the reach of US law.[77]

Just as in the two other Baltic states, Lithuanian trade with the United States is very modest. However, a number of significant US companies operating in sectors such as biotechnology, medical devices, information technology, transport and logistics as well as financial services have chosen to operate in Lithuania in order to use it as a possible regional hub for their activities.[78]

The energy sector is a special case in US-Lithuanian relations. Politically, Lithuania keeps Washington informed and updated about its energy security. The Lithuanians are also working hard to get the United States to join their Energy Security Centre, not least because it would improve the prospects of getting the centre upgraded to a NATO centre of excellence in the near future. Commercially, the Lithuanians are confident that energy projects will capture US interest. In the summer of 2011, Lithuania was finally able to announce that it had found a strategic investor for the Visaginas nuclear power plant project, which happened to be the US-Japanese company Hitachi-GE Nuclear Energy.[79] When the US Secretary of State, Hillary Clinton, visited Vilnius in July 2011, she made a statement about energy and expressed her support for the Visaginas project and collaboration with Hitachi-GE, which was interpreted as a strong signal of US

[76] Lithuanian Embassy, Washington DC (n.d.). *Lithuanian-US Political Relations* [online], available at usa.mfa.lt/index.php?-1246515709.

[77] Ward, A. (2010). 'Lithuania's foreign minister steps down', *Financial Times* [online], 22 January, Available at http://www.ft.com/intl/cms/s/0/0d43226c-06b2-11df-b426-00144feabdc0.html#axzz1dDRuGV8j.

[78] Invest Lithuania (n.d.). *Invest in Lithuania* [online], available at www.investlithuania.com/en/.

[79] Malmlöf, T. (2011). 'Baltic Energy Markets: The Case of Electricity', in R. Nurick and M. Nordenman (eds). *Nordic Baltic Security in the 21st Century: The Regional Agenda and the Global Role*. (Washington, DC: Atlantic Council), pp. 30–34, available at www.acus.org/files/publication_pdfs/403/090711_ACUS_NordicBaltic.PDF.

engagement. Another significant energy project with US involvement is the floating LNG terminal in Klaipeda, which Lithuania plans to have ready in 2014. For this project, the US Fluor Corporation has been awarded the contract as lead adviser by Lithuania's state-owned oil company Klaipėdos Nafta AB.[80]

Lithuania describes its military relations with the United States in a 2006 white paper as very close and a constant priority for Lithuanian defence policy. The paper also recognizes that US political support and military aid greatly facilitated Lithuanian integration into NATO. The United States continues to support Lithuania through the FMF and IMET programmes. The latter provides some 60 to 70 Lithuanian military and civilian personnel with further training in the United States. US advisers work at the Lithuanian defence ministry. In addition, the United States provides substantial support to Lithuanian troops participating in Afghanistan and Iraq. In order to keep the United States involved in the Baltic region, Lithuania wants to organize common military cooperation projects, such as exercises and training.[81] These ambitions have been reduced, however, as Lithuania has had to cut back on its defence spending due to the economic crisis.

One facet of Baltic and Nordic-Baltic cooperation (which is discussed in more detail below) is the extent to which the countries involved combine forces in Washington to have a greater impact on the administration on issues of common interest. The existence of a Nordic-Baltic desk within the US State Department and the e-PINE programme are facilitating factors for closer Baltic and Nordic-Baltic coordination in Washington. Denmark is frequently discussed as a role model for how US-Baltic security cooperation ought to develop, as Denmark has very intense cooperation with the United States.

In reality, coordination between the Nordic and Baltic countries is modest in nature, and security cooperation with the United States is primarily bilateral. To the extent that cooperation or coordination occur, it is for the most part between the Baltic states. It is problematic for an extended and deepened Nordic-Baltic collaboration that Sweden and Finland currently are outside NATO. Another obstacle is that the Baltic states are sometimes associated with Central Europe, which – according to some of our interviewees – is 'somewhat odd'.[82] Some Baltic interviewees concluded that the Nordic-Baltic region is not yet sufficiently integrated since coordination is not a first choice strategy for the states involved.

[80] Interviews in Washington, September 2011; and Fluor Corporation (2011). 'Fluor Wins Advisory Contract for Lithuanian Gas Terminal' (press release), 5 July, available at investor.fluor.com/phoenix.zhtml?c=124955&p=irol-newsArticle&ID=1582032&highlight=.

[81] Ministry of National Defence (2006). *White Paper: Lithuanian Defence Policy* [pdf], available at www.kam.lt/en/defence_policy_1053/important_documents/white_paper.html.

[82] Interviews in Washington, September 2011.

'What we see now is that economic integration is well under way, and that energy cooperation is going on. After that, we will see greater political integration'.[83]

A common issue of strategic interest to all Nordic and Baltic countries is how US interest in the region can be kept alive. What benefit can the United States possibly get from working closely with the Nordic-Baltic countries in the future? This was one of the issues discussed at a conference on Nordic-Baltic security in the 21st century, which was organized by the US Atlantic Council in Washington, DC, in September 2011.[84] In short, there is a common concern that if everything is functioning as well as it seems to be, the United States will focus on other regions: the region might 'have a problem as it is not a problem'.[85] Not being a problem may nonetheless be part of the region's strength. Several official US statements envisage the region as a platform for outreach activities targeted at the near neighbourhood and as a model for other regional partnerships. Thus, the region is playing the role of a valued cooperation partner in US foreign policy. So far, judging by the US regional record of accomplishment in the past 20 years, rather than abandoning it, the United States has rewarded the region for its stability and continuous positive development.

3.4 Baltic-Nordic Integration and the NB8

The five Nordic countries became engaged early on in the processes of Baltic liberation from the Soviet Union, This laid a solid foundation for subsequent bilateral and multilateral cooperation. Nordic-Baltic multilateral cooperation was channelled through an informal regional cooperation format that later became known as NB8.[86] Although lacking any formal structure, regular NB8 meetings are held at the political level of the Baltic and Nordic countries' prime ministers, foreign ministers, defence ministers and political directors of foreign ministries, as well as expert consultations where regional issues and current international topics are reviewed.

The Nordic Council of Ministers has been instrumental in organizing programmes of practical cooperation in the educational, cultural, social and econom-

[83] Ibid.

[84] For documentation on the conference see Nurick, R. and Nordenman, M. (eds) (2011). *Nordic Baltic Security in the 21st Century: The Regional Agenda and the Global Role*. (Washington, DC: Atlantic Council), pp. 30–34, available at www.acus.org/files/publication_pdfs/403/090711_ACUS_NordicBaltic.PDF.

[85] Interviews in Washington, DC, September 2011.

[86] Naturally, the Nordic and Baltic countries interact in other regional structures as well. Among the more important organizations or cooperation frameworks with an interest in the Baltic Sea area or adjacent areas are: the Nordic Council of Ministers, the Baltic Assembly, the Nordic Council, the Barents Euro-Arctic region, the Arctic Council, the Council for the Baltic Sea States, the Helsinki Commission, the Council of Europe, the EU and NATO.

ic fields. Nordic-Baltic cooperation also plays an important role in an EU context, as Nordic and Baltic EU member states meet as NB6, for instance, ahead of Council meetings, to exchange information on their different viewpoints. In addition, Norway and Iceland have previously been invited to these meetings with the aim of strengthening Nordic-Baltic influence in the EU.[87] Depending on the issue and purpose, the NB format can be flexibly enlarged to include third countries, for instance, Germany and Poland on some EU issues or the United States.

After the Baltic states joined the EU and NATO, Nordic-Baltic interactions lost their focus for some years as the Nordic countries took a less active approach. To come to terms with growing collaborative stagnation and formalism, a report was produced in the summer of 2010 with the aim of revitalizing and deepening Nordic-Baltic cooperation. The *NB8 Wise Men Report*, or the *Birkavs-Gade Report*, published in August 2010, included 38 suggestions to enhance foreign policy dialogue; cooperation on diplomatic representation; civil security, including cyber security; defence cooperation; renewable energy sources and energy efficiency; and measures to strengthen the NB8 brand and make it better known to a wider public.[88] In November 2010, an agreement was reached to implement 16 of the proposals in the report in the near future.[89]

Nordic-Baltic cooperation in the defence sector began immediately after the Baltic states regained their independence in August 1991. Extensive assistance programmes were launched by the Nordic countries from 1992 onwards, as it was thought that a military vacuum in the Baltic Sea area would create instability for the whole of Northern Europe. Finland, Sweden and Denmark were especially active, and each had a target country of its own. Since 2001, Nordic-Baltic defence cooperation has entered an era of more equal cooperation at both the bilateral and the multilateral level. By then, Estonia, Latvia and Lithuania had come to share the Nordic countries' idea of peacekeeping and crisis management cooperation. Quite soon after finishing the first stage of building national defence forces, all three states began to volunteer in international operations, for example, Kosovo, Iraq and Afghanistan. Estonia also participated in the first Nordic EU Battle Group, together with Sweden, Finland, Norway and Ireland.

In January 2011, Nordic and Baltic Chiefs of Defence met in Tallinn to discuss further cooperation in line with the NB8 Wise Men Report, possible joint training options and issues related to the situation in Afghanistan. The Baltic states were also formally invited to cooperate with NORDEFCO in three cooperation areas: advanced distributed learning, the Nordic centre for gender in operations,

[87] Birkavs, V. and Gade, S. (2010). *NB8 Wise Men Report*. [pdf], Copenhagen/Riga, available at www.sweden.gov.se/content/1/c6/16/49/47/38e9ee20.pdf.
[88] Ibid.
[89] TBT Staff (2010). 'NB8 state secretaries adopt "wise men" recommendations', *Baltic Times* (online), 12 November, available at www.baltictimes.com/news/articles/27362/.

and veteran issues.[90] The Baltic states expressed some disappointment that they were invited to interact with NORDEFCO only at the project level.[91] Furthermore, the projects for which the invitation was made are perceived as of only peripheral relevance to Baltic security. Estonia has been much more successful in its bilateral defence cooperation with Finland. In 2009, for instance, Finland and Estonia jointly procured 14 3D medium-range air surveillance radar systems, two of which are to be used by the Estonian Air Force. Compared to independent procurement, Estonia was able to cut its expenditure by nearly 50 per cent. [92] It should be added, however, that military cooperation with the Nordic states through NORDEFCO is still in its formative stages. There is a need to stabilize and find appropriate structures for cooperation within the current framework before it can take on any enlargement. Second, the three projects in which Estonia, Latvia and Lithuania have been invited to participate are the only projects so far to have reached a mature state and be ready for implementation.

Although Estonia is the only Baltic state with an official intention to identify itself as a Nordic country per se, all three express their confidence in the Nordic countries and their own integration into a Nordic-Baltic community. Estonia regards itself as the Baltic state most integrated into the Nordic-Baltic community – a view shared by the other two. Estonian representatives also express their opinion that Sweden ought to take a clear leadership role in the NORDEFCO process as well as in Nordic-Baltic cooperation in general.[93] When it comes to NATO, there is a need to distinguish between one partner country and another. Therefore, Estonia wants Sweden and Finland to come even closer to NATO. Sweden and Finland share the same geopolitical perspective as the three Baltic states. If the Nordic and Baltic countries were all members of the EU and NATO, this would facilitate regional cooperation. Estonia is always open to more cooperation, but it recognizes that the issue is quite sensitive politically in the Nordic capitals. The Scandinavian people are seen as more insular in their mentality. Any progress can therefore only be achieved through many small steps.[94]

In Latvia, there is also great interest in intensified cooperation with the Nordic countries, not least – according to our Latvian interviewees – because 'we face

[90] This was agreed at the joint Nordic and Baltic defence ministers' meeting in November 2010. See NORDEFCO (2011): *The Nordic-Baltic Chiefs of Defence meeting on 20–21 January 2011* (press release), 24 February, available at www.nordefco.org/latest-updates/the-nordic/.
[91] Interviews in Latvia, April 2011; Interviews in Estonia, May 2011.
[92] Estonian Ministry of Defence (2009). 'Estonia and Finland plan to procure air surveillance radars' (press release), 30 April, available at www.mod.gov.ee/en/2114; Thales Raytheon Systems (2009). 'Thales Raytheons Systems' air defence radars selected by Finland and Estonia' (press release), 5 May, available at www.thalesraytheon.com/en/newsroom/news/detail-news/article/thalesraytheonsystem-24.html.
[93] Interviews in Estonia, May 2011.
[94] Interviews in Estonia, May 2011.

the same challenges and share the same values'. Nordic-Baltic cooperation has increased in relevance and capacity. Nonetheless, the different affiliations with the EU and NATO among the eight states in the group complicate matters, and NATO remains the cornerstone of European security. Latvia also noted the Stoltenberg report, but the Baltic states are not necessarily included in its proposals.[95]

Similarly, Lithuania sees the NB8 format as an excellent one, and Lithuanian representatives often state that their country now has a 'strong Nordic priority', not least in terms of security policy.[96] This is particularly interesting given the fact that Lithuania is perhaps the 'least Nordic' of the three Baltic states, geographically as well as culturally and religiously. Lithuania's view on cooperation among the Baltic states themselves is that it works well but it could always be better. Baltic projects are usually small, and it would be advantageous to combine them with strong external partner projects, thereby creating economies of scale. In this case, Lithuania's first preference would be a Nordic country. With respect to the future direction of Nordic-Baltic cooperation, Lithuania would like to see a joint approach to economic security. From a broader perspective, and with regard to Lithuanian security priorities, this probably includes closer cooperation on energy issues.

This positive approach to Nordic-Baltic integration extends beyond the Baltic Sea area. This must be considered testimony that the states involved, in line with the proposals in the Birkavs-Gade Report, have been able to strengthen the NB8 brand and make it known outside the region. In January 2011, the British Prime Minister, David Cameron, invited his Nordic and Baltic colleagues to a Nordic-Baltic summit in London for discussions about common economic challenges.[97] This first meeting has since been followed up with a number of meetings including at the defence minister level in the spring of 2011, usually in the NB8+UK format. Several Baltic representatives see this format as interesting, but not without reservation. It is not entirely clear to anyone involved in which direction the UK wants to take its initiative, although it gathers like-minded states that usually end up on the same side in NATO and the EU (for those states that are members). Unless the UK delivers something more specific, the Baltic states will

[95] Interviews in Latvia, April 2011.
[96] Interviews in Lithuania, May 2011.
[97] Parker, G. and Ward, A., 'Cameron woos Nordic nations'. *Financial Times* [online], 23 November 2010, available at www.ft.com/intl/cms/s/0/1d6ce3e2-f731-11df-9b06-00144feab49a.html#axzz1blsnELQ5;
Crabtree, J., 'Downing St's Viking invasion'. *Financial Times* [online], 13 January 2011, available at www.ft.com/intl/cms/s/0/bdf9161e-1f6d-11e0-87ca-00144feab49a.html#axzz1blsnELQ5; and Parker, G. and Ward, A., 'UK-Nordic summit aims to forge free-market ties'. *Financial Times* [online], 19 January 2011, available at www.ft.com/intl/cms/s/0/9101efd6-23fb-11e0-bef0-00144feab49a.html#axzz1blsnELQ5.

remain somewhat cautious and sceptical about the initiative, which is now called the "Northern Group".

Some scepticism is also applicable with regard to Nordic-Baltic security cooperation, as it cannot yet be described in terms of integration. Although only Sweden and Finland are outside NATO, the differences in the direction and priorities of all the countries involved are in many ways relatively large. Besides the above-mentioned difficulties, cooperation within the Baltic region itself is not without challenges. According to one Estonian voice, Latvia is more interested in cooperation than Estonia and Lithuania. Lithuania wants to lead, but it is Estonia that has the money.[98] In any event, all the actors seem to agree that Baltic or Nordic-Baltic collaboration must not develop into some sort of substitute for Euro-Atlantic cooperation.

3.5 Baltic Views of the Swedish Solidarity Declaration

A new aspect of Nordic-Baltic security integration is the Swedish solidarity declaration on EU member states and Nordic countries, which was adopted by the Swedish Parliament in June 2009.

The existence of the declaration is not well known in the Baltic states. Where it is known, it is not acknowledged as something that particularly enhances Estonian, Latvian or Lithuanian security or chances of continuing independence. This will continue to be the case unless it is transmuted into concrete measures.[99]

We found certain interesting nuances in the three countries' interpretations of the meaning of the declaration and its possible implications for regional security. There is no official view on the solidarity declaration in Estonia, although individually several Estonian representatives raised a number of question marks about it. Certainly, its potential as a tool for Nordic-Baltic cooperation and as an instrument for indirect Swedish-NATO rapprochement is recognized and taken positively. However, some Estonians ask themselves: 'Can we really trust that Sweden will participate in a potential crisis? Or will the so-called "insular Scandinavian mentality" curb any cooperation? Will the military part really work if Sweden lacks NATO joint planning and training?'[100]

[98] Interviews in Estonia, May 2011

[99] Clemmesen, M.H. (2011). 'Om baltiske syn på den svenske Rigsdags solidaritets-erklæring' ('Baltic views of the Swedish Declaration of Solidarity'), in B. Hugemark (ed.). *Till bröders hjälp. Med sikte på en svensk solidarisk strategi [Friends in need: Development of a Swedish strategy of solidarity]*. (Stockholm: Kungl. Krigsvetenskapsakademien), pp.139–149.

[100] Interviews in Estonia, May 2011.

Nor is there any official view of the Swedish solidarity declaration in Latvia. Individually, like their Estonian counterparts, Latvian representatives have several questions about the solidarity declaration. Is the solidarity declaration motivated by domestic politics? Is Sweden really going to stand by its word in the event of a crisis? Why does Sweden not just join NATO instead? Although there is no shortage of unofficial Latvian proposals on what Sweden could do in a crisis in order to live up to the wording of the declaration – above all, in the form of military efforts or air and sea cooperation – it is evident that it is treated with some scepticism.[101]

The situation in Lithuania is somewhat different. First, there is an official Lithuanian position, according to which the solidarity declaration is a highly positive development that points to a substantial improvement in Swedish security policy. Second, the Swedish solidarity declaration is perceived as one component of the 'multiple security guarantees' that Lithuania seeks and needs. At the same time, it is noted that any immediate practical manifestations, such as exercises and joint military planning, are yet to be observed. Nonetheless, the solidarity declaration is seen as constructive as an expression of political will.[102]

Linked to the discussion about the solidarity declaration, and given the political will, several Baltic representatives commented on the prospects for Swedish participation in NATO exercises based on article 5 and in Baltic air policing missions conducted from the Lithuanian Šiauliai air base. These comments concentrated on the potential difficulties: Is it possible to plug Sweden into the NATO chain of command? What would NATO members think about a non-member participating in article 5 exercises? Would Russia demand the same access to article 5 exercises and Baltic air policing, as a partner country of NATO? In our conversations with Baltic foreign affairs and defence ministry representatives, it was obvious that these were very difficult issues, even if Sweden was often referred to as a 'virtual ally', not least in the light of some of the disclosures by Wikileaks.

