

# **The management of economic interdependencies of a small state: assessing the effectiveness of Lithuania's European policy since joining the EU**

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## *Introduction*

This paper analyzes Lithuanian economic situation and policies aimed at managing external dependencies which arise from being a small and relatively open European country<sup>1</sup>. Since the start of transition reforms in the early 1990s, Lithuania's economic policies have been reoriented from a closed East-oriented planned economy to a relatively open and increasingly diversified market economy. Accession into the European Union became the key instrument of managing external dependencies, with other regional economic agreements such as the Baltic free trade area becoming stepping stones in the process of EU accession. Although from the economic point of view, the complete liberalization of external economic relations could be seen as the first-best option (and has been indeed chosen by Estonia in early 1990s until 2004), for a number of reasons accession into the EU became a dominant strategy. The need to Europeanize bilateral economic relations with Russia, in particular, in the field of energy, reducing in such a way asymmetric dependence of supplies from Russia was among the reasons for joining the EU.

The main focus of the paper is on Lithuania's policies which aim at using the EU membership to reduce some external dependencies and diversify the external economic links, to integrate further by attempting to join the Economic and Monetary Union and use other instruments available to the EU members. These issues are closely linked to broader academic debates on the national preference formation of EU member states and the (limits of) influence of small EU countries in particular. More concretely, it asks what have been the key factors in forming national preferences of Lithuania (and other two Baltic states) since their accession into the EU, what have been the key policy areas where their institutions have been most active in managing economic dependencies, finally, what factors can account for the varying degree of influence and success with which these countries have been able to upload their national policy preferences onto the EU agenda. Although

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• <sup>1</sup> This paper is a modified version of an article by the author "National preferences and bargaining of the new member states since the enlargement of the EU: the Baltic States - still policy takers?", *Lithuanian foreign policy review*. No. 25, 2011, p. 9-32.

the focus is on Lithuania, the paper also often refers to Latvia and Estonia to allow for comparative analysis and observations.

The analysis starts with a brief overview of relevant literature which deals with the issues of national preference formation of EU member states to set a background for the presentation of the arguments regarding the preference formation in Lithuania. It formulates arguments regarding the sources of national preferences and the factors which influence their transmission onto the EU agenda. It then discusses the European policy areas where all three Baltic States has been increasingly active both domestically and on the EU arena and discusses the factors which seem to be at play in determining the varying degree of success of uploading national preferences onto the EU agenda. It concludes with observations which can be made so far taking into account the limited time frame of their participation in the EU policy making processes.

### *1. The analytical framework*

The participation of new member states in the EU policy process can be analyzed through the lenses of national preference formation and uploading of their preferences onto the EU agenda (interstate bargaining). Such an analysis requires addressing the questions of what are the sources of national preference formation on particular European policy issues and what determines the outcomes of interstate bargaining at the EU level. One way to analyze these issues is by using the liberal intergovernmental approach which sees national preference formation as the process of domestic (usually economic) societal groups interacting with the national leaders (usually executive governments), while the interstate bargaining depends on the relative bargaining power which in turn depends on the degree and nature of economic interdependence.<sup>2</sup> Accordingly, large countries which usually have less intense economic relations with other members of the EU have stronger bargaining power, while small countries due to their openness and more intense trade relations with other members stand to gain more from economic integration (market opening) and therefore have less bargaining power. However, application of this approach is very limited in the case of new EU member states due to the emphasis on economic interdependence as a source of bargaining power, as most of these countries (with an exception of Poland) are small and open economies, and for the time to come net receivers of EU funds. The Baltic States are among the smallest (though not necessarily most open) economies of all Central and Eastern European countries which joined the

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<sup>2</sup> Moravcsik, A., *The Choice for Europe*. Ithaca, NY: Cornell University Press, 1998.

EU in 2004 and 2007<sup>3</sup>. Therefore they are asymmetrically dependent on the EU and by definition are doomed to be policy takers in the EU without any prospects of exerting bargaining power in the Council negotiations and feeding their national preferences into the EU agenda. The relative numbers of votes in the Council with large countries having more votes only reinforce this argument. The Baltic States are among those 19 countries which have less votes in the Council than EU average.

However, this paper is based on the assumption that despite the nature of asymmetric dependence with the rest of the EU, it is useful to analyze the preference formation and bargaining behavior of countries such as the Baltic States. To be sure, liberal intergovernmentalism can explain the process of EU accession negotiations as an asymmetric adjustment of the acceding countries<sup>4</sup>, it can also provide an account of decision making in the enlarged EU and the relative influence of different EU member states depending on their bargaining power. Besides, as A. Moravcsik has pointed out, the logic of liberal intergovernmentalism is most visible in cases when societal interests behind specific policy issues are well defined and institutionally represented<sup>5</sup> – conditions which have often been absent in countries undergoing transition and integration reforms. The more uncertainty regarding the outcomes of particular policy decisions there is, less predictable is the process of preference formation according to the logic of interaction between the interest groups and policy makers and more important other factors such as ideology might be. In addition, it could be argued that more uncertainty there is regarding national preferences towards the EU, more likely is the behavior of the government which follows the logic of being “a good European”, rather than calculation of national interests and hard bargaining. The analysis of Lithuania’s accession negotiations shows that uncertainty and lack of information is more important constraint for small domestic companies, while large transnational enterprises, including energy companies, are better informed about EU norms and therefore are more successful in transmitting their preferences to the national government.<sup>6</sup> Liberal intergovernmentalism can be useful in providing a structure of analysis and a

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<sup>3</sup> The main economic indicators of economic openness include the share of foreign trade in relation to country’s GDP as well as indexes such as KOF globalization index that include not only economic data but also economic policy indicators. In 2010, according to the respective national institutions of statistics, Lithuania’s share of foreign trade equalled around 120 percent of its GDP, Latvia’s external trade was around 88 percent of GDP, Estonia’s foreign trade constituted around 128 percent of GDP (calculations by the author). In the KOF globalization ranking in 2011 Lithuania ranked 36<sup>th</sup>, Latvia 41<sup>st</sup> and Estonia 24<sup>th</sup>. Interestingly, economic globalization ranking in 2011 puts Lithuania in the 34<sup>th</sup> place with Latvia being 29<sup>th</sup> and Estonia as high as 8<sup>th</sup> among 156 countries assessed.

<sup>4</sup> Moravcsik, A., Vachudova, M., „National interests, state power, and EU enlargement“, *East European Politics and Society*, 17 (1), 2003, p. 42-57.

<sup>5</sup> Moravcsik, A. p. 36.

