

Ladies and Gentlemen,

This Summer we commemorated twenty years since the de facto re-establishment of independence of our three countries. Twenty years: an entire generation has grown up and reached majority age without knowing or experiencing a single day of Soviet rule. An entire generation for whom the only reality has been life in independent Lithuania, independent Latvia and independent Estonia. For them, there are no excuses for our present day to be found in a past they never experienced.

Moreover, there is no need really to look for excuses. The UNDP Human Development Report on the three Baltic countries tells story upon story of success. Yes, there are differences, but let us not fall prey to what Sigmund Freud called the narcissism of small differences. Each country has done something better and something less well than the other two. The big picture is what is important: in our twenty years of restored sovereignty we have exercised our self-determination, our commitment to be responsible fiscally, while establishing well-functioning nations based on democracy, rule of law and respect for human rights. With respect to all of these – fiscal responsibility, democracy, rule of law and respect for human rights – we must admit; with no need for false modesty: we are the only ones to have been imprisoned in that miasma known as the Soviet Union to do so.

We also have been full-fledged members of both the European Union and NATO for over seven and a half years, at least *de jure*, if not always *de facto*. In other words, for over a third of our restored independence we have enjoyed membership in the two pillars of our European security and well-being.

Yet today, as storm clouds gather on the horizon, not just literally but more broadly, both pillars, NATO and the European Union are beleaguered, their futures murky and unclear. In my address today I would like to speak about those areas most pertinent to the Baltic Assembly and Baltic Co-operation.

Ladies and Gentlemen:

One fundamental issue we face is the functioning of the internal market. Clearly, the success of EU economies rests in the Single Market. Even the most euroskeptic of EU members agree. Yet today, when we are all anxious about the European economy, we see so-called "old" EU members refusing to make the Single Market work, clinging instead to state aids to themselves. This form of state aid is known as CAP, the Common Agricultural Policy. *Common*, that is, if you are a so-called

*Old*

Member.

Parenthetically, I should say that at the beginning of the next financial period we, the Baltic member states, will have been in the EU for as long as Sweden, Finland and Austria had been members at the time *we* joined. Yet, no one, I stress *no one*, called *them* new members in 2004. They were treated as equals from the first day of EU membership, in budgetary as well as staffing terms. But it looks like we Balts have discovered the secret of eternal youth: we still have pitifully few senior positions in the Commission, the Council and the External Action Service; the CAP will, under current plans continue to discriminate against new members until 2028. That is 24 years after we joined. And still new.

Yet that is not the point. The point is the Single Market. It does not function. Or rather the EU Single Market functions as a protectionist cartel for the Old Members. In the Single Market the cost of tractors and combines, fertilizer, diesel fuel and pesticides, seeds and livestock feed are basically the same, throughout the Single Market. That is where the Single Market functions perfectly well. All farmers pay the same.

Yet Old members receive three times, in the case of some EU members up to six times the support our farmers receive. If that is not a grotesque form of state aid to the rich countries I don't know what is. On the ground it means that when it comes to selling our agricultural produce on the open market, the old, i.e. rich countries can simply dump their goods. Yes *dump*

As you recall we used to hear a barely concealed racism in the EU about "social dumping" by East European countries with lower wages. Of course we could have acted like a number of Old Members we are currently or about to bail out, and artificially raised our incomes through borrowing. But then the mess we are in today because of the Old Members' borrowing and

fiscal irresponsibility would be even greater.

Today the three to six-fold difference in direct payments to New Member agriculture is justified by the insupportable argument that our wages are lower. *Really?* Even if our agricultural labor costs are *half* that of the so-called Old Members, the cost of labor itself is 10 to 15 % of the cost of agricultural production. Let's do the math. This means there is a seven and a half percentage difference between the cost of production here and among the olds. Any support differential greater than that is a distortion of the market, or more bluntly, dumping.

And then the other dubious, self-serving argument for the protectionist dumping policies of Old Members: in the East our land is cheaper. Of course this does contradict the rationale for CAP: preserving a traditional way of rural life. If it's so traditional then the cost of land is by definition marginal. It was bought long ago, at prices far cheaper than agricultural land here today. Of course, where the prices of land are high, it is precisely because of high direct payments. Land is worth more by virtue of the direct per acre payments, to the point that in Estonia farmers can no longer buy land, they must rent it.

To be brief then, the arguments for continued discrimination are intellectual nonsense, simply sophistries brought to justify engorgement and protectionism.

But we New Members are fiscally responsible countries, not profligate or greedy dumpers who know full well that the EU cannot afford to spend even more in these days of austerity budgets. The solution is *not* to raise our payments. We know that is impossible. So the solution is simple: for the Single Market to work without veiled State Aids or dumping, we should in fact *reduce* CAP to levels so that we all are playing on a level playing field. Not a grotesquely distorted playing field where the rich are paid more to dump on the poor.

Ladies and Gentlemen:

The foregoing is really an issue for *all* the so-called New Members as we enter our eighth year in the EU. For the rest of my remarks I would like to focus on three purely Baltic issues, where responsibility, and if we fail, blame falls only on our own shoulders.

These three issues are A) Baltic co-operation after 20 years of independence. B) New forms of regional co-operation today as full-fledged and responsible members of our region. And finally our own responsibility for our security.

Ladies and Gentlemen:

Baltic co-operation. Twenty years ago to hold hands and sing *Lietuva Latvija Igaunija* was enough to show our co-operation and common will. To be honest, we didn't have much else we *could* show. We were extremely poor, our outlook was unclear. Many if not most Western countries considered us dubious and temporary entities. We heard all kinds of obnoxious thinly veiled racist remarks about "ancient tribal hatreds" among our kind of backward people. Foreign occupation troops were still based on our territories. Our goal, first and foremost, was to survive. To be taken seriously. To be accepted. Think back on those days. We forget how bad it was.

Today, as the UNDP Report shows, we are three of the most responsible members of the EU. Our willingness to reform, to take tough decisions, and avoid easy but ultimately destructive and irresponsible solutions are the envy of Europe and beyond. Survival is no longer in doubt. Our seriousness is understood by all. Acceptance is not an issue.

Twenty years later we do not need Baltic co-operation to make ourselves heard. We need Baltic co-operation for our citizens. To give them better lives. But this kind of co-operation needs not hand-holding or song but real contributions, the kind measured in cold hard cash. The measure of co-operation is no longer our ability to sing our way to freedom, it is how much we are willing to pay.

The most obvious example, where the Eastern part of Europe still looks starkly different on the map from Western Europe is transport infrastructure. If you look at a map of road and rail connections in Europe the old Iron Curtain runs almost along the same lines as it did twenty years ago. One side is dense with connections, the other spare and spotty. Only the Eastern part of Germany now looks like it is part of the West.

We are connected to the rest of Europe, yes, spiritually, and in our values and commitment to democracy, rule of law and human rights. We are part of Europe in our legal systems, long harmonized with the rest of the EU. But we are still shut out physically with our wholly inadequate transport infrastructure.

We can do much in this regard with EU assistance. The Trans-European Networks or TENs is one of the most crucial areas of development we three Baltic countries must participate in. EU assistance, up to 85% of financing or TENs financing, however, is not enough. We too must pay. Like the adult countries we are. We must pay for projects that are vital for all three countries, for projects that link us to Warsaw and Berlin and Vienna and Prague. So that our citizens can move as freely as the citizens in the capitals I just mentioned, so that our goods and products can quickly and efficiently reach their markets.

This is one area where Estonia is quite clear: the litmus test for Baltic co-operation in the European Union is a willingness and a commitment to pay for crossborder transport infrastructure. If any one of the three countries individually balks at co-operation in this area, then the whole project falls apart for all three. There are no other alternatives. Or rather the alternative is that Baltic co-operation is a meaningless term. If so, we should reconsider the whole 3B project. For if as soon as common priorities begin to take a back seat, each country will look only after its own interests and who could blame them?

Ladies and Gentlemen:

The second area I would address is regional co-operation: the NB-6 within the European Union, the NB-8 involving, in addition to the NB-6, also non-EU members Iceland and Norway and finally the Baltic Sea Strategy, which all the EU members of the Baltic Sea littoral, that is the NB-6 plus Poland and Germany.

These three forms of regional co-operation and indeed integration for the purposes of increased clout in EU decision-making is vital. As small countries in the EU, the NB-6 is a format essential for getting ourselves listened to in the EU Council, especially as we see decision-making shifting more and more away from the Commission, the traditional ally of smaller member states, and to a greater emphasis on inter-governmental decision-making. This is in general a disturbing development that needs greater consideration on the part of all small EU members, but locally, that is to say regionally, we have one forum and form of co-operation to make our positions heard. Moreover, a look at the general positions and attitudes of countries in the NB-6

shows that we share not only a region but common attitudes toward reform and fiscal responsibility.

As we hear more and more talk of a two-speed Europe with a core being formed by the EU-17 or Euro-group, I cannot but be struck by the glaring fact that the Nordic-Baltic-6, comprising two Eurozone countries and four non-Eurozone countries, actually share much more in attitudes and choices than the Eurozone itself. All six countries are for sound spending and borrowing policies, all six have shown a willingness to do reforms. We who are in the Eurozone in the NB-6 have a fundamental obligation to ensure that the common interests of our neighbors are not ignored by the EU-17. Of course we in Estonia also anxiously await the EU-17 to become an EU-19 and an EU-21 with Latvia and Lithuania as well as Sweden and Denmark taking their place at the Eurozone table, which today is becoming an ever more important decision-making body within the EU.

The NB-8 is a slightly broader regional group that includes countries not in the EU but which share a common approach to many issues. The NB-8 forms a cluster of shared values of self-reliance and responsibility. We in the EU in the NB-8 have a responsibility to stand up for our colleagues in Norway and Iceland.

Finally, in this part of my talk I want to stress the importance of the Baltic Sea Strategy, the first macro-regional policy of the EU, already imitated by the Danube Strategy. Let's be honest, there are many areas where we around the Baltic Sea are willing to go further to integrate than other parts of the Union. Be it free movement of services, simplification of bureaucratic procedures and trans-border co-operation, in transport and energy infrastructure, the Baltic Sea strategy is one of the structures that will help us withstand the storms that threaten to buffet Europe in the coming year. I encourage all of our governments to take the Baltic Sea Strategy with the utmost seriousness.

Finally, Ladies and Gentlemen,

Allow me to address the issue of NATO, our common security structure and our institutional and treaty-bound tie to the United States. We worked very hard to join NATO, we overcame extreme obstacles; how extreme became clear just the other day, when President Medvedev said, not once but twice, that Russia waged war on Georgia three years ago to prevent NATO enlargement. The mask of all the old talk about humanitarian intervention was ripped away. Pure aggression for geopolitical goals.

In our case, for the three Baltic countries, the struggle against our membership took a milder form. Many current allies were dead-set against our membership because they were not sure we would be good allies, that our membership in the alliance would hurt their relations with Russia.

The last fear about relations with Russia turned out to be wrong. Germany and France sell more to Russia than ever before, including arms. But allow me to ask a much more painful question, how good *are* we as allies? Are we doing what we promised? I remember what one of our biggest supporters, and indeed one of the architects of NATO enlargement, the late Ron Asmus, said to me: that one of the biggest objections to our membership on the US side was that as soon as we became allies we would become like the founding members and simply forget our commitments to do our share; that our rhetoric about being producers not consumers of security would turn out to be just that: rhetoric.

Well, it doesn't look good. At a time when the U.S. is turning increasingly away from Europe and quite explicitly to the Pacific and Asia; at a time when the outgoing Secretary of Defence Robert Gates warns of a waning commitment by the U.S. to Europe because of Europe's unwillingness to do its share in defence; at a time when we in the Baltic countries rely completely on our allies to provide the policing of our airspace, which as we all know, is tested with ever greater frequency... not all of us pay what we promised to pay.

It is not good enough. It is not good enough to say, "Well others are also not spending 2% of GDP for defence". All of us who are parents know that when our children say, "But others are doing the same", we do not accept that as an argument. Besides, we are not others. Others do not have their air space violated, because their air space borders on allied, NATO air space. Our NATO ally air space borders only on each other and Poland.

We have support but not a firm commitment from our NATO allies to continue air policing only until 2018. Six years from now. As it is, it is not always easy to get our NATO allies to participate.

In other words, we all need to meet our commitments. All three Baltic countries speak wherever we can about our impressive rates of economic growth. Talk about having a higher rate of growth than the rest of Europe, however, fails to convince or even be truthful, if that rate of

growth does not include a serious commitment to defence. We in Estonia will reach two per cent of GDP for defence in 2012. If instead we spent one percent or less than that, we could boast an even higher GDP growth. But it would not be honest. And we would be backtracking on our commitments. We would be failing to meet our responsibility to our citizens to provide them with adequate security. And we would be proving all those who doubted our membership, right.

In closing, Ladies and Gentlemen,

I would sum up my talk here by saying that a twenty-year old is an adult. We no longer forgive a twenty-year old lapses in judgment that we forgive in a two year old. We expect a twenty year old to follow the rules, the law of the land and to pay his own way. At least if that twenty-year old expects, as he should, to be treated as a grown-up. The same, my dear colleagues, applies to states.