In sum, the Swedish solidarity declaration has attracted some attention in the Baltic states but, in spite of this, two of the three countries have no official opinion on it and all three states highlight the problems that might occur if a non-NATO member state were to become engaged in a direct defence-planning context.

[101] Interviews in Latvia, April 2011.
[102] Interviews in Stockholm and Vilnius, May 2011. It is still unclear, however, whether the Lithuanian position is official policy in the strong sense, i.e., whether it has been discussed and agreed in an interagency setting in Vilnius.

3.6 Conclusions

In terms of Estonian, Latvian and Lithuanian integration into the Euro-Atlantic security structures, the traditional Baltic Atlanticist stance remains unchanged. Nonetheless, there is a growing interest in the CFSP/CSDP. All three states are in favour of a strengthened or developed CSDP that allows for stronger international EU operations. One reason for this change of heart is that Estonia, Latvia and Lithuania have developed a better understanding of the EU political game. Interest-based alliances with other member states are vital in order to gain more impact for one's own issues in Brussels. Estonia, Latvia and Lithuania have thus come to realize that the CSDP is as important a platform for political dialogue and commitments as any other manifestation of EU cooperation. Related to the CSDP is, as is mentioned above, an interest in participating in upcoming NBG rotations. However, for financial reasons, this might be very difficult.

Another reason for stronger Baltic interest in the CSDP is that the three states have reappraised their earlier perception of it as a potential cause of a weakened transatlantic link or a marginalized NATO. On the one hand, the CSDP is no longer perceived as a competitor to NATO: the EU lacks any current capacity to run a real operation and is highly unlikely to develop any due to the lack of political will among its member states. On the other hand, an enhanced coherence of the foreign and security policies within the EU would contribute to the security of the EU as a whole as well as that of its individual member states. In a NATO context, a stronger EU military capability is mostly welcomed, as it would promote the contribution of European countries to developing NATO military capabilities as well. Up to the point where NATO interests and the CSDP coincide, the Baltic states see no contradictions in supporting both.

Integration into the Atlantic security structures and NATO contingency planning has gone fairly well, although many problems of a practical and economic nature remain. The new strategic concept is very much in line with the main priorities of the Baltic states. There is NATO contingency planning in place for the Baltic states and, provided that article 5 exercises are carried out on a larger scale, it could be possible to maintain that NATO planning is clearly linked with reality. NATO's dual track approach to Russia, and greater emphasis on territorial defence, cyber threats and energy security are other examples of issues where the interests of the Baltic states have been addressed in the new strategic concept.

All three Baltic states perceive their bilateral ties with the United States to be the keystone of their Euro-Atlantic integration. All three claim that their relations with the superpower remain strong and enduring. Military relations are close and, to the best of their abilities, the three Baltic states have supplied military personnel in Iraq as well as Afghanistan. They have also put themselves behind the US reset policy vis-à-vis Russia. Owing to their symbolism, frequent high-level

meetings, public US support for Baltic security issues, and so on, are highly appreciated rewards in all three countries.

However, common ground on practical cooperation, for instance, on economic issues or energy security, has been much more difficult to find. Not least in relation to the expected US pivot towards the Pacific theatre, Estonians, Latvians and Lithuanians worry about how to maintain a permanent US interest in the Nordic-Baltic region. In addition to support for US policies and boots on the ground in Afghanistan and Iraq, they back initiatives like missile defence that will keep US military forces in Europe that can be seen as constituting a trip wire force against potential aggressors. Even so, they accept that the permanent US presence in Europe will decrease. Most critical, from a Baltic perspective, is how fast the United States could deploy to Europe if needed in a crisis. Military exercises with US troops in the Baltic region are therefore seen as very important.

Collaboration with the Nordic countries is also a priority issue. After some years of a less active Nordic approach, following the NATO and EU enlargements, Nordic-Baltic interactions have now achieved a new momentum. This has been observed by states outside the region as well, most notably the United Kingdom. Nonetheless, coordination and further integration between the eight countries has proved difficult. Baltic representatives like to talk about deeper Nordic-Baltic integration, but they are usually vague on content. Presumably, further Nordic investment in the Baltic economies and deeper cooperation on issues related to energy supply would be welcomed. It is true that Nordic-Baltic cooperation in an NB6-format plays an important role in an EU context, but there is hardly any bilateral or multilateral coordination at all between the Baltic and Nordic missions in Washington.

In a security context, the different approaches that each country has chosen vis-à-vis NATO and the EU is a complicating factor that makes certain forms of cooperation much more difficult or even unthinkable. Nordic military cooperation within the NORDEFCO framework is already difficult enough without high-level Baltic participation, at least for the present. Swedish non-alignment is also a plausible explanation for the limited response that the Swedish solidarity declaration has received in the Baltic states. Even if it has attracted some attention, two of the three countries have no official opinion, and all three emphasize the difficulties that would occur if a non-NATO member were to be engaged in a direct NATO defence-planning context.

4 Military Aspects of the Security of the Baltic states

4.1 Introduction

This chapter analyses the military-operational aspects of Baltic security or, to put it in another way: How well could NATO defend the Baltic states if it needed to? This question has been discussed in a previous FOI report.[103] Recent developments in NATO's force posture in Europe, and a more thorough analysis of Russian military reforms and exercise patterns, merit a re-assessment and further analysis of this area. The time frame is some 5–10 years ahead.

4.2 Military Planning in the Baltic States

From the time the Baltic states regained their freedom in 1991 until 2004, when they joined NATO, their defence planning was mainly geared towards territorial defence. In that early period they all adopted total defence models similar to those of the Nordic countries: conscription, reserve units that could be mobilized in case of war and a heavy emphasis on a countrywide territorial organization.

When the Baltic states joined NATO the territorial defence concept was more or less scrapped. A process was initiated to make the armed forces more like those of their NATO partners in both force structure and the tasks they should be able to undertake. In essence, this meant that their main task in the future would be to be able to participate in NATO international operations. Forces became smaller, conscription was abolished in Latvia and Lithuania (although not in Estonia) and new tactics were developed. These developments were not popular in all quarters. The main reason for these countries joining NATO was to gain a security guarantee should Russia once again become a threat. Article 5 of the North Atlantic Treaty is the raison d'etre for the alliance.

The shift from territorial defence to an emphasis on international operations, which was adopted under heavy pressure from Brussels, was nevertheless regarded as a necessary sacrifice in order to join NATO and then be regarded as a loyal member of the alliance. On balance, the possession of a national defence with limited territorial capacity is outweighed by an assumption of a guarantee of military support from powerful allies.

[103] Ljung, B., Malmlöf, T. and Neretnieks, K. (2010*). Baltisk säkerhet: handlingsfrihet och försvarbarhet*, [Baltic Security: Freedom of Action and Defensibility] (Stockholm: FOI), FOI-R--3018--SE.

The Georgia crisis in 2008 led to radical rethinking in some NATO countries regarding collective defence, especially in the United States and the United Kingdom, and a reorientation of defence planning in the Baltic states. Today, much more emphasis is placed on developing capabilities that are primarily useful when it comes to territorial defence. Both Estonia and Lithuania are planning to procure advanced air defence systems and modern anti-armour weapons. Both countries are also in the process of mechanizing parts of their land forces. Latvia has shelved most of its modernization plans due to the economic crisis. All three countries are putting a lot of effort into developing their structures for host nation support. NATO contingency plans have been developed for the defence of the Baltic states, based on earlier planning for the defence of Poland and the then existing force structures.[104] The situation is changing, however, as Germany and the UK are radically reducing their military establishments, the USA is reducing its presence in Europe and Russia is modernizing its armed forces. How credible is today's planning in the light of these ongoing changes?

4.3 Russian Military Capabilities

To predict what the Russian Armed Forces might look like in five or ten years is extremely difficult. Although Russian military spending increased by 20 per cent during 2008 and 2009, very little new equipment was fielded.[105] One of the aims of the ongoing military reform is to replace existing military equipment, most of which dates from the 1970s and 1980s, so that 70 per cent of systems will be modern by 2020.[106] This ambitious target may not be reached, and early experience is not encouraging. The current situation of the 2006–2015 armaments programme is that two of seven SSBN submarines have been delivered, none of six attack submarines, two of 24 surface combatants, 22 of 116 fighter aircraft, 60 of 156 helicopters, four of 18 S-400 battalions and one of five Iskander brigades.[107] This does not look very encouraging from a Russian point of view. Even so, if the proportion of modern weapons systems reaches only some 30–40 per cent of the inventory, a larger part of Russian systems will be newer than similar systems in the NATO countries, given the slow pace at which weapons systems are being

[104] See 'Nine possible divisions for defence of Baltic states and Poland', *Lithuania Tribune*, 18 Nov. 2010, http://www.lithuaniatribune.com/2010/11/18/nine-possible-divisions-for-defence-of-baltic-states-and-poland/; and 'Poland sceptical over Baltic defence plan', www.guardian.co.uk/world/us-embassy-cables-documents/240630/

[105] IISS (2010). *The Military Balance 2010* (London: IISS), p. 215. See also Pallin, Carolina [ed.] *Russian Military Capability in a Ten-Year Perspective – 2011* (Stockholm: FOI), FOI-R--3474--SE, August 2012.

[106] See http://www.defencetalk.com/russian-military-reform-in-times-of-crisis-24920/

[107] Gorenburg, D. (2011). 'The fate of the last state armaments program', 11 March, http://russiamil.wordpress.com/2011/03/11/the-fate-of-the-last-state-armaments-program/

replaced there. The technical superiority of NATO, which is often taken for granted, may well disappear within the next ten years – at least in some areas.

One area of particular concern to NATO should be the upgrading of Russian air-defence systems, which seems to have been given very high priority. The already quite formidable S-300 system is rapidly being augmented and to a large extent replaced by the more advanced S-400 system, of which there might be as many as 56 battalions (448 launchers with four missiles each have been ordered). The system is currently being deployed in the Kaliningrad exclave.[108]A still more potent system, the S-500, is planned for delivery from 2015.[109] The maximum ranges of these new systems is 400 and 600 km, respectively.[110] Given NATO's reliance on air power, this might have a significant impact on NATO's ability to defend the Baltic states. Belarus is also to receive the S-400 system.[111]

Another area in which Russia is making great efforts is reviving its capability to operate in large combined formations. The exercises Zapad 2009 and Ladoga 2009 both covered very large areas. The geographical extent over which Ladoga 2009 was conducted was approximately 1500 km long and 300 km deep.[112] The exercise Zapad 2009 was a joint Russian-Belorussian exercise, where one of the stated aims of the exercise was to train the integrated air-defence system of both countries.[113] Looking at the combination of different activities, such as troop movements over large distances, the use of airborne troops, landings from the sea and air support to troops on the ground, it is obvious that Russia still has, and is developing, knowledge of how to conduct operations in the classical sense of the word.

The exercise Vostok 10 – conducted in the Far East and engaging some 20 000 troops, 70 aircraft and 30 warships – demonstrated Russia's ability to move units over large distances and to lead joint operations. The personnel from one brigade and an air component containing SU-24s and SU-34s were deployed from central Russia to the exercise area, a distance of some 8000 km.[114]

Assessing what Russia might be able to deploy for an operation in the Baltic Sea area depends on a large number of factors. These include the willingness to take

[108] S-400 in Kaliningrad, http://www.stratfor.com/sitrep/20110802-russia-new-s-400-missile-batteries-baltic-fleet-2011
[109] http://russiamil.wordpress.com/
[110] http://www.globalsecurity.org/wmd/library/news/russia/2009/russia-090916-rianovosti01.htm
[111] http://www.defencetalk.com/advanced-russian-surface-to-air-missiles-for-belarus-17506/
[112] Ekström, M. (2010). *Rysk operativ-strategisk övningsverksamhet 2009 och 2010* (Stockholm: FOI), FOI-R--3022--SE, Oktober, p. 42.
[113] Ibid., p 28.
[114] See *Exercise Vostok 2010*, http://russiamil.wordpress.com/2010/07/19/vostok-2010-another-step-forward-for-the-russian-military/; and http://www.brahmand.com/news/Russian-military-exercise-Vostok-2010-concludes/4392/1/13.html

risks in other directions, time for preparations and the supposed reactions of possible opponents. Assuming that the ongoing military reform is reasonably successful, by around 2020 Russia would have at its disposal some 40 combat brigades, four airborne divisions and a large number of combat support units.[115] If existing combat aircraft and helicopters were replaced on a one to two basis, Russia would be able to field some 700 combat aircraft and 400 helicopters.[116] Of course, Russia will never be able to use all its assets in one direction. There must always be ample reserves to handle other contingencies. However, developing the ability to concentrate resources from different parts of the country appears to have high priority in Russian military planning.

One trap that should be avoided when assessing the possibility of or the motives for Russian military action against one or more of the Baltic states is to make a cost-benefit analysis that only covers regional factors, the Baltic Sea area or Europe. (This is quite a common approach in many of the countries in the Baltic Sea area). To begin with, an action taken in this region could be the result of something happening in another part of the world, but where Russia has few opportunities to respond. It could also be a way to discredit NATO, the EU or the USA, coupled with another conflict or crisis. Perhaps there might even be circumstances under which a conventional cost-benefit analysis would be regarded as quite unimportant by Russia. Other values might be at stake. Not everyone in Russia has accepted the break-up of the Soviet Union and the resulting territorial changes. The 'protection' of Russian-speaking minorities might become an issue that overrides traditional cost-benefit calculations.

4.4 The Baltic States

When it comes to hard security, NATO – with the USA as its backbone – continues to be the cornerstone for all three Baltic states. Although the EU is seen as a useful, complementary tool regarding economic and perhaps also energy questions, no Baltic state regards it as an instrument for handling military contingencies. It has neither the resources nor the competence to engage in military operations of any significance. The recent conflict in Libya only underlines this fact.[117] NATO's capabilities can also be doubted in some respects. The statement by US Defence Secretary Gates in June 2011 that NATO's air operations centre just had 50 per cent of its projected capability when it came to launching sorties against

[115] IISS (2011). *The Military Balance 2011*, pp. 175–176.
[116] Ibid., pp. 187–188.
[117] Ripley, T., 'Counting the Cost: Lessons of Libya for European defence policy', *Jane's Intelligence Review*, 9 June 2011.

Libya, and that European allies had run out of certain munitions after 11 weeks of a rather limited operation, must also be regarded as disturbing.[118]

NATO's Strategic Concept, adopted in Lisbon in the autumn of 2010, is, as was noted in chapter 3 above, regarded quite favourably in all the Baltic states. The main, but not only, reason for this is that article 5 – i.e., the collective defence of the alliance - is stressed as the first core task of NATO. In addition, the commitment to go ahead with missile defence is seen as a positive development, although there are some misgivings when it comes to Russia's possible participation in the project. How much influence will the missile defence system give to Russia in NATO planning and decision-making? The ongoing restructuring of NATO's command structure is also a matter of some serious concern as it might lead to diluted responsibilities There will be two joint headquarters in the new command structure: one in Italy for Southern Europe and the Mediterranean (JFC Naples) and the other in the Netherlands for Northern Europe (JFC Brunssum).[119] It is not clear whether these HQs will have traditional, geographical responsibility like their predecessors (AFSOUTH and AFNORTH) and it is also unclear where Eastern Europe fits into this structure.[120]

The NATO contingency planning that has been initiated to support the Baltic states is seen as a great step forward by the Baltic states. The important thing now, according to our Baltic interviewees, is to make it credible by increasing the number of exercises coupled to existing and future plans. The 2011 Sabre Strike exercise – a multinational exercise for the ground forces of the Baltic states and the USA – could be seen as a first step that might develop into brigade-sized exercises in the future.[121]

It is clear that the aim is to create a model in which the capacity for rapid build-up to create deterrence is the most important component when it comes to enhancing the security of the Baltic states. The idea of being 'liberated' at a later stage has, for understandable reasons, little appeal in the Baltic states. However, the radical downsizing of the armed forces of Germany and the United Kingdom is regarded with some alarm, as the proposed measures (see below) will reduce the ability of these countries to deploy forces to the Baltic Sea area in case of a crisis. Connected with the question of contingency planning and the need for early deterrence, it is not impossible that there will be renewed discussion of

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118 'Libyan lessons', Financial Times, 23 August 2011. See also Lindvall, F. and Forssman, D. *Internationella insatser i Libyen 2011 [International Operations in Libya, 2011]* (Stockholm: FOI), FOI-R--3447--SE, and Lindström, M. and Zetterlund, K. (2012): *Setting the Stated for the Military Interventionin Libya: Decisions Made and Their Implications for the EU and NATO* (Stockholm: FOI), FOI-R--3498--SE.

119 NATO Media backgrounder (2011). *Background on NATO Command Structure Review*, June.

120 Interviews, JFC Brunssum, Brunssum, the Netherlands, October 2011.

121 http://www.army.mil/article/46972/saber-strike-2011-kicks-off-in-latvia/.

some kind of a permanent NATO military presence, other than by the Baltic states themselves, in the Baltic states. Discussion of Swedish and Finnish participation in Baltic air policing should also be seen in the context of such a NATO presence.

Although few people doubt the capabilities of the Swedish and Finnish air forces, in this context it is also clear that a Swedish or Finnish air component would not have the same 'deterrence value' as a NATO one. The same logic could be applied to the eventuality of the Baltic states buying their own aircraft for this task. From their point of view, NATO aircraft are the preferred solution, and it may even be worth paying quite substantially to have them there.