<sup>6</sup> Maniokas, K., Vilpišauskas, R. Žeruolis, D., eds., *Lithuania’s Road to the European Union. Unification of Europe and Lithuania’s EU Accession Negotiations*. Vilnius: Eugrimas, 2005.

set of variables to start from. However, one needs more nuanced lenses to analyze the preference formation and bargaining behavior of small EU members, which are asymmetrically dependent in terms of trade and in terms of being net receivers from the EU budget.

Therefore, this paper also draws on other works which discuss variables affecting national European policies of EU members. For example, in addition to the variables stressed by liberal intergovernmentalism – intensity of trade relations, net receipts from the EU – some authors have also used factors such as ideology (left and right wing attitudes), history (experience of the Second World War) and public opinion to test the causes of government support for European integration.<sup>7</sup> Other authors, asking to what extent the variables used to explain European integration preferences in the old EU member states can also be used to analyze the national preferences of new EU members, have argued that “there is no silver bullet which provides explanations both for all countries and all policy areas”.<sup>8</sup> They hypothesized that national preferences are policy specific with general support for European integration and liberalization being dependent upon ideology, support for redistributive policy on whether a country is a net recipient or contributor, foreign policy on history and size, and, finally, preferences towards EU enlargement on geography and attitudes regarding deeper integration. The relative importance of these factors depends on the concrete policy fields where a particular member state is seen as most vulnerable, or, as the authors put it, “state will prioritize those particular areas of European policy that are perceived to compensate for their particular shortcomings”.<sup>9</sup>

In addition to assessing the variables behind the preference formation, this paper also uses the literature on interstate bargaining and uploading of national preferences onto the EU agenda to assess how effective has been the representation of national preferences during the process of EU decision making. Although liberal intergovernmentalism tends to assume that small asymmetrically dependent countries such as Estonia, Latvia and Lithuania are likely to be policy takers without any major chances to feed their national preferences into the EU decisions, some authors have drawn attention to policy variables which allow expecting differentiated outcomes. One of the possible explanations of differences in effectiveness of forming and representing national position has to do with the institutional structure of policy coordination. Some authors argued that institutional structure of coordination can account for the different degree of effectiveness of European policy of

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<sup>7</sup> Aspinwall, M., “Government Preferences on European Integration: An Empirical Test of Five Theories”, *British Journal of Political Science*, 37, 2006, p. 89-114.

<sup>8</sup> Copsey, N., Haughton, T., “The Choices for Europe: National Preferences in New and Old Member States”, *Journal of Common Market Studies*, 47 (2), 2009, p. 263-286.

<sup>9</sup> Copsey, N., Haughton, T., p. 273.

EU member states.<sup>10</sup> However, in general the evidence regarding the link between institutional structure and policy effectiveness remains inconclusive.

Another approach maintains that the possibilities to exercise power and influence in the EU depend on a number of resources such political and economic weight, political, social and economic practice, persuasive ideas, compelling demands, credibility and consistency.<sup>11</sup> Thus, while in accordance with the dominant view it acknowledges the importance of such variables as political and economic weight, its arguments regarding the importance of factors which could be exploited by small EU member states such as persuasive ideas, credibility and consistency have already been used to explain instances of influencing major EU decisions by small EU countries such as Belgium and Netherlands.<sup>12</sup> Similarly, arguments about argumentative power as well as moral and institutional power (for example, through the rotating Presidency) of small states have been advanced<sup>13</sup>. This offers a potentially fruitful venue for the research of new EU member states, linking their bargaining behavior with sources of national preference formation as well as domestic policies and practices which can have an effect on European policies and the potential for influencing EU decision making process.

The analysis of this paper is constructed on several arguments. Baltic States' aspirations to join the EU have been based on a number of economic, political and security benefits. It was the broad party and expert consensus which was behind the aim of a rapid conclusion of accession negotiations to be part of the first wave of EU enlargement into the Central and Eastern Europe (in the case of Latvia and Lithuania – to catch up with Estonia, which was invited to start accession negotiations with the first wave of candidates). The parliamentary parties' consensus as well as general positive public attitude towards EU membership, though stronger in Lithuania than in other two countries with Estonia popular opinion growing more positive after the accession, have provided a

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<sup>10</sup> Metcalfe, L., „International Policy Coordination and Public Management Reform“, *International Review of Administrative Sciences*, 60 (2), 1994, p. 271–290; Laffan, B., *Managing Europe from home. Impact of the EU on executive government: a comparative analysis. OEUE Occasional Paper No. 1. – 09.03*, Dublin: European Institute. 2003, available at <http://www.oeue.net/papers.asp>; Zubek, R. 2008. *Core Executive and Europeanization in Central Europe*, New York: Palgrave Macmillan, 2008.

<sup>11</sup> Wallace, H., “Exercising Power and Influence in the European Union” in: S. Bulmer, Lequesne, eds. *The Member States of the European Union*. Oxford: Oxford University Press, 2005, p. 25-44.

<sup>12</sup> Maes, I., Verdun, A., „Small States and the Creation of EMU: Belgium and the Netherlands, Pace-Setters and Gatekeepers“, *Journal of Common Market Studies*, 43 (2), 2005, p. 327-348.

<sup>13</sup> See Panke, D. “The influence of small states in the EU: structural disadvantages and counterstrategies”, Dublin European Institute, DEI Working paper No. 2008-3.

background against which specific European policy decisions have been elaborated by senior civil servants at the executive government.

This consensus towards a fast accession process has allowed these countries to adjust quickly to the EU conditionality (institutional and regulatory reforms with transition periods for the most sensitive issues such as closure of Ignalina nuclear power plant in Lithuania or sale of agricultural land to foreigners in all three countries, or most costly measures such as increase in excise duties or investments into environmental protection). The prioritization of EU accession coupled with the logic of asymmetric adjustment created a pattern of behaving as “a good European” supporting further European integration. This logic of bargaining could be observed during the process of participation in the work of Convention, drafting of the Constitution for Europe and its ratification in the parliaments, and, finally, negotiating the Lisbon Treaty. High uncertainty and non-familiarity with EU norms also contributed to this logic of behavior.

