

# New Lithuanian government deepens orientation to European Union

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After several weeks of wrangling, the Lithuanian "New Policy" coalition of the Liberal Union and the New Union parties have successfully formed a minority coalition government. They have agreed ministerial positions and outlined their budgetary policies and attitude towards the European Union (EU). Former Prime Minister Rolandus Paksas, leader of the Liberal Union, will lead the government. Paksas was briefly Prime Minister in 1999 but resigned over the terms of the partial privatisation of the Maziekui Nafta oil refinery to US oil giant Williams International.

"New Policy" has been able to form a government despite the Social Democrats' success in winning 51 seats in the 141 seat Seimas (Parliament)—the largest party grouping. The Social Democrats, led by ex Stalinist and former Prime Minister Algirdas Brazauskas, have benefited from the electoral collapse of the conservative Homeland Union. Consequently, the ruling parties—who hold just 63 seats combined—have been able to form a parliamentary majority only with the support of the Polish Electoral Action, and the Farmers Union, who have 2 and 4 seats respectively.

The "New Policy" administration is the eleventh Lithuanian government in the 10 years since the country gained independence from the Soviet Union. Despite its name, the government will continue the policy pursued by its 10 predecessors—structural "reform", privatisation, attracting global investment and integration into the EU. The only change will be its efforts to speed up the pace of "reform" by removing all impediments to the expansion of profit and private wealth.

The new government's draft economic programme, to be supervised by Liberal Union finance minister Jonas Lionginas, calls for the state budget deficit to be

restricted to between 2 percent and 3 percent of GDP and gradually eliminated. It plans to eliminate corporation tax, presently set at 24 percent, and replace it with a tax on dividends. Capital gains tax would also be entirely removed "to encourage the populace to save and develop an investment culture". The constitutional barrier to corporate and overseas land ownership is also to be removed.

The government intends next year to break the Lithuanian currency's ties to the dollar, fixing it to the euro instead, in line with the country's aim of joining the EU in the first wave of expansion in 2004. Lithuania, which is increasing its defence spending to 2 percent of GDP, also hopes to join NATO at the first opportunity.

Lithuanian government policy is little different from that of its Baltic neighbours, Estonia and Latvia. Essentially all three countries are intent on becoming free trade zones on Europe's margins—offering extremely low wages and a highly educated workforce to the transnational companies now queuing up to buy up state assets in energy, banking and telecommunications.

They differ principally in the extent to which this process has been carried through. Latvia, for example, is plagued with political instability and factional feuds arising out of the few remaining large interests still to be privatised. A series of scandals have erupted through which the Latvian ruling elite is fighting out disputes between the oil, transport, power and food processing interests that dominate the Latvian economy. Latvia has had nine governments since independence from the Soviet Union, three in the last two years. In May 1999 Vilis Kristopans, then Prime Minister, triggered the collapse of his own government by sacking Economics Minister Ainars Sleser for complaining at the

appointment of Aivars Lemberg, mayor of Ventspils, as the government official in charge of the Ventspils Oil company. Kristopans and Lemberg are from the Latvia's Way Party.

Lemberg accused Sleser of being "cannon fodder" for the People's Party leader, and ex Prime Minister Andris Skele, who in turn controls the Ave Lat Group of food and drink interests.

Skele went on to reform a coalition of the Peoples Party, Latvia's Way, Fatherland and Freedom and the New Party, with himself as the new Prime Minister. But Skele's new government lasted just one year before collapsing in April amidst corruption allegations. Whilst it had sold off Latvian Gas, the Latvian Shipping Company and the power company Latvenergo, remained in state hands. Andris Berzins, former Riga mayor, succeeded Skele as Prime Minister drawing the same parties into a new coalition.

There is considerable opposition to privatisation. Latvenergo, which controls the Dauvaga Dam complex and dominates the country's power supply, was the subject of a petition campaign against sell-off, which attracted 307,000 signatures to a Social Democrat organised campaign. The Berzins government has agreed to delay the energy company's sale pending the 2002 elections.

In Estonia, a coalition government of the Pro Patria Union, the Liberals and the Peoples Union, led by Mart Laar hold 53 out of 101 in the Estonian Parliament—the *Riigikogu*. Laar was Prime Minister from 1992 to 1994 and is credited with launching the "shock therapy" programme of privatisation and deregulation. Since independence in 1991, much of the Estonian economy has been privatised under the supervision of the Estonian Privatisation Agency. All trade tariff barriers were removed in 1994 and the country opened accession negotiations to the World Trade Organisation and the EU. A 26 percent flat rate tax regime has been introduced that has made Estonia an example hailed by free-market ideologues around the world. On returning to office in 1999 Laar abolished corporation tax on profits.

Earlier this year the government sold off 49 percent of the country's two power stations to Minnesota based NRG. Other privatisation's recently completed or underway include railways, the meat packing industry (now owned by Finnish firm Ruokatalo) and the city of

Tallinn's water supply. Eesti Telekom's stock market flotation has led to the company being listed on the London Stock Exchange, while revenue raised from its 1999 sale has helped prop up state finances, which were 10 percent short of anticipated yield.

Estonia also intends to join the EU in 2004, along with Bulgaria, Latvia, Lithuania, Romania, Slovakia and Malta, and is considering adopting the euro before it joins the EU proper. Trade with Europe has risen from one percent in 1990 to approximately 60 percent today. Such has been the extent of deregulation that Estonia will have to introduce over 10,000 individual tariffs to qualify for EU membership.



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