Baltic cooperation has been on the agenda ever since the Baltic states regained their independence. In some areas it has been a considerable success. BALTNET, the common air-surveillance system which is integrated with the NATO Integrated Air Defence System (NATINADS), is fully operational and run by the three countries together. The system covers the Baltic states and adjoining Russian airspace. BALTRON comprises one or two mine hunters from each country. Its main task is to participate in international mine clearance operations, and in case of war to keep the sea lanes to the Baltic states open. BALTBAT is a common semi-mechanized battalion. In 2010 it was part of the NATO Response Force (NRF). This multinational battalion has no specific task when it comes to the defence of the Baltic states, but it plays an important role in developing common procedures and thinking. The NRF was tasked with traditional territorial defence duties by a NATO decision in 2009, but it is unclear how far the NRF has been conducting exercises to this end.[122]

Perhaps the most important cooperative project in the long run is the Baltic Defence College in Tartu. The college is run by the Baltic states but has an international staff. It is responsible for senior officer training and education for the armed forces in all three Baltic states, with the aim of enabling them to act as staff officers and commanders in a NATO environment. It takes some 100 students, from captains to colonels, each year. The way the college contributes to a common outlook and common procedures, and also creates a professional network is probably the most important contribution of all by the Baltic states to creating a platform for increased cooperation in the military field.

Regional solutions have to be considered too when discussing security in the Baltic Sea area. In 2015, the military forces of the Nordic countries and the Baltic states combined will add up to some 12 brigades, seven frigates, 20 fast attack

[122] See Lindström, M. and Winnerstig, M. (2012). *Försvarsallians i förändring: Utvecklingen av NATO:s självförsvarsdimension efter Lissabontoppmötet* [Defensive Alliance in Change: The Development of NATO's Self-Defence Dimension after the Lisbon Summit], FOI-R--3204--SE (Stockholm: FOI), p. 23f.

craft, 10 submarines and 250 jet fighters as well as a wide range of support assets. Five of the seven countries are members of NATO and six are members of the EU. At first glance, such a concept looks quite attractive. It is hard to find scenarios in which it would be worthwhile for anyone to start any kind of military operation against such a strong and 'well-connected' opponent. Unfortunately, both geography and the political environment make regionalized military security a less viable option. These factors are discussed in more detail below under the headings 'Military geography' and 'Sweden and Finland'.

4.4.1 Estonia

Of the three Baltic states, Estonia stands out as the one where the development of its armed forces has the highest priority. Defence expenditure was 1.86 per cent of GDP in 2011.[123] There is a firm commitment to reach the 2 per cent goal recommended by NATO by 2012. The active units in the armed forces consist of approximately 5500 persons, some 90 per cent of whom are in the army. The reserves consist of some 30 000 persons who, on mobilization, will form one infantry brigade, four independent battalions and four Defence Regions, each with several territorial units. The armed forces are based on conscription. Apart from the regular army there is also a volunteer defence organization, the Defence League, consisting of 12 000 persons.[124]

The Estonian Armed Forces are fairly well, but lightly, equipped. The army's equipment consists of some 100 wheeled armoured personnel carriers (APCs), 100 artillery pieces of different kinds, 230 mortars (8 and 12 cm), Milan anti-tank guided missiles (ATGMs) and other light anti-tank weapons, and Mistral surface-to-air missiles (SAMs). The mainstay of the navy is four mine countermeasures (MCM) ships. The air force consists of two light transport aircraft and four helicopters.[125]

Estonia's long term plan for the armed forces envisages that:[126]

- command and control systems will be modernized and made interoperable with NATO partners,
- the Ämari airbase will be developed to be able to receive both fighter aircraft and transport aircraft carrying reinforcements from abroad,

[123] Estonian Defence budget 2011, http://www.state.gov/r/pa/ei/bgn/5377.htm, updated 21 June 2011.
[124] For figures on personnel see IISS (2011). *The Military Balance 2011* (London: IISS), pp. 101–102.
[125] Ibid., p. 102.
[126] Estonian Long Term Defence Development Plan 2009–2018, pp. 7–15, http://www.mod.gov.ee/files/kmin/nodes/9440_SKAK_eng.pdf.

- air defence will be strengthened by acquiring medium range SAMs and increasing the number of short-range SAMs,
- the existing infantry brigade will be mechanized,
- the ability to combat armoured vehicles will be developed both in the regular units as well as in the Defence League,
- the Defence League will be trained and equipped to take on more technical tasks,
- the Defence Regions will be developed to be able to lead both territorial and mobile units,
- the navy will develop some kind of surface combatant capability,
- helicopter capacity will be developed.

If the plan is implemented, Estonia's Defence Forces will by the end of the decade have reached a strength that can contribute significantly to the stability of the Baltic Sea area. A presumptive aggressor will have little chance of achieving a fait accompli. Any aggressor would face prolonged Estonian resistance, with all the risks and uncertainties that this would entail. That said, Estonia, like all the Baltic states, will always be dependent on foreign military support when it comes to deterring a determined aggressor or defending the country against a military attack.

4.4.2 Latvia

The economic crisis has had a big impact on the development of Latvia's armed forces. The defence budget was cut by nearly 50 per cent in the period 2008–2010.[127] In 2011 it amounted to 1.14 per cent of GDP.[128] In May 2012, the Latvian Parliament unanimously passed an act which stipulated that the defence budget should increase to 2 per cent of GDP within ten years. This indicates how Latvia interprets the changing security environment in the region and in Europe.

The Latvian armed forces currently consist of approximately 5500 active personnel and some 10 000 reservists. The mainstay of the ground forces are two infantry battalions and one ranger battalion with active personnel. The existing brigade HQ is not an operational HQ, but an administrative and coordinating body. After mobilization, another 14 small, lightly equipped infantry battalions, one artillery battalion, one air-defence battalion and some supporting units will be

[127] On the Latvian defence budget see http://articles.janes.com/articles/Janes-Sentinel-Security-Assessment-Central-Europe- And-The-Baltic-States/Defence-budget-Latvia.html.
[128] Latvian defence budget 2011, http://www.state.gov/r/pa/ei/bgn/5378.htm , updated 8 Feb. 2011.

available.[129] On the whole, there is a lack of modern equipment, with some notable exceptions such as the Spike anti-tank missile, the RBS-70 low level air defence system and an air surveillance radar system. There is a total lack of armoured vehicles and medium or long range air defence systems. The navy is mainly geared towards mine countermeasures operations and has five ships for this task. The air force consists of two light aircraft and six helicopters.[130]

The cuts in the defence budget have led to some drastic changes in Latvian military organization. The service staffs have been amalgamated into a Joint Operations Command, more than 1000 positions have been abolished and a clearer distinction between the responsibilities of the Ministry of Defence and the Joint HQ has been established. Although these actions may not have an immediate impact on the capabilities of the Latvian Armed Forces, they might be important in the longer run to increasing their efficiency. A new long term development plan is currently being prepared.

4.4.3 Lithuania

Despite having the greatest ambitions among the Baltic states in terms of developing its armed forces, Lithuania is now lagging behind Estonia. This is very much due to the economic crisis and its repercussions. The Lithuanian defence budget is now well under 1 per cent of GDP.[131] The active units in the armed forces comprise approximately 8000 persons, some 4500 of whom belong to the active reserve. The majority belong to the army and are supposed to form a brigade of four battalions. The National Defence Voluntary Forces comprise some 5000 persons and after mobilization will form five battalion-sized groups.[132] The low manning levels of the active battalions and their dependence on reserves probably mean that quite extensive refresher training will be needed before the units can become combat ready.

The equipment of the ground forces is a mix of older and newer systems. Two battalions have older M113 APCs, while the rest travel in trucks. There are some Javelin anti-tank missiles available but only short range air-defence systems (Stinger and RBS 70).[133]

[129] IISS (2011). *The Military Balance 2011* (London: IISS), pp. 123–124.
[130] Ibid.
[131] Lithuanian defence budget 2011, http://www.state.gov/r/pa/ei/bgn/5379.htm, updated 1 March 2011. In 2012, the defence budget amounted to 0, 79 % of GDP, according to media sources. See "Military: increasing budget and rising number of troops", The Lithuania Tribune, October 16, 2012 (http://www.lithuaniatribune.com/2012/10/16/military-increasing-budget-and-rising-number-of-troops/)
[132] IISS (2011). *The Military Balance 2011* (London: IISS), pp. 124–125
[133] Ibid.

The navy has three mine countermeasures vessels and three patrol vessels (Danish Standardflex). The air force has nine helicopters and five light transport aircraft.[134]

The economic crisis has meant that all investment has more or less ceased, but the government has made it clear that the current economic difficulties should not overshadow long term needs. It has singled out a few as the most pressing:

- continued integration of national assets in to NATINADS;
- enhancing the capability to receive reinforcements from abroad;
- developing intelligence gathering, anti-tank and anti-air capabilities;
- enhancing the capabilities of the brigade to increase its ability to act both nationally and internationally.

Like the other two Baltic states, Lithuania is and will remain dependent on foreign military support in case of an attack or if a strong deterrent is needed. It is doubtful whether Lithuania will be able to make the investments needed in the foreseeable future to modernize its forces according to its stated goals.

4.4.4 The Baltic States: Conclusions

All three Baltic states are dependent on foreign (NATO) support to create a credible deterrence in case of a crisis, or to defend themselves in case of an attack. The ongoing economic crisis has led to a situation in which much needed modernization has been postponed, especially in Latvia and Lithuania. In all three countries there is also the problem of how to allocate the scarce resources, for territorial defence or for expeditionary capabilities. In many cases these capabilities coincide, but when it comes to air defence systems the demands can be contradictory as this kind of asset is needed for territorial defence but hardly ever for expeditionary warfare of the Afghanistan type. So far expeditionary capabilities have had the highest priority, but it is obvious from existing long term plans and the positive reaction to NATO's new Strategic Concept that territorial defence is becoming increasingly important for planners and policymakers in the Baltic states.

4.5 NATO Capabilities

NATO contingency planning, that is, a plan for their territorial defence, exists for the Baltic states. It is said to be an annex to an older plan for the defence of Po-

[134] Ibid.

land.[135] These plans are becoming problematic, however, primarily in the light of the drastic reductions that are planned for the British and German armed forces. In addition, the planned budget cuts in the USA will affect its ability to deploy forces to Northern Europe.

Planned cuts in the German defence budget, bringing it down to 1.2 per cent of GDP, will have quite drastic effects on the Bundeswehr. The following reductions in procurement seem likely: the number of fighter aircraft will be reduced to 140 from 177, the planned 60 A 400M transport planes might be reduced to 40, and of 80 Tiger helicopters perhaps only 40 will become operational. The exact consequences still have to be analysed. Depending on how the units are organized, the army might end up with the equivalent of eight reinforced infantry brigades, with a total of 205 Leopard 2 tanks in six Panzer battalions, and 350 Puma infantry fighting vehicles in nine Panzergrenadiere battalions.[136]

Overall, even if some changes are made to the proposed plans, it is quite obvious that in the future the German armed forces will not be a hard hitting organization, well suited to taking on a possible aggressor threatening another NATO member state in Eastern Europe. On the other hand, in the future they may be quite well suited to handling lower level crises. For example, the number of troops able to deploy quickly abroad will rise from some 7000 to 10 000.[137]

The British armed forces are also facing severe cuts. According to the 2010 Strategic Defence and Security Review, defence spending will be reduced by some 7.5 to 8 per cent in real terms. This will influence the British capability to project power. Some of the planned cuts, such as taking home the 20 000-strong remnants of the former British Army on the Rhine, reducing the number of ground attack squadrons with Tornados from eight to five, reducing the number of frigates from 23 to 19, and reducing the number of tanks by 40 per cent and heavy artillery pieces by 35 per cent, will obviously affect British capabilities when it comes to deploying assets with an all-round capability to the Baltic Sea area.[138]

Poland is reorganizing its military from a large establishment based on conscription to a smaller, more versatile and modern organization manned with professionals. Less severely hit by the economic crisis than its neighbours, Poland continues to modernize its military. One of its main goals is to make older systems interoperable with similar NATO systems. An example is the ongoing upgrade of

[135] 'Nine possible divisions for defence of Baltic states and Poland', *Lithuania Tribune*, 18 Nov. 2010, http://www.lithuaniatribune.com/2010/11/18/nine-possible-divisions-for-defence-of-baltic-states-and-poland/; see also 'Poland sceptical over Baltic defence plan', www.guardian.co.uk/world/us-embassy-cables-documents/240630/.
[136] 'Germany´s Bundeswehr prepares for reform', *Janes Defence Weekly*, 19 October 2011, p. 23
[137] Ibid.
[138] IISS (2011). *The Military Balance 2011* (London: IISS), pp., 80–81.

Polish air defence missiles. By modernizing earlier Soviet systems such as the S-200 Wega (SA-5), the 2K12 Kub (SA-6) and the 9K33 OSA (SA-8), Poland will achieve a reasonably modern surface-to-air missile capability, with a range of between five and 240 kms, for a limited investment. This is, however, essentially a stop-gap solution while funding can be found for a much needed modernization of Polish air defences.

The Polish artillery is also being modernized by the procurement of the indigenous self-propelled howitzer Krab.[139] A US aviation detachment will be established in Poland (mainly for training) from 2012 and land-based US missile interceptors will be deployed there from 2018.[140] Although these latter units are not primarily for traditional territorial defence, they will increase Polish-US interoperability and cooperation. This, together with the restructuring of the Polish armed forces, will probably enhance NATO crisis management capabilities in the region.

Although countries close to the region may play an important part when it comes to crisis management, the USA is and will remain the main player when and where military force might play a role. Only the USA has the broad spectrum of military capabilities needed to mount a more demanding crisis management operation, or a defence operation in the Baltic Sea area. The Libyan air campaign, in which US tankers, ISTAR and SEAD assets played a crucial role, gives ample evidence of this fact.[141] It is impossible to make a precise assessment of what the USA might be able to deploy for an operation in the Baltic Sea area in the future. That would depend on other engagements in other parts of the world, what other NATO members would be able to deploy and other factors that are impossible to foresee. As an indication of the kind of forces that could play a part, and that might be available at short notice, the following units could be considered: one or both of the two Stryker brigades that will be stationed in Europe after the ongoing operations in Iraq and Afghanistan are concluded,[142] an Air Expeditionary Force that could be deployed to Northern Europe,[143] and a carrier group deployed to the North Atlantic. Assets such as B-2 bombers could also fly sorties directly from the USA and cruise missiles could of course be launched from different kinds of naval vessels in the North Atlantic. These latter assets might even be the most readily available at short notice.

Considering the actual level of resources as a whole, however, it could be argued that that the above-mentioned NATO plans made to cover contingencies ranging

[139] 'Poland to Boost Missile defence, Artillery', *Defense News*, 10 October 2011, p 30.
[140] Nurick, R. and Nordenman, M. (eds.) (2011). *Nordic-Baltic Security in the 21st Century* (Washington, DC: Atlantic Council), p. 24
[141] 'Accidental Heroes', *Interim RUSI Campaign Report*, September 2011, p 6.
[142] Nurick and Nordenman (2011) op. cit., p. 24.
[143] On tasks and organization see http://www.globalsecurity.org/military/agency/usaf/aef-intro.htm.

from increasing deterrence to fighting an outright war will be hard to maintain. Future plans will probably emphasize the early deployment of lighter ground forces to make it clear that NATO is prepared to defend the Baltic states, and thereby also make it credible that it would not be possible to achieve a fait accompli. The forward deployment of air assets probably not even based in the Baltic states would also be a crucial component of demonstrating NATO's resolve.

Although it looks like NATO's capabilities to deploy forces to bolster the defences of the Baltic states are declining, other factors point in the opposite direction – primarily the increased number and complexity of NATO/US exercises in the region. In 2010, during the exercises BALTOPS, Sabre Strike and Baltic Host, activities such as host nation support, reception of foreign units, combined and joint command procedures and interoperability were trained for and tested.[144] Among the items that were transported in ships belonging to US Military Sea Lift Command, elements of a Stryker brigade were off-loaded in Riga.[145]

Thus, the picture that emerges is both positive and negative. It seems that NATO's capacity to deploy light forces early on in a tense situation are increasing, but at the same time the possibility of meeting a more serious threat is being put in doubt. If the latter situation were to arise, NATO – mainly US – air power would seem to be the main instrument for both deterrence and actual defence operations.

4.6 Military Geography

The Baltic states stick out like a wedge along the Baltic Coast for some 700 kms, but there is only a distance of between 200 and 400 km from the Russian and Belorussian borders to the Baltic Sea. Should NATO need to reinforce the Baltic states, any units moving on land would have to cover great distances compared with those of a would-be aggressor. Long range weapons systems, such as the S-400 surface-to-air missile, combined with other systems, such as the Iskander surface-to-surface missile deployed in the Kaliningrad exclave, Belarus and on the eastern borders of the Baltic states, could pose a threat to movements and bases established in the area.[146]

[144] http://baltic-review.com/2010/08/overview-of-international-military-exercises-in-latvia-during-2010/

[145] http://www.maritime-executive.com/article/american-tern-delivers-equipment-exercise-sabre-strike

[146] The first operational brigade to be equipped with Iskanders was deployed in Luga near the RussiaEstonia border in October 2011, see www.redstar.ru/2011/10/21_10/1_04.html.

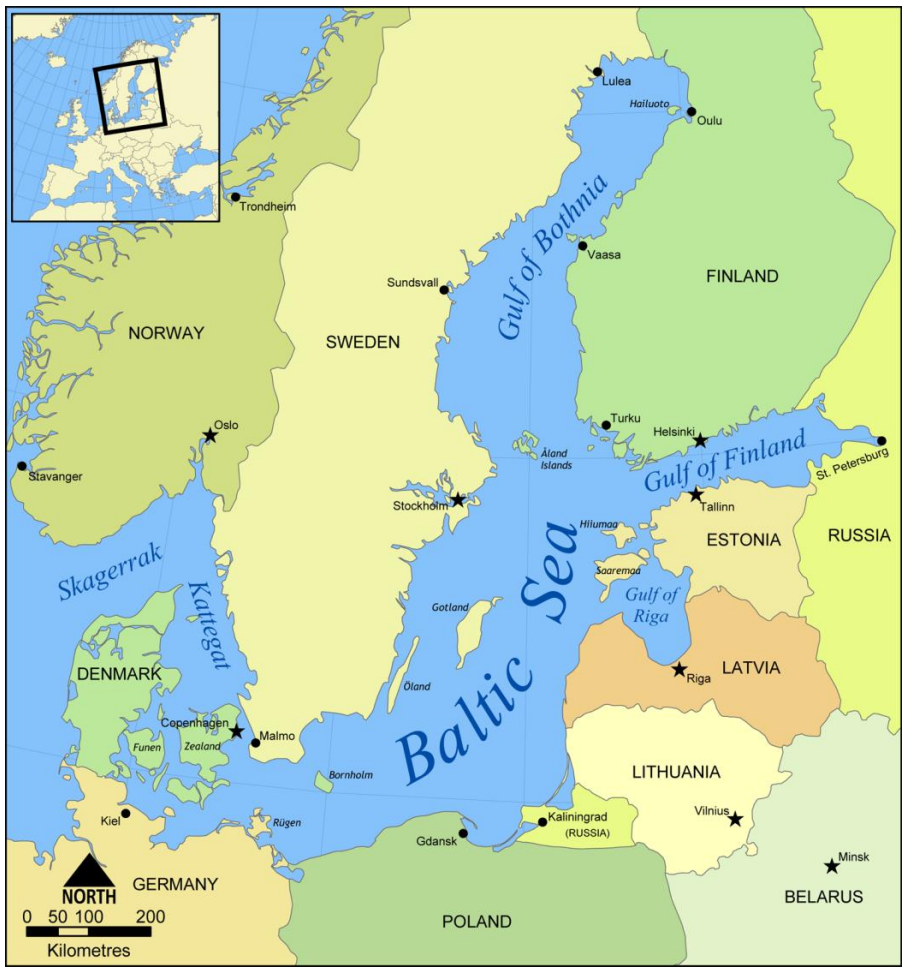

Figure 1 Map of the Baltic Sea area and the Baltic states[147]

One conclusion that could be drawn from this is that any reinforcements planned for the Baltic states by their NATO partners should be available at short notice and able to act as a stabilizing factor, hopefully contributing to a peaceful resolution to any crisis.

Another conclusion is that basing aircraft in the Baltic states would be quite a hazardous undertaking. They would run the risk of being destroyed on the

[147] Source: Webster`s Online Dictionary.

ground or as soon they became airborne. It should also be noted that the S-400s would allow Russian aircraft to operate under the cover of a 'missile screen'.

4.7 NATO and Russian Options

Having considered above the resources available for military action in the Baltic Sea area, we analyse below the options for both NATO and Russia in the event of a major crisis concerning the Baltic states. This analysis is our own and does not necessarily reflect the views of our Baltic interviewees. It is not based on an analysis of the future intentions of either Russia or the Baltic states and NATO, but instead on the availability of military resources in the region.

4.7.1 NATO

Given the ongoing reductions in NATO's force posture, the pre-emptive deployment of ground forces together with the possibility of using air power at an early stage of a crisis are becoming more and more important when it comes to demonstrating NATO's resolve to defend the Baltic states. The idea of creating deterrence by being able to respond with overwhelming strength at a later stage is becoming less credible. Exercises in which host nation support and other similar activities are exercised and tested are therefore becoming more important. In this context, prepositioning equipment together with the necessary support personnel should perhaps also be considered. Even a permanent presence of small NATO contingents, such as the ongoing air policing mission, could be considered. Depending on how such measures are combined, they would serve as deterrence, heighten the threshold for military action and make it clear that any attempt to separate the Baltic states from NATO would be futile.

In addition to reinforcing the ground forces of the Baltic states to give them more staying power, advanced ground-based air defence systems would seem to be a capability that should be available at an early stage, due to the threat that similar Russian systems could pose to all types of NATO aircraft. It is likely that NATO would initially have great difficulties in providing sufficient fighter protection for its ground forces. The early availability of different assets that could be a threat to Russian air defence systems, such as the S-400, would probably be of great value as deterrence as well as an indispensable tool if worse came to worst.

NATO preparations must be coordinated with the future development of the armed forces of the Baltic states. The idea of creating national armed forces that could fend off a large-scale attack for a period of time seems less credible. It would probably be better to create organizations at high levels of readiness that are capable, against a well-equipped and well-trained opponent, of preventing a fait accompli; and that contain components that would facilitate the use of NATO airpower and receiving reinforcements.

4.7.2 Suppression and Destruction of Enemy Air Defences

A question of probably crucial importance when it comes to an analysis of NATO's crisis management capabilities and, if need be, combat operations in the Baltic Sea area is its ability to suppress Russian air defence systems in the area.

There is no straightforward answer to this problem. Historical evidence seems quite contradictory. During both Iraq wars (1990–91 and 2003), the forces of the US-led coalitions were very successful at suppressing Iraqi air defences. The Kosovo air campaign in 1999 was somewhat different. Although NATO suffered very few losses, the Serbian air defence system remained largely intact during the whole campaign. For example, only three of the 26 SA-6 missile batteries were destroyed. This inability to eliminate the threat from ground-based air defence systems forced NATO (primarily the USA) to increase the size of the force packages and to devote more resources to the suppression of enemy air defences (SEAD).[148] This probably meant that the number of strike sorties decreased and that it took longer to initiate them. Missions also had to be aborted.

The air defences that NATO had to deal with in Kosovo were quite old SA-6 and SA-3 systems, as well as numerous man-portable air-defence systems (MANPADS) and anti-aircraft guns. Libya offered some similarities with Kosovo regarding the air-defence systems involved and existing NATO systems coped well with these threats. Budget restraints make it likely that most if not all European NATO countries will decommission their systems dedicated to the suppression and destruction of enemy air defences (SEAD/DEAD). The European solution leans towards using standardized ground attack weapons for several tasks, including SEAD/DEAD. Only the USA seems likely to continue to maintain specialized assets, which means that there will be fewer such assets available in Europe in case of a crisis.

The systems NATO could expect to encounter in the Baltic Sea area would be far more capable than those which it has had to cope with before. For example, the S-400 has a range up to 400 km, and is integrated into an air defence complex consisting of several other missile systems. The SA 15 Gauntlet, especially developed to engage targets such as low flying aircraft, cruise missiles, stand-off missiles and guided bombs during their terminal flight phase, could serve as an another example of this kind of advanced systems.[149] The very long range of systems such as the S-400 would threaten not only combat aircraft delivering munitions but also support aircraft such as JSTARS, AWACS and U-2, making target acquisition more difficult. In addition to improving existing techniques and using stealthy aircraft with advanced on-board sensors, such as the F-35, for

[148] http://www.airpower.maxwell.af.mil/airchronicles/apj/apj02/sum02/lambeth.html.
[149] http://www.ausairpower.net/APA-9K331-Tor.html.

SEAD/DEAD missions, new methods will have to be developed. Different ways to neutralize air defence systems other than traditional 'hard kill' and electronic warfare (EW) from the air will become more important. Satellite-based systems, cyber operations, electromagnetic weapons and perhaps even long range ground-based systems such as multiple launch rocket systems (MLRS) could be used in a SEAD/DEAD role. The big challenge in defending the Baltic states is that the methods employed would have to be effective from the beginning of an air campaign – there will be little or no time to refine them based on experience of the ongoing campaign. The Baltic states may have been overrun in the meantime.

The really big problem when assessing the effects of sophisticated weapons systems is that neither party involved can be sure how well their systems will perform before they are pitted against each other. It is therefore impossible to make a viable prediction about whether the Russian integrated air defence system will be able to seriously hamper a US air campaign. Both sides would do well to expect surprises – negative as well as positive.

4.7.3 Russia

From a Russian point of view, speed and surprise would probably be essential parts of any deliberations concerning the use of force. In future, Russian armed forces will probably not be so large that they could overwhelm the Baltic states by sheer force of numbers, especially if the right sort of NATO reinforcements were in place and NATO airpower could be used to full effect. An efficient air defence system would therefore be a crucial component of the Russian arsenal. This capability seems to be on its way. Whether there will be a ground component capable of posing a threat to the Baltic states is more questionable. That depends very much on the ongoing military reform in Russia. If the reform is successful, the necessary number of high quality units will probably be available. If not, any action to intimidate or attack the Baltic states will need fairly time-consuming preparations. These would be observed, and that would give NATO time to embark on actions to stabilize the situation and prevent an outbreak of hostilities. This assumes that there is well worked out, and exercised, contingency planning in place, and that there is a preparedness to take the necessary decisions.

Another issue that complicates the picture is the presence of substrategic nuclear weapons (SSNWs). Russian military thought has emphasized the importance of SSNWs due to the quantitative advantage of NATO conventional forces. Although the presence of SSNWs e.g. in the Kaliningrad region is not confirmed officially, this issue and the importance that the Baltic states put on the presence

of NATO (or actually American) SSNWs in Europe will always linger in the background of any discussion of Baltic Sea security.[150]

4.7.4 Sweden and Finland

Swedish and Finnish territory would be of considerable importance to both NATO and Russia in case of a serious crisis in the Baltic Sea area, in a situation where there is a risk that it could escalate to an armed conflict. There are three important reasons for this.

First, as long as there are advanced Russian air defence systems deployed in the Kaliningrad exclave, in Belarus and on the Russian border with the Baltic states, which constitute a threat to NATO air operations, the most secure – although still not safe – route to the Baltic states would be through Swedish and Finnish air-space. It should be observed that this applies to both a crisis situation that has not yet escalated to open hostilities and a war situation. There would be quite a high degree of risk involved in flying in reinforcements using large, vulnerable, transport aircraft knowing that your opponent's only chance of success is to act before the reinforcements are in place.

Second, as is mentioned above, basing combat aircraft in the Baltic states could be quite hazardous if it is believed that war is a possibility. Swedish and Finnish territory would be a much better, perhaps even the perfect, solution. The bases would be beyond the range of most Russian land-based conventional weapons systems, but still near enough to allow high sortie rates and short reaction times. The need for large numbers of supporting tankers and other specialized assets would also be reduced. Both countries have the necessary infrastructure to allow such an option, although the fact that the countries are not NATO members could complicate the necessary coordination of air space and air defence.

Third, the possession of parts of Swedish and Finnish territory could be of great importance to both NATO and Russia. The Swedish island of Gotland stands out as not just operationally important but also strategically important. From a Russian point of view, long range air defence systems and sensors deployed on the island could serve as a flank guard making it very hard for NATO to mount air operations in support of the Baltic states before the systems were suppressed. If NATO possessed the island, or at least could use it, it could serve as a permanent platform for sensors as well as a weapons platform, making it hard for Russian air and sea assets to engage NATO over or on the Baltic Sea. To a certain extent, this reasoning also applies to the permanently demilitarized Finnish Åland islands.

[150] See Lindvall, F., Rydqvist, J., Westerlund, F. and Winnerstig, M (2011): *The Baltic Approach: A Next Step? Prospects for an Arms Control Regime for Sub-strategic Nuclear Weapons in Europe* (Stockholm: FOI Defence Analysis) [FOI R--3175--SE], especially ch. 3.

Sweden and Finland, as EU member states and signatories to the Lisbon Treaty, are under obligation to support their fellow EU member states if they are threatened. However, they are not members of NATO, which means that the necessary coordination to provide effective military support in a crisis, either directly or indirectly, might be lacking. At the same time, Russia could regard both countries as potentially hostile in the context of the crisis.

4.8 Conclusions

Several factors influence the military security of the Baltic states. What Russian military reform and the declining military capabilities of NATO might mean when weighed against NATO's increased level of exercise activity in the region and the planned bolstering of the territorial defence capabilities of the Baltic states is very difficult to say. As is noted above, however, this study does not aim to analyse the intentions of the actors involved, but rather to discuss the available options based on the military resources in the area.

Nevertheless, some tentative conclusions might be drawn. NATO's ability to react quickly by deploying light forces in a crisis has probably increased, given the developments of recent years. The greater emphasis on territorial defence in the Baltic states will reduce the risk of a fait accompli. NATO's ability to stabilize a threatening situation might therefore have increased.

In case of open hostilities and war, the picture looks darker from the point of view of the Baltic states – especially if there is a rapidly developing crisis. The difficulties of deploying heavy NATO ground forces to the Baltic states, due to either transportation problems or the lack of such assets, will make it hard to conduct effective defensive operations either in the Baltic states or from outside the area.

The most pressing problem from NATO's point of view, in either a crisis or a war situation, is probably how to make it credible that a powerful air campaign could be launched at short notice should there be an attack on the Baltic states. Modern Russian air defence systems probably pose the biggest problem, but the number of NATO aircraft available and the facilities needed to launch such an operation are also problematic. It should also be noted that the outcome of a duel between Russia's integrated air defence system and NATO's most advanced air assets is impossible to predict.

Swedish and Finnish territory and air space will probably be of considerable importance to NATO's ability to defend the Baltic states. Gotland and Åland could be of great significance to both NATO and Russia when it comes to deploying air defence systems and sensors. The air space of Sweden and Finland would probably offer the safest approach for NATO aircraft flying missions over the Baltic states.

5 The Security Aspects of the Baltic Economy and its Energy Supply

5.1 The Economy and Energy Supply in Baltic National Security Thinking

The prevailing perception in the Baltic states, as well as abroad, is that their EU membership and integration into NATO and transatlantic security structures have transformed their national security and placed them in a more favourable position than ever before. Certainly, military threats are still considered important, but from a short- to medium-term perspective, national security thinking in Estonia, Latvia and Lithuania is preoccupied by non-traditional and non-military threats.

An important focal point in all three countries is their state of asymmetrical economic dependence on the outside world. In order to prosper, there are no viable alternatives to trade and economic exchange with other countries for small states with price-taking economies, small populations and a limited resource base. Trade, investment and markets are not neutral economic phenomena, however, as they harbour the seeds of power-based relations that can be exploited by a stronger party at the expense of a weaker one.[151] The dynamic – or volatile – nature of the global economic system implies that no single state or any other economic actor can achieve a state of absolute economic security. Nonetheless, how a state behaves in relation to other economic actors might affect its relative economic security over time. To reduce the risks connected with asymmetric economic interdependence, a state can diversify its economy and its relations with other economic actors.

Given the strong connections between Russia's economic behaviour and its foreign and security policies, the primary concern of the Baltic states is Russian influence over the terms of trade and investment in the Baltic economies. Assisted by a small group of huge state-owned or by other means state-controlled companies of strategic importance, the Russian government has made use of other countries' liberal and market-friendly laws to obtain economic influence over their strategic companies and resources, while carefully protecting Russian domestic markets and companies from foreign interference. The threat to national security that Estonia, Latvia, Lithuania and other states – mostly Eastern Europe-

[151] Gilpin, R. (2001). *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press), pp. 81–82.

an – perceive in this behaviour is that Russia has demonstrated no constraint in converting economic power into political influence.[152]

Since Vladimir Putin rose to power in Russia, one of the central objectives of Russian foreign policy has been progressively to reassert claims of great power status. As a first step in realizing these ambitions, Russia has deliberately sought to regain the influence lost in the geographic region that it considers to be its traditional sphere of interest. Among other instruments, economic levers have been used to achieve this. In the Baltic context, Russian economic levers, particularly in the energy sector, have been the most difficult to fend off.[153]

One problem with the Russian industrial and entrepreneurial presence in the Baltic states is that Russian companies often seem to conduct their operations using different standards than Western companies. Apart from the possible security implications of an unbroken formal or informal link between Russian companies and the state, there are concerns related to the Russian export of a relaxed attitude to bribery and corruption whenever the host country lacks effective instruments to resist this.[154] This problem is likely to be the greatest in Latvia and Lithuania, which lack the well-developed and transparent economic infrastructure of Estonia.

A third objection to Russian investments abroad is that Russian companies' intense involvement in certain European economies increases the latter's exposure to Russian technological, economic and military espionage. The Estonian Security Police (Kaitsepolitseiamet, KAPO) has mentioned this as a real threat to Estonian national security in several issues of its public annual review.[155]

Estonia, Latvia and Lithuania have built up a sound and realistic picture of current threats and risks in their economic relations with Russia. Its significant position in their energy markets is considered more critical than its other potential means for gaining political influence, given the central role that energy plays in modern society for the maintenance of essential social functions as well as financial well-being and future development prospects.[156]

However, the Baltic view is far from fully accepted by many other European states. In particular, Russian bilateral relations with some of the larger Western European countries – Germany, France and Italy – are a constant source of worry

[152] Malmlöf, T. (2010). *Ryskt ekonomiskt inflytande i de baltiska staterna: säkerhetspolitiska konsekvenser* (Russian economic influence in the Baltic states: implications for national security) FOI, Stockholm, FOI-R--3001--SE, User Report, pp. 52–57.
[153] Ibid., p. 92.
[154] Bugajski, J. (2009). *Dismantling the West: Russia's Atlantic Agenda* (Washington, DC: Potomac Books), p. 148.
[155] Malmlöf, T. (2010), op. cit., pp. 96–98.
[156] Malmlöf, T. (2010), op. cit., p. 123.

for the Baltic states. In their dealings with Russia, these states quite often take positions that Estonia, Latvia and Lithuania consider destabilizing for their own economic security and energy security.[157]

The Baltic assessment of the EU's role in Baltic economic and energy security is also ambivalent. The common market has certainly furthered Estonian, Latvian and Lithuanian economic integration into the EU, and the EU now works proactively to connect the Baltic energy infrastructure to that of other EU member states. On the other hand, the EU *acquis communautaire* can be considered as having stimulated – and facilitated – Russian economic influence in the Baltic region.

5.2 The Baltic Economies: From Soviet Assimilation to European Integration

At the time of the Baltic liberation, the three states were strongly interdependent with the other constituent parts of the Soviet Union. Until 1991, 90–95 per cent of Baltic production was exported to the Warsaw Pact countries, and 80–87 per cent of imports originated from there.[158] Apart from the challenge of privatizing the economy, the newly independent Baltic states also faced the dilemma of how to achieve sustained economic growth while disconnecting their industrial production from its protracted dependence on traditionally under-valued resources obtained from other newly independent post-Soviet states with similar problems.[159]

All three countries chose a neoliberal economic model for their transition to a market economy.[160] The most intensive period of transition occurred in 1992–

[157] For an assessment of how EU member states relate to Russia see, for instance, Leonard, M. and Popescu, N. (2007). *A Power Audit of EU-Russia Relations* [pdf], European Council on Foreign Relations, available at ecfr.eu/content/entry/eu_russia_relations.

[158] Svensson, C. (2003). *Ekonomi och säkerhet i de baltiska staterna: en studie av relationen mellan säkerhetstänkande och ekonomiska beroenden* (Economy and Security in the Baltic states: a study of the Relationship between Security Thinking and Economic Dependence) FOI, Stockholm, FOI-R--0895--SE, Base Data Report.

[159] Malmlöf, T. (2010). op. cit., p. 25.

[160] The neoliberal economic school might, according to what has been called the Washington Consensus, be summed up in ten points. These are: financial policy discipline; redirection of public spending from subsidies to broadly based provision of key pro-growth, pro-poor services such as primary education, primary health and infrastructure investment; tax reform to broaden the tax base and adopt marginal tax rates; market-oriented interest rates; competitive exchange rates; trade liberalization; liberalization of inward foreign direct investment; privatization of state enterprises; deregulation in the form of the abolition of regulations that impede market entry or restrict competition; and legal security for property rights. See e.g. http://www.cid.harvard.edu/cidtrade/issues/washington.html.

1996, when the standard elements of a market economy were established in all three countries: the liberalization of prices and trade, macroeconomic stabilization and privatization. From the beginning, a pattern was established according to which Estonia took the lead with Latvia and Lithuania following in its wake. Foreign direct investment (FDI) played a crucial role during this period in compensating for the lack of domestic capital, and Estonia benefited from its effective and fairly transparent early implementation of reforms.

Two other factors played a part. First, Estonia successfully implemented the same privatization model that was used in German reunification. State-owned enterprises were sold off in their entirety and not cut up into smaller parts. Second, within the boundaries of its privatization legislation, Estonia skilfully favoured foreign strategic investors.[161] According to financial data reported by the central banks of Estonia and Latvia, net FDI represented 6.0 per cent of GDP in Estonia and 4.3 per cent in Latvia in the period 1996–2007.[162] Direct investment positions (FDI stock value) in Estonia amounted to EUR 11.3bn in 2009, in Latvia to EUR 8.0bn and in Lithuania EUR 9.6bn.[163]

In line with economic theories about FDI in small countries, it was larger adjacent neighbours that accounted for the majority of FDI in the Baltic states. Swedish and Finnish capital controlled more than 60 per cent of foreign-owned assets in Estonia in 2009. In the other two states, ownership structure was more fragmented. In Latvia, five countries controlled almost half of the foreign-owned stock value in 2009: Estonia, Sweden, Denmark, Germany and the Netherlands. A similar situation exists in Lithuania, where the major investing countries are Sweden, Poland, Germany, Denmark and Estonia.

In Eastern Europe and in the former Soviet republics, the application of the Washington Consensus policy prescriptions is better known as shock therapy, the policy recommendations of which were summed up as the sudden abolition of price and currency controls, the withdrawal of state subsidies and immediate trade liberalization within a country, as well as the large-scale privatization of previously publicly owned assets.

[161] Svensson, C. (2003), op. cit.

[162] Bank of Estonia (n.d.). *Key economic indicators* [database]. Available at statistika.eestipank.ee/?lng=en#listMenu/1017/treeMenu/MAJANDUSKOOND; Bank of Latvia (2011). *Latvia's Balance of Payments* [pdf], available at www.bank.lv/images/stories/pielikumi/publikacijas/LMB_2010.pdf ; Bank of Latvia (n.d.). Monetary Review [online archive], available at www.bank.lv/en/publications/introduction/3188; Latvijas Statistika (n.d.). Available tables on Gross domestic product [online archive], available at data.csb.gov.lv/DATABASEEN/ekfin/Annual%20statistical%20data/02.%20Gross%20domestic%20product/02.%20Gross%20domestic%20product.asp. No corresponding data for Lithuania have been found.

[163] Eurostat (2011). EU direct investment positions, breakdown by country and economic activity (bop_fdi_pos) [online database], Last updated 6 April, available at epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

The value of Russian assets in Estonia was equivalent to 3 per cent of the aggregated value of foreign-owned assets. The corresponding share in Latvia was 4.6 per cent and in Lithuania 6.4 per cent. In real terms, the value of Russian holdings in Estonia fell by EUR 83m in 2008–2009, a decline of nearly 20 per cent. In Latvia, there was no noticeable change in the Russian position, while in Lithuania it increased by EUR 136m, or 28 per cent.[164] However, a single year is too short a period from which to draw any far-reaching conclusions on Russian long-term corporate strategies in the Baltic markets. It is especially in small markets, like those of the Baltic states, that acquisitions or sales, profit realizations or reinvestment might have a large impact on foreign-owned positions from one year to another. Taken together, however, Russian investments are a minor element of the Baltic economies. This observation is consistent with previous studies.[165]

Regarding current trading patterns, 80 per cent of Estonian imports, by value, originate from the EU area. In Lithuania, the share is 56 per cent and Latvia falls between these extremes. About 70 per cent of Estonian and Latvian exports are destined for the EU, and 60 per cent of Lithuanian exports. In addition to the relatively significant levels of trade between the three countries, their main trading partners are Finland, Sweden, Denmark, Germany, Russia, Poland, Belarus, the Netherlands and Italy. Estonia and, largely, Latvia are well connected in terms of trade with Sweden and Finland, while Russia, Germany, Belarus and Poland carry more weight in Lithuanian trade. Russian imports amount to close to 10 per cent of total imports in Estonia and Latvia. In Lithuania, on the other hand, one-third of all imports are from Russia.[166] Estonia exports 10 per cent of all its exports to Russia. In Latvia and Lithuania, the figure is 15 per cent. Baltic imports from Russia are dominated by energy, while comparative advantage is concentrated primarily in the manufacture of machinery and transport equipment.[167] In that sense, the Soviet trade structure prevails.

Structural changes in the three Baltic states mean that they have evolved significantly towards becoming post-industrial service societies. At the same time, several industrial sectors have survived and thrived in the new economic climate. Sectors that are said to offer key opportunities for companies in the Estonian economy are electronics and telecommunications, machinery and metalworking, wood processing, logistics and transport, and food.[168] Estonia is also a world leader in shale oil technology. Latvia maintains that it possesses a strong manu-

[164] Ibid.
[165] Malmlöf, T. (2010), op. cit.
[166] Eurostat (2011), op. cit.
[167] Malmlöf, T. (2010), op. cit., pp. 29–35.
[168] Estonian investment and Trade Agency (n.d.). *Key Sectors* [online], available at www.investinestonia.com/en/business-environment.

facturing base in biotechnologies, chemicals and pharmaceuticals, food, electronics and electrical engineering, forestry and woodworking, telecommunications, mechanical engineering and metal working, the textile industry, transport and logistics.[169] Lithuania highlights its comparative advantage in shared services and business process outsourcing, information and communications technology, medical devices, transport and logistics, biotechnology, chemicals and plastics, metal processing, lasers and electronics.[170]

Observers of the Baltic states tend to agree that Estonia has excelled in its market transition and that Latvia and Lithuania are some way behind. Estonian economic relations with other states are more diversified. It is more detached from Russian economic influence than the other two and it has forged significant exchanges with e.g. Nordic economies. A test of the three economies' degrees of freedom from the Russian economy came with the collapse of the rouble in the autumn of 1998. Latvia, and especially Lithuania, were still relatively integrated with the Russian economy, which is why their recovery took longer than was the case in Estonia.[171]

5.3 Macroeconomic Developments and the Impact of the Current Economic Crisis

The Baltic states recovered relatively quickly from the sharp contraction in output and rampant inflation that were typical of the early stages of transition from central planning to a market economy. The three states soon experienced sustained growth, which was only briefly interrupted by the Russian financial crisis in 1998 (the rouble crisis) mentioned above. Thus, at the turn of the century, the Baltic economies were strong and well positioned for further growth. Free-market radicalism in macroeconomic policy had forced the rate of inflation below 4 per cent and government finances close to balance. In the case of Estonia, the budget showed a small surplus that by 2006 and 2007 had grown to three per

[169] Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra, LIAA) (n.d.). *Trade with Latvia* [online], available at www.liaa.gov.lv/eng/trade_with_latvia (accessed December 2011).
[170] Invest Lithuania (n.d.). *Sectors and Industries* [online], available at www.investlithuania.com/en/sectors.
[171] Svensson, C. (2003), op. cit., p. 18;
International Monetary Fund (2010). *World Economic Outlook Database, October 2010* [online], available at
www.imf.org/external/pubs/ft/weo/2010/02/weodata/weorept.aspx?sy=1992&ey=2015&scsm=1&ssd=1&sort=subject&ds=%2C&br=1&c=946%2C939%2C941&s=NGDP_R%2CNGDP_RPCH%2CPCPI%2CLUR%2CLP%2CBCA&grp=0&a=&pr1.x=70&pr1.y=7.

cent of GDP.[172] Stabilizing factors in the macroeconomic environment of the Baltic states were the early adoption of hard peg exchange rate arrangements, low levels of government debt and tight fiscal policies. In the early 2000s, all three states also took extensive measures to meet the criteria for EU membership, and institutional convergence was much faster in the Baltic states than the average for all new EU member states.[173]

From 2000 to 2007, the three Baltic states had an average unweighted annual growth rate of 8.2 per cent, compared with an average of 2.6 per cent for the EU 27 or 2.2 per cent for the euro area as a whole.[174] This earned them the epithet the 'Baltic Tigers'. The initially rather weak performance of the labour markets, linked to transition-related restructuring and reflected in high rates of unemployment and outward migration, changed in the early 2000s to increased labour inputs, contributing to gains in total factor productivity and, in the end, to a rapid catching up of the Baltic economies.[175]

GDP per capita reached EUR 12 000 in Estonia in 2008, while in Latvia and Lithuania it was EUR 10 200 and EUR 9600, respectively. In comparison, mean GDP per capita in purchasing standard for the EU 27 was EUR 25 100.[176] Compared to GDP per capita in purchasing power standards in 2010, the Estonian level was about 64 per cent of the EU 27 level and in Latvia and Lithuania it was 52 per cent and 58 per cent, respectively.[177]

However, by the mid-2000s the Baltic economies started to show signs of growing imbalances and other signs of overheating. After accession to the EU in 2004, inflation picked up strongly in all three states, reaching double digits in Latvia in 2007. Multiple causes for this development have been suggested. Starting from low price levels, the gradual convergence of prices after EU accession led to higher inflation than in the wealthier EU member states. Inflation and tightening labour markets caused real terms wage growth to outpace productivity gains – not the least after EU accession because of competition from labour emigration to wealthier, accessible parts of the EU. In addition, the prices of oil and gas imports from Russia rose sharply between 2004 and 2008.

[172] Åslund, A. (2009). 'The East European Financial Crisis', *CASE Network Studies & Analyses*, no. 395/2009, p. 7; Åslund, A. and Dombrovskis, V. (2011). *How Latvia Came through the Financial Crisis* (Washington, DC: Peterson Institute for International Economics), p. 11.
[173] Deroose, S. et al. (2010). 'The Tale of the Baltics: Experiences, Challenges Ahead and Main Lessons', *ECFIN Economic Brief* (July 2010) [pdf], p. 2, available at ec.europa.eu/economy_finance/publications/economic_briefs/2010/pdf/eb10_en.pdf.
[174] International Monetary Fund (2010), op. cit.
[175] Deroose, S. et al. (2010), op. cit., pp. 2–3.
[176] Malmlöf, T. (2010), op. cit., pp. 25–26.
[177] Eurostat (n.d.). *GDP per capita in Purchasing Power Standards* [online]. available at epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsieb010.

The dominant cause of rising inflation was financial convergence in a global environment of excessively low risk premiums. Falling risk premiums on interest rates and improved access to cross-border bank finance – not the least because of the expansion of Scandinavian and other foreign banks in the region – fuelled private consumption expenditure. This, in turn, inflated asset prices, most notably prices of real estate. FDI tilted towards non-tradable and real estate activities, giving the housing and consumption bubble additional impetus.[178]

Strong domestic demand fuelled by huge capital inflows fostered large current account imbalances and the rapid accumulation of large net foreign liabilities. The deterioration in current account balances was accompanied by a sustained appreciation of the real effective exchange rate, which further fuelled rising import penetration and excessive capital inflows.[179] Like other Eastern European economies, economic growth in the Baltic region had originally been export-driven, but all these countries now ratcheted up even larger current account deficits as imports outpaced exports.[180]

Estonian, Latvian and Lithuanian policy options to reduce economic overheating were rather limited. Monetary initiatives had to be ruled out, as all three states were caught in the impossible trinity of fixed exchange rates, free capital movements and independent monetary policy. Hard exchange pegs combined with free capital movements usually act as effective barriers to independent monetary policy. Baltic interest rates were in fact determined by the eurozone, which meant that their nominal interest rates were too low and their real interest rates even negative. Had they tried to hike their interest rates to come to terms with this problem, the outcome, given the fixed exchange rate, would have been not monetary contraction but further inflows of short-term foreign capital.[181]

In addition, given the relatively weak automatic stabilizers, due to the small size of the government sector and a low degree of tax progressiveness, the Baltic states were left with discretionary fiscal policy as well as regulation and supervisory policies as their major tools for macroeconomic stabilization.[182] However, discretionary fiscal policy was of only limited value. Rather than functioning as a stabilizer, it is clear in hindsight that fiscal policy in 2007 was strongly pro-cyclical in all three countries. Prudential and supervisory policies were belated and insufficient to reign in the explosive supply of credit.[183]

[178] Deroose, S. et al. (2010), op. cit., pp. 3–5; Åslund, A. and Dombrovskis, V. (2011), op. cit., pp. 23–30.
[179] Ibid.
[180] Åslund, A. (2009), op. cit., p. 9.
[181] Åslund, A. (2009), op. cit., p. 19; Åslund, A. and Dombrovskis, V. (2011), op. cit., p. 27.
[182] Deroose, S. et al. (2010), op. cit., p. 4.
[183] Ibid., p. 5.

The global financial crisis started to unfold in the second half of 2006, as US real estate prices started to plummet. Increasing risk aversion in the global financial markets was reinforced by a subsequent fall in international trade, which hit small and open economies dependent on foreign financing particularly hard – among them the Baltic states. Simultaneously, lending in the Baltics started to fall, as foreign and domestic banks began to tighten lending standards. This, combined with a domestic tightening of regulatory policies, slowed the housing market. This, in turn, led to falling domestic demand as household equity declined and difficulties mounted for construction companies.

As the economic contraction continued, the Baltic states saw a very deep drop in GDP and sharp declines in revenues, which rapidly deteriorated their fiscal positions in 2008 and 2009. Latvia and Lithuania were worst hit, not least because their budgets in 2008 were still based on strong growth projections and further rapid expenditure growth.[184] They also reacted late. Lithuania was at the end of an electoral cycle, which prevented any swift initiatives, and in Latvia, neither the public nor the authorities took the crisis seriously at first. The situation was somewhat better in Estonia, as it took steps in the right direction in the course of 2008. The government was also less dependent on the financial markets during the acute phase of the crisis as it could fall back on its above-mentioned budget surpluses accumulated from earlier years.

The situation in the Baltic states worsened after the bankruptcy of Lehman Brothers on 15 September 2008. As global liquidity froze, the Baltic states were hit by a 'sudden stop' that further limited their access to international financial markets on acceptable terms. The three countries were left with little choice but to undertake rapid consolidation measures. In Latvia, the collapse of Parex Bank in November 2008 further aggravated the situation. In the absence of international liquidity, Parex Bank ran into major difficulties rolling over its foreign loans and suffered from its extreme exposure to the falling housing market. As Latvia's second largest bank and largest independent commercial bank, it was too big to fail. The government had to nationalize and recapitalize it. For Latvia, however, it also turned out to be too big to save, which led to the emergence of a balance of payments financing gap. Consequently, Latvia was forced to turn to the EU, the IMF and regional neighbours in December 2008 for financial assistance to the equivalent of 30 per cent of GDP.[185]

In all three Baltic states, rapidly growing deficits coupled with diminishing access to financial markets left the governments with little discretion. Valdis Dombrovskis, the Latvian Prime Minister during the latter phase of the crisis, summed up his government's work as 'fiscal consolidation, structural reform, economic

[184] Ibid., p. 6; Åslund, A. and Dombrovskis, V. (2011), op. cit., pp. 34–38.
[185] Deroose, S. et al. (2010), op. cit., p. 6.

stimulus to the extent the country could afford it, a social safety network and social dialogue to ensure social stability, and diplomacy to maintain international financial support'.[186]

In 2009–2010, fiscal correction was strong in all three states. This served to contain budget deficits to around 9 per cent of GDP in Latvia and Lithuania and to below 2 per cent in Estonia. Fiscal policy packages included large budget cuts but, in order to avoid forcing the economies into recession, few tax hikes. In Latvia, especially, three sectors were targeted for far-reaching structural reform: public administration, health care and education. In short, the government initiated a substantial downsizing and streamlining of the state apparatus based on international norms and practices.[187] In Lithuania, four-fifths of the fiscal adjustment consisted of expenditure cuts.[188]

The Baltic governments also had to find ways to stimulate growth. A hotly debated issue was whether Estonia, Latvia and Lithuania could devalue themselves out of the crisis. All three countries were reluctant to do so, not least, because this would have diminished their prospects of joining the euro in the near future. Instead, they opted for internal devaluation. Besides carrying out the structural reforms outlined above, this meant considerable cuts in the wage bill of the government sector and the trimming of social benefits, all of which caused a stir abroad as it was deemed more or less impossible.

A less discussed issue is the role that EU funds played in stimulating growth. In the preceding years of continuous economic growth, the three Baltic states had not fully utilized their share of EU funds. There had been no need, as increasing state revenues allowed for expanding budgets. During the crisis, however, Lithuania sharply raised its absorption of EU grants from EUR 1.2bn in 2008 to EUR 1.75bn in 2009 – from 3.7 per cent of GDP to 6.6 per cent of GDP.[189] In Latvia, the government succeeded in raising its revenues from EU funding from 4 per cent of GDP in 2009 to 7.4 per cent in 2010.[190]

The Baltic economies started to recover in 2010. GDP began to rise and all three countries saw a significant pick-up in exports, which had a positive impact on current account balances. The European Commission concluded in May 2010 that Estonia had fulfilled the conditions for the adoption of the euro, and a final decision on the matter was taken by the Council in July. On January 2011, Estonia introduced the euro without any problems and without any change to the

[186] Åslund, A. and Dombrovskis, V. (2011), op. cit., p. 78
[187] Åslund, A. and Dombrovskis, V. (2011), op. cit., pp. 72–74
[188] Åslund, A., 'Lithuania's remarkable recovery'. *EUobserver* [online], 28 November 2011, available at euobserver.com/7/114419.
[189] Ibid.
[190] Åslund, A. and Dombrovskis, V. (2011), op. cit., p. 77.

existing exchange rate. In addition to this policy achievement, Estonia has gained back almost half the GDP it lost during the crisis, according to the Estonian Minister of Finance.[191] Without doubt, Estonia's better pre-crisis position led to a more orderly transit through the acute phase of the crisis.

As of mid-2010, Latvia was still unable to access international financial markets, although the outlook for its credit rating had improved. In June 2011, Latvia was finally able to sell USD 500m worth of 10-year bonds on the international markets.[192] It was the first international issue since March 2008, when it had sold EUR 400m worth of 10-year bonds.[193] Lithuania had a successful international 1.5-year sovereign bond issue in July 2010 with an average yield of 3.412 per cent.[194] Both Latvia and Lithuania are determined to maintain their monetary and exchange rate arrangements in order to achieve the strategic objective of introducing the euro. Latvia aims to adopt the euro on 1 January 2014 and claims that it will meet the entry terms on time.[195] Lithuania had originally planned to adopt the euro in January 2007, but failed to meet the convergence criteria for inflation. According to the prime minister's cabinet, Lithuania will meet the criteria by 2014. The president believes, however, that this is highly unrealistic.[196]

All three states are still struggling with persistent, negative consequences of the crisis, such as high unemployment which reached 14.5 per cent in Estonia in 2010 and in Latvia and Lithuania was 17.6 per cent and 18.0 per cent, respectively.[197] Net emigration rose between 2008 and 2009 – especially in Latvia, to 0.21

[191] Ligi, J., 'The Baltic Area: Centre for Economic Progress'. Presentation given at a seminar arranged by the Stockholm School of Economics, 7 Nov. 2011.
[192] Bases, D., Investors buy into Iceland and Latvia debt issues, *Reuters* [online], 9 June 2011, available at www.reuters.com/article/2011/06/09/markets-bonds-iceland-idUSN0918698920110609.
[193] The Latvian Treasury, *Bonds* [online]. Last updated 10 August 2011, available at www.kase.gov.lv/?object_id=284
[194] Lietuvos Bankas (2012). Financial Markets Statistics/Auctions of Government Securities [database], available at www.lb.lt/money_currencies_and_financial_market_statistics.
[195] *Decree of the Cabinet of Ministers No 165 (Minutes No 14 Paragraph 29) of March 24, 2010 on Amendment to the Decree of the Cabinet of Ministers No 148 'On Latvia's National Euro Changeover Plan' issued on 6 March 2006*, available at www.fm.gov.lv/faili/struktura/FEEC870654440012731507235641 72.pdf [Accessed January 2012]; Carlstrom, J., Latvia can meet euro-entry terms on time, Finance Chief says, *Bloomberg* [online] 31 October 2011, available at www.bloomberg.com/news/2011-10-31/latvia-can-meet-euro-entry-terms-on-time-finance-chief-says-1-.html.
[196] Hõbemägi, T., Lithuania still planning to adopt euro in 2014, *BBN* [online] 4 January 2012, available at balticbusinessnews.com/article/2012/1/4/lithuania-still-planning-to-adopt-euro-in-2014.
[197] Eurostat (2011b). *Unemployment rates by sex, age groups and nationality (%) (lfsa_urgan)* [online database] Last updates December 21, available at epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database [Accessed January 2012]

per cent of population, and in Lithuania, to 0.46 per cent.[198] Critics of the Baltic austerity programmes argue that emigration – very unwelcome due to the demographic crisis there – is one of the main reasons why unemployment actually has started to fall.[199]

Critics maintain that the neoliberal post-Soviet policy pursued in the Baltic states since the 1990s has led to structural underdevelopment and left them bereft of an industrial economic base from which an export-led recovery can be staged. They argue that the austerity policies adopted during the crisis have only worsened the situation, as they stifle the real economy by reducing demand.[200]

From a security perspective, a crucial issue is whether Russia has exploited the crisis to promote its Baltic positions. Our interviews in the three states did not provide any conclusive answers to this question. According to recent statements made by the Latvian Prime Minister, there are no indications that Russia has exploited either the Latvian crisis or the January 2009 riots that followed the government's austerity package of November 2008. On the contrary, Russo-Latvian relations developed positively during the crisis. For example, the official Russian invitation of President Zatlers to Moscow in December 2010 is considered a great success and a significant step forward.[201]

In the aftermath of the crisis, the Lithuanian government was forced to take over the Snoras bank, formerly controlled by Russian businessman Vladimir Antonov, in mid-November 2011, acting on information received about a serious shortage of bank assets. As recently as the end of September 2011, Snoras was ranked ninth among 31 Lithuanian banks in terms of assets. The Snoras bank was later declared insolvent, and the government asked the courts to commence bankruptcy proceedings. The uncertain situation surrounding the bank forced the Lithuanian government to postpone a planned sale of government debt on the international financial markets.

The serious turnabout surrounding the Snoras bank led Latvian authorities to act against Latvijas Krajbanka, in which Snoras had a stake of slightly more than 60

[198] Eurostat (2011c*). Immigration by sex, age group and citizenship (migr_imm1ctz)* and *Emigration by sex, age group and country of next usual residence (migr_emi3nxt)* [online database] Last updated 15 Nov. 2011, available at epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database [Accessed January 2012]

[199] Sommers, J. and Hudson, M., 'Latvia and the disciples of "internal devaluation"', *The Guardian* [online], 16 September 2011, available at www.guardian.co.uk/commentisfree/cifamerica/2011/sep/16/latvia-anders-aslund-austerity/print.

[200] Ibid.; Kattel, R. (2009). 'Financial and Economic Crisis in Eastern Europe', paper presented at the Conference on Reforming the Financial System: Proposals, Constraints and New Directions, Muttukadu, Chennai, India, 25–27 January 2010. International Development Economics Associates, Shinfield, UK, available at www.networkideas.org/featart/jan2010/Eastern_Europe.pdf.

[201] Åslund, A. and Dombrovskis, V. (2011), op. cit., p. 100.

per cent. Krajbanka was also declared insolvent and discussions about bankruptcy proceedings are pending. Based on the insolvency of Krajbanka, a rumour spread in Latvia that Swedbank was insolvent as well, which caused panic and a bank run in December 2011. There has been much speculation about the source of the rumour and whether it was planted for any particular purpose. In any case, the episode shows that people's faith in the banking system and their government's ability to honour any state-issued bank guarantee (at present up to EUR 100 000 for individual depositors) is wearing thin – at least in Latvia.

Another aspect of the Snoras and Krajbanka insolvencies is that Russian actors have expressed their willingness to take on at least the viable parts of the two banks. Among the more notable bidders is the Russian Otkritie Financial Corporation, whose shareholders include Anatoly Chubais, the senior executive of the Russian nanotechnology company, Rusnano. The company had wanted to acquire Latvia's GE Money Bank in 2010, but the Latvian banking regulator, the Finance and Capital Markets Commission (FKTK), banned the deal, reportedly due to the Russian company's unclear ownership structure.[202]

It is also obvious that the economic crisis has harmed inter-Baltic as well as Nordic-Baltic cooperation. Judging from one of our Baltic interviewees, integration among the Baltic and Nordic countries has almost ceased, and it may not take off again for the next three or four years. From an Estonian viewpoint, it is nonetheless positive that Latvia survived the crisis, 'it shows something, that Latvia has become more stable'. [203] Latvians highlight the risk that the Baltic states will diverge, fearing that Latvia will then fall further behind Estonia. [204]

Baltic views of the Scandinavian banks' operations in the Baltic states have also become more ambivalent. Scandinavian banks are viewed as main culprits behind the rapid credit expansion, at least in Estonia and Latvia. Nevertheless, backed by the Swedish government, they acted responsibly during the crisis and played a stabilizing role in the banking sector. Without these actions, the outcome of the crisis could have been much worse. Now, however, their current credit policy is considered too severe, which hampers further economic recovery and future growth.[205]

[202] 'Latvijas Krajbanka rescue impractical – auditors' *Baltic Business Weekly* [online], 30 Jan.–5 Feb. 2012, available at www.bns.ee.
[203] Interviews in Estonia, May 2011.
[204] Interviews in Latvia, April 2011.
[205] Interviews in Estonia, May 2011; Interviews in Latvia, April 2011.

5.4 Energy: the Weakest Part of Baltic National Security?

According to our findings, asymmetric Russo-Baltic interdependence in the energy sector is considered a latent threat to security of supply in all three states. Baltic dependence on Russian energy producers and suppliers is discussed as a national security threat in the making – not least in the national security concepts. For instance, the current Estonian national security concept asserts that Russian interests depart 'from restoration of its status as a major global power'. In this capacity, it: 'does not refrain from confronting other countries and it uses its energy resources as political and economic means in different areas of international relations'.[206]

The strategically important energy sector has proved to be the most difficult to defend against Russian economic influence. This is because the energy infrastructures of the three Baltic states were originally designed as integrated technical and economic components of a comprehensive all-Soviet energy supply system. The three Baltic stares still stand out as isolated energy islands in relation to the other EU member states – far from the Commission's vision of a well-integrated European energy market. In spite of their post-Soviet Western orientation, Estonia, Latvia and Lithuania remain significantly dependent on Russian oil, gas and electricity to meet their energy needs. This, in turn, has motivated Russian energy companies to strive for further down-stream market integration, providing seamless supply and user chains for oil, gas and electric power in the Baltic states. In this way, these Russian companies have been able to strengthen their market position – as their increased influence or control over the dynamics of the specific energy markets considerably reduces financial risks and the threats to their own Baltic operations.[207]

Although Estonia, Latvia and Lithuania each encounter similar energy security challenges, it is evident that these issues no longer carry the same weight in all three countries. Accordingly, their energy security agendas have started to diverge. Our Estonian interviewees claimed that Estonia no longer had any urgent problems in its energy-based relations with Russia. Their take on energy security had instead shifted to a pan-European perspective, with an exposition on the significance of EU energy dependency on Russia and the efficiency of EU energy policy as an instrument for achieving EU energy security objectives.[208]

[206] *National Security Concept of Estonia*, p. 7, Riigikogu, 12 May 2010, Unofficial author's translation mod.gov.ee/files/kmin/nodes/9470_National_Security_Concept_of_Estonia.pdf.
[207] Malmlöf, T. (2010). op. cit., p. 45.
[208] Interviews in Estonia, May 2011.

Lithuania has placed itself at the other end of the scale, and – as was noted in chapter 2 - it pursues energy security much more determinedly than the other two states. Energy security was discussed frequently during our visit to Lithuania.[209] Among other things on the Lithuanian energy agenda, great expectations are attached to the national energy centre that Lithuania opened in January 2011.[210] The strategic objective of this governmental body is to achieve NATO accreditation as a centre of excellence for energy security analysis and coordination. The underlying purpose is to enlarge the NATO footprint in Lithuania and, presumably, strengthen Lithuanian influence over NATO's approach to energy security. Latvia, on the other hand, seems to have taken a middle position between the slightly more relaxed Estonian attitude and Lithuania's focus on energy security.

One plausible explanation for the recent Baltic divergence on energy security is that the three states are at different stages of the diversification of their supply chains and energy carriers. Thanks to its extraction of oil shale, Estonia is now much less dependent on imported energy than most other EU member states. In 2008, Estonia was dependent on outside sources for 27 per cent of its energy demand.[211] Oil products and natural gas make up about 90 per cent of Estonian energy imports, or 21 and 14 per cent of total primary energy supply (TPES), respectively. One-third of all oil products are imported from Russia and one-third from Lithuania. As is the case in the other Baltic states, Russia is the sole gas provider.

Extraction of oil shale, however, is considered a highly environmentally destructive activity, and the EU would prefer Estonia to close down this activity completely. The EU position on oil shale is not a major issue in Estonia, however, as it does not contradict Estonian energy policy. Oil shale is seen as a strategic reserve not to be wasted as long as other energy supplies are obtainable. As a domestic resource, oil shale is a guarantee of Estonian freedom of action in case of a major energy crisis – even one deliberately caused by Russia for political or economic reasons. Estonia is therefore currently cutting down its use of oil shale.

Latvian energy dependency amounted to 62 per cent of its demand in 2008.[212] Its energy production consists of renewable and combustible waste, as well as hydropower, some 34 per cent and 6 per cent of TPES, respectively. Latvian hydro-

[209] Interviews in Lithuania, May 2011. It is also interesting to note that key staff members at the Lithuanian embassies in Stockholm and Washington have a background in energy and energy policy.
[210] Energy Security Center, www.esc.mfa.lt.
[211] Energy dependency is defined here as net imports as a share of total primary energy supply (TPES). See the relevant databases on energy balance from the International Energy Agency, Paris, at www.iea.org/stats/prodresult.asp?PRODUCT=Balances and www.iea.org/textbase/nppdf/free/2010/key_stats_2010.pdf.
[212] Ibid.

power shows large variations in annual production, however, due to the unreliable supply of water. In addition to imports of oil products for the transport sector, Latvia imported gas from Russia (24 per cent of TPES), and electricity (9 per cent of TPES) from Russia, Estonia, Lithuania and Belarus, to which it connects through the Soviet-era BRELL electricity network.[213]

In 2008, Lithuanian energy dependency was equivalent to 58 per cent of its energy needs.[214] Imports of natural gas from Russia corresponded to 27 per cent of TPES. Lithuania undertakes large scale domestic production of oil products at the oil refinery in Mažeikių. Production in Mažeikių relies on imports of crude oil from Russia. Most of the production is for export. In 2008, only 20 per cent was consumed in Lithuania. Until its closure at the end of 2009, electricity generation at the Ignalina nuclear power plant met 30 per cent of Lithuanian TPES needs. Lithuania was not only self-sufficient in power generation, but could sell electricity to surrounding countries through the BRELL network. To compensate for the closure of Ignalina, Lithuania has been forced to buy electricity from Belarus and Russia. It has also increased its imports of natural gas to increase production at its combined heat and power plants, especially the Elektrėnai Power Plant where increased power generation has almost compensated for the loss of Ignalina. Thus, Lithuanian energy dependency has risen significantly since 2009 but, due to a lack of more recent data, it has not been possible to give a new estimate of its post-Ignalina energy dependency.

5.5 Recent Developments in Baltic Security of Supply: Challenges and the Way Forward

Even if Estonia, Latvia and Lithuania prioritize their energy security agendas differently, there is a common understanding of the overall problem and the issues at stake. Furthermore, all three states aim to improve their reliability of supply by increasing the stability and diversity of producers or generators, suppliers and distributors. The way forward looks similar in all three countries, aiming for synchronization and interconnection with the EU energy infrastructure and integration into the Nordic and Central European energy markets. All three states use EU energy policies as instruments for promoting market liberalization, although they have opted for different solutions. Estonia, Latvia and Lithuania are also well aware that an optimal energy solution in all three countries necessitates a comprehensive and systemic approach at the regional level. Thus, they agree in principle that any sustainable energy solution for the Baltic region has to trans-

[213] BRELL being Belarus, Russia, Estonia, Latvia and Lithuania.
[214] See note 211.

gress national logic and interests in order to be efficient. Finally, due to the high costs involved, the three states know that they are unable to bear all the costs themselves. FDI is therefore a probable necessity as well as further involvement of and funding from the EU.

In spite of the prevailing Baltic consensus on energy security, the overall impression is nevertheless that practical cooperation, not least on the development and implementation of energy projects of regional significance, leaves much to be desired. This, in turn, occasionally provides Russia with new opportunities to influence the Baltic energy sector, creating the very problems that the Baltic states strive to avoid.

The Visaginas nuclear power plant (NPP) project is a case in point.[215] Lithuania is determined to build the Visaginas plant as a replacement for Ignalina. This project, however, has been considerably delayed – experts in Estonia and Latvia assert that this is mainly due to Lithuanian mismanagement.[216] In any case, Lithuania has had major difficulties creating a viable partnership with its presumed key project partners, Estonia and Latvia. Poland, for instance, was invited to participate without the prior knowledge of Estonia and Latvia, which caused some mistrust over Lithuania's long-term intentions. A reliable strategic investor, US-Japanese Hitachi-GE Nuclear Energy, was not identified until the summer of 2011, and the concession agreement was signed in March 2012 and approved by the Lithuanian parliament in June the same year.[217] In December 2011, Polska Grupa Energetyczna (PGE), the Polish state-owned power company that had been invited to take a stake in the project, announced that it had suspended further involvement.[218] Officials from the Baltic states have so far tried to play down the significance of the Polish announcement and reaffirmed their own commitment to the project.[219]

[215] The Visaginas nuclear power plant, if realized at all, is expected to commence operations in 2020. The reactor model to be used is a 1300 MW third generation advanced boiling water reactor. The construction cost is estimated to be not more than EUR 5 billion.

[216] Interviews in Latvia, April 2011; Interviews in Estonia, May 2011

[217] See http://www.vae.lt/en/articles/view/483.

[218] Hyndle-Hussein, J. (2011). 'Lithuania announces it will continue the project to build a nuclear power plant – even without Polish participation'. *CeWeekly* [online], 14 December 2011, Centre for Eastern Studies, Warszawa, available at www.osw.waw.pl/en/publikacje/ceweekly/2011-12-14/lithuania-announces-it-will-continue-project-to-build-a-nuclear-power.

[219] See, e.g., 'Visaginas is a geopolitical project but Poland thinks differently – President', *Lithuania Tribune* (online), 18 December 2011, available at www.lithuaniatribune.com/2011/12/19/visaginas-is-a-geopolitical-project-but-poland-thinks-differently-%e2%80%93-president/; 'President: Poland's withdrawal from NPP project should make running of the plant easier', *Lithuania Tribune* (online), 16 December 2011, available at www.lithuaniatribune.com/2011/12/16/president-%e2%80%93-poland%e2%80%99s-withdrawal-will-make-the-power-plant-running-easier/; and
'Latvenergo: VNPP project has returned to the primary stage' *Lithuania Tribune* (online), 11 De-

Furthermore, in a referendum in October 2012, some 62.7% of the Lithuanian electorate voted "no" to the construction of the Visaginas nuclear power plant. Since the turnout was around 52%, the result of the referendum is considered "valid" by Lithuanian politicians. This does not necessarily mean, however, that the plant will not be built. Several of the politicians emerging victoriously from the parliamentary elections that were held at the same time as the referendum, argued that the NPP might be built anyway - after a restructuring of the project as such.[220]

Slow progress on the Visaginas project has allowed Russia to take tangible measures to initiate and start construction work on a nuclear power plant of its own in Kaliningrad. The Baltiyskaya Nuclear Power Plant has a projected capacity of 2300 MW. Lithuania was invited to participate in the project instead of developing its own, but declined.[221] Belarus has also announced its intention to build a nuclear power plant of similar capacity in Ostrovets, close to the Lithuanian border. It has already secured the necessary credits from Russia for this purpose.

Russia has publicly stated that the electricity produced at the Baltiyskaya plant is primarily intended for export to Western European countries (and to the Baltic states) and not for internal consumption. These intentions were further underlined when, in December 2010, Kaliningrad brought on-stream a second 450 MW power-generating unit at the Kaliningrad combined heat and power plant, making the exclave self-reliant and ending the need for electricity imported from the Russian mainland.

In addition, PGE has announced that it will in future focus on the development of domestic nuclear projects, which are in accordance with the new nuclear power programme approved by the Polish government in January 2011. A 3000-MW nuclear plant is planned for 2020 – probably in the north-eastern part of Poland. This explains why PGE had also reversed its earlier intention to buy power from the Russian Baltiyskaya power plant (which already made it a somewhat suspicious project partner in Lithuanian eyes). In hindsight, one interpretation of PGE's somewhat odd behaviour is that it wanted to gather information and experience from the Russian and Latvian nuclear projects before developing projects

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cember 2011, available at www.lithuaniatribune.com/2011/12/11/%e2%80%9clatvenergo%e2%80%9d-vnpp-project-has-returned-to-the-primary-stage/.

[220] See e.g. "Visaginas NPP – a dilemma for Lithuanian politicians", *Lithuanian Tribune*, October 16, 2012 (http://www.lithuaniatribune.com/2012/10/16/visaginas-npp-–-a-dilemma-for-lithuanian-politicians/).

[221] Malmlöf, T. (2010), op. cit., p. 87.

of its own. PNG claims, however, that the conditions of the Visaginas project were unacceptable and not in the interests of Poland.[222]

The potential overcapacity in nuclear power in the states in the south-eastern corner of the Baltic Sea casts doubt on the financial viability of the Visaginas project. Kaliningrad currently lacks the necessary infrastructure to export electric energy, and Russia has so far not been able to reach any agreements with potential customers There are strong doubts that the Baltiyskaya project will really go ahead, even though it is by far the most advanced project. Serious money has already been invested in preparatory groundworks and construction work, according to official project information.[223] According to other sources, workers began to prepare for the pouring of the first concrete in February 2012.[224] Furthermore, the state-controlled Russian energy company, Inter RAO, together with the Swiss company, Alpeq, plan to lay an undersea cable from Kaliningrad to Germany.[225]

The development of the Baltic gas market remains an important aspect of Baltic security of supply. An increasing number of higher-efficiency, gas-fired, combined-cycle electricity-generating power plants are currently set to replace conventional gas- and oil-fired steam-power plants. Particularly in Estonia and Latvia, the outcome will be a greater use of natural gas.

As current spot market prices for liquefied natural gas (LNG) delivered to Western EU countries are lower than the price for pipeline gas delivered to the Baltic states, LNG might become a counterbalance to Russian pipeline gas. The three states will have to invest in the necessary infrastructure for the handling, unloading, storage and gasification of LNG. A joint project would provide the best economies of scale in the procurement of import and storage facilities, as well as minimizing Russia's ability to exploit the supply and price of natural gas as tools

[222] Hyndle-Hussein, J. (2011), op. cit.; World nuclear news (2011). 'PGE keeps sights set on Poland', 12 December, available at www.world-nuclear-news.org/C-PGE_keeps_sights_set_on_Poland-1212117.html.

[223] Rosatom (2012). Itogi 2011 goda: plan vypolnen na 102 %! [Summary of 2011: the plan was fulfilled 102 per cent!] 13 January, available at www.blogi.rosatom.ru/baltaes/itogi-2011-goda-plan-vypolnen-na-102/.

[224] World nuclear news (2012). 'Imminent construction of Baltic nuclear power plant' (online), 8 February, available at www.world-nuclear-news.org/NN_Imminent_construction_of_Baltic_nuclear_power_plant_0802121.html.

[225] Rosatom (2012). '"Inter RAO"' protyanet kabel po dnu Baltiyskogo moray' ('"Inter RAO"' stretches a cable on the bottom of the Baltic Sea' 12 January, available at www.blogi.rosatom.ru/baltaes/inter-rao-protyanet-kabel-po-dnu-baltijskogo-morya/#more-1369 (accessed February 2012); World nuclear news (2011). 'Inter RAO to export Baltic NPP output' 4 February, available at www.world-nuclear-news.org/IT-Inter_RAO_to_export_Baltic_NPP_output-0402117.html.

of influence. The three Baltic states know this, but have still to reach any agreement on a concerted approach.

Lithuania, for which the LNG issue has become most urgent since the closure of Ignalina, maintains that it cannot wait any longer for a joint solution. More than 20 years have already passed since independence, and nothing has happened so far. Even if it still considers the construction of a common LNG terminal important, Lithuania's first option is to build a floating storage and regasification unit near the Klaipėda Seaport with a gas distribution capacity of 3bcm per year. The US Fluor Corporation was awarded a contract as lead adviser to the project in the summer of 2011. The terminal is planned to become operational in 2014.[226] Not least because of Lithuanian decisions, Estonia and Latvia are considering national LNG solutions as well.

5.6 Competiveness and Transparency in the Baltic Energy Sector

Recent developments in electricity markets are of special interest in terms of competiveness and transparency in the Baltic energy sector. All three states have recently reorganized, or unbundled, their electricity markets, i.e. separating generation, transmission and distribution. However, their unbundling models look different. Estonia and Lithuania apply full ownership unbundling while Latvia has opted for an independent transmission operator (ITO), a less stringent (and somewhat contentious) form of unbundling allowed for in the EU's third energy package. All three states nurture national champions in transmission, distribution and electricity generation in order to avoid market defragmentation.

Notwithstanding the interconnections between the Baltic and Russian electricity grids, so far, abstention from extensive privatization has protected Estonia, Latvia and Lithuania from unwanted Russian investment in the more crucial parts of their electricity markets.[227] However, an undesirable side-effect of current organizational models is that they enable vested interests to influence energy decision-making, possibly pursuing policies that discriminate against non-state actors or hurt consumers.

Deregulation of the electricity markets will be completed in the next few years. All consumers will then be able to choose their electricity supplier without constraints. One detrimental outcome of deregulation is that it will provide incen-

[226] Fluor (2011). 'Fluor wins advisory contract for Lithuanian gas terminal' (news release), 5 July, available at http://investor.fluor.com/phoenix.zhtml?c=124955&p=newsarticle&id=1582032.

[227] The main connection to the north is to Estonia from the Leningrad nuclear power plants (*Sosnovy Bor*) and to the south is to Lithuania from Smolensk via Belarus. The connections form a circle starting and ending in Russia, with a branch to the Kaliningrad exclave.

tives for greater demand for Russian electricity. As a third country, Russia is not subject to the EU Emissions Trading Scheme (EU ETS), the cornerstone of EU policy to combat climate change through the reduction of industrial greenhouse gas emissions. Presumably, this means that production costs in Russia will remain lower than those within the EU. Given a deregulated electricity market and the electricity interconnections between the Baltic states and Russia, Baltic energy companies will therefore probably not be competitive against Russian suppliers. Thus, the implementation of current EU legislation creates new opportunities for Russian inroads into Baltic electricity markets, against the long-term energy security interests of the latter. From an EU point of view, the deregulation of Baltic energy markets risks turning the Baltic states into a source of substantial carbon leakage, undermining the whole idea of the EU ETS cap-and-trade-system.

The Baltic and Polish energy market deregulations will also alter the profitability and competiveness of the four regional nuclear power plant projects. The Baltiyskaya nuclear power plant will be built partly with nonreturnable state funds from the profits of Rosatom, the Russian state-owned nuclear monopoly. The Visaginas plant, by contrast, will rely on borrowed private funds. In this way, the Baltiyskaya plant is likely to carry much lower costs for debt servicing compared to the Visaginas. In addition, given that Russia has not yet ratified the so-called Espoo convention (the United Nations Convention on Environmental Impact Assessment in a Transboundary Context), there are concerns that it will apply less stringent safety provisions to the Baltiyskaya plant than will be applied to Visaginas. This might also have a negative impact on the financial feasibility of the latter project. Inter RAO Lietuva, an important independent power supplier in the Lithuanian energy market and a subsidiary of Inter RAO, has already signed a long-term contract, covering the period 2017 to 2036, for power supply to the Baltic Sea area from the Baltiyskaya plant. Lietuva, the group behind Inter RAO, recently moved into Estonia and Latvia to facilitate further market penetration.

5.7 Energy Saving and Sustainability

In order to promote energy sustainability and further diversify their energy sources, all three Baltic states plan to use more renewable energy sources, such as waste and bio-fuels. It is questionable whether they are endorsing this development based on their own environmental convictions, or just obeying EU environmental and energy policies. Established energy companies have occasionally shown some resistance to renewable energy and new energy sources, defending their own interests, for example, by dismissing wind power as a luxury that only rich countries can afford.

It is also significant that Estonia, Latvia and Lithuania are investing considerable efforts in increasing their capacity to generate electric power. Much less attention

seems to have been paid to energy saving and efficiency. Given what is now known about the enormous waste of energy that was the norm in the Soviet Union, there is probably still great potential for energy-efficiency measures in those parts of the Baltic energy system that have not yet been modernized.

5.8 Support from the EU and Other EU Member States

In addition to international recognition and military security guarantees, it has been a shared security policy goal of Estonia, Latvia and Lithuania to multilateralize the complex energy security dilemmas that emanate from their dependency on Russian energy suppliers. The three states have great hopes of the EU as a more suitable platform for bargaining with Russia on energy issues.

However, engagement in Brussels on Baltic energy issues was initially very weak. One reason for this was that the great project of the 1980s, the European internal market, had not been applied to the energy sector in any particular way. Deregulation and integration of European electricity markets, for instance, were not initiated until the first internal market directive for electricity in 1996. The energy sector was thus still very much unknown territory for the EU when the bulk of the Eastern European states joined in 2004.

Another reason for the EU's lack of commitment was that the peculiarities of energy production and supply in Eastern Europe were not clear to its Western member states. Based on their own experiences, these countries had in most cases no reason to believe that Russia was anything other than a reliable energy supplier. The EU also nurtured hopes that any possible or potential outstanding energy issues between Russia and the EU or any of its member states could be resolved by negotiations based, for instance, on the so-called Energy Charter Treaty (ECT), an early post-Cold War initiative to develop energy cooperation among the states of Eurasia.[228] The ECT, however, did not develop into a new 'Coal and Steel Community' for deeper European integration. In October 2009, Russia terminated its provisional application of the ECT, which in effect sharply reduced its significance and relevance to European energy security.

In these circumstances, EU energy policies were initially not decisive in improving Estonian, Latvian and Lithuanian energy security. Certain important aspects and core objectives of EU energy and environmental policies have had quite the opposite effect, tilting Baltic energy markets very much in favour of further Russian market penetration and thereby undermining long-term security of supply. As is discussed above, the closure of Ignalina made Lithuania fully dependent on

[228] For more information about the charter see www.encharter.org/index.php?id=7.

Russian gas and electricity to meet its demand for electricity. Baltic fossil-fuelled power plants – not the least Estonia's electricity production based on oil shale – are burdened by the EU ETS, while Russian electricity distributors are not.

Poland is the EU member state that has so far been most sympathetic to Baltic views on energy security. As a former member of the now defunct Soviet-dominated Warsaw Pact bloc, Poland is largely in an analogous position. However, the impression in the Baltic states is that Poland's position on energy security shifted after the air crash in Smolensk in April 2010 which more or less eradicated the Polish conservative and nationalistic political elite. Poland post-Smolensk pays less attention to geopolitics and seems to strive solely for pragmatic and business-based relations with Russia. It has, according to some of our interviewees, therefore become somewhat alienated from the three Baltic states.

Nevertheless, the road to an EU common energy strategy, prompted by the Russo-Ukrainian gas wars of January 2006 and 2009, has strengthened the Baltic energy cause in recent years. At the request of Poland and the Baltic states in particular, the Lisbon Treaty has a solidarity clause (article 122, para. 1) on the functioning of the European Union that empowers the Council to decide on appropriate measures 'in particular if severe difficulties arise in the supply of certain products, notably in the area of energy.[229] A new article 194 in Title XXI Energy strengthens the position of energy policy, placing it in the context of the internal market along with protection of the environment.[230]

The most visible outcome for the Baltic states of the EU's renewed interest in energy is that the effective interconnection of the Baltic Sea area was identified as one of six prioritized energy infrastructure projects in the Second Strategic Energy Review, adopted by the European Commission in November 2008.[231] Consequently, a Baltic Interconnection Plan (BEMIP), covering gas, electricity and storage, was instigated in 2009 involving Finland, Estonia, Latvia, Lithuania, Poland, Germany, Denmark and Sweden, as well as Norway as an observer.[232] BEMIP mostly involves projects that have been developed in other circumstances, but still serves a purpose as a coordinating instrument and a facilitator of access to external capital.

[229] 'Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007' *Official Journal of the European Union*, Vol. 50 C 306, 17 Dec. 2007; 'Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union' *Official Journal of the European Union*, Volume 53 C 83, 30 March 2010.

[230] Ibid.

[231] European Commission (2008). *Second Strategic Energy Review: an EU Energy Security and Solidarity Action Plan*, 13 Nov. 2008, COM(2008) 781 final, Brussels, p. 5.

[232] Final Report of the High Level Group: BEMIP Action Plan, June 2009, available at ec.europa.eu/energy/infrastructure/events/2009_11_25_bemip_conference_en.htm.

The electricity sector is the first priority of BEMIP. The aim is to create an internal market for electricity that connects the 'Baltic energy island' with the EU internal electricity market.[233] In 2007, Estonia was connected to the Nordic electricity market (Nord Pool) by the 350-MW Estlink undersea cable between Harku in Estonia and Espoo (Esbo) in Finland. A new link, the 650-MW Estlink 2, between Porvoo (Borgå) in Finland and Püssi in Estonia, is expected to be operational by 2014. NordBalt is a planned 700-MW power cable between Nybro in Sweden and Klaipėda in Lithuania. This project was delayed by internal competition between Latvia and Lithuania over which country should host the connection point on the Baltic side. Commissioning is planned for 2015–2016. A 1000-MW connection between Alytus in Lithuania and Elk in Poland (LitPol) is also envisaged, which would connect Estonia, Latvia and Lithuania with the synchronous grid of continental Europe (UCTE).

The prospects of a LitPol connection encouraged the prime ministers of the Baltic states in 2007 to commission a professional evaluation of the feasibility, timeline and cost of a possible synchronization of the Baltic electricity grid with the UCTE.[234] This would mean that the Baltic grid would first have to be decoupled from the Russian grid, which would be a further step towards dismantling the inherited 'Soviet energy empire'. So far, however, progress on the LitPol project has been slow. Lithuania has prioritized the interconnection with Sweden because the implementation of LitPol has been informally conditioned on the success of the Visaginas project. Furthermore, the three Baltic states are no longer united on power synchronization with UCTE. In November 2011, Latvia blocked an EU proposal on the synchronous connection of the Baltic electricity grids to UCTE after it failed to obtain guarantees from Estonia and Lithuania that they would back a regional LNG terminal in Riga. Latvia's economy minister, Daniels Pavluts, announced that Latvia would seek to remain within the Russian energy system. In Lithuania, the incident was reported as Latvian blackmail, as it was perceived as an attempt to make the resolution of two problems without any connection contingent on each other.[235]

[233] Ibid., pp. 2–3.

[234] Kalvitis, A. (2007). 'Public address: Baltic Regional Energy Forum', Riga, 12 June, available at www.mk.gov.lv/en/mp/runas-pazinojumi/Arhivs-AK/12062007/; Salomaa, P. (2011). 'Expert article 809: The electricity market around the Baltic Sea – still political', *Baltic Rim Economies, Quarterly Review* 3 (31 Oct. 2011), available at www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/BRE2011/BRE%203-2011%20final.pdf.

[235] *Baltic Business Weekly* (2011). 'Baltics: Brussels study will tell location of LNG terminal' (online), 12-18 December, available at www.bns.ee; Baltic News Service (2011a), 'With no guarantees from Lithuania, Estonia on LNG terminal, Latvia blocks power grids' synchronization – Polish minister' (online), 25 November, available at www.bns.ee; and Baltic News Service (2011b). 'Latvia blackmails Lithuania over energy system, wants support for its LNG terminal – daily' (online), 24 November, available at www.bns.ee.

BEMIP-related infrastructure projects in the gas sector aim to upgrade cross-border capacity and internal systems between Estonia and Latvia, and between Latvia and Lithuania. The idea is also to build pipeline connections between Finland and Estonia as well as between Lithuania and Poland, and to provide one or more LNG terminals and gas storage facilities of regional importance.[236] In order to create effective gas markets, the gas sector is also to be unbundled, and an entry-exit model is to be implemented.[237] Lithuania has pushed this issue further than any of the other two states, but it has been met with resistance from Gazprom and E.ON Ruhrgas, the main shareholders in all the national distribution systems in the Baltic region. To avoid losing its monopolistic position in the Lithuanian gas sector, Gazprom has even tried to convince the European Commission not to accept the unbundling model envisaged by Lithuania. Lithuania has also had to pay a price in the form of higher charges for gas than its neighbouring countries.

It is an open question whether the unbundling of the Baltic gas markets would have got off to a better start if the three states had coordinated their activities better and opted for the same unbundling model in order to mitigate possible Gazprom countermeasures. One reason why Lithuania is not prepared to give any guarantees on a regional LNG terminal in Riga is that Latvia is not taking any measures to resolve the issues pertaining to the reorganization of its gas sector. From a Lithuanian perspective, any support for a regional LNG terminal would be pointless if Gazprom were allowed to maintain its grip on Latvia's gas infrastructure.[238]

5.9 Conclusions

In sum, all three states have made a successful transition from the post-Soviet economic chaos to a market economy. Estonia has benefited from being an early mover. It has attracted more FDI, a larger share of its trade relations are with developed economies (mostly other EU member states) and GDP per capita is higher than in Latvia and Lithuania. The Baltic economies grew rapidly during the first decade of the new millennium but, like many other transition economies, Estonia, Latvia and Lithuania failed to prevent their economies from becoming overheated. Thus, when the global financial crisis started to evolve, it initially hit the bubble economies of the Baltic states very hard. All three countries were left

[236] Final Report of the High Level Group: BEMIP Action Plan, June 2009, available at ec.europa.eu/energy/infrastructure/events/2009_11_25_bemip_conference_en.htm.
[237] Jahn, A. (2011). *Implementation of an Entry/Exit Model for the East-Baltic Gas Market*, TREN/R350-2008 Lot 3, European Commission, DG Energy (pdf), June, available at ec.europa.eu/energy/infrastructure/doc/2011_study_east_baltic_gas_market.pdf.
[238] Baltic News Service (2011a), op. cit.; Baltic News Service (2011b), op. cit.

with little choice but to undertake swift consolidation measures in order to tackle the rapidly deteriorating fiscal positions caused by economic contraction. The Baltic economies began to recover in 2010. It was a triumph for the Estonian Government to introduce the euro in 2011, in accordance with its pre-crisis planning. Both Latvia and Lithuania also succeeded in maintaining their monetary and exchange rate arrangements, according to which they will be able to introduce the euro, most probably, in 2014.

As one of the consequences of the Baltic economic crisis, Scandinavian banks were identified early on as the main culprits for the excessive and rapid credit expansion. When the crisis hit, however, they played a stabilizing role in the banking sector, which is believed to have mitigated the outcome of the crisis considerably. Somewhat unexpectedly for the three countries, it seems so far that Russia has abstained from exploiting the crisis in economic or political terms. In the case of Latvia, political relations are even said to have improved. Nevertheless, the bankruptcy of Parex Bank in Latvia, a bank with many Russian connections, as well as the nationalizations of the Snoras Bank in Lithuania and Latvijas Krajbanka in Latvia were aggravating factors in the crisis. It is worth noting that Russian interests are prepared to take over some of the remnants of Snoras Bank and Latvijas Krajbanka. At the time of this writing, however, the outcome is still unclear.

Perhaps the most serious and lingering effect of the crisis is that it has negatively affected inter-Baltic and Nordic-Baltic integration. A lack of resources has meant that all three countries have also had to cut back on some essential expenditure – in the case of Latvia and Lithuania, even spending on the armed forces has been cut severely.

Recent developments make Baltic energy security more feasible than ever before, even if some caveats remain. The multilateralization of their energy policies within the EU must be considered a success for Estonian, Latvian and Lithuanian diplomacy. Nonetheless, the inability to forge a common view on energy security among the EU member states has negative consequences for all, particularly the Baltic and other Eastern and Central European States that are highly dependent on Russian energy suppliers. The reluctance of EU member states to sign energy agreements with third countries at the EU level instead of on a bilateral basis gives Russia a much stronger bargaining position, which it may exploit to play EU member states off against each other. Moreover, EU external energy policies based on idealistic, liberal concepts of reciprocity and interdependence, strategic partnerships and the sanctity of negotiations and international law, seem less suited to balancing Russian energy realism grounded on state capitalism, Russian freedom of action and a zero-sum game approach to energy supply and demand.

Estonia, Latvia and Lithuania are well aware that a joint approach to resolving their specific energy security issues would be preferable. In most cases, joint projects and systemic thinking would be more cost-effective than national solu-

tions. This is especially important given that the economic crisis has depleted their own resources and restricted access to international funds. Nevertheless, as the many turnabouts of the Visaginas project, the lengthy discussions about a joint LNG terminal and the possible harmonization of the Baltic electricity grid with the UCTE demonstrate, the approach to energy security solutions in the Baltic states is frequently as national in substance as it is in other parts of the EU.

6 Concluding Remarks

6.1 Finalizing the Analysis

This chapter returns to the initial research questions in the light of the comprehensive analysis presented above. These questions were:

1) How does each of the three Baltic states conceive of its security situation?
2) What are the primary threat perceptions of the Baltic states, according to their own decision makers and officials?
3) Can the Baltic states be defended against these threats; and, if so, how?

This final analysis is based on the results from all four of the empirical chapters above. It ends with a forward-looking section on the Baltic security complex as a whole.

6.2 The Baltic states' Perceptions of their Security Situation

6.2.1 Traditional Security Policy Perceptions

There is a remarkable – although perhaps not surprising – similarity between all the Baltic states when it comes to traditional security policy. They all underline the utmost importance of their memberships of NATO and the EU, and the international, collective solidarity that these entail. In addition, all three countries place a decisive value on the transatlantic relationship and clearly believe that their own relations with the United States remain strong and will be enduring. Thus, the traditional Baltic Atlanticist stance remains unbroken. However, not least in relation to the expected US pivot towards the Pacific theatre, Estonians, Latvians and Lithuanians worry about how to maintain a permanent US interest in the Nordic-Baltic region. Besides support for US policies and boots on the ground in Afghanistan and Iraq, they back initiatives such as missile defence that will keep US military personnel in Europe, which can be seen as constituting a trip wire force against potential aggressors. Nonetheless, they accept that the permanent US presence in Europe will decrease. Most critical, from a Baltic perspective, is how fast US forces can get to Europe in case of a crisis. Military exercises with US troops in the Baltic region are therefore considered very important.

Second, there is a growing interest in the EU Common Foreign and Security Policy (CFSP), including the Common Security and Defence Policy (CSDP). This has not always been the case. All three Baltic states today are in favour of a strengthened or more developed CFSP/CSDP, which allows for stronger international EU operations. One reason for this is the realization that the CSDP in particular is no longer a competitor of either NATO or the transatlantic link, but instead an important platform for political dialogue and commitments in the EU context. Related to the CSDP, as mentioned above, is an interest in participating in upcoming Nordic Battle Group rotations. However, this might be very difficult for financial reasons.

Third, collaboration with the Nordic countries is a priority issue for the Baltic states. After some years of a less active approach to the Nordic countries, following their admission to NATO and the EU, Nordic-Baltic interactions have now achieved new momentum. This has been observed by states outside the region, most notably the United Kingdom. Nonetheless, coordination and further integration between the eight countries involved has proved difficult. Baltic representatives like to talk about deeper Nordic-Baltic integration, but they are usually vague about the content – as are their Nordic counterparts. Presumably, further Nordic investment in the Baltic economies and deeper cooperation on issues related to energy supply would be welcomed.

6.2.2 The Perception of Economic and Energy Security

All three Baltic states made a successful transition from post-Soviet economic chaos to a market economy. The Baltic economies grew rapidly during the first decade of the new millennium but, like many other transition economies, Estonia, Latvia and Lithuania failed to prevent their economies from becoming overheated. Thus, as the global financial crisis evolved, it initially hit the bubble economies of the Baltic states very hard. All three countries were left with little choice but to undertake swift consolidation measures in order to handle rapidly deteriorating fiscal positions caused by economic contraction. The Baltic economies began to recover in 2010. It was a triumph for the Estonian Government to introduce the euro in 2011, in accordance with pre-crisis planning. Latvia and Lithuania also succeeded in maintaining their monetary and exchange rate arrangements, according to which both countries will most probably be able to introduce the euro in 2014. In sum, the economic outlook and economic security-related perceptions in the three Baltic states are fairly good, although not without problems.

In terms of the Baltic energy security situation, there is a clear difference between the situations of the three countries. Estonia perceives its energy security situation to be fairly good, whereas Lithuania sees energy security as a major source of national insecurity, given the country's dependence on Gazprom. However, the multilateralization of energy policy within the EU must be considered a

major success for Estonian, Latvian and Lithuanian diplomacy. Having the European Commission on one's side when dealing with huge, Russian state-owned energy companies should be a distinct advantage for small countries such as the Baltic states.

6.3 The Primary Baltic Threat Perceptions

6.3.1 Traditional Security Threats

For small and geopolitically exposed countries such as the Baltic states, issues of national security in a very traditional sense always tend to take priority. However, there is by and large a consensus in the Baltic states today that direct, military and existential threats are at present negligible. What have grown in importance, however, are new forms of threat that in the long run might become very serious, and in some cases even existential. Here, Estonia tends to emphasize cyber threats – not least after its own experiences in 2007 – and Lithuania tends to emphasize energy security issues, given its ongoing struggle with Russian state-owned energy companies.

Lingering in the background, however, are future possible risks related to strategic changes in Northern Europe. These risks tend to focus on a potentially more assertive – or revanchist – Russia, but also on changing global US priorities. There is a fairly strong Baltic consensus, however, that there is no immediate reason for concern regarding any of these issues.

Nonetheless, in the long term the 'Russia factor' might become a major problem for the Baltic states. Russia is a uniting factor for the Baltics, ever-present in their strategic considerations. The risk of military conflict is currently reduced to a minimum, but Russian demonstrations of force close to the borders of the Baltic states are seen as a remaining threat.

What Russian military reform and the declining military capabilities of most NATO countries might mean when weighed against NATO's increased levels of exercises and activity in the region, and the plan to bolster territorial defence capabilities in the Baltic states, is difficult to say. In the short term, however, few if any Baltic interviewees see Russian military action as a direct threat.

It should be noted, however, that all three Baltic states are currently increasing their territorial defence capabilities. Thus, there might be a slight difference between official statements by and the genuine threat perceptions of Baltic decision makers.

Another perspective on Baltic threat perceptions comes from the fact that certain NATO/EU member states relate directly and bilaterally to Russia. These rela-

tions – not least the Russian-German relationship – might be disadvantageous to the Baltic states.

6.3.2 Economic and Energy Security Threats

As is noted above, it is largely the non-military threats that concern the Baltic states today, among others the current global financial crisis. Scandinavian banks were highlighted early on as the main culprits in an excessive and rapid credit expansion. When the crisis hit, however, they played a stabilizing role in the banking sector, which is believed to have mitigated the effects of the crisis considerably. In addition, it is fair to say that, so far, Russia has abstained from exploiting the crisis in economic or political terms. In the case of Latvia, political relations are even said to have improved. Nevertheless, the bankruptcy of Parex Bank in Latvia, a bank with many Russian connections, as well as the nationalization of the Snoras Bank in Lithuania and Latvijas Krajbanka in Latvia have been aggravating factors in the crisis.

There are several interconnected threat perceptions in the energy field. Some are external, and others are internal or related to problems within the EU. Regarding the latter, the inability to forge a common view on energy security among the EU member states has potentially negative consequences for all, particularly the Baltic and other Eastern and Central European states which are more dependent on Russian energy suppliers. The reluctance of member states to sign energy agreements with third countries at the EU level, instead of on a bilateral basis, gives Russia a much stronger bargaining position, which it may exploit to play EU member states off against each other. Moreover, EU external energy policy based on reciprocity, interdependence and international law, seems less suited to balance Russian 'energy realism' grounded on state capitalism, Russian freedom of action and a zero-sum game approach to energy issues.

6.4 The Defensibility of the Baltic States: a Comprehensive Analysis

6.4.1 Traditional Defensibility: Diplomatic and Military Aspects

The Baltic states see NATO, in particularly the USA, as their primary security provider. NATO's new strategic concept and its contingency planning are regarded as confirmation of NATO's viability and that NATO stands by its commitments. In contrast to the debate in some other parts of Europe, the planned reductions in European and US forces based in Europe are not seen as negatively affecting NATO's deterrence capability. Thus, the belief in the NATO and US commitment to the defence of the Baltic states is strong in the latter. Regarding NATO contingency planning, Baltic integration into the Atlantic security struc-

tures has gone fairly well, although many problems of a practical and economic nature persist. The new NATO strategic concept is very much in line with the main Baltic priorities, especially in terms of its emphasis on territorial defence. There is NATO contingency planning in place for the Baltic states and, provided that article 5 exercises are carried through on a larger scale, it could be said that NATO planning is linked with reality.

However, in the – albeit unlikely – event of open hostilities and war, the picture looks darker from the point of view of the Baltic states. The fact that current and planned military cutbacks in some Western European states – in particular the UK and Germany – might weaken substantially NATO's ability to support the Baltic states in the event of a crisis is not officially discussed as a problem. There is, however, a tacit understanding in the Baltic states that this might in fact be undermining NATO's defence posture.

The difficulties in deploying heavy NATO ground forces to the Baltic states, due to either the lack of such assets or the problems of getting them there, will make it hard to conduct effective defensive operations in the Baltic states or to launch such an operation from outside. The most pressing problem from NATO's point of view, in either a crisis or a war situation, would probably be how to make it credible that a powerful air campaign could be launched at short notice, should there be an attack on the Baltic states. In such a context, Swedish and Finnish territory and airspace will be of considerable importance for the possibility of NATO defending the Baltic states.

The belief in the EU as a security provider is much more limited. Enhanced coherence of foreign and security policies in the EU is regarded as a contribution to its security as a whole as well as that of its member states. In a NATO context, a stronger EU military capability is mostly welcomed, as it would promote the contribution of European countries to developing NATO military capabilities as well. Where NATO interests and the CSDP coincide, the Baltic states see no contradiction in supporting both. There is no particular discussion of the issue of 'defence renationalization' in the Baltic states.

Security building through cooperation with the Nordic countries is also regarded by the Baltic states as a means of defence. They see good reasons for, but also set preconditions on, increased cooperation – and express an interest in becoming involved in NORDEFCO. Swedish and Finnish military non-alignment, however, are seen as to some extent impeding the potential for Nordic-Baltic security and defence cooperation.

6.4.2 Economic and Energy Defensibility

All three Baltic states have made a successful transition from post-Soviet economic chaos to a market economy. The Baltic states are effective when it comes to attracting foreign direct investment, Estonia being the first among equals here.

In the economic sphere, one step regarded by the Baltic states as a major means of defensibility – Western economic integration through joining the euro – has already being embarked on by Estonia and is planned by Latvia and Lithuania. Getting their financial and macro-economic houses in order is a key form of defensibility for all three countries, and they have succeeded remarkably well in doing so – at least in comparison with some of the countries in Southern Europe.

In terms of energy security defensibility, the picture is not as bright. Estonia, Latvia and Lithuania are well aware that in order to resolve their specific energy security issues, a regional approach would be preferable. In most cases, joint projects and systemic regional thinking would be more cost-effective than national solutions. Nevertheless, the overall Baltic approach to energy security solutions is frequently governed by national, rather than multilateral, considerations – as is the case in most European countries. The many turnabouts of the Visaginas nuclear power project, the lengthy discussions about national and/or joint LNG terminals and the possible harmonization of the Baltic electricity grid with the European grid are all examples of this. Given the vulnerability of the Baltic states in this regard, it is possible to conclude that defensibility issues regarding energy security might be the weakest point in the overall security and defensibility of the Baltic states. The Energy Security Centre currently being established in Lithuania might be one way of dealing with this at least symbolically – especially if it gets NATO accreditation in the same way as the NATO Cyber Security Centre of Excellence has in Estonia.

6.4.3 The Security of the Baltic States as part of the Baltic Sea Area Security Complex

In the light of the above comprehensive analysis of Baltic security and defensibility, the concept of a Baltic Sea security complex seems highly relevant and fruitful. The states in the region have primary security concerns that apparently link together so closely that their national security cannot realistically be considered separately from one another. This goes as much for the Baltic states as for the Nordic states, albeit in different ways. Examples of the security concerns of the Baltic states include:

- The significance of their EU and NATO membership
- The importance of the transatlantic link
- Their dependency on NATO military capabilities
- The importance of the future development of Russian foreign and defence policies
- Their increasing appreciation of the EU’s common foreign, defence and security policies

- The increasingly geopolitically important territorial and political role of Sweden and Finland in the defensibility of the Baltic states

A central idea of the security complex concept is that different local issues and relations play a dominant role in defining the national security priorities of each state within the complex. A multitude of such issues – both domestic and inter-state in character – are identified above. In the case of the Baltic states, they include:

- The dependence on Russian energy companies
- The Kaliningrad exclave
- The issue of minorities – primarily Russian-speaking minorities in Latvia and Estonia, but also the Polish minority in Lithuania

These latter issues also define the principal binding insecurities, that is, the bases for possible conflict, of the complex from the perspective of the Baltic states. Overall, the interplay between external influences that amplify local problems, and local problems that shape and constrain external entanglements and influences is clearly the key issue of the security situation of the Baltic Sea area. As of today, however, the Baltic states' insecurities in the military field are kept in reasonable check by their membership of NATO and, to a lesser extent, the EU.

There are also a number of outlying problems of a slightly different kind. First, although the Baltic states' security and defence policy outlooks and strategies are very similar, they leave – generally speaking – much to be desired in the context of Baltic, and Nordic-Baltic, defence cooperation. Much more synergy could probably be derived from a more coherent approach, not least to the NB8 concept. However, as long as the Nordic and Nordic-Baltic countries do not belong to the same military alliances, it seems fair to say that both Nordic and Nordic-Baltic defence cooperation will not be able to reach their fullest potential.

Second, on the energy side, a conceptual issue – the EU's 'energy liberalism', that is, the idea that energy markets should be free and unmanaged, leads to substantial difficulties for the Baltic states – especially Lithuania. When European energy liberalism meets Russian 'energy realism', that is, a much more mercantilist approach in which the energy industry is used by the state for both political purposes and economic gain, small and energy-dependent states such as the Baltic states tend to lose out.

As is noted above, however, there are ways of defending oneself against such problems, and the Baltic states have been somewhat successful in doing so – not least through the EU institutions. Having to think about resolving the energy dependency problem is much more agreeable than having to plan for a likely military attack. In this sense, the Baltic security situation today is both much better and easier to defend than it has been for many years.