After joining the EU, the political interest in European policy has declined with some exceptions linked to the efforts to deal with “accession left-overs” such as joining the Schengen area and the euro zone, to absorb EU funding, to further infrastructural integration to reduce dependency on non-EU suppliers in the energy field, to project national interests into the Eastern neighborhood countries. Therefore, the key priorities of European policy have been formulated mostly by senior civil servants and adopted by political parties in power, for example, by signing the cross-party declaration on new Lithuanian foreign policy priorities in 2004. This process of preference formation was dominated by the executive government and driven by the motive of europeizing policy areas where Lithuania was seen as the most vulnerable due to its geopolitical situation as well as economic interdependence with neighboring non-EU countries. However, the record of influencing EU decision making process has been mixed. While in some cases, national preferences have been successfully fed into the EU decisions (in the case of all the countries - accession into the Schengen area, adoption of the Eastern partnership initiative, in the case of Estonia – adoption of euro in 2011 and some minor initiatives like integrating databases), other policies have been less effective in convincing EU institutions and other member states to adopt their proposals (for Lithuania to join the eurozone in 2007, to create a common energy policy allowing for a unified stance of the EU vis-à-vis Russia, although recent developments allow to expect more active involvement of the EU into the Lithuanian and Russia energy relations).

The main argument of this paper is that *effectiveness of European policies of such small countries like the Baltic States depends to a significant degree on the consistency of their domestic policy and efforts at implementing it “at home” and in the neighborhood as well as European policy demands.*

The inconsistency of domestic policies originating from policy makers wary of popular attitudes and, in particular, interest groups activities rather than asymmetric bargaining power prevented the governments of these countries from convincing their EU partners. Importantly, *the inconsistency is not so much an outcome of the lack of administrative capacities or political party disagreements regarding policy priorities, but it rather originates from a tension which is created by the dependency on third countries and corresponding activities of economic interest groups which have a stake in these relations (for example, energy supplies from Russia) and the efforts of political elites to reduce these dependencies and reorient economic links to the EU member states.* Additionally, what the comparative analysis of the three countries suggests is that *the trust of population in the government and stronger consensus among elites regarding the domestic policies also reinforces the consistency of domestic and European policies by reducing policy changes caused by election cycles.* Estonia's fiscal policy which allowed it to join the euro zone in 2011 as an exit strategy from the economic crisis of 2008-2009 is a good illustration of this argument.

In most other European policy areas the Baltic States have remained passive policy takers, with some temporary exceptions. One example of strong initial support of all three Baltic States, at least in rhetoric, was the case of the original version of services directive.<sup>14</sup> Lithuanian and to some extent Latvian authorities have been also supportive of EU's protectionist external policy measures with the competitive position of domestic economic interest groups interacting with executive government being the prevailing explanatory variable behind these national preferences seeming at odds with the usual policies of open and small economies<sup>15</sup>. In the area of external trade policy, Estonia stands out as different from the other two with its policy being consistently supporting trade openness thus representing a continuation of its liberal pre-accession regime. During the negotiations of financial perspective for 2007-2013 and preparation of national position of the EU budget review during 2007-2008, the support for the status quo seems to be a dominant logic explained by the net recipient position of these countries, although Estonia stands out as supporter

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<sup>14</sup> Akule, D., *Latvia. The EU new member states as agenda setters in the enlarged European Union*, Sofia, Open Society Institute, 2009, available at [http://eupi.osi.bg/fce/001/0070/files/ComparativePolicyReport\\_OSI-Sofia\\_EuPI\\_April2009\\_.pdf](http://eupi.osi.bg/fce/001/0070/files/ComparativePolicyReport_OSI-Sofia_EuPI_April2009_.pdf); Veebel, V., *Estonia. The EU new member states as agenda setters in the enlarged European Union*, Sofia, Open Society Institute, 2009, available at [http://eupi.osi.bg/fce/001/0070/files/ComparativePolicyReport\\_OSI-Sofia\\_EuPI\\_April2009\\_.pdf](http://eupi.osi.bg/fce/001/0070/files/ComparativePolicyReport_OSI-Sofia_EuPI_April2009_.pdf); Kolyta, S. Žeruolis, D., „An overview of Lithuania's five years membership in the internal market of the European Union: pre-accession efforts, impact and current trends”, *Annual Review of Lithuanian Political Science 2008*, Vilnius: Institute of International Relations and Political Science, 2009, p. 101-155.

<sup>15</sup> Elsig, M., „European Union trade policy after enlargement: larger crowds, shifting priorities and informal decision making”, *Journal of European Public Policy*, 17 (6), September 2010, p. 781-798.

of Common Agricultural Policy reform.<sup>16</sup> Only in very few cases, the European policy issues have become a matter of domestic party politics. These included the closure of Ignalina nuclear power plant which has been seen by Lithuanian public as unjustified accession obligation and therefore manipulated by some parties as a pre-election issue calling for a referendum to review this membership condition, also the suggestion to recognize the Stalinist crimes which has been raised by country's representative in the EU institutions.

These arguments are elaborated in the following sections, which, first, present the main European policy priorities of Lithuania (and other Baltic countries) since their accession into the EU and then discuss the record of these policies, the successes and failures of their efforts to upload their policy priorities into the EU agenda. Preliminary observations regarding the logic of preference formation and participation in the EU decision making are suggested, which concludes the paper.

## *2. Achievements and limits of active European policy: "accession leftovers"*

Already before the actual accession into the EU, the governments of the Baltic States started the process of formulating national preferences and priorities of countries' European policy. There have been several instances of active European policy efforts which have originated from the EU agenda. These were the cases of Services directive, negotiations on the Financial perspective of 2007-2013, preparation of the position on the new EU budget review. In most cases when the issue was triggered by the EU agenda, the leading role in the process of policy formation was played by senior executives in the line ministry responsible for particular issue (and often Ministry of Foreign Affairs). Although these bargains present probably the most important cases of negotiations in the enlarged EU on regulatory and redistributive issues, this paper focuses on two other categories of European policy priorities which have been stressed by the Baltic States' authorities since their accession into the EU and which are directly linked to the efforts of managing external interdependencies. One category includes what could be called "leftovers" from the accession process, namely joining the euro zone and the Schengen area. Another category includes energy policy and Eastern Neighborhood Policy where all three countries have been actively trying to upload their preferences on the EU agenda and to achieve their objectives by Europeanizing (EUizing) their domestic policy problems or reducing vulnerabilities in bilateral relations with EU

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<sup>16</sup> Lessenski, M., *Not your grandfather's Eastern bloc. The EU new member states as agenda setters in the enlarged European Union*, Sofia, Open Society Institute, 2009, available at [http://eupi.osi.bg/fce/001/0070/files/ComparativePolicyReport\\_OSI-Sofia\\_EuPI\\_April2009\\_.pdf](http://eupi.osi.bg/fce/001/0070/files/ComparativePolicyReport_OSI-Sofia_EuPI_April2009_.pdf).



neighbors. These European policy priorities have been regularly stressed by Baltic policy makers in their speeches and the main strategic policy documents initiated by the diplomats since the completion of accession negotiations.<sup>17</sup>

