

THE WHITE HOUSE

WASHINGTON

June 22, 2000

JUN 22 2000



420947

MEMORANDUM FOR THE PRESIDENT

FROM:

SAMUEL BERGER *for*

SUBJECT:

Response to President Adamkus

CO100Purpose

Respond to President Adamkus' request that you raise Lithuanian energy issues during your visit to Moscow.

Background

President Adamkus wrote you before your trip to Moscow to urge that you ask Putin to facilitate commercial cooperation between Russian energy companies and a U.S. firm, the Williams Company, that is playing a major role in modernizing Lithuania's oil industry. In fact, Williams has made progress in its negotiations with the Russian energy giant, Lukoil, and recently signed a protocol aimed at securing long-term crude oil supply contracts needed to obtain financing for plant modernization. Our Embassy in Moscow is facilitating contacts between Williams and the Russian government as the parties work toward negotiated contracts this summer, and Jim Steinberg recently advised the Lithuanian foreign minister of our support.

Your response to Adamkus is a useful opportunity to reaffirm the U.S. commitment to Baltic independence and to doing all we can to promote stability and cooperation in Russia's relations with its neighbors.

RECOMMENDATION

That you sign the response to Pre

ab A.

Attachments

Tab A Response to President Adan

Tab B Incoming Correspondence

cc: Vice President
Chief of Staff

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*ADD ON #1**6/23/00
To NSC;
See comments
on letter*

THE WHITE HOUSE
WASHINGTON

Dear Mr. President:

Thank you for your letter regarding my visit to Moscow. I understand that Lithuania's oil industry and Lukoil are making progress in their negotiations on long-term crude oil supply contracts. We will continue to facilitate commercial contacts between the Lithuanian oil industry and the Russian government as the parties work toward negotiated contracts this summer.

Your concerns were very much in mind during my discussions with President Putin. I am convinced that, based on our talks, President Putin understands clearly the importance the United States attaches to ensuring stable and cooperative relations between Russia and its neighbors, including in the Baltic region. This issue, along with respect for democratic principles and the success of economic reforms, will have a direct impact on Russia's international integration.

To underscore our support for Lithuania, Latvia, and Estonia, I asked Deputy Secretary of State Strobe Talbott to represent the United States at the meeting of the U.S.-Baltic Partnership Commission in Tallinn. I welcome the reaffirmation at that meeting of our common vision of a Europe whole and free, and of our goal to jointly create conditions to complete the integration of Lithuania, Latvia, and Estonia into European and transatlantic institutions.

Again, thank you for your letter. I hope we will have a chance to meet later this year.

Sincerely,

Bill Clinton ^A

His Excellency
Valdas Adamkus
President of the Republic
of Lithuania
Vilnius

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[2016-0384-M, 1.01]

Returned to Staff Sec 6-26-00



Lietuvos Respublikos Prezidentas

Vilnius, May 26, 2000

Dear Mr. President:

I recall our excellent meeting in Istanbul in which you expressed strong support for Lithuania's partnership with the United States. As you may know, the Williams Company, an excellent American energy company, has taken an equity position and major management role in Lithuania's oil industry (refinery, port facility and pipelines). The success of our company and our energy sovereignty depends on good commercial cooperation with Russian companies. Support of the Russian Government for normal business practices is necessary so that Russian oil companies will work commercially with the American managers (Williams Company) and Lithuania. Oil supplies from Russia have been interrupted for long periods for political rather than commercial reasons.

Therefore, Mr. President, during your forthcoming trip to Moscow, I would appreciate very much if you would urge President Putin to encourage Russian companies to work cooperatively with Williams Company and Lithuania in order to provide an example of a new policy strengthening Russian business ties with the United States. Mr. President, your intervention in support of this project would be good for Lithuania, the United States and for Russia.

I send my wishes for a successful visit to Moscow. More important, I wish you and your wonderful family the best of happiness in the future.

With best regards,

Valdas Adamkus

MAY 26 17:12

William J. Clinton
President
United States of America

*pls. enter
into system.
ACTION OUR (Norland)
Concur: Russia (Elkind)
INTECON (Dracon)*

THE WHITE HOUSE
WASHINGTON

DECLASSIFIED
E.O. 13526, Sec. 3.5 (b)
White House Guidelines, September 11, 2006
By KRM/NARA, Date 6/23/2023
2016-0384-M

PHOTO-OP WITH
PRESIDENT ADAMKUS OF LITHUANIA

DATE: October 21, 1998
LOCATION: Oval Office
TIME: 5:30 p.m.

FROM: SAMUEL BERGER

I. PURPOSE

To develop a relationship with President Adamkus, reassure him that NATO's door remains open and thank him for Lithuania's support on a number of issues.

II. BACKGROUND

Adamkus wants to keep Lithuania on your mind with regard to decisions on NATO enlargement. While appreciating that their bid for a membership invitation at the April 1999 NATO Summit is a longshot, Lithuanians feel their domestic reforms, serious efforts to develop their army and good relations with Russia have earned them serious consideration. You should avoid being drawn into this discussion about their qualifications for NATO. Rather, you should assure Adamkus that no decisions have been made and that we remain firmly committed to supporting their efforts to become the best possible NATO candidates.

Adamkus is making a private visit to the United States to receive awards for his environmental work. He took office just after the signing of the Baltic Charter in January. He was elected to his largely ceremonial post due, in part, to hopes that his U.S. government service and contacts would facilitate bilateral ties and boost Lithuania's NATO membership. His mild demeanor and centrist politics have also been assets in calming Lithuania's fractious political scene. He has done much to ensure Lithuania's support for our regional and global agenda, improve relations with Russia and other neighbors and make American firms the leading foreign investor in Lithuania.

~~CONFIDENTIAL~~

Reason: 1.5(d)
Declassify On: 10/21/98

Born in Lithuania, he emigrated to the United States as a young man. He had a distinguished U.S. government career ending as Region V Administrator of the Environmental Protection Agency. You had a brief encounter with Adamkus on the margins of the UN General Assembly in New York last month.

III. PARTICIPANTS

The President
Samuel R. Berger, Assistant to the President for
National Security Affairs
Keith Smith, U.S. Ambassador to Lithuania
Stephen J. Flanagan, Special Assistant to the President
and Senior Director for Central and Eastern European
Affairs, NSC Staff, Notetaker

Valdus Adamkus, President
Stasys Sakalauskas, Ambassador
Eidijus Meilunas, Deputy Adviser on Foreign Affairs
Raimundas Miezelis, Adviser to the President
Violeta Gaizauskaite, Spokesperson for the President

IV. PRESS PLAN

White House photographer

V. SEQUENCE

Photo opportunity

Attachments

Tab A Points to be Made
Tab B Bio

POINTS TO BE MADE FOR PHOTO OPPORTUNITY WITH
PRESIDENT ADAMKUS OF LITHUANIA

General

- Glad to have the chance to speak with you even briefly. It has been a busy week -- Wye talks, Kosovo, other issues.
- Congratulations on your honorary doctorate from Catholic University and the award from the Environmental Law Institute.
- Value Lithuania's support on Kosovo, terrorism and the Cuba UN vote. Appreciate your personal efforts to keep Lithuania open to American business. Delighted we are the leading foreign investor in Lithuania.

NATO/Russia

- Look forward to hosting you here for NATO Summit next April. Want to deepen partnership, enhance integration across continent.
- Want Summit to clarify NATO's role in 21st Century and bolster Open Door. As I said at Charter signing last January, welcome Lithuania's aspirations and support your efforts to become best possible candidate.
- **If pressed on NATO membership:** I've not decided whether to support issuance of additional membership invitations at Summit. Don't see consensus among current members to do so.
- Appreciate your creative efforts to improve relations with Russia, including your proposals on confidence building and assistance to Kaliningrad.

DECLASSIFIED
E.O. 13526, Sec. 3.5 (b)
White House Guidelines, September 11, 2006
By KH NARA, Date 6/23/2023
2016-0389-01

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Reason: 1.5(d)
Declassify On: 10/21/08

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THE WHITE HOUSE

WASHINGTON

**DECLASSIFIED
PER E.O. 13526**

2016-0384-M (1.04)
KBH 6/23/2023

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Adamkus of Lithuania
(U)

PARTICIPANTS: The President
Samuel R. Berger, Assistant to the President
for National Security Affairs
Keith Smith, United States Ambassador to
Lithuania
Stephen J. Flanagan, Special Assistant to
the President and Senior Director for
Central and Eastern European Affairs, NSC
Staff, Notetaker

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States
Raimundas Miezelis, Adviser to the President
Eidijus Meilunas, Deputy Adviser to the
President on Foreign Affairs
Violeta Gaizauskaite, Spokesperson for the
President

DATE, TIME AND PLACE: October 21, 1998, 6:45 - 7:05 p.m. EDT
Mr. Berger's Office

Mr. Berger: Welcome to the White House. I know you are no
stranger to Washington or the U.S. government. (U)

President Adamkus: That's true. I spent 27 years in
government, ending as Region V Administrator for the
Environmental Protection Agency. I remember coming to meetings
in the OEOB. So it is a pleasure to be back here in a very
different capacity. (U)

Mr. Berger: How are the troubles in Russia affecting Lithuania?
(U)

~~CONFIDENTIAL~~

Classified by: Glyn T. Davies
Reason: 1.5(b,d)
Declassify on: 10/22/08

President Adamkus: Well, only about 20 percent of our trade is with Russia, so losses in the Russian market are not doing great damage. Unemployment is up a bit, but at 5.6 percent pretty good for a transitioning economy. Still, a reduction of foreign capital and the general global slowdown have led us to lower our growth projections for next year from 7 to 6 percent. That said, we are delighted that American investment remains strong; we just closed on the big (energy distribution) deal with the Williams Company. (S)

Mr. Berger: How do you see events in Russia unfolding? (S)

President Adamkus: We expect very difficult times ahead. They confront profound political and economic challenges. We think it is important for the international community to remain engaged in efforts to stabilize the Russian economy. Some of the worst economic projections have not yet been borne out. (S)

Mr. Berger: It's important for the Russians to stay the course on some difficult reforms. However they are losing the confidence of Western banks and the international financial institutions due to default on their debts. The first tranche of IMF funds was gone in two days. We have told them they can't defy the laws of gravity of the global economy. (S)

President Adamkus: I want to mention our concerns about NATO enlargement. We are continuing our internal political and economic reforms and are building up our defense capacity in a very serious way. We hope that the United States and other NATO governments will give us careful consideration as you prepare for the Washington Summit. (S)

(The President joined the meeting at this point.)

The President: It's a pleasure to see you again. I'm glad that we have another chance to talk. (U)

President Adamkus: I truly appreciate your taking time to see me in the middle of this intense activity on Middle East diplomacy. It is a real honor and speaks well of your interest in Lithuania. (U)

The President: Well you have a lot of friends here. Senator Durbin called to tell me about all the good work you are doing. I don't know if you are aware of this, but we also have a sizable Lithuanian-American community in my hometown of Hope. They came to Arkansas from Chicago. A lot of those folks have

They came to Arkansas from Chicago. A lot of those folks have voted for me many times over the years and they still write me and remind me to do the right thing for Lithuania. (S)

The President: On the NATO issue, I just want to say we understand your concerns and are taking them into account as we prepare for the NATO Summit. (S)

The President: Congratulations on your environmental awards. You have done some important work in this area. I find in my discussions with world leaders that environmental issues are a more prominent facet of all our dealings. (U)

President Adamkus: I fully agree. We are doing a great deal of work with all our neighbors on environmental issues.

Mr. Berger: Mr. President, I know you have to leave now.

President Adamkus: Thank you very much Mr. President. Best wishes for success in the Middle East talks.

(The President left at this point)

President Adamkus: May I just ask one last question about your views on NATO enlargement? How do you see the next steps evolving? (S)

Mr. Berger: We have always seen NATO enlargement as a sustaining, incremental process. The Madrid decisions were not a one-time action. We envision that there will be additional tranches of states admitted to the Alliance. We are committed to working with Lithuania and other aspirants to assist your efforts to become the best possible candidates. (S)

President Adamkus: Thank you very much. (U)

Mr. Berger: It was a pleasure. (U)

-- End of Conversation --

THE WHITE HOUSE

WASHINGTON

DECLASSIFIED
PER E.O. 13526
2016-0384-M (1.05)
KBH 6/23/2023

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-- End of Conversation --

THE WHITE HOUSE
WASHINGTON

DECLASSIFIED
PER E.O. 13526
2014-0656-M (1.69)
VZ 4/27/2022

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Baltic Presidents

PARTICIPANTS: The President
The Vice President
Madeleine Albright, Secretary of State
Samuel R. Berger, Assistant to the President
for National Security Affairs
Strobe Talbott, Deputy Secretary of State
Leon Fuerth, Assistant to the Vice President
for National Security Affairs
Marc Grossman, Assistant Secretary of State
for European and Canadian Affairs
Larry Napper, U.S. Ambassador to Latvia
Keith Smith, U.S. Ambassador to Lithuania
Walter Andrusyszyn, U.S. Chargé to Estonia
Stephen Flanagan, Special Assistant to
the President and Senior Director for
Central and Eastern European Affairs, NSC
Staff (Notetaker)
Tiina Ets, Interpreter (Estonia)
Alvin Skipsna, Interpreter (Latvia)
Emilija Sakadolskas, Interpreter (Lithuania)

Estonia

Lenert Meri, President
Kalev Stoicescu, Ambassador to the U.S.
Indrek Tarand, Chancellor, Permanent Under
Secretary
Sven Jurgenson, Director, Political
Department, Ministry of Foreign Affairs
Kaja Tael, Interpreter

Latvia

Guntis Ulmanis, President
Valdis Birkavs, Minister of Foreign Affairs
Ojars Kalnins, Ambassador to the U.S.
Ivars Millers, Chief of Staff
Ieva Zalberga, Interpreter

~~SECRET~~

Reason: 1.5(b,d)

Declassify On: 1/30/08

Lithuania

Algirdas Brazauskas, President
Algirdas Saudargas, Minister of Foreign
Affairs

Stasys Sakalauskas, Ambassador to the U.S.
Neris Germanas, Advisor to the President
Zita Makutiene, Interpreter

DATE, TIME
AND PLACE:

January 16, 1998, 1:40 - 2:25 p.m.
The Cabinet Room

The President: Today is an important day. I just want to make a few remarks and really listen to what you have to say. (U)

The Charter of Partnership is an historic document and a demonstration of our commitment to advance integration of your countries into Western institutions through concrete initiatives. We welcome your aspirations to join the Alliance and are committed to keeping NATO's door open. The first round of enlargement will not be the last, but we need to get the first round right. Welcome your help. (U)

I applaud your efforts to work together and with your neighbors, particularly with Russia. We welcome the recent Lithuanian-Russian border agreement and hope that Russia will sign agreements with Estonia and Latvia soon. (C)

We strongly support your accession to WTO, and I hope we can complete your three separate negotiations this year. I know you discussed this issue with Ambassador Barshefsky earlier in the week. She has since advised me that she discussed the problem on audiovisual with Sir Leon Brittan yesterday, and they agreed to work together expeditiously to find a solution. In fact, U.S. and EU officials will meet next week. But I want to underscore that I have made clear to Ambassador Barshefsky that this must be resolved this year. (C)

Now, I really want to hear what you all have to say. (U)

President Meri: Thank you very much for your comments and your support to make this day possible. The Charter is truly an historic document and we welcome it. We are committed to moving forward on implementation. On WTO, we are very grateful for your commitment and hope that this can be resolved very soon.

(C)

The President: Again, on WTO I just want to emphasize that we want this resolved this year. I truly believe that it is in the interest of the United States and the EU to work this out so that we don't stand in the way of your integration. (C)

President Meri: There is also the question of our membership in the OECD, which we hope can be resolved soon. At the same time, we are busy in Estonia developing our economy and building practical cooperation with all our neighbors, including Russia, as you mentioned. One of my favorite projects is the effort to get internet connections in every school in Estonia. I hope Mr. Vice President that when you arrive in the White House, sometime after the year 2000, that every school will be connected. (U)

President Brazauskas: I am most grateful for this opportunity to meet with you. A stable security system is important to Lithuania and to all of us.- This Charter signing is the most important event on the political agenda of Lithuania this year and we look forward to its implementation. We desire NATO membership and are working through the development of our military forces and other actions to make this possible. We have, indeed, signed the Border Delimitation Treaty with Russia, and hope that this will spur others.

We are also working to put our relations with Belarus on a broader and more normal course. But still there are other problems that relate to the internal politics of Belarus.

I welcome your words on WTO. WTO and OECD membership are highly important to Lithuania. We recognize that we can't be members of these and other Western institutions unless we meet the criteria and clear up remaining problems. But I am grateful to all elements of the U.S. government, particularly on the military side, for your help in this regard. (C)

The President: Thank you for those words. I welcome the Estonian border cooperation and also Lithuania's border agreements. (C)

President Meri: Our border agreement is nearly ready. (C)

President Ulamanis: Mr. Napper, Ambassador Napper speaks such beautiful Latvian, I am going to follow his example and deliver my remarks in English. I'll do my best. (U)

The President: That's pretty good. Your English is a lot better than my Latvian. (U)

President Ulmanis: Mr. President, we have a common vision, economic, political and social. This is enshrined in the Charter of Partnership, which we fully embrace. We look forward to working actively on implementation. In fact, I would like to propose that we have the first quadrilateral meeting of the Partnership Council in Riga. (S)

The 1994 NATO Summit has two formal objectives: to review progress of applicant countries towards membership and to set the agenda for the Alliance in the 21st Century. We want to be part of that vision. (S)

Mr. President, thank you for your leadership and your support in our dealings with Russia. I have a vision of a new Russia that is a good neighbor. We are building practical cooperation with Russia to advance this goal. You can count on Latvia to do its part. I recently sent a letter to President Yeltsin expressing my hopes for further cooperation with Russia. I received a very cordial response that thanked me for my efforts to reconcile relations between Russia and Latvian society. (S)

Finally, Mr. President, Latvia will be celebrating the 80th anniversary of its independence in November of this year. I would like to welcome you to Riga for this celebration. (U)

The President: I am encouraged by your vision of Russia and its relations with the Baltic states. I welcome your positive input and I think we have made some good progress. Now I know you have been concerned that Russia may delay its departure from the Skrunda radar facility. We expect Russia to abide fully by the terms of the agreement and have strong indications that Russia intends to do so. But we'll keep on top of this. I would like to ask Vice President Gore to say a few words. (S)

The Vice President: This is an historic meeting. It will be looked back upon as important in the development of transatlantic and European relations. Your pleasures are matched by ours. I also look forward to working on the many practical areas of cooperation that we have outlined. (U)

Secretary Albright: We had a wonderful lunch at the State Department and really celebrated this day. We are delighted that Strobe will soon follow up as head of the Partnership Commission. One of the issues we discussed at lunch was our

guests' concerns about Ukraine, and I would invite them to mention some of these to you, Mr. President. (S)

President Meri: Thank you, Madame Secretary. It may seem inappropriate for such a small country to speak of helping such a large country as Ukraine, but I think we have common experiences that can be of value to our friends in Kiev. Estonia has been successful in building up its financial and the banking sector. President Kuchma knows how to get things done, but he might be able to use some of the lessons of our experience in certain sectors, as a post-Soviet society, to good effect. One thing is clear, it is important that all of us support Ukraine. Because Ukraine's success is also a way to ensure democracy in Russia. (S)

President Brazauskas: I also want to say a word about Ukraine. Relations between all three Baltic states and Ukraine are good. Our security depends on stability and democracy being preserved in Ukraine. A month ago I had a meeting with President Kuchma and I feel that President Kuchma adheres to the same line. But his situation is very difficult. All the military factories are either closed down or at a standstill. Thousands of workers are affected. This common attention to Ukraine is helpful. (S)

President Ulmanis: I welcome this discussion. Ukraine's stability is critical to security in the region. Elections are coming up in Ukraine and the left-wing is active. I think that it is important that we engage Ukraine in our Hanseatic cooperation. (S)

By the way, I hope that the United States will play a role in the Council of the Baltic Sea States. (S)

The Vice President: We would welcome the opportunity to help advance regional cooperation and to include Ukraine. (S)

Secretary Albright: Also on Belarus, the three Presidents have some very interesting ideas on how to deal with this situation. We discussed this over lunch. (S)

President Brazauskas: Lukashenko has lost touch with reality and is only concerned with maintaining power. We need to appeal to the forces of reason in Belarus. Russia can play a constructive role here. We need to press ahead together with some of the ideas we discussed at lunch (NFI). (S)

Deputy Secretary Talbott: The Council of the Baltic Sea States can be a practical vehicle for our engagement in regional cooperation. In particular, we want to participate in the Operative Committee of the Working Group on Organized Crime.
(C)

President Ulmanis: We discussed this in the Justice Department earlier today. We are in agreement with this. (C)

President Meri: One last point with regard to Radio Free Europe/Radio Liberty. These can seem outdated now that the Cold War is over, but there are many tasks involved in building a democratic society, more than just having elections. Free media and the flow of ideas are also vitally important. (U)

Finally, let me say "I am delighted that Strobe Talbott will lead the "Joint Commission." It ensures solid implementation.
(U)

The President: Well thank you all very, very much. I think we need to proceed to the signing ceremony. (U)

-- End of Conversation --

THE WHITE HOUSE

WASHINGTON

MEETING WITH BALTIC PRESIDENTS

DATE: January 16, 1998

LOCATION: Cabinet Room

TIME: 1:40 p.m.

FROM: SAMUEL BERGER

I. PURPOSE

- Underscore our commitment to advancing the integration of Estonia, Latvia and Lithuania's into Western institutions and to strengthening our bilateral relations.
- As a symbol of this commitment, sign the Charter of Partnership, which codifies the terms of the relationship and maps out the road ahead.
- Reaffirm our commitment to keep NATO's door open and support their efforts to become members of NATO. Also note our support for their accession, on appropriate terms, to the EU and WTO.
- Applaud Baltic efforts to develop friendly relations with their neighbors, particularly Russia, and offer support for expanded cooperation between Russia and northeastern Europe in areas where there is common ground.

II. BACKGROUND

The Baltic Presidents see this visit as a truly historic occasion both because of the Charter signing and because it will be the last time they, as key figures in their countries' post-communist transformations, will be together with you in the White House. Valdas Adamkus, a Lithuanian-American former EPA official in Chicago, will replace Brazauskas, who chose not to seek reelection, next month. Meri, nearly 70, is unlikely to stand for another term, and Ulmanis, whose second term expires next year, probably won't run again.

These very different men -- the urbane and intellectual Meri, the earthy, former Communist Brazauskas, and the

~~CONFIDENTIAL W/SECRET ATTACHMENTS~~

Reason: 1.5(b,d)

Declassify on: 1/9/08

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PER E.O. 13526

2016-0314-M-1 (1.47)

V2 6/12/2023

centrist, business-like Ulmanis -- have succeeded in putting their states at the forefront of the reform movement in Central Europe. Over the past four years, they have successfully used their positions to forward democratic reform, continue the transition to market-oriented economies, move closer to Western institutions, and enhance relations with their neighbors, including Russia.

All three leaders believe that the United States is key to their full reintegration into the West. For over fifty years, successive U.S. Administrations maintained a strong policy of non-recognition of their forcible incorporation into the Soviet Union. We then played a critical role in helping them implement democratic and free market reforms and strengthen their security and sovereignty. The Charter of Partnership you will sign during this visit symbolizes how far they have come since 1991 and expresses our commitment to help them complete this journey.

The Charter is a political statement of common principles and a framework for the expansion of our relations. Most importantly to the Baltics, it affirms that they are part of our vision for a new Europe and will not be left out or discriminated against due to history or geography.

- On NATO, it builds on the Madrid Summit, stating that **the United States welcomes Baltic aspirations and supports their efforts to join NATO.** It also recalls Madrid's caveat that aspirants must be able to assume the responsibilities of membership and that Allies must agree inclusion of any new members would serve overall European stability. It does not **pre-commit us to Baltic membership or extend any surrogate security guarantees.**
- The Baltic states reaffirm their commitment to continue market-oriented reforms. The four governments pledge to enhance joint efforts to promote cooperative relations throughout the Baltic region, including with Russia.
- The Charter notes the progress of existing bilateral working groups on defense and establishes a new working group on trade, investment, and related fields. It also establishes a Partnership Commission of senior officials, who will hold annual stock-taking meetings.

Moving Ahead Along. As evidence of our commitment to pursuing Charter goals, you will announce at the signing ceremony the establishment of a **Baltic-American Partnership Fund** -- using \$7.5 million of our assistance money and **matching funds from George Soros** -- whose charter will be to foster the development on non-governmental organizations in these states. Also during their visit here, Charlene Barshefsky will sign a bilateral investment treaty with Lithuania (Estonia and Latvia have accords already), Bob Rubin will sign **treaties against double taxation** with all three states, and Attorney General Reno and FBI Director Freeh will announce enhanced cooperation among the three in administration of justice and combating organized crime.

Likely Topics

NATO Membership. The Baltic Presidents will raise their aspirations for NATO membership. They all hope there will be a second tranche of new members in 1999, and at least Lithuania believes it is well on the way to qualifying. Lithuania, with the largest population, has, in fact, devoted the most resources and made the greatest progress of the three in building its armed forces. But even they have very limited capabilities to work with NATO in defense of their territory or in peacekeeping missions elsewhere.

While continuing to advance the public line that all Baltic states belong in NATO, both Tallinn and Riga realize that they won't be ready militarily to join soon and that most Allies have serious reservations about their membership because of Russian objections. Thus, they have focused their efforts on joining the EU. In their meeting with you, the presidents will accept the view that it is premature to discuss the "next tranche" and that the Charter does not commit the United States to support their bid. However, they will **seek reaffirmation that NATO's door remains open**, and, as Strobe has put it, that we are **working seriously to help them walk through that door.**

- You should urge them to focus on taking advantage of the many programs we and the Allies are offering, including \$18 million in military assistance next year, to help them enhance their security, ability to work with NATO, and preparations for membership. You might remind them that the Charter is neither a security guarantee nor a firm commitment to support their membership.

Investment, EU and WTO. The Baltic economies are all still in transition, but Estonia and Latvia are the furthest along. U.S. investment in the region has been slow to develop, now totaling about \$550 million, only 19 percent of all their foreign investment.

- **Estonia** has made steady progress across the board and in 1996 became the first Central European country to "graduate" from our assistance program Support for East European Democracy (SEED). In December, it was the only Baltic state invited to commence EU accession talks.
- **Latvia** is close to getting an offer from the EU to begin accession talks. Its strong progress was slowed by lagging privatization and a 1995 banking crisis.
- **Lithuania** has made steady progress in privatization but has suffered from very slow growth (linked to taxation policies and a lagging financial sector).

Regarding the WTO, Latvia has been the most aggressive of the three in pursuing this goal. Its bid, however, is being held up over the issue of audiovisual services, which pits us against the EU and puts Latvia and the other two Baltic EU aspirants in between. The EU is insisting that Latvia make no commitment to open its market to audiovisual services. While ready to accept Latvia's adoption of current (51 percent foreign) EU content restrictions, we want Riga to go no further and believe this is a significant concession.

- You should tell the Presidents that we are very supportive of their accession to the EU and the WTO -- on defensible terms -- and hope the audiovisual issue with the EU can be resolved soon. You might also note our interest in expanding trade and investment.

Russians & Hansa. The Baltic leaders cooperate well with each other and most of their neighbors. The Nordics and the United States have supported several initiatives that promote regional security and compatibility with NATO, including the Baltic Peacekeeping Battalion (Baltbat). The Nordics have extensive trade and investment in the region.

Lithuanian-Russian relations are the best of the three, in large part because Russian speakers account for only 8 percent of the population. In October, Presidents Yeltsin

and Brazauskas signed a demarcation agreement of the land border with Kaliningrad. Vilnius remains concerned, however, about transit through Lithuania from this heavily-militarized Russian province to its west.

Latvia and Estonia, which have much larger ethnic Russian communities, maintain normal but cool relations with Russia. Estonia and Latvia have not reached border agreements, primarily because of Moscow's linkage of conditions on the treatment of the Russian-speaking minorities (29 and 33 percent respectively). They have, however, begun practical cooperation with Russia on such problems as border controls and countering crime.

In August 1994, with your intervention, Russia withdrew its troops from Latvia **except for about 800 technicians who stayed to operate the Skrunda missile early-warning radar facility** until it shuts down this August. Russia has allowed agreed inspections of this facility. But Latvia is concerned that departure of the technicians and the commencement of dismantlement may be slowed due to construction delays in the essential replacement facility in Belarus. Based on political signs and available intelligence, **we expect Russia to abide fully by the terms of the agreement with Latvia, which Yeltsin has previously affirmed to you.**

In December, as part of an emerging "charm offensive," **President Yeltsin** floated the notion of enhanced economic cooperation with the Baltic states, but linked it to Baltic neutrality and offers of joint **security guarantees**. The Balts promptly rejected the latter notions, making clear that they aspire to be members of NATO.

- Rather than fight Moscow on Baltic membership in NATO, we have sought to focus on areas where there is a common ground. Madeleine and Strobe have told their Russian interlocutors, that we must agree to disagree on NATO, but we want to help promote expanded cooperation between northeastern Europe and northern Russia (as existed in Hanseatic period) in trade, energy development, the environment, and combating transnational problems such as organized crime. You should encourage the Baltic Presidents to pursue a similar tack as a way to show Moscow that Baltic integration will create opportunities.

III. PARTICIPANTS

See Scenario at Tab B.

IV. PRESS PLAN

See Scenario at Tab B.

V. SEQUENCE

See Scenario at Tab B.

Attachments

Tab A Points to be Made
Tab B Scenario
Tab C Biographies
Tab D Secretary of State Memo to the President
Tab E Summary of The Charter of Partnership

POINTS TO BE MADE FOR MEETING WITH
ESTONIAN PRESIDENT MERI, LATVIAN PRESIDENT ULMANIS AND
LITHUANIAN PRESIDENT BRAZAUSKAS

Partnership Charter

- Charter important for United States, Estonia, Latvia and Lithuania because it marks how far we have come toward our shared goal of building a new Europe and advancing your integration into West. Also maps out clear directions for road ahead.
- Charter makes clear our "real, profound and enduring interest" in independence, sovereignty, and territorial integrity and security of your countries.
- Can be very proud of your individual and collective efforts to advance goals of Charter even before it was completed. Need to keep working to promote respect for rights of all citizens and deal with legacy of past.
- Together, you are creating facts of integration on ground through your participation in PFP, IFOR, and host of regional initiatives.
- Charter gives us many opportunities to expand and improve relations in both security and economic fields. Events of last few days -- signing of double tax treaties, initiatives on justice and organized crime, and creation of Baltic-American Partnership Fund - show that we are already moving to build on this framework.

NATO Enlargement

- Welcome your desire and support your efforts to become members of NATO. Want to underscore that NATO's door will remain open.
- Your membership will depend on satisfaction of NATO principles, including your ability to contribute to overall security.
- First round of enlargement will not be last. But it's too soon to talk about next steps. We must all focus on getting first round "right" and securing Senate ratification. Welcome your help in this regard. The

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stronger our success in integrating Poland, Hungary, and Czech Republic, easier next steps will be.

- This is good time to make use of intensified dialogue, Partnership for Peace enhancements and Euro-Atlantic Partnership Council to deepen your engagement with Alliance.
- We are committed to helping you advance these goals in more systematic ways. Fully support work of our military experts to assess needs of your countries' armed forces and help you develop realistic defense plans. We will increase our security assistance next year and work closely with other donor states.

EU/WTO Accession

- Support each of your efforts to join EU, but recognize decisions will be made by Europeans.
- We support your accession to WTO on appropriate terms. Will be as flexible as can; hope EU will do same.
- As Ambassador Barshevsky explained, we will continue to work with EU on what we think is reasonable compromise on audiovisual content that is consistent with goals of EU Broadcast Directive and protects our interest in maintaining an open market.

Relations with Neighbors

- Applaud effort to develop cooperative relationship with each other, Nordics, and Russia.
- Especially pleased with your joint effort to promote regional security and interoperability with NATO through participation in Baltic Peacekeeping Battalion (Batlbat), Baltic Sea Squadron (Baltron), and regional airspace initiative (Baltnet).
- Now it's time to explore in detail opportunities for building economic and other non-security cooperation throughout Baltic region. Am fully committed to enhancing our involvement in Nordic/Baltic and Baltic/Russian cooperative ventures.

Russia

- Encouraged by recent signature of Kaliningrad border agreement between Presidents Brazauskas and Yeltsin in Moscow.
- Agreement meets one of fundamental responsibilities in relationship between neighboring states, establishment of common borders in mutually satisfactory manner. With border agreements in place, Lithuania and Russia can move on to other areas of cooperation.
- Hope Russia will sign similar agreements with Estonia and Latvia soon. Pleased that Estonia and Latvia are committed to expanding practical cooperation with Russia on common concerns.
- Know Latvia concerned that Russia may delay departure from Skrunda radar facility. We expect Russia to abide fully by terms of agreement with Latvia. Have strong indications that Russia intends to do so.
- Note Russia has proposed security guarantees to you. As we stated publicly, agree sovereign states have right to choose their own security orientation, including whether or not to become member of an Alliance. Your choice is clear.
- Want to work with you and Nordics to expand cooperation between northern Europe and Russia in areas where we all have common interests. Charter notes increased cooperation in economic development, trade, environmental arena as well as in fight against organized crime. As you have heard in meetings earlier this week, we are ready to move on this agenda in practical ways.



Lithuania

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**Directorate
of Intelligence**

Intelligence Memorandum
Office of Slavic and Eurasian Analysis
26 April 1994

Lithuania's Democratic Labor Party: Pushing for National Stability (U)

Summary

In its first year in power, the Lithuanian Democratic Labor Party (LDDP)—the successor to the reform wing of the Lithuanian Communist Party—achieved significant success on the economic and foreign policy fronts, but in the process sacrificed some of the main tenets of its campaign platform. While easing fears in the West that the "return of the Communists" would slow reforms, the LDDP has alienated some of its traditional supporters.

- The government has stabilized the Lithuanian economy, instituting a tight monetary policy, lowering inflation, and introducing a convertible currency. In doing so, however, the party has frequently reneged on its promise to ease the social costs of economic reform, particularly for its key constituents, farmers and industrialists.
- The LDDP oversaw the final withdrawal of Russian troops from Lithuania, but President Brazauskas's last-minute maneuvering to ensure Moscow's adherence to the August 1993 deadline left a public impression of

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weakness and indecision.

- The LDDP promised to normalize relations with Moscow and implement bilateral economic agreements, but renewed fears of Russian chauvinism have hampered the effort. Instead, the government has pursued closer ties to the West.
- The party also promised to fight corruption, but the government itself faces increasing allegations of wrongdoing. 3.5(c)

The LDDP's popularity is declining and will probably continue to decline over the next year, but the LDDP still dominates the political scene in Vilnius while opposition parties remain weak. We believe that nothing short of a major corruption scandal could jeopardize the party's position in the coming year, although calls for early elections may increase as the reform process runs its course.

- A full term in office for the LDDP will probably lend stability to the immature Lithuanian political system and provide some economic relief. If the party is forced into early elections, however, Lithuania runs the risk of falling into a cycle of continuous preterm elections, jeopardizing prospects for establishing a strong, Western-style democracy. 3.5(c)

Ex-Communists Receive Mandate

In contrast to the fractional politics of Estonia and Latvia, the Lithuanian Democratic Labor Party (LDDP)—successor to the proindependence wing of the Lithuanian Communist Party—has enjoyed a dominant position in national politics and a firm mandate from Lithuanian voters during its first year in power. The 141-seat Seimas elected in the fall of 1992 is dominated by the LDDP, which holds 73 seats. The country reaffirmed its support for the LDDP in February 1993, when over 60 percent of the voters cast their ballots for the party's leader, Algirdas Brazauskas, as President. The party further consolidated power in March 1993 with the appointment of an LDDP-dominated Cabinet, headed by Prime Minister Slezevicius. 3.5(c)

The LDDP defeated the rightwing Sajudis government by capitalizing on voter dissatisfaction with the economic hardships accompanying government reforms—appealing, in particular, to a conservative constituency. Under the Sajudis government, industrial production had dropped by 50 percent from 1991 levels, inflation was approaching an annual rate of over 1,100 percent, and hidden unemployment affected more than one-third of the population. 1.4(c), 1.4(d) While Sajudis advocated the rapid return of land to prewar owners and speedy privatization, the LDDP promised to continue the transition to a market economy, but at a slower pace that would ease the pain of reform.

- The LDDP's main support came from farmers, who feared that Sajudis's hasty land privatization plan would destroy the social safety net that the collective farm system guaranteed. The LDDP platform promised the farmers credits to buy fuel and fertilizer, as well as preferential loans and state-regulated prices for their produce.
- The LDDP's plan to maintain cooperative ties to Russia also attracted the support of industry, which remained dependent on Russian fuel, raw materials, and markets. Charging that the right wing's zeal to desovietize the country jeopardized vital economic links to Russia, the LDDP promised a more tempered approach to Lithuanian-Russian relations aimed at improving Lithuania's depressed economy.

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The LDDP also promised to rid the government of the corruption allegedly rampant in the Landsbergis regime. Corruption had reached the highest levels of the Landsbergis government; former Prime Minister Vagnorius and former Supreme Council Security Department Chief Skucas, for example, were implicated in an arms smuggling deal exposed by the Lithuanian press in 1992. 3.5(c)

Success and Costs

Attempting to fulfill its mandate, the LDDP government achieved some stabilization of the economy and oversaw the final withdrawal of Russian troops from Lithuania during its first year in office. But the party's performance has been undermined by popular perceptions of governmental vacillation and weakness. 3.5(c)

The Slezevicius government has positioned the Lithuanian economy for a recovery in 1994—a feat the Prime Minister points to as his government's greatest success during its first year in office. Under consistent IMF pressure to stick to the reform plan agreed to by the previous administration, Vilnius made significant progress on reform:

- The government lowered annual inflation from over 1,000 percent in 1992 to 189 percent in 1993; Slezevicius predicts the 1994 rate will be under 50 percent.
- Central bank chairman Visokavicius, appointed in April 1993, imposed tight monetary policies that resulted in a drop in monthly inflation rates from 25 percent to 3 percent in September.
- The government also introduced Lithuania's national currency, the litas, in June 1993. Although the litas has been holding steady against Western currencies, the parliament in March 1994 passed legislation to create a national currency board to regulate the litas exchange rate and peg the currency to the US dollar. The decision to transfer regulation of the litas from the National Bank to the currency board—which will be comprised of the President, Prime Minister, and the National Bank Chairman—was backed by the LDDP's industrial constituents, who expect that a solid litas pegged to a Western currency will lower inflation rates and eliminate the uncertainty of exchange rate fluctuations. 3.5(c)

Despite progress, Vilnius has often sent mixed signals on its commitment to reform and has found it difficult to fulfill its campaign promise to stick to the guidelines of the IMF-approved program.

- In April 1993, for example, newly installed LDDP Prime Minister Slezevicius proposed using IMF credits to fund wage increases. The strong protests of the IMF forced Slezevicius to reverse the decision.
- On trade reform, the government repeatedly delayed implementation of a tariff schedule to replace the cumbersome licensing system. The LDDP government made little progress on privatization, suspending the program from December 1992 to January 1993 to improve selloff procedures.
- The government dismissed Bank Chairman Visokavicius—on what probably were trumped-up charges of malfeasance—in September 1993, raising concerns that financial reform was not a key priority. 3.5(c)

Another highlight of the LDDP government's first year in office was the final withdrawal of Russian troops from Lithuania and the normalization of relations between Vilnius and Moscow. On 31 August 1993, Russia withdrew the last of 50,000 troops that had been stationed in Lithuania. In November, Russian Prime Minister Chernomyrdin went to Vilnius to sign a package of agreements—including an accord governing the transit across Lithuania of Russian troops withdrawing from Germany—that both he and Lithuanian officials said signaled the beginning of a new relationship between their states. Most important to Vilnius were a series of bilateral agreements governing economic relations, including a treaty that mutually conferred most-favored-nation status, as well as an agreement expanding economic ties between Lithuania and the Russian Federation's Kaliningrad Oblast. [REDACTED] 3.5(c)

The final withdrawal of Russian troops cost Brazauskas and the LDDP considerable political capital, however. Brazauskas sought a compromise with Moscow over the issue of compensation for damages imposed by Soviet troops, hoping that Russia would reward Lithuania with a coveted free trade agreement. The deal led former parliament chairman Landsbergis—now head of the Homeland Union, the main parliamentary opposition faction—to charge that Brazauskas was selling out the Lithuanian people. Brazauskas ultimately secured the withdrawal by delaying the compensation issue, but he admitted [REDACTED] 1.4(c), 1.4(d) that, because of his willingness to compromise, the public perceived him as weak and that even his staunchest supporters were disappointed in his performance, [REDACTED] 1.4(c), 1.4(d) The government's credibility has been further diminished by its inability to negotiate the free trade agreement with Moscow, as well as by Russia's failure to date to implement the most-favored-nation treaty—implementation of which would result in an average reduction in Russian tariffs on Lithuanian exports by 50 percent, [REDACTED] 1.4(c), 1.4(d) Pressure from nationalists, as well as the LDDP government's growing suspicion of Russian intentions toward the Baltic states, moreover, is prompting Vilnius to shy away from closer ties to Russia and to adopt a more Western-oriented foreign policy. [REDACTED] 3.5(c)

New Foreign Policy Initiatives

At the outset of his presidency, President Brazauskas announced that one of his highest foreign policy priorities would be to normalize relations with Russia while expanding relations with the West. Unlike the Sajudis government that piloted Lithuania to independence, the leftwing LDDP agenda called for establishing Lithuania as a bridge between East and West. Since the Russian elections in December 1993, however, Brazauskas's foreign policy has taken a decided turn, focusing more on integration into Western political, economic, and security structures as a hedge against what Vilnius perceives as rising Russian imperialism.

The success of ultranationalists and Communists in the Russian elections prompted Brazauskas in January to formally request NATO membership. The move surprised and irritated Moscow, which had viewed Lithuania—under the LDDP leadership—as its only Baltic ally. Vilnius's accession to the Partnership for Peace is intended to enhance its prospects for eventual NATO membership. Lithuania is also cooperating with the other Baltic states in creating a joint peacekeeping battalion for use in UN operations to demonstrate that it can be a reliable partner for the West.

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The President tested his new aggressive policy in February by ordering that a Russian military train transiting Lithuania from Kaliningrad be stopped because the Russian Government had not asked Vilnius's permission to transit the country. Brazauskas reportedly believes that Moscow's current preoccupation with domestic problems and the former Yugoslavia opens the door for Vilnius to actively pursue ties to its Western neighbors, particularly the Visegrad states. Vilnius considers greater cooperation among the Baltic, Nordic, and Visegrad states as important to improving Lithuania's chances for full integration into the West.

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Disgruntled Constituencies

The government's halting policies during the LDDP's first year, coupled with the slow pace of economic recovery, angered the party's main supporters. Polls indicate that, in the public's view, the Slezevicius government did not sufficiently carry through the LDDP's preelection pledge to ease the pain of reform. The polls further indicate that, while the LDDP remains the most popular party, the popularity of both Brazauskas and the party is declining and that, if elections were held now, more people would choose not to vote than to vote for the LDDP.

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Industrialists and farmers have been most alienated by the government's economic policies. The industrialists protested moves to privatize the banking system by pressuring the government to dismiss the National Bank Chairman—a key proponent of bank privatization—despite the economic benefits, such as lower inflation, that resulted from his strict monetary policy. The important rural constituency battled with the government

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throughout the fall of 1993 for regulated prices and preferential loans promised during the LDDP's campaign. Dairy farmers have been striking since early February, [redacted] pensioners and disabled residents have held rallies to demonstrate their anger at the LDDP's failure to improve their economic plight. Disaffected voters have called for early parliamentary elections, but the LDDP maintains that it will complete its four-year term. [redacted]

Some members of the LDDP itself oppose the government's policies, believing that the party has strayed from its original goals. In September, 23 LDDP deputies from the left wing of the party formed a "program group" to evaluate the performance of the LDDP and to steer the party back toward its preelection program. Led by Vytautas Petkevicius, the program group supports many populist demands, such as implementing wage increases and extending credits to farmers. The group is especially critical of the moderates in the LDDP, who, in the group's opinion, have given in to opposition criticism at the expense of their constituents. [redacted]

Rebellion Embarrasses LDDP

A rebellion among a small group of armed men from the ultranationalist Home Guard (SKAT) volunteer service subordinate to Deputy Defense Minister Gecas has further weakened the LDDP in the public's eye. [redacted] the leader of the renegade SKAT group initially fled to the woods outside Kaunas following a mafia deal gone bad to avoid both the criminals and the government. The rebellion soon took on a political dimension, however, as the group in the woods began to voice grievances against the government. As media coverage of the rebellion increased, Gecas and Defense Minister Butkevicius were dispatched to negotiate with the rebels, who challenged the government's commitment to the SKAT and demanded greater pay and social guarantees. Following the rebellion, Butkevicius resigned his post, and Gecas, though remaining a deputy, resigned as the head of the SKAT. Although both men were holdovers from the Landsbergis era and, according to various sources, would have resigned from the Defense Ministry shortly, politicians of all stripes seized on the mutiny to discredit the LDDP.

This box is Confidential [redacted]

Dissent over policy decisions is also evident within the government. This past March, Economics Minister Veselka became the sixth minister of the 16-member Cabinet to resign since its appointment a year ago. He resigned in protest over the parliament's passage of the law creating a currency board. If two more ministers resign, the Lithuanian Constitution requires the parliament to hold a confidence vote on the government. Should a vote be necessary, however, the predominance of LDDP members in the parliament—despite their discord—probably guarantees that Slezevicius would survive. [redacted]

Embattled LDDP Likely To Hold on to Power

Over the next year, the LDDP's popularity probably will continue to decline and calls for early elections will increase as the reform process runs its course. Economic hardships are likely to continue as the economy slowly begins to recover, and the LDDP will face more pressure to give in to economically destabilizing populist demands in the coming year, both from its constituents and the leftwing program group within the party. 3.5(c)

Despite the continued sniping at the government, pressure by the IMF and the West to tow the line on reform probably will prevail. Although the LDDP's main parliamentary opposition, the Homeland Union, favors more rapid reform, it probably will support the LDDP government's efforts to stick with the IMF-backed plan. 3.5(c)

The lack of a viable alternative party also makes it likely that the LDDP will survive at least another year. The LDDP's decline in popularity has not yet resulted in a surge of support for any of the centrist parties. Polls indicate that the LDDP still garners over twice the support of the Homeland Union, probably because the coalition has failed to offer constructive alternative policies. None of the other parties has attempted to capitalize on the growing rift in the LDDP by co-opting disgruntled Party members, probably for fear of being tarnished by the LDDP's Communist legacy. 3.5(c)

A major corruption scandal could change the equation. The greatest threat to the LDDP would be documentation of allegations that high-level government officials were linked to the murder of a prominent journalist in October 1993 (see box). If the allegations prove true, the officials implicated—including possibly President Brazauskas—probably would be forced to resign and early parliamentary elections probably would be held. Given the lack of support for the opposition and the scent of scandal still associated with the previous Sajudis government, the LDDP might still win more seats than any other party; but it would probably lose its majority standing, probably resulting in a parliamentary gridlock of competing factions, none with sufficient weight to push through legislation. 3.5(c)

1.4(c), 1.4(d), 3.5(c)

Outlook

A second year in office for the Slezevicius government should offer a measure of stability to Lithuania, especially if the LDDP leadership steels itself against criticism and adheres to sound fiscal and monetary policies. The economy stands a good chance of entering a recovery period in 1994, and the LDDP may be able to capitalize on better economic conditions to increase its popularity. Equally important, another year of continuity in government would strengthen the immature Lithuanian political system, giving the LDDP and opposition parties time to learn about party discipline and to allow the government to demonstrate that democratic systems can be effective. 3.5(c)

If the leadership is forced to resign or allow early elections, however, Lithuania's prospects for stability and reform substantially decrease. The potential in this scenario for a gridlocked legislature is great, possibly placing Lithuania in a cycle of repeated preterm elections as dissatisfied and impatient voters and opposition groups continuously demand immediate improvements. Such a cycle, as occurred during the interwar period, would undermine Lithuania's efforts to establish a Western-style democracy and could set the stage for an authoritarian figure to take control. 3.5(c)



Intelligence Report

Office of Slavic and Eurasian Analysis

7 March 1995

Lithuania: Political and Economic Overview (U)

Lithuania has the most stable, cohesive government of the three Baltic states, due in large part to the dominance of the Lithuanian Democratic Labor Party (LDDP), the successor to the proindependence wing of the Lithuanian Communist Party. Lithuania's political stability, however, provides a stark contrast to the currently unstable character of its economic reform process.

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The LDDP won unusually strong support from the population in the fall 1992 parliamentary elections, winning 73 of 141 seats in the Seimas (parliament). The country reaffirmed its support for the LDDP in February 1993 when over 60 percent of the voters cast their ballots for the party's nominal leader, President Brazauskas.

- The LDDP consolidated its hold on power in March 1993 with the appointment of an LDDP cabinet by newly elected President Brazauskas.
- *Despite its fall from the top spot in several recent public opinion polls, the LDDP does not face any serious threat to its hold on power.* The LDDP's principal opponent, the vocal, rightwing opposition Homeland Union--led by the former Sajudis government's leader, Vytautas Landsbergis--pursues a staunchly anti-Russian, anti-Brazauskas course, but wields little real power, probably as a result of the reactionary approach it takes on most issues.
- The results of local elections in Lithuania later this month should provide a current indication of the popularity of the government and the LDDP. Elections for a new Seimas will be held in 1996, and presidential elections are scheduled for 1997.

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Until recently, the government of Prime Minister Slezevicius, which came to power in the fall of 1992, had reaffirmed a program of close cooperation with the IMF by implementing economic reform and embracing antiinflationary policies. The government had done so despite a campaign platform that appealed to voter resentment over the costs of economic reform and despite increasingly vocal criticism of its economic policies from the opposition. Recent trends in fiscal policy and legislation passed by the Seimas, however, are not encouraging,

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- As of January, Lithuania had privatized more than two-thirds of its industrial facilities—5,152 of the 6,634 government enterprises slated for privatization—as well as most housing and agricultural enterprises. *An IMF mission to Lithuania in February expressed concern, however, that the number of firms exempt from privatization was excessive.*
- Although most price controls had been abolished and the government adhered to tight monetary and fiscal policies for much of 1994, *new agricultural policies violate GATT rules by allowing for support prices, production quotas, import restrictions, and a provision that import prices can be no lower than domestic prices.*
- An informal review by the IMF in February indicated that Lithuania has failed to meet IMF performance criteria for the budget deficit—mandated by the IMF at 1.5 percent of GDP. *In January, Slezevicius stated that the projected budget deficit for 1995 would be 1.9 percent of GDP.*
- The Central Bank had resisted credit emissions for much of the past two years, but is under pressure from the government to backslide on several key economic and fiscal policies [redacted] 1.4(c), 1.4(d)

3.5(c)

Lithuania's disciplined economic policies have allowed it to check inflation, but the country's economic decline is only beginning to bottom out and its stability is precarious.

- Inflation, which plummeted from monthly averages approaching 30 percent in late 1992 to averages of 3.3 percent in 1994, increased to an average of over 5 percent in the first two months of 1995. Although acknowledging the early 1995 rise in inflation, *Slezevicius predicted that annual inflation in 1995 will not exceed 25 percent,* [redacted] 1.4(c), 1.4(d)
- In February, Brazauskas said that the current 4.5-percent unemployment rate was artificially low and that the actual number of unemployed persons was much higher than registered. [redacted] 1.4(c), 1.4(d)
- Although Brazauskas claimed that GDP in 1994 had grown by 1.5 to 2 percent, government forecasts and other economic indicators suggest that Lithuania's GDP dropped by as much as 7 percent last year—following three years of even greater decline. [redacted] 3.5(c)

This report was requested by the National Security Council in advance of Vice President Gore's planned visit to Estonia. It was prepared by [redacted] 13526 6.3 Office of Slavic and Eurasian Analysis. Comments and queries are welcome and may be directed to Chief, [redacted] 3.5(c) OSE,

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Lithuania's continued difficulties are attributable in large part to its late start in shifting ties away from the deteriorating economies of the former Soviet Union (FSU) to the more vibrant economies of the West.

- Lithuania has been slower than the other Baltic states in diversifying its trade away from the FSU because of its greater structural dependence on Russian energy imports and CIS-bound agricultural exports, and because its port facilities are less developed than in Latvia and Estonia. Lithuania has reduced its trade dependence on the FSU from around 85 percent in 1991 to about 50 percent in 1994, but Russia remains Lithuania's leading trading partner, accounting for 36 percent of total trade.
- Foreign investment in Lithuania in 1994 was far below that of Estonia and Latvia. In 1993, foreign investment totaled only about \$25 million, and increased to about \$30 million in the first seven months of 1994. In January 1995, government statistics indicated that over \$60 million had been invested in Lithuania in 1994, still far below the \$350 million foreign investment in Estonia. This does not include \$201 million pledged to Lithuania by the IMF. 3.5(c)

Popular support for reforms is wavering, while pressure to move away from IMF-inspired policies is increasing.

- Although an opposition-inspired referendum on a proposal to index bank savings to inflation--which the government claimed would have derailed its reform programs--failed in August, government manipulation of the Central Bank and the Currency Board in the latter part of 1994 and a ballooning budget deficit have caused the IMF serious alarm.
- 1.4(c), 1.4(d) reported in February that the Government of Lithuania was still leery of taking the necessary tough action against bankrupt farmers and state-owned enterprises, and voiced concern that the Seimas was increasingly inclined to force the government to retreat on key reforms. 3.5(c)



φ Lithuania

Secret
3.5(c)

Intelligence Report

Office of Slavic and Eurasian Analysis

7 September 1994

The Kaliningrad Transit Agreement: Who Needs It? (U)

Russia and Lithuania have failed to date to reach an agreement covering the transit of Russian military personnel and equipment to and from the Russian Federation's Kaliningrad Oblast across Lithuanian territory. Closure on the much delayed agreement, however, *is a low risk, low cost means for Russia and Lithuania to improve stability and facilitate trade in the Baltic region.* 3.5(c)

Russia wants to sign a long-term transit agreement as a guarantee of uninterrupted access to its forces in the Kaliningrad region, regardless of how the political situation in Vilnius evolves. 1.4(c)

- The linchpin of Russia's negotiating position has been that settlement of the transit issue is a precondition for implementation of the conditions of Most Favored Nation (MFN) status, granted to Lithuania in November 1993.
- Lithuania's approach to the negotiations, however, has been to avoid any agreement that accords Russia any "special status," brings into question its sovereignty, or impairs its ability to integrate fully into the EC, NATO, and other Western security structures. Lithuania has also been pushing for an agreement that is renewed annually. 3.5(c)

Both sides--as well as Kaliningrad's local government--see a transit agreement as a means to expand trade and facilitate movement across the border between Lithuania and Kaliningrad.

- Kaliningrad recently opened a business and trade mission in Vilnius, following the opening of a Lithuanian mission in Kaliningrad last year, 1.4(c), 3.5(c)

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2016-0384-M [1.34]

KBH 6/23/2023

3.5(c)

Russia and Lithuania agree on 95 percent of the transit agreement text 1.4(c)

[REDACTED] Movement toward breaking the *deadlock on several key terms* of the Russian-Lithuanian military transit agreement, however, has been held up for the past several months.

- Vilnius primarily has been seeking payment of transit fees and specific information on the number and type of troops involved in each transit, [REDACTED] 1.4(c) provisions which Moscow so far has been unwilling to accept.
- Lithuania is also concerned about controlling illegal immigration from the Caucasus and Central Asia. Lithuania wants Russia to ensure that all passengers transiting Lithuania have proper identification and documentation. Moreover, Lithuania wants Russia to take responsibility for processing and repatriating all persons attempting to enter Lithuania illegally or conducting illicit business transactions as part of their travel.

3.5(c)

The military transit agreement has become the latest rallying point for Lithuania's vocal right-wing opposition. The opposition, led by former President Landsbergis, opposes in principle any formal military transit agreement with Russia. Landsbergis has claimed that any agreement will threaten Lithuania's sovereignty and inevitably involve Lithuania in Russia's military entanglements [REDACTED] 1.4(c), 3.5(c)

President Brazauskas and the ruling Lithuanian Democratic Labor Party (LDDP), bolstered by the recent defeat of the referendum on the indexation of savings and illegal privatization sponsored by the right-wing opposition, probably will have more freedom to make concessions to Russia to bring the agreement to closure.

- In mid-August, Brazauskas expressed concern that his key negotiator was delaying implementation of the accord by pressing for too many restrictions on Russian transit, [REDACTED] 1.4(c) By early September, the Lithuanian government had solicited advice from Russia and several European countries on how to accelerate the negotiating process [REDACTED] 1.4(c)

3.5(c)

Comments and queries are welcome and may be directed to [REDACTED] OSE, or [REDACTED]

(U)

- A senior Russian Foreign Ministry official, [redacted] 1.4(c) [redacted] that negotiators were close to resolving the remaining issues and predicted that a transit agreement could be signed by the end of the month.
- Russian Federation Council Chairman Vladimir Shumeiko, following his 5-6 September visit to Vilnius, stated that Russia will accord MFN status to Lithuania "in the very near future," [redacted] 1.4(c) [redacted]. Moreover, Shumeiko stated his belief that proposed regulations governing military transit within Lithuania now under review by the Seimas will ultimately be accepted by both the Lithuanian and Russian governments. [redacted] 3.5(c) [redacted]

Lithuania's Hand

Lithuania supplies electricity to Kaliningrad and controls a major natural gas pipeline (Vilnius-Kaunas-Kaliningrad) and an important rail line that are used to transport petroleum products and other goods to the Russian oblast. As a result, it is in a fairly strong position to influence events in Kaliningrad through economic pressure. While Vilnius has, in the past, threatened to blockade these lines in response to economic pressure from Moscow, it has not actually carried out its threats. [redacted] 3.5(c) [redacted]

Russia's Hand

Although Russia initially stated that the military transit agreement was an independent issue, *Lithuania's initial intransigence in resolving the matter probably led Moscow to link the transit agreement to implementation of MFN status*. Lithuanian enterprises doing business with Russia have been forced to pay twice the normal trade tariffs, making Lithuanian goods noncompetitive on the Russian market. Moreover, Russia has threatened to bypass Lithuania altogether--effectively barring Lithuania from imposing and collecting on any new transit fees--by operating via Poland or transiting by sea from the port at Baltiysk to St. Petersburg, unless an agreement is finalized [redacted] 1.4(c) [redacted]

- [redacted] 1.4(c) [redacted] Russia is in the process of establishing a new transportation route from Kaliningrad that does not cross Lithuanian territory. A ferry service, which press reports indicate will be inaugurated this year, reportedly will link Kaliningrad with St. Petersburg. [redacted] 3.5(c) [redacted]

The Russian Perspective

Russian leaders characterize the incorporation of the Kaliningrad territory--until 1945 part of German East Prussia--into the Russian Federation as a closed matter. Moscow has warned Germany and other regional states against any territorial

claims. Foreign Minister Kozyrev said in March 1993, for example, that Russia's naval presence in the territory thwarts "crazy plans by German or regional extremist groups to annex Kaliningrad," [REDACTED] 1.4(c) For its part, Germany formally recognized Russia's sovereignty over Kaliningrad in the Two-plus-Four agreements of 1990. In 1993, German Foreign Minister Kinkel reaffirmed publicly [REDACTED] 1.4(c) that Bonn had renounced any claim to the region. [REDACTED] 3.5(c)

Russia's western-most territory, Kaliningrad is now its last "forward presence" in Europe. Moscow's control over Kaliningrad and the extensive Russian military presence in the oblast underscore arguments made by Russian officials that Russia remains a European power--its military pullout from Germany, Eastern Europe, and the Baltic states notwithstanding.

- Russian officials publicly have acknowledged that the large numbers of naval and ground forces deployed in Kaliningrad have raised concerns in neighboring states, particularly Poland and Lithuania, but argue that the troops and naval personnel pose no threat to any country.
- In March, Shumeyko asserted that it was solely Moscow's business where in Russia it stations its army and vowed that Kaliningrad would never be demilitarized [REDACTED] 1.4(c), 3.5(c)

Military Significance. Through early 1993, Kaliningrad was a major transit point for Russian troops and military equipment withdrawn from Eastern Europe. As part of this process, one tank division was redeployed to the area and many of the resident units received newer equipment and additional personnel. The most significant military increase, however, resulted from the relocation of the Baltic Fleet to Kaliningrad when it lost its bases in the Baltic states. [REDACTED] 3.5(c)

Major Russian ground combat units in Kaliningrad Oblast include two motorized rifle divisions, one tank division, one tank brigade, one airborne brigade, a naval infantry brigade, and a coastal defense artillery brigade. Aviation assets consist of about 150 fixed-wing aircraft and 50 helicopters--organized into two regiments of naval aviation strike aircraft--one regiment of air defense fighters, and several naval helicopter squadrons (*see box*). If these units were maintained at close to full strength--which is unlikely--we estimate that the total Russian military manpower in Kaliningrad would total no more than 100,000 personnel. Russian and Lithuanian claims of the troop strength vary wildly.

- [REDACTED] 1.4(c)
[REDACTED] as
of July, Russia maintained some 200,000 troops in the Kaliningrad region.

Although in June the chief Lithuanian negotiator claimed that the number of troops remaining in Kaliningrad was closer to 50,000, more recent press [1.4(c)] reporting put the total number of combat troops in Kaliningrad at fewer than 30,000. [3.5(c)]

Russian Combat Equipment in Kaliningrad (DOI: 1 July 1994)

Tanks	900
Armored Combat Vehicles	1,200
Artillery	700
Surface-to-surface Missiles	40
Surface-to-air Missiles	190
Attack Helicopters	40
Combat Aircraft	100
Surface Combatants	< 45

This box is [3.5(c)]

A variety of recent statements from both civilian and military spokesmen indicate that *Moscow intends to retain a significant military presence in Kaliningrad.*

[1.4(c)] units in Kaliningrad will constitute an independent territorial command where all branches of service will be under a unified command structure, which is itself directly subordinate to the Ministry of Defense and the General Staff. [3.5(c)]

According to the restructuring program currently underway in the Russian military, units in the oblast probably will eventually be downsized. As a result, a ground force structure of a single corps composed of brigades--and possibly a tank division--is likely by the end of the decade. Due to the oblast's geographic position, the naval presence probably will remain large and the number and modernity of aviation assets deployed there could increase. [3.5(c)]

1.4(c), 1.4(d), 3.5(c)

Quinn, Mary E. (EUR)

From: Norland, Richard B. (EUR)
Sent: Monday, November 13, 2000 11:56 AM
To: @BLINKEN
Subject: Lithuanian Deputy FM Usackas [CONFIDENTIAL]

Tony, the attached cables are good value from John Tefft as background to our 3 pm meeting with Usackas.



VISIT OF
LITHUANIAN DEPUTY FOR...



A STEADY FOREIGN
POLICY AND TH...



LITHUANIA'S
PROGRESS IN THE FI...

Point to be Made

- Get Usackas' assessment of the new Government and of **PM Paksas' priorities**.
- Ask for his views on impact that change of Government is likely to have on Lithuania's preparations for **NATO membership**; reaffirm U.S. Open Door policy.
 - Pleased we were able to persuade Congress to restore **FMF funding** for Lithuania.
 - John Tefft has reported on Lithuania's progress in developing and implementing programs to control illegal export of strategic and dual-use goods.
- Confirm (and applaud) Paksas' evident determination to pursue **pragmatic line with Russia**.
- Get latest from him on **Williams deal**, including whether Russia/Lukoil are "behaving," and ask whether we should be concerned about the new Government's approach given fact that Paksas resigned last year rather than sign the contract. It would be a shame, given all the effort that went into the negotiations and the positive impact this deal could have for both of us, if it were allowed to founder.
- Congratulations on hosting successful October conference on **holocaust-era** looted cultural assets and continued efforts to prosecute war criminals.

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PER E.O. 13526
2016-0384-M (1.36)
KBH 6/23/2023

E.O. 12958: DECL: 10/4/2010
TAGS: PREL, PGOV, NATO, ENRG, LH, RU
SUBJECT: VISIT OF LITHUANIAN DEPUTY FOREIGN MINISTER
USACKAS

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PER E.O. 13526**

2016-0389-m (1.37)

KRM 4/23/2023

(U) CLASSIFIED BY AMBASSADOR JOHN F. TEFFT FOR REASONS
1.5 B AND D.

1. (S) LITHUANIAN DEPUTY FOREIGN MINISTER VYGAUDAS USACKAS WILL BE VISITING WASHINGTON NOVEMBER 13-16 TO CONSULT WITH ADMINISTRATION OFFICIALS, MEMBERS OF CONGRESS, AND FOREIGN POLICY SPECIALISTS IN BOTH PARTIES. HE WILL THEN ATTEND A FOREIGN POLICY CONFERENCE IN PUERTO RICO AT THE INVITATION OF SENATORS DURBAN AND HEGEL.
2. (S) USACKAS WILL CONTINUE TO BE LITHUANIA'S MOST INFLUENTIAL DIPLOMAT UNDER THE NEW FOREIGN MINISTER, ANTANAS VALIONIS, WHO WAS AMBASSADOR TO POLQ. ALTHOUGH USACKAS HAS BEEN KNOWN LOCALLY AS "MR. EU" SINCE HE WAS NAMED LITHUANIA'S TOP NEGOTIATOR WITH THE EUROPEAN UNION, HE IS ALSO LITHUANIA'S POINT MAN ON RELATIONS WITH RUSSIA AND BELARUS. HE HAS SUCCEEDED IN PERSUADING LITHUANIA'S POLITICAL ELITE THAT KALININGRAD SHOULD BE VIEWED AS A PLACE FOR POSITIVE ENGAGEMENT WITH RUSSIA, RATHER THAN AS AN OBSTACLE TO NATO AND EU ENLARGEMENT. USACKAS' FOCUS ON PRAGMATIC WAYS FOR THE EAST AND WEST TO COOPERATE ECONOMICALLY AND POLITICALLY IS VERY MUCH IN TUNE WITH THE FRESH BATCH OF POST-INDEPENDENCE MOVEMENT LEADERS NOW TAKING POSITIONS IN THE NEW LITHUANIAN GOVERNMENT. USACKAS WANTS TALK TO THE DEPUTY SECRETARY AND OTHER ADMINISTRATION OFFICIALS ABOUT THE NEW GOVERNMENT'S PLANS TO FOLLOW THROUGH WITH NATO PREPARATIONS AND TO INCREASE DEFENSE SPENDING. HE WOULD LIKE TO FOCUS ON MULTILATERAL AND REGIONAL ISSUES, AND HOPES TO HEAR VIEWS ON PROSPECTIVE U.S. POLICIES TOWARDS THE BALTIC STATES, NATO, AND THE EU.
3. (S) THE NEW LITHUANIAN GOVERNMENT TAKES OFFICE ONLY ON NOVEMBER 9, BUT HAS ALREADY EMPHASIZED THAT THE THREE MAIN GOALS OF LITHUANIA'S FOREIGN POLICY -- NATO MEMBERSHIP IN 2002, EU MEMBERSHIP IN 2004 AND GOOD RELATIONS WITH ITS NEIGHBORS -- REMAIN UNCHANGED. THE NEW GOVERNMENT STRESSES IMPROVING RELATIONS WITH RUSSIA IN ORDER TO CREATE BETTER CONDITIONS FOR LITHUANIAN TRADE WITH RUSSIA. THE NEW GOL PROGRAM SPECIFICALLY HIGHLIGHTS KALININGRAD, CALLING FOR CLOSER ECONOMIC TIES, AND WORKING WITH THE EU AND U.S. TO BRING KALININGRAD INTO WHAT IT CALLS THE "EUROPEAN PROCESSES". PM PAKSAS IS EXPECTED TO TAKE A MORE PRAGMATIC APPROACH TOWARDS RELATIONS WITH RUSSIA BECAUSE OF HIS CLOSE TIES WITH LITHUANIAN BUSINESS PEOPLE WHO WANT TO RECOUP RUSSIAN MARKETS LOST IN THE MELTDOWN TWO YEARS AGO. IN GENERAL, THE NEW RULING COALITION, UNLIKE THE OUTGOING CONSERVATIVES, IS MORE INTERESTED IN DOING BUSINESS WITH RUSSIA, THAN SETTLING OLD SCORES.
4. (S) THE NEW COALITION GOVERNMENT IS BRINGING IN MANY PEOPLE WHO ARE NEW TO POLITICS AND GOVERNMENT. THEY TEND TO BE YOUNGER AND SEE THEMSELVES AS BRIDGING THE GAP BETWEEN THE OLD LEFT/RIGHT SCHISM IN LITHUANIAN POLITICS. NEARLY ALL THE MINISTERS IN THE

CLINTON LIBRARY PHOTOCOPY

NEW CABINET ARE IN THEIR 30S AND 40S. PAKSAS' CENTER-RIGHT, FREE MARKET LIBERAL UNION CLEARLY HAS THE UPPER HAND IN THE NEW GOVERNMENT'S PROGRAM AND THEY SAY THEY WANT TO CUT DOWN THE OBSTACLES TO BUSINESS AND CUT TAXES. HOWEVER, UNLESS AND UNTIL THE LITHUANIAN ECONOMIC RECOVERY BEGINS TO PICK UP SPEED, THE GOVERNMENT WILL HAVE LITTLE ROOM TO MANEUVER AND WILL HAVE TO FOLLOW A VERY TIGHT-MONEY POLICY.

5. (C) DURING THE ELECTIONS, BOTH THE LIBERALS AND THEIR MAIN COALITION PARTNER, THE NEW UNION, EXPRESSED DOUBTS THAT LITHUANIA COULD AFFORD TO INCREASE DEFENSE SPENDING TO 2% OF GDP WITH THE ECONOMY STILL IN THE DUMPS. HOWEVER, SINCE TAKING OFFICE THE TWO MAIN PARTIES HAVE AFFIRMED LITHUANIA'S INTENTION TO RAISE SPENDING TO 1.95% THIS YEAR AND 2% IN 2001 OR 2002 IF THE ECONOMY CONTINUES TO BE FLAT. THE OUTGOING CONSERVATIVE GOVERNMENTS NEVER QUITE REACHED THE PERCENTAGE THEY HAD PROMISED TO SPEND. ALTHOUGH THE NEW GOVERNMENT WILL ALSO HAVE A HARD TIME FULFILLING ITS PLEDGE, WE EXPECT DEFENSE SPENDING TO KEEP RISING OVER THE NEXT TWO YEARS.

6. (C) THE LITHUANIANS HAVE BEEN CLOSELY FOLLOWING THE U.S. PRESIDENTIAL CAMPAIGN AND WHAT THE CANDIDATES AND THEIR FOREIGN POLICY ADVISORS SAY ABOUT NATO AND NATO ENLARGEMENT. USACKAS WILL BE LOOKING SPECIFICALLY FOR INDICATIONS OF THE NEW ADMINISTRATION'S APPROACH, IN PART, TO ALLAY CONTINUING FEARS THAT NATO WILL SACRIFICE BALTIC MEMBERSHIP IN NATO IN FAVOR OF BETTER RELATIONS WITH RUSSIA.

7. (C) IN ADDITION TO PROVIDING USACKAS WITH AN UPDATE ON NATO PLANNING AND U.S. POLICY TOWARD THE BALTICS, WE RECOMMEND DEPARTMENT OFFICIALS RAISE THE WILLIAMS ISSUE. ALTHOUGH THE NEW GOVERNMENT HAS PUBLICLY SAID IT WILL CONTINUE TO SUPPORT THE MAZEIKIU NAFTA CONTRACT, LOCAL WILLIAMS REPRESENTATIVES REMAIN NERVOUS ABOUT THE INTENTIONS OF PM PAKSAS AND HIS KEY MINISTERS WHO RESIGNED IN OCTOBER, 1999 RATHER THAN SIGN THE CONTRACT. MOREOVER, WILLIAMS' REPRESENTATIVES HERE TOLD US THAT LUKOIL CEO ALEKPEROV WILL VISIT LITHUANIA NOVEMBER 15, AND THEY ARE CONCERNED ABOUT NEW PRESSURES TO RENEGOTIATE THE EXISTING CONTRACT.

TEFFT

Quinn, Mary E. (EUR)

From: WHSR
Sent: Thursday, November 09, 2000 10:10 AM
To: Blinken, Antony J. (EUR); Cables; Davidson, Leslie K. (VP); Norland, Richard B. (EUR)
Subject: A STEADY FOREIGN POLICY AND THE PROMISE OF REFORMS MARK THE NEW GOVERNMENT PROGRAM IN LITHUANIA (U) CLASSIFIED BY AMBASSADOR JOHN F. TEFFT FOR

ActionAddres: RUEHC/SECSTATE WASHDC IMMEDIATE 2384
Classification: ~~CONFIDENTIAL~~
DateTime: 091557Z NOV 00
Distribution: SIT: Blinken NSC Davidson Norland
Identifier: M4724760
InfoAddres: RUEHZL/EUROPEAN POLITICAL COLLECTIVE
Line1: OAACZYUW RUEHVLA3167 3141557-CCCC--RHEHAAX.
Line2: ZNY CCCCC ZZH
Line3: O 091557Z NOV 00
Line4: FM AMEMBASSY VILNIUS
Originator: AMEMBASSY VILNIUS
Precedence: IMMEDIATE
Profiles: BLINKENA
CABLES
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NORLANDR
StationRoutingIndicator: RUEHVL
StationSerialNumber: 3167
TimeOfReceipt: 11/09/2000 11:08:41 ET

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2016-0324-M (1.38)
KQH 4/23/2023

~~CONFIDENTIAL~~ VILNIUS 003167

DEPT FOR EUR/NB
USNATO FOR AMB. VERSHBOW

E.O. 12958: DECL: 10/4/2010
TAGS: PREL, PGOV, NATO, ECON, EFIN, LH
SUBJECT: A STEADY FOREIGN POLICY AND THE PROMISE OF REFORMS MARK THE NEW GOVERNMENT PROGRAM IN LITHUANIA

(U) CLASSIFIED BY AMBASSADOR JOHN F. TEFFT FOR REASONS 1.5 B AND D.

1. ~~(S)~~ SUMMARY: THE PROGRAM OF LITHUANIA'S NEW GOVERNMENT UNDERSCORES ITS COMMITMENT TO NATO AND EU MEMBERSHIP AND TO INCREASED DEFENSE SPENDING. THE PROGRAM ALSO RECOGNIZES THAT, DESPITE A DECADE OF CHANGE AND REFORM, LITHUANIA STILL FACES ENORMOUS PROBLEMS WHICH REQUIRE SIGNIFICANT STRUCTURAL CHANGES. IN ITS NEW PROGRAM, THE INCOMING GOVERNMENT HAS HIGHLIGHTED SOME POPULAR POLICIES WHICH HELPED GET THEM ELECTED -- CUTTING TAXES AND SPENDING MORE ON SCHOOLS -- BUT HAS AVOIDED SPELLING OUT SPECIFIC REMEDIES FOR MAJOR STRUCTURAL PROBLEMS IN SENSITIVE AREAS, SUCH AS AGRICULTURE, SOCIAL SECURITY, AND HEALTH CARE. THE NEW GOVERNMENT SHOWS THAT IT IS AWARE OF THE ISSUES, BUT, WITH A SHAKY COALITION, MAY NOT BE ABLE TO MAKE PROGRESS ON ALL FRONTS AS URGENTLY AS IS NECESSARY. EMBASSY BELIEVES THAT IF THE NEW GOVERNMENT CAN TACKLE SOME OF THE FUNDAMENTALS, I.E., PRIVATIZE THE LAST BIG STATE ENTERPRISES, AND DELIVER ON ITS PLEDGE TO LIBERALIZE

THE BUSINESS ENVIRONMENT, ALL WITHOUT DRIVING UP THE GOVERNMENT DEFICIT, LITHUANIA COULD MAKE SUBSTANTIAL PROGRESS ON THE ROAD TO BUILDING A MODERN ECONOMY.
END SUMMARY

2. (U) PRIME MINISTER PAKSAS' PROGRAM EMPHASIZES THREE TOP PRIORITIES:

1) EDUCATION AND PROMOTING AN "INFORMATION SOCIETY;"
2) RESTRUCTURING STATE SYSTEMS AND THE ECONOMY; AND
3) INTEGRATION WITH THE WEST AND PRAGMATIC RELATIONS WITH NEIGHBORS

3. (U) THE FOLLOWING ARE THE KEY POINTS IN THE NEW GOVERNMENT PROGRAM:

FUNDAMENTAL NATIONAL SECURITY AND FOREIGN POLICY GOALS REMAIN UNCHANGED

- RECEIVE INVITATION TO JOIN NATO IN 2002
- JOIN EU IN 2004
- GOOD RELATIONS WITH NEIGHBORS, FOCUSSED ON EXPANDING MARKETS FOR LITHUANIAN GOODS
- INCREASE DEFENSE SPENDING TO 2% OF GDP BY 2002 (VICE 2001 IN THE LAST GOVERNMENT'S PLANS)
- SHIFT TO A PROFESSIONAL ARMY
- JOIN OECD
- STRATEGIC PARTNERSHIP WITH POLAND; CLOSE TIES AMONG BALTIC STATES
- CLOSER ECONOMIC RELATIONS WITH KALININGRAD AND GOOD RELATIONS WITH RUSSIA, FOCUSSED ON ACCESS TO RUSSIAN MARKET

FISCAL AND MONETARY RESTRAINT

- KEEP THE BUDGET DEFICIT TO 2-3% OF GDP IN 2001 WITH A GOAL OF A BALANCED BUDGET
- KEEP A CURRENCY BOARD AFTER REPEGGING LITAS TO THE EURO (NO DATE GIVEN)
- RAISE REVENUES BY LEGALIZING CASINOS

REDUCE TAXES

- LOWER PERSONAL INCOME TAX; ELIMINATE CORPORATE INCOME TAX; ELIMINATE EXCISE TAXES NOT REQUIRED BY INTERNATIONAL OBLIGATIONS
- REDUCE VAT ON HEATING (TO HELP AVERAGE PERSON) AND ON CONSTRUCTION (TO ENCOURAGE NEW BUILDING)

LIBERALIZE BUSINESS ENVIRONMENT

- LIBERALIZE LAND USE AND LABOR LAWS
- REDUCE THE NUMBER OF REGULATIONS, INSPECTIONS AND LICENSES; SIMPLIFY TRANSIT PROCEDURES

CONTINUE PRIVATIZATION, BUT MAKE PROCESS MORE TRANSPARENT

- PRIVATIZE REMAINING STATE-OWNED ENTERPRISES USING NATIONAL STOCK EXCHANGE OR CAPITAL MARKETS
- "NATURAL MONOPOLIES" AND "STRATEGIC OBJECTS TO BE PRIVATIZED IN PART OR IN FULL

GOVERNMENT REFORM

CLINTON LIBRARY PHOTOCOPY

- REDUCE THE NUMBER OF MINISTRIES AND CIVIL SERVANTS
- SEPARATE EXECUTIVE AND REGULATORY FUNCTIONS
- DECENTRALIZE GOVERNMENT ADMINISTRATION

- GIVE LOCAL GOVERNMENTS INDEPENDENT BUDGETS WHICH RELY ON LOCAL RESOURCES; DIRECT ELECTION OF MAYORS AND COUNCILS
- MAKE CIVIL SERVANTS MORE ACCOUNTABLE

AGRICULTURAL REFORM

- AGRICULTURE AND RURAL DEVELOPMENT TO RECEIVE UP 10% OF STATE BUDGET
- SHIFT FROM SUBSIDIES TO DIRECT PAYMENTS
- COMPLETE LAND RESTITUTION
- SEPARATE SOCIAL SUPPORTS FROM PRODUCTION INCENTIVES

SOCIAL SECURITY REFORM

- INTRODUCE PRIVATE PENSION FUNDS

INCREASE SPENDING ON EDUCATION TO 1.5% OF GDP

IMPROVE THE HEALTH CARE SYSTEM

4. (C) COMMENT: ON FOREIGN AND SECURITY POLICY, LITHUANIA'S COURSE IS STEADY. THE NEW PM AND CHAIRMEN OF THE PARLIAMENT HAVE PROMISED, WITH EVEN MORE VIGOR THAN EXPECTED, TO INCREASE DEFENSE SPENDING TO 2% IN 2002, VICE 2001. THIS IS A MINOR, THOUGH REALISTIC, COURSE CORRECTION. FEW PEOPLE BELIEVED THAT THE LITHUANIANS WOULD HAVE BEEN ABLE TO REACH THE 2% MARK NEXT YEAR, CONSIDERING THE FACT THAT THEY HAVE MISSED THEIR TARGETS FOR THE LAST TWO YEARS. THE PRAGMATIC FOCUS ON BETTER RELATIONS AND INCREASED TRADE WITH RUSSIA AND KALININGRAD IS BOTH REALISTIC AND AMBITIOUS.

5. (C) IN GENERAL, THE NEW GOVERNMENT PROGRAM AS WRITTEN IS ON THE RIGHT TRACK, THOUGH IS RATHER SKETCHY IN MANY AREAS. THE NEW GOVERNMENT WILL HAVE TROUBLE CARRYING OUT ITS PLEDGES, FIRSTLY, BECAUSE OF A RELATIVELY WEAK COALITION IN THE PARLIAMENT; AND, MORE FUNDAMENTALLY, BECAUSE A WEAK ECONOMY WILL NOT ALLOW THE GOVERNMENT TO CUT TAXES, RAISE SPENDING, AND MAINTAIN A LOW BUDGET DEFICIT ALL AT THE SAME TIME. THE PRIME MINISTER HAS HINTED THAT MANY OF THE TAX REDUCTIONS WILL HAVE TO WAIT UNTIL THE ECONOMY REVIVES AND GOVERNMENT REVENUES RECOVER. LACK OF REVENUES WILL ALSO FORCE THE NEW GOVERNMENT TO PUT OFF NEW INITIATIVES THAT COST MORE MONEY. WHEN PAKSAS RESIGNED AS PM IN OCTOBER, 1999, THE BUDGET DEFICIT HAD SOARED TO 11.6%. THE OUTGOING KUBILIUS GOVERNMENT REDUCED THE DEFICIT TO 2.8% THIS YEAR. ACCORDING TO THE LATEST IMF AGREEMENT, THE BUDGET DEFICIT CEILING IS 1.4% FOR NEXT YEAR, BUT THE NEW FINANCE MINISTER SAID THAT THEY WILL ASK THE IMF TO RAISE IT TO 2-3%, BUT THERE'S NO INDICATION THAT THE IMF WILL AGREE.

6. (Ø) DESPITE THE FISCAL BIND, THE NEW GOVERNMENT IS UNDOUBTEDLY GRATEFUL THE OUTGOING GOVERNMENT HAD TO MAKE THE MOST PAINFUL CUTS IN GOVERNMENT SPENDING LAST YEAR. ONE OF THE NEW GOVERNMENT'S MOST IMPORTANT OBJECTIVES SHOULD BE NOT TO FRITTER AWAY THE FISCAL AND FINANCIAL STABILITY THAT WAS ACHIEVED OVER THE LAST YEAR WITH CONSIDERABLE SOCIAL PAIN AND A MASSIVE LOSS BY THE CONSERVATIVE PARTY IN LAST MONTH'S ELECTIONS.

TEFFT

~~CONFIDENTIAL~~

12

INR

Lithuania: Williams Deal Concluded (U)

The temporary government yesterday signed a controversial privatization contract selling 33% of the Mazeikiu Nafta oil complex to US-based Williams International, according to press reports. Despite last-minute doubts, President Adamkus reportedly supported the signing. Adamkus yesterday named Andrius Kubilius, a strong backer of the unpopular oil industry privatization, as the new prime minister. Kubilius was the deputy parliament speaker and is one of the most influential pro-reform figures in the conservative party. (U)

■ **COMMENT:** Signature of the deal presumably will head off efforts by some parliament deputies to subject the sale to a referendum. Recently there has been a public outcry and a number of demonstrations over the fact that the sale was made without a public tender. Ironically, the refinery is scheduled to shut down today because of a lack of crude. Lukoil, the refinery's supplier, claims Mazeikiu Nafta has already gone through its current allotment. (E)

It is unclear whether Kubilius has the parliamentary backing to find the \$350 million needed to finance Lithuania's part of the Williams deal. Kubilius's strong support for the sale and his deep involvement in negotiations will do little to endear himself to voters, but his party seems resigned to losing next fall's parliamentary election and simply wants to stay in power until then. (E)

(CONFIDENTIAL)

DECLASSIFIED
PER E.O. 13526
2016-0384-17 (1.39)
KEH 4/23/2023

Blinken, Antony J. (EUR)

From: Davidson, Leslie K. (VP)
Sent: Tuesday, November 02, 1999 9:14 AM
To: Norland, Richard B. (EUR); Blinken, Antony J. (EUR)
Cc: Saunders, Richard M. (VP)
Subject: RE: Request from Lithuanians for statement on Williams deal ~~[CONFIDENTIAL]~~

Treasury feels also that we need to be circumspect. We can easily support Lithuania's moves to privatize its energy sector -- in general -- and commend them for that. We can also note that we are pleased Lithuania looks to U.S. firms for strategic partnerships. But...as Dick noted, we have no idea what the Williams deal actually entails. Treasury was encouraging us to lay down a gentle marker about transparency in contracting practices. Also want to encourage them to be as transparent as possible with the IMF team this week, so that IMF has best possible understanding of obligations Lithuania has just undertaken.

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Tuesday, November 02, 1999 9:11 AM
To: Davidson, Leslie K. (VP); Blinken, Antony J. (EUR)
Cc: Saunders, Richard M. (VP)
Subject: RE: Request from Lithuanians for statement on Williams deal ~~[CONFIDENTIAL]~~

Every indication I have is that this deal is hugely complicated and sensitive -- e.g., it just brought down the Lithuanian government. At least until after the IMF team has reported back in after its visit this week, and there is greater clarity on the matter, I think we should limit ourselves to only the most general kinds of endorsements of broader U.S. trade and investment ties with Lithuania. Damien Leader at State (EUR/NB - 647-5669) has been tracking this and can provide background on reasoning here. I know Stasys will not like hearing this, but the very fact that Williams and the GOL have refused all along to share with the Embassy the terms of the proposed deal makes it difficult for us to have an intelligent view of it. Dick.

-----Original Message-----

From: Davidson, Leslie K. (VP)
Sent: Monday, November 01, 1999 3:21 PM
To: Blinken, Antony J. (EUR)
Cc: Norland, Richard B. (EUR); Saunders, Richard M. (VP)
Subject: Request from Lithuanians for statement on Williams deal ~~[CONFIDENTIAL]~~

Tony: Stasys asked me to pass on to you his question/request for some sort of positive noises from US on the signature of the Williams deal last Friday. Public statement would be wonderful, but positive noises during meeting with Berger would be ok too. I'm not inclined yet to have VP do some sort of independent statement, since I haven't heard from Treasury yet what possible effects will be on IMF program for Lithuania.

Are you folks up to anything?

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E.O. 13526, Sec. 3.5 (b)
White House Guidelines, September 11, 2006
By KGH NARA, Date 6/23/2023
2016-0384-M

Norland, Richard B. (EUR)

From: WHSR
Sent: Thursday, September 28, 2000 3:34 PM
To: Blinken, Antony J. (EUR); Cables; Davidson, Leslie K. (VP); Norland, Richard B. (EUR)
Subject: THE QUESTION OF CONTINUITY IN LITHUANIAN FOREIGN POLICY AFTER THE OCTOBER 8 ELECTIONS

ActionAddres: RUEHC/SECSTATE WASHDC PRIORITY 2211
Classification: ~~CONFIDENTIAL~~
DateTime: 281450Z SEP 00
Distribution: SIT: Blinken NSC Davidson Norland
Identifier: M4650864
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**DECLASSIFIED
PER E.O. 13526**
2016-0384-M (1.40)
KRM 6/23/2023

~~CONFIDENTIAL~~ SECTION 01 OF 04 VILNIUS 002671

E.O. 12958: DECL: 09/13/2010
TAGS: PREL, PGOV, NATO, MARR, LH
SUBJECT: THE QUESTION OF CONTINUITY IN
LITHUANIAN FOREIGN POLICY AFTER THE OCTOBER 8
ELECTIONS

REF: A) VILNIUS 2310; B) USNATO 1893

CLASSIFIED BY AMBASSADOