

# EU-27 WATCH



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# EU-27 Watch

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## On the project

Due to the new treaty provisions of the Lisbon Treaty and the economic crises the enlarged EU of 27 member states is on the search for a new modus operandi while also continuing membership talks with candidate countries. The EU-27 Watch project is mapping out discourses on these and more issues in European policies all over Europe. Research institutes from all 27 member states and the four candidate countries give overviews on the discourses in their respective countries.

The reports focus on a **reporting period from December 2009 until May 2010**. This survey was conducted on the basis of a questionnaire that has been elaborated in March and April 2010. Most of the 31 reports were delivered in May 2010. This issue and all previous issues are available on the EU-27 Watch website: [www.EU-27Watch.org](http://www.EU-27Watch.org).

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**Latvia****Latvians' Principal Concerns in Spring 2010: Economic Recession and Parliamentary Elections****Dzintra Bungis\***

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Despite the fact that Latvia has been a member of the European Union for six years, despite Latvia's endorsement of the Lisbon Treaty and simultaneous acceptance of the collective responsibility to implement it, and despite the relevance for all EU member states of the decisions made in Brussels, most Latvians remain much more concerned about what is going on in Latvia than in the rest of Europe. In 2010, their attention has been especially focussed on two issues:

- coping with and overcoming the country's economic recession;
- electing a more credible parliament than the current one.

After nearly a decade of record Gross Domestic Product (GDP) growth, the Latvian economy shrivelled in 2008. If, in 2007, the GDP growth rate, as compared with the previous year, was 10 percent, then, in 2008, the figure was -4.2 percent. The downslide continued into 2009 when the GDP was -18 percent.<sup>1</sup> This was accompanied by rising unemployment: 6 percent of the labour force was jobless in 2007, 7.5 percent in 2008 and 17.1 percent in 2009.<sup>2</sup> The reasons for the dramatic decline of the economy were a combination of short-sighted and imprudent policies at home, especially during the two successive premierships (2 December 2004 until 20 December 2007) of Aigars Kalvītis (People's Party), and the fallout of the financial crises abroad. Escalating public discontent forced Kalvītis and his cabinet to resign.

Ivars Godmanis (Latvia's First Party – Latvia's Way), became the next prime minister in December 2007. The country's precarious financial situation became critical after the unexpected collapse in autumn 2008 of Parex Bank, Latvia's second largest bank. Deciding to bail out the bank, the government sought a loan. The response from the European Commission and the International Monetary Fund (IMF) was quick and positive. It was agreed that Latvia would borrow 7.5 billion Euros from the IMF and the EU. The first tranche in the amount of 600 million Euros from the IMF was transferred to Latvia on 29 December 2008. In return, both the government and the parliament committed themselves to restructuring the economy, including raising taxes, curtailing spending, cutting salaries and welfare payments and systematically repaying the loans received.<sup>3</sup> For the populace this meant diminished incomes and higher taxes. Unable to make a serious dent in resolving Latvia's economic problems and beset by the political machinations of the parties represented in his government, Godmanis resigned in February 2009.

President Valdis Zatlers entrusted the formation of the next cabinet of ministers to Valdis Dombrovskis of the centre-right opposition party, New Era. In order to ensure parliamentary backing for the unpopular decisions that had to be made, Dombrovskis decided to form a coalition cabinet, which included members of some of the parties represented in the past two governments. The result has been a fractious government, buffeted by internal strife and frequent attacks by various political parties, not only those in the opposition, but also those represented in the government. Especially active in testing the government's durability has been the People's Party, which participated in forming the coalition government under Valdis Dombrovskis but subsequently concentrated on manoeuvres designed to polish its public image tarnished during the years in which it ruled. Despite the resignation in March of all four People's Party ministers and the subsequent systematic attacks of the People's Party politicians on the Dombrovskis government and those parties which continue to support it, the government has continued to do its job. Moreover, Dombrovskis has become one of the most trusted politicians in Latvia.

Some of the government's policies are showing hopeful results. According to the State Employment Agency, in June, 15.8 percent of the labour force was unemployed, down 0.4 percent from May.<sup>4</sup> Growth has been reported in several sectors of the economy during the first quarter of 2010, as compared with the same period last year: manufacturing up 6.8 percent, transportation and communications up 2.3 percent, agriculture up 5.9 percent, and energy up 17.5 percent.<sup>5</sup> With the significant rise in exports, the current account balance has also improved. According to the Ministry of Finance, income from various taxes during the first half of 2010 is more than had been planned. Improvements in Latvia's economic situation have also been observed by the IMF and the European

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\* [Latvian Institute of International Affairs](#).

Commission, which note in particular the fast growth in exports and improved confidence in Latvia's financial markets. While recognising that the economy is beginning to stabilise, they also stress that Latvia must stay on its course; for example, next year the budget deficit must not exceed 6 percent and in 2012, Latvia should aim for a deficit of 3 percent. Successful implementation of these and other measures would ensure that Latvia is ready to adopt the Euro in January 2014.<sup>6</sup> Latvia's joining the Eurozone countries in 2014 is one of the goals of the Dombrovskis government.

The principal challenge of the Godmanis' and Dombrovskis' government, and the main source of political discord and public disgruntlement, has been balancing the budget so as to meet at least the minimal needs of the populace while slashing expenditures in order to comply with the conditions agreed upon with the IMF and the EU. This task has required the government to make painful decisions. Common sense tells us that it is never easy for political parties to adopt unpopular measures; in an election year, however, this is highly risky for any political party wanting to do well at the ballot box. The next parliamentary elections in Latvia will take place on 2 October 2010. All these factors shed light on why Latvian politicians have found it so hard to adopt decisions that are good for the country but disliked by many voters and why they devote so much attention to rejuvenating their public image while dissociating themselves from past mistakes and unpopular policies.

However, the deep dissatisfaction with the current parliament and the distrust of politicians in general started well before the economic recession set in. After the parliamentary elections of 2006, four political parties decided to cooperate and form a coalition: People's Party (23 deputies), Green and Farmers' Party (18 deputies), Latvia's First Party – Latvia's Way (10 deputies) and For Fatherland and Freedom/LNNK (8 deputies). Together they had 59 votes and formed a solid majority in the 100-member parliament. Under the strong leadership of the People's Party, the centre-right ruling coalition could and did control the decision-making in the parliament. Members of the ruling coalition also formed the government from autumn 2006 to February 2009. The ruling coalition became arrogant and tended to reject outright any proposals, regardless of quality, from the grass roots or the two opposition parties: the New Era with 18 deputies and the Harmony Centre with 17 deputies. Such behaviour, sometimes characterised as a dictatorship of the majority, served to alienate the four parties from the voters. Furthermore, the parliament's decisions were often criticised as benefiting special interests more than the country as a whole. With the arrival of the recession, public confidence in the parliament as a whole, and members of the ruling coalition in particular, sank even further. In spring 2010, if public opinion polls are to be believed, the re-election to the parliament seemed certain only for the opposition parties, and quite unlikely for the parties of the ruling coalition.

Consequently, various forms of activities attributable to an election year started already in early 2010. Serious campaigning, however, cannot begin until after the parties submit their lists of candidates to the election board in the period between 14 July and 3 August 2010 and each candidate has been found to meet the necessary requirements. Nevertheless, all parties have been working hard to refurbish their public image. In order to raise their chances of representation in the parliament, many parties, regardless of size and earlier stature, have decided to run in the elections under a single banner and present their candidates on one list. Thus, for example, three political parties (New Era, Civic Union and Society for Different Politics) and some political independents joined forces to form the election alliance "Vienotība" (Unity) and the left-of-centre parties favoured by the Russian-speaking population decided to run together as the Harmony Party. Other parties have followed this trend and are forming their own election alliances. Perhaps the most remarkable is the association "Par labu Latviju" (For A Good Latvia), comprised of the People's Party, Latvia's First Party – Latvia's Way, and several small regional parties. Its nickname is "AŠ<sup>2</sup>" because of the first initials of its leading personalities, Andris Šķēle (People's Party) and Ainārs Šlesers (First Party – Latvia's Way). Both are strong-willed, successful businessmen with personal wealth in the millions of lats; both like to be in politics, to be in charge and have a reputation for protecting above-all their own and their parties' interests. At first glance, Šķēle and Ainārs Šlesers seem unlikely candidates for a political partnership. Yet both are the leaders of parties whose ratings have fallen so low that their future is in jeopardy. Thus, the principal motive for the People's Party and Latvia's First Party not to run in the elections on their own, but under the banner of the newly formed "For A Good Latvia" is pragmatic: they see that they have better chances of political survival by pooling forces and retooling their public image.

Many voters, on the one hand, welcome the formation of election alliances by the numerous parties because this would put some order in Latvia's motley political landscape and ensure that more votes have genuine impact in the elections – in Latvia, after all the ballots are counted, the votes for parties not receiving at least 5 percent of the total ballots cast (minimum requirement for representation in the parliament) are proportionately divided among the parties which surpass the 5 percent barrier. On the

other hand, many voters also feel frustrated and unsure because it is not yet clear which election alliance stands for a fresh start and more credible candidates or which one merely provides a new umbrella for seasoned politicians wishing to retain their seats in the parliament. The voters want positive change and they do not yet see how to achieve it. The mood of Latvia's electorate in spring 2010 could, therefore, be described as sceptical interest.

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<sup>1</sup> Eurostat: table of Real GDP Growth Rates for all EU member states, available at: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsieb020&plugin=1> (last access: 14 July 2010).

<sup>2</sup> Eurostat: table on rates of unemployment, available at: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsiem110&plugin=1> (last access: 14 July 2010).

<sup>3</sup> See, for example, the first Letter of Intent to the IMF from Latvia's Prime Minister, Minister of Finance, President of the Bank of Latvia, and Chairperson of the Financial and Capital Market Commission, 6 January 2009, available at: <http://www.delfi.lv/archive/article.php?id=22817410> (last access: 14 July 2010).

<sup>4</sup> LETA dispatch, 21 June 2010, available at: <http://zinas.nra.lv/ekonomika/latvija/25682-registreta-bezdarba-limenis-samazinajies-lidz-15-8.htm> (last access: 14 July 2010).

<sup>5</sup> LETA dispatch, 24 June 2010, available at: <http://www.delfi.lv/news/business/macroeconomics/komercbankas-rupnieciba-tuvakajos-gados-vilks-latvijas-ekonomiku.d?id=32670323> (last access: 14 July 2010).

<sup>6</sup> LETA dispatch, 7 June 2010, available at: <http://www.delfi.lv/archive/print.php?id=32362297> (last access: 14 July 2010).

## Questionnaire for EU-27 Watch, No. 9

Reporting period December 2009 until May 2010 – Deadline for country reports 21 May

**All questions refer to the position/assessment of your country's government, opposition, political parties, civil society organisations, pressure groups, press/media, and public opinion. Please name sources wherever possible!**

### 1. Implementation of the Lisbon Treaty

On the 1 December 2009 the EU-reform ended with the entering into force of the Lisbon Treaty. However, the new treaty provisions still have to be implemented. Some procedures and conditions have to be determined. In other cases, procedures, power relations, and decision-making mechanisms will change due to the new provisions.

- How is the work of the new President of the European Council, Herman Van Rompuy, assessed in your country? Which changes to the role of the rotating council presidency are expected?
- How is the work of the new High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, assessed in your country? Please take into particular consideration both her role within the European Commission and her relationship to the Council of the European Union.
- On 25 March 2010 a "Proposal for a Council Decision establishing the organisation and functioning of the European External Action Service" was presented. How is this concept perceived in your country? Which alternatives are discussed?
- On 31 March 2010 the European Commission presented a proposal defining the rules and procedures for the European Citizens' Initiative (ECI). What are the expectations for the ECI in your country? What are the various positions concerning the rules and procedures?

### 2. Enlargement and European Neighbourhood Policy

The European Commission has given its opinion on Iceland's application for EU-membership and a decision from the Council is expected before the end of June. Croatia seems to have settled its border dispute with Slovenia. Against this background:

- Which countries does your country expect to become members of the European Union in the next enlargement round? What are the opinions in your country on the membership of these countries?
- How are the membership perspectives of those countries discussed, which are not expected to become a member in the next enlargement round?

The Eastern Partnership and the Union for the Mediterranean were the last major projects dealing with the European neighbourhood:

- How are these projects assessed in your country?

### 3. European economic policy and the financial and economic crisis

The European Council agreed on 25/26 March on the key elements of the Europe 2020 strategy, the successor of the Lisbon strategy. While not being on the formal agenda the economic and financial situation in Greece was discussed. The European Council agreed on a finance package combining bilateral loans from the eurozone and financing through the International Monetary Fund.

- How is the finance package for Greece assessed in your country? Are there any opinions on the process, how the agreement on the package was reached?
- Which lessons should be drawn from the Greek case for a reform of the Stability and Growth Pact?
- How is the idea of "a strong coordination of economic policies in Europe" perceived in your country? What concepts of an European economic governance are discussed in your country and which role do they assign to the Euro group?
- How is the Europe 2020 strategy discussed in your country? What are the priorities for the Europe 2020 strategy from your country's perspective?

### 4. Climate and energy policy

The climate conference in Copenhagen took note of the Copenhagen Accord but did not reach a binding agreement. The next conference of the parties (COP 16 & CMP 6) will take place at the end of November 2010.

- How is the Copenhagen conference assessed in your country? Please take into consideration the negotiation strategy of European Union and the results of the conference.
- Does the European Union need to change its own energy and climate policy in order to give a new impulse to the international negotiations?
- Is a global agreement within the UNFCCC the best strategy to fight climate change? If not, which alternative strategy should the European Union follow?
- What is your country's position on financing mitigation and adaptation efforts in developing countries?

### 5. Current issues and discourses in your country

Which other topics and discourses are highly salient in your country but not covered by this questionnaire?