However, the progress of achieving the main objectives in these European policy areas has been mixed. All three Baltic States have been members of the Exchange Rate Mechanism II (ERM II) since June 2004. While Lithuania failed to introduce euro in 2007 as planned, Estonia dropped its plan for 2007 at an early stage but later managed to meet convergence criteria for joining the euro zone in 2011. All three Baltic States joined the Schengen area by the end of 2007. The progress in Europeanizing energy policy issues and neighborhood policy agenda has been more complicated with some initiatives in these areas being adopted on the EU level, while others being ignored by the EU partners, delayed or reversed in the domestic arena. Although the process of learning and adapting to the EU routines still could be seen as an important restrictive factor, it is argued that the main failures to achieve the key European policy objectives were due to the inconsistency and low credibility of Lithuanian and Latvian policies linked to the achievement of these objectives, divergence of interests of European policy makers (first of all, senior bureaucrats) and economic interest groups, preventing from consistent adoption of policies and projects characterized by long-term implementation periods. Estonia presents a different case in this respect with much higher consensus among political elites and general public, coherence among its domestic and European policies, and consistency of policies during longer time periods without reversals linked to political cycles.<sup>18</sup>

Thus, probably the biggest failure of Lithuania's European policy as perceived in the country was a failure to join the Economic and Monetary Union (EMU) in 2007. It resulted from domestic fiscal and regulatory policies inconsistent with the goal of rapid euro introduction. The accession into the euro zone has been seen as a part of the broader process of joining the EU and managing the external financial dependencies, and, according to the Accession Treaty, the country committed itself to introduce euro as soon as the relevant convergence criteria were met. It should be noted that in 1994 Lithuania adopted a currency board arrangement which was based on several pillars including a fixed exchange rate in relation to an anchor currency. Although at the beginning the US

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<sup>17</sup> Valionis, A., "Konvento eigos ir rezultatų vertinimas" [Assessment of the work of the Convention and its results] in: *Konventas, Konstitucija ir Europos Sąjungos Ateitis 2002-2003*. Vilnius: Firidas, 2004, p. 82-83.

<sup>18</sup> Kuokštis, V., Vilpišauskas, R. "Economic adjustment to the crisis in the Baltic States in comparative perspective", paper prepared for the 7<sup>th</sup> Pan-European International Relations Conference, September 5-7, 2010, Stockholm.

dollar has been chosen as an anchor due to its importance for the country's economy, in 2002 it was replaced by euro.

The currency board regime with the national currency's fixed peg to the euro has been a cornerstone of the strategy of adopting euro. Formal accession into the ERM II in June 28, 2004, less than two months after joining the EU formed the basis for the monitoring of how the country stood with respect to nominal convergence criteria. It should be noted that at the time of joining the ERM II, Lithuania committed "to secure a balanced budget over the medium term" as well as undertake structural reforms aimed at further enhancing economy's flexibility and adaptability "in a timely fashion".<sup>19</sup> However, these aims have not been achieved during the years of high economic growth, despite the fact that European Commission and local expert community have routinely criticised the Government because of the pro-cyclical fiscal policy, inability to balance the budget, to accumulate the surplus for the times of economic decline and the lack of structural reforms. Similar recommendations have been proposed by the IMF analysts who only after the analysis of economic trends of Lithuania and other countries with currency boards came to the conclusion that the currency board arrangement can satisfy all the requirements of a regime leading towards the accession into the EMU and could be the first-best policy for these countries.<sup>20</sup> Importantly, it was noted that if countries wished to preserve the viability of their currency board arrangement during the preparations for the introduction of euro, they had to maintain fiscal policy discipline and preserve flexible labour markets, something which was proved to be essential during the economic crisis in 2008-2009 and resulting domestic adjustment of wages and prices downwards while preserving fixed exchange rates of their currencies (internal devaluation, as it is sometimes called). It seemed in 2005-2006, that there was a window of opportunity for Lithuania and Estonia to swiftly join the euro zone together with Slovenia in 2007 (Latvia has already been exceeding convergence criteria). Lithuania and Estonia met all nominal criteria at that time, although as the time of formal application and the evaluation of countries' compliance with Maastricht criteria approached, inflation has been picking up. However, differently from Estonia which decided to withdraw its application to be evaluated for the readiness to introduce euro in 2007, Lithuanian policy makers maintained their determination to introduce euro. In March 2006, Lithuania applied to be evaluated in terms of its readiness to introduce euro.

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<sup>19</sup> European Commission, Commission assesses the state of convergence in Lithuania. – IP/06/622, Brussels, European Union Communiqué, 27 June 2004. 16 May 2006, available at <[http://ec.europa.eu/economy\\_finance/publications/publication6170\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication6170_en.pdf)>, 12 20 2009.

<sup>20</sup> Gulde, A. M., Kahkonen, J., Keller, P., Pros and Cons of Currency Board Arrangements in the Lead-up to EU Accession and Participation in the Eurozone, *IMF Discussion Paper* 1, 2000.

However, despite the official willingness to be assessed and the apparent certainty that country was ready to join the euro zone, there was a lack of well articulated political consensus regarding this goal. Although it was stated in the strategic programs and strongly supported by the Central Bank and the MFA (also senior bureaucrats in the Ministry of Finance) as well as the community of analysts, some key actors in the Government have been reluctant to advocate the introduction of euro both at home and talking with the EU institutions. To some extent, this was a reflection of a rather reluctant public which was not as supportive of membership in the euro zone as compared to relatively strong enthusiasm regarding membership in the EU. The main concern for the public, judging from the public surveys, had to do with a fear of price increases expected to follow the introduction of euro.<sup>21</sup> Interestingly, the share of population favoring the adoption of euro increased after the failure to introduce it in 2007, although it has still been below 50 percent.

It should also be noted, that reluctance of some political leaders in Lithuania to support in public the goal of joining the euro zone was also reflected in a lack of consistency and viability of euro-oriented policies. The lack of budgetary discipline as well as certain decisions in the area of regulated prices (energy, transport) contributed to the acceleration of inflation during the period of 2005-2008. The expansionary policy during the period of fast economic growth and rising wages contributed to the acceleration of inflation (and to the rapid growth of budgetary deficit and debt since 2008). Although global market trends, in particular rise of energy and food prices, and the one-off effects of joining the EU customs union impacted on price increases in Lithuania, domestic demand pressures have also been shown to contribute to this inflationary trend. For example, IMF analysts emphasized the importance of the nontradables inflation which pointed to the importance of regulated price increase and growing domestic demand, it was recommended at the time to adopt a conservative fiscal stance in order to contain future inflationary pressures in Lithuania.<sup>22</sup> The decisions to allow for the indexation of the assets owned by energy companies in 2004 which increased the room for the regulated prices to be raised as well as the regulatory policy measures allowing for the increase in public transport prices also added to the inflationary pressures which came into effect in 2005 and later.

Thus, while the monetary policy has been clearly targeted towards the adoption of euro as soon as two years of membership in the ERM II come to completion, other economic policies, in particular budgetary policy and certain regulatory decisions have been inconsistent with this goal. The

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<sup>21</sup> Eurobarometer Surveys available at <[http://ec.europa.eu/public\\_opinion/euro\\_en.htm](http://ec.europa.eu/public_opinion/euro_en.htm)>, 12 20 2009.

<sup>22</sup> Ohnsorge, F., Igan, D., Lugaresi, S., Republic of Lithuania, Selected Issues, *IMF Country Report* 06/163, 2006.

contradicting public statements of some ministers of the Government illustrate the hesitancy of political elite and the gap between officially declared goal and the actual policy efforts.

In Spring 2006, Lithuania's compliance with the Maastricht criteria was evaluated by the European Commission and the European Central bank. The conclusion which both institutions made and which was in June 2006 submitted to the European Council was that "Lithuania meets all the convergence criteria except the one on inflation. The average rate of inflation has been slightly higher above the reference rate value since April 2005 and is expected to rise gradually until the end of the year".<sup>23</sup> The recommendation was that there should be no change in Lithuania's status as an EU member state with a derogation. Although Lithuania's leaders attempted to convince the Heads of other EU Member States at the June 2006 Summit that this was not an obstacle for the adoption of euro in 2007, since the difference was less than 0,1 percent (the average inflation rate in Lithuania was 2,7 percent while the reference value was 2,6 percent), the conclusions of the Summit approved the negative opinion of the EU institutions.

Although afterwards the goal of joining the euro zone in 2010 has been voiced, with the accelerating inflation and the prospects of euro adoption becoming more distant it was abandoned for a more flexible formula of "as soon as country meets convergence criteria". It should be noted, that the Law of Fiscal Discipline which has been advocated by some analysts for a number of years has been finally adopted in November 2007 with a view to facilitating the achievement of the cyclically balanced budget and the introduction of euro. But it was a step taken too late and when the time came for it to be tested (the intention was to have a balanced budget in 2009), the start of the economic decline made this law largely obsolete due to its emphasis on restricting expenditure growth. With the economic decline starting in the end of 2008 and accelerating in 2009, the budgetary revenues declined significantly while the expenditures, which have been raised before the Parliamentary elections of 2008, have not been cut correspondingly (even though they have been adjusted downwards in the course of 2009 several times to a significant degree). By the end of 2008 Lithuania for the first time since it joined the EU exceeded the budget deficit criteria of 3 percent and reaching 9,5 percent of GDP in 2009. The state debt grew rapidly reaching 38 percent of GDP in 2010 from just around 16 percent in 2008.<sup>24</sup> This rapid increase of fiscal deficit made the prospects of introducing euro quite distant. Although in 2009-2010 Lithuanian government managed to contain further worsening of fiscal deficit and set itself a target of bringing it down to

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<sup>23</sup> European Commission, Commission assesses the state of convergence in Lithuania. – IP/06/622, Brussels, 16 05 2006.

<sup>24</sup> European Commission, European economic forecasts Spring 2011, available at [http://ec.europa.eu/economy\\_finance/eu/forecasts/2011\\_spring/lt\\_en.pdf](http://ec.europa.eu/economy_finance/eu/forecasts/2011_spring/lt_en.pdf), 13 05 2011.

2,8 percent in 2012 (which could allow joining the euro zone 2014), it is still an uncertain prospect, not least because of the parliamentary elections set for 2012.

It should be noted, though, that despite the failure to introduce euro in 2007 and inability to accumulate the reserves from the budget surplus during the years of rapid economic growth in 2000-2008 averaging 7-8 percent of GDP, the Lithuanian Government formed after the Parliamentary elections in the end of 2008 managed to maintain fiscal stability. The package of measures adopted in the end of 2008 and through a couple of budgetary revisions during the course of 2009 included significant cuts in public expenditure programs (retirement pensions, maternity leave benefits, investment programs, wages for public sector employees, etc.) and increases in taxes (VAT from 18 to 21 percent, profit tax, excise taxes). The size of adjustment has been estimated at around 8 percent of country's GDP which is smaller than Latvia's but still significant in historical terms. The private sector also adjusted through wage decreases and downsizing, resulting in the increase of unemployment and economic decline of almost 15 percent of GDP in 2009. However, economic recovery resumed already in 2010 and in the first three quarters Lithuania and the other two Baltic states have been the fastest growing countries in the EU. According to the most recent European Commission forecasts Lithuania is expected to be the fastest growing EU economy in 2012 with 3,4 percent GDP growth and 3,8 percent growth in 2013<sup>25</sup>. Still, with the current uncertainty in the euro zone and worsening economic prospects in Europe, the introduction of euro is regarded with stronger skepticism in the country and the date of its introduction remains uncertain (though 2014 might still be feasible).

On the other hand, Estonian example shows how the consistency of domestic fiscal policy can contribute to the effectiveness of European policy. The country has been constantly running budgetary surpluses during the times of high economic growth since accession into the EU (while Lithuania and Latvia did not manage to balance their budgets). This has been an important factor easing the pressure on country's public finances since the start of economic crisis in 2008 allowing the country to meet the convergence criteria and join the euro zone in 2011.<sup>26</sup>

The case of Lithuania's attempt to adopt euro in 2006-2007 has probably been one of the most debated cases in the history of euro zone enlargement. The rejection of its application by the European Commission and the European Central Bank on the basis of missing the inflation criteria had been criticized by analysts and policy makers leading to more general debates about the nature

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<sup>25</sup> European Commission, European economic forecasts Autumn 2011, available at [http://ec.europa.eu/economy\\_finance/eu/forecasts/2011\\_autumn\\_forecast\\_en.htm](http://ec.europa.eu/economy_finance/eu/forecasts/2011_autumn_forecast_en.htm), 09 11 2011.

<sup>26</sup> Kuokštis, V., Vilpišauskas, R.

of convergence and the meaning of Maastricht criteria as applied to new member states. Criticisms regarding the methodology of calculating inflation criteria as well as the inconsistency of applying convergence criteria to euro zone members and candidate countries have been raised.<sup>27</sup> A very strict interpretation of convergence criteria applied to the new member states in the context of a number of the founding eurozone members seen as breaching the criteria at the time of the creation of the EMU and the relaxation of Stability and Growth Pact provoked claims about the application of double standards<sup>28</sup>. The evidence of Greece providing false data on meeting convergence criteria when the true state of its public finances was publicized in 2009-2010 further strengthens these criticisms. However, what is important for this analysis is that it was inconsistent and non credible fiscal and regulatory policies, ignoring the recommendations of the European Commission and the IMF, which were behind the failure to convince EU leaders that Lithuania was ready to join the EMU. Intense diplomatic efforts and even broad support of European expert community did not help to compensate for the domestic political inconsistencies.

Although the failure to introduce euro did not result in political resignations, it had an important effect on Lithuanian policy makers. It is quite possible that a fear of a similar failure with regards to country's accession into the Schengen area of free movement of people was behind the intensified efforts to prepare the country and convince the EU to enlarge the Schengen area in the end of 2007. To be sure, the framework of accession into the Schengen area is very different from the EMU accession in terms of conditions which a country has to meet. Instead of broad economic trends in the case of EMU, the main focus of joining the Schengen area is on the border infrastructure and information sharing systems, which are more directly influenced by the state institutions. Besides, in this case it was the delay on part of the EU institutions and some incumbent EU members which threatened the initial plans adopted in 2006 of enlarging the Schengen area. Lithuania and Slovenia showed the initiative to support the proposal of Portugal (the so called SISone4All project) which

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<sup>27</sup> Vilpišauskas, R., „The Political Economy of Eurozone Enlargement: the Motives, Prospects and Implications for the EU and its Member States“, in: Roy, J., Gomis-Porqueras, P., eds., *The Euro and the Dollar in a Globalized Economy*, Aldershot : Ashgate, 2007, p. 149-162; Vilpišauskas, R., „Economic and political challenges of Lithuania acceding to the Euro area“, in a comparative volume *Economic and political challenges of acceding to the euro area in the post-Lehman Brother's world*. Country Report. Sofia: OSI, 2009.

<sup>28</sup> Willem Buiter has been among the most vocal critics of the strict interpretation of the Maastricht criteria by the ECB and the European Commission in case of Lithuania (see his blog <<http://blogs.ft.com/maverecon/>> accessed 04 18 2009). For a similar criticisms see Begg, I., *Economic Governance in an Enlarged Euro Area*, European Economy, Economic Papers 11, March 2008; De Grauwe, P., *The politics of the Maastricht convergence criteria*, available at <<http://www.voxeu.org>> 04 20 2009.

aimed at overcoming the possible postponing of a new information system (SIS II) threatening the timely enlargement of the Schengen area.

Although during the early stages of preparations of infrastructure there have been some criticism of Lithuanian authorities by the European Commission and some questions raised regarding the use of resources for the enhancement of border protection facilities, Lithuanian institutions were quick to respond to these criticisms. This allowed Lithuania and eight other EU members to join the Schengen area in December 2007 for the ground travel controls and in March 2008 for travel control in airports. This had important symbolic meaning because it showed visibly the benefits of enlarged and united Europe for the citizens of its member states.

### *3. Achievements and limits of active European policy: becoming selective policy initiators*

It is more difficult to assess the achievements of Baltic States' European policy in the areas of energy and neighbourhood policies. Compared to the accession "leftovers" which had concrete target dates with concrete measures to be implemented, the energy policy and Eastern neighbourhood policy goals are more diffused. Besides, they require the consensus of all other EU member states. For example, in the energy field, the main goals of the Baltic countries could be formulated as follows: integration of the EU internal electricity and natural gas market, thus reducing the present dependence on supplies from Russia (100 percent dependence in the case of natural gas) and achieving a diversity of sources of supply, forging a common position of the EU vis-à-vis external suppliers, and increasing the security of supply at competitive prices. This implies integration of Baltic electricity and natural gas market into the European networks, thus increasing the sources of supply, allocating EU funds for the main infrastructure projects (electricity links with Sweden and Poland, new nuclear power plant) and forging a common EU position vis-à-vis Russia on the issues such as closure of Druzhba pipeline in 2006.

It has been maintained that Lithuania had favourable structural conditions to influence EU's energy policy – the latter has been in the process of being seriously debated just at the time of EU's enlargement in 2004, besides, due to its high energy vulnerability Lithuania had strong incentives to actively upload its national preferences on the EU agenda and seek to use EU's policy instruments to further its national goals.<sup>29</sup> However, on closer examination one can state that the record has been mixed. On the one hand, Lithuania like Estonia and Latvia has consistently emphasized the issue of

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<sup>29</sup> Vaičiūnas, Ž., „Europos Sąjungos bendros energetikos politikos formavimasis ir Lietuvos interesai“ [Formation of European Union common energy policy and the interests of Lithuania], *Politologija*, 55 (3), 2009, p. 89-120.

its isolation, the existence of the Baltic states' "energy island in the EU", the dependence on supplies from Russia and these issues have been recognized by the EU in a number of its documents. For example, the Baltic States were mentioned as an isolated "energy island" separated from the rest of the EU in the Green book on the Sustainable, Competitive and Secure EU Energy Strategy issued by the European Commission in 2006. Also, the provision on the importance of infrastructure projects ensuring security of energy supplies has been included into the Lisbon Treaty.

Lithuanian authorities also used an opportunity of the debate in the EU in 2007-2008 on the climate change to link this issue (in particular the allocation of emissions) to the closure of Ignalina nuclear power plant and the need for additional compensations from the EU to Lithuania. Eventually the EU decided to give Lithuania additional rights to emission quotas (depending on the actual need) and allocated financial support for the electricity bridge from Lithuania to Sweden as part of its Economic Recovery plan adopted in December 2008. Most importantly, in June 2009, the EU adopted a Baltic Energy Market Interconnection Plan (BEMIP) which provides a basis for the implementation of electricity links and integration of the Baltic States into the EU energy market. The European Commission also raised the issue of Druzhba pipeline in EU and Russia summits. Furthermore, the recent February 2011 EU Council Conclusions stated that 'The EU needs a fully functioning, interconnected and integrated internal energy market' and the deadline of 2014 was set up for gas and electricity "to flow freely".<sup>30</sup>

On the other hand, the actual state of affairs in the field of energy in the beginning of 2010 when Ignalina nuclear power plant was finally closed due to the accession commitments was that Lithuania's dependence on supplies from Russia (natural gas used for the electricity generation and electricity imports) had actually increased compared to pre-accession years, while integration with the EU has been absent (except for the old Soviet links with Latvia and Estonia with the latter being linked by electricity cable to Finland). It is the inconsistency of domestic energy policy which is the main reason behind the lack of progress in implementing the electricity power bridge and the new nuclear power plant projects with their deadlines constantly being postponed. This inconsistency is a result of the mismatch between the rhetoric of policy makers, in particular diplomats, which supported integration projects and the creation of European market thus reducing asymmetric dependence on Russian supplies, and the economic interest groups, which could loose from these

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<sup>30</sup> European Council Conclusions, EUCO 2/11, Brussels, 4 February, 2011.



projects or had different interests, mostly in maintaining the current links to Russia<sup>31</sup>. It seems there has been a lack of powerful economic interest group (industrial users of electricity, for example) which would be interested in lobbying for the projects integrating Lithuania's electricity and natural gas market into the EU networks, while there have been a number of groups interested in preserving existing links with Russia. Therefore, while the lack of interdependence with the rest of the EU was acting as an incentive for policy makers to push for the Europeanization of the energy policy of Lithuania and other Baltic countries and integration into the EU market, the dependence on Russia acted as an incentive for economic interest groups such as industrial producers using imported gas, importers of natural gas and electricity to preserve these links. It should be noted that the influence of domestic producers, especially, industrialists and farmers, on the policy makers has been the key reason for rather inconsistent Lithuanian external trade policy when rhetoric about external openness was often contradicted by protectionist stance in the EU talks on particular external trade issues. Actually, if it was not EU membership and WTO commitments, Lithuania would probably had reverted to more protectionist measures, especially during the time of economic decline.

The credibility of Lithuania in the field of energy policy has been particularly damaged by the lack of progress in implementing the projects which have been politically agreed and declared in several National Energy Strategies. For example, the Strategy adopted in 1999 stated that generation facilities (including possibly a new nuclear reactor) which will have to replace the RBMK type Ignalina nuclear power plant reactors would have to be build by 2009. However, in 2009 (and further into 2011) after several feasibility studies undertaken the debate on whether Lithuania needs a new nuclear power plant was still going on and the new co-generation facilities were just started to be constructed. A renewed Strategy adopted by the Parliament in 2002 stated that Lithuania's energy systems had to be fully integrated into the EU in 10 years – a target which will definitely be missed. The attempts to compensate for these delays by trying to convince the European Commission to reopen the issue of closing the second reactor of the Ignalina nuclear power plant and postpone it further discredited the credibility of Lithuania and risked its image as a country which does not honour its obligations. Finally, the splitting up of the National electricity company into several separate entities (production, transmission and distribution facilities), some of which were privatized, later creation of the controversial National champion Lithuanian Energy

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<sup>31</sup> See Smith, K. C. Lack of Transparency in Russian Energy Trade. The Risks to Europe. Center for Strategic and International Studies, Washington, D.C., July 2010; Vilpišauskas, R. „Wider energy perspectives for Baltic countries“, in The Riga Conference Papers, Riga: LATO, 2011.

Organization modelled on the Czech Republic National energy company, which was dismantled just about a year later in 2009 to create again an integrated state owned national energy company, ambiguous and changing position on the Third energy package announced by the European Commission in 2007 – all these instances of inconsistent and contradictory policies, which have been regularly modified after the elections or a change in the Cabinet of Ministers and lobbying efforts of certain interest groups prevent from successfully Europeanizing the energy issues and using EU financial and political resources to tackle national issues and reduce domestic vulnerabilities. Moreover, Latvia and Lithuania have been drawn into mutual disagreements regarding regional energy projects. One example is a dispute, which took place in 2008-2009 between Latvia and Lithuania on the issue of where the electricity power bridge from Sweden to the Baltic States should be constructed to. After having delayed the project for more than a year, it was solved mostly as a result of EU involvement and provision of EU funding for the domestic electricity infrastructure in Latvia. Again, Estonia seems to be most consistent in aligning domestic efforts with European policy and being the only country which managed to construct connection to Finland. Each of the Baltic States seems to be choosing its own method of implementing 3<sup>rd</sup> energy package directives with different options of unbundling, in particular in natural gas sector, each of them also plans to build its own LNG terminal. Domestic regulatory differences which reflect lobbying of domestic interest groups not only complicate coordination of policies among these countries but also their efforts at uploading their preferences onto the EU agenda.

It should be noted, though, that recent efforts of Lithuanian ruling coalition to adopt the complete unbundling option of the 3<sup>rd</sup> energy package and to involve European Commission into the process of restructuring natural gas sector and relations with Russian suppliers seem to be increasingly effective. The last several years of active efforts not only to Europeanize energy issues and bilateral relations with Russia but also to make progress in creating a Baltic electricity exchange, working on electricity connections to Sweden and Poland and some other projects seem to be making progress<sup>32</sup>. If these efforts are maintained after the parliamentary elections in 2012, there is a possibility of significant breakthrough in reducing energy dependence on one supplier and increasing the sources of supply, in particular integrating into the Nordic-Baltic market.

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<sup>32</sup> While the most recent National Energy Strategy adopted by the Government and submitted to the Parliament for approval in 2011 places the strongest emphasis on “energy independence”, it does not imply the mercantilist understanding of self-sufficiency of energy production, but rather refers to the need to have a diversity of the sources of supply, including the external ones, and the possibility to choose the supplier of electricity (or heating or other products) on the basis of the best price.

Technological progress making such projects as LNG terminals cheaper and allowing other sources and routes of supply could also contribute to the reduction of asymmetrical dependence and growing choice for consumers.

The energy policy issues are closely linked with the Eastern neighbourhood policy. Increasing the diversity of sources and routes of energy supplies (electricity and natural gas) has been one of the policy objectives advanced by the Baltic States in relation with the EU Neighbourhood Policy. It has been stated at a number of international conferences which authorities organized in these countries. Lithuania had been particularly active trying to position the country as a centre of the region which included EU and non-EU neighbouring countries and which resembled somewhat the territory of the Grand Lithuanian Duchy of the 15<sup>th</sup> century (later Polish-Lithuanian Kingdom).

Overall during the first five years of EU membership, Lithuania modelled its role in neighbourhood policy on the basis of historical references and attempts to reduce energy vulnerabilities, rather than existing economic interdependences. This implied particular emphasis on the partnership with Poland and attention to Southern-Eastern neighbours such as Ukraine and Moldova reaching to the Caucasus, namely, Georgia. Interestingly, the partnership with Poland was meant to allow Lithuania to be an active mediator in relations between the EU and Eastern partners by stressing the fact that Lithuania could be trusted by the Eastern partners because it is a small country and therefore, differently from Poland, it did not aspire to dominate in mutual relations<sup>33</sup>. In other words, Lithuania portrayed itself as an impartial mediator between the EU (and Poland) and the Eastern partners, supporting their closer relations with the EU. This manifested mostly in support for the democratic and economic reforms in these countries (“Orange revolution” in Ukraine and “Rose revolution” in Georgia), where leaders of Lithuania together with Poland played mediators’ role in domestic reforms linked to their closer relations with the EU. Lithuania as well as Latvia and Estonia directed their technical assistance efforts to support reforms in these countries. After Parliamentary elections in 2008 and Presidential elections in 2009 in Lithuania, the focus shifted

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<sup>33</sup> However, this partnership between Poland and Lithuania which was quite intense during the years of 2004-2008, has not been noticed and researched by outside observers, even when they interviewed new EU member states about the bilateral and regional cooperation patterns in the EU (see Panke, D. 2008). This provides ground to suggest that in Lithuania the partnership with Poland has not been widely perceived and understood as an instrument of gaining influence in the EU and external relations. It should be noted that Lithuania also attempted to play a role of an “impartial broker” between Poland, on the one hand, and Germany (and France), on the other, during the final stage of negotiating the Lisbon Treaty in 2007. Although these mediating efforts have been presented to the domestic public in Lithuania as a major achievement of Lithuanian European policy, it went unnoticed by external observers (though, this was presented as the main reason for President V. Adamkus to be awarded the price of the European of the Year 2007 by the European Voice).

somewhat to reflect more the actual economic interdependences of investments and trade and emphasis has been more on closer cooperation with the countries of the Baltic sea region (a return to Baltic-Nordic cooperation), also Belarus and Russia.

Actually all three Baltic States have been active in promoting closer EU ties with Eastern partnership countries. For example, Estonian political leaders have been active in Georgia where former Prime Minister M. Laar has been advising Georgian President on domestic reforms. However, differently from Lithuania Estonia kept lower public profile in promoting its role among the Baltic countries in their support to Eastern neighborhood countries and rather positioning itself as a Nordic country.

It should be noted, though, that the experience of economic crisis exposed quite clearly the high degree of economic interdependence among the three Baltic countries as well as among them and their Nordic neighbors. When the due to the problems of Parex bank in Latvia the issue of financial crisis came onto agenda and IMF and European Commission have come to the assistance, it was the time of extreme concern and coordination not only among the leaders of three Baltic States, but also among them and Sweden whose banks have been heavily present in the Baltic market. The concern was that if Latvia devalues its currency, the contagion would spread into other two countries resulting in huge financial losses for their population. Arguably this experience of interdependencies of the Baltic – Nordic economies made policy makers in the Baltic countries to re-assess and re-prioritize again Baltic-Nordic cooperation.

The active efforts of the Baltic States to promote EU's relations with its Eastern neighbors are an outcome of EU enlargement shifting the boundaries of the Union to the East and being the border countries of the Union with relatively intense economic links with their Eastern Southern neighbors. Efforts to bring these EU neighbors closer to the Union by promoting the reforms which allow for closer integration can be explained by both economic interdependency and value based approaches. However, it is rather difficult to assess the effectiveness of these efforts to influence EU Eastern neighborhood policy (and even more challenging to assess the effectiveness of EU policy towards its neighbors). There has been a growing attention of the EU to its Eastern neighbors which was particularly manifested in the adoption of the Eastern Partnership (initially proposed by Poland and Sweden) in 2009 and the promise of Deep and Comprehensive Free Trade Agreements and Visa Facilitation agreements with these six Eastern Partners.

On the other hand, the actual progress of reforms in these countries has been very different depending on the country and influenced by the domestic factors (change in party in power, as, for

example, in Moldova or Ukraine) as well as growing Russia's influence in the region.<sup>34</sup> The prospects of closer relations with the EU in terms of liberalized trade and people movements also remain quite distant, even in the cases of Ukraine and Georgia. The slow progress of reforms in most of its neighbors and the need to reinforce the infrastructure projects which should integrate Baltics into the EU market and other measures to reduce the vulnerabilities of their economy, in particular in the background of fiscal austerity, might reinforce the tendency to shift attention closer to home from more distant neighboring countries.

### *Conclusions*

Early experience of participating in the EU decision making process provides some ground to argue that even small countries like Estonia, Latvia and Lithuania can be heard at the "EU table" provided that their preferences are formulated and presented consistently, their policy is credible and coherent with domestic actions as well as consistent in time. In such a way they can use effectively their membership in the EU for the management of their external interdependencies and benefiting from economic integration and globalization. This is illustrated by the case of their accession into the Schengen area, Estonia joining the euro zone and by the adoption of the Baltic Energy Market Interconnection Plan. However, such cases of successful uploading of national preferences onto the EU agenda have been rare. Moreover, often even in the cases of priority areas such as euro adoption, energy market integration or closer relations with Eastern neighbours the active efforts of senior bureaucrats and diplomats have not been successful.

The main factors explaining European policy failures are the inconsistency of domestic policies directly linked to the use of EU instruments in achieving national policy goals, which most often had to do with the mismatch between motivations of EU oriented diplomats and national political elites wary of public opinion or the demands of economic interest groups. High economic dependence on non-EU neighbouring countries, in particular in energy supply, and resulting lack of incentives for economic interest groups to lobby for further integration inside the EU as well as often changing political ruling coalitions are the key factors reinforcing this mismatch and the inconsistency of domestic policies which reduce the possibilities for effective European policies. On the other hand, domestic consensus among policy elites and population as well as high trust into

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<sup>34</sup> Lavenex, S., Schimmelfennig, F., „EU rules beyond EU borders: theorizing external governance in European politics“, *Journal of European Public Policy*, 16 (6), 2009, p. 791-812.

institutions seems to facilitate coherence between domestic and European policies and consistency of policy as shown by the case of Estonia.

It can be maintained that the logic of being a “good European” and consensus seeking to achieve a fast agreement which prevailed during the accession negotiations and the EU Treaty bargains, still dominates national European policy on the daily basis. The process of national preferences formation is mostly reactive and driven by the EU agenda. This tendency is likely to remain in the future reflecting the conventional wisdom concerning the behavior of small and open economies in the EU which benefit more from economic integration than larger Member States. However, a possibility to influence EU decision making, “to be at the table” and not only be heard but also listened to has been one of the benefits of EU membership underlined by political elites during the process of accession. Moreover, as other studies of EU politics show, small Member States under certain conditions are indeed able to exert influence extending beyond their formal voting powers in the EU institutions. Coherence among country’s policies and consistency of policies in time helping to strengthen the credibility of demands and improving opportunities to be heard in Brussels is the key factor stressed in this paper. Another challenge for Baltic countries’ European policy is how to improve the effectiveness of implementing priority policies such as energy policy where the EU offers a potential of reducing vulnerabilities and solving collective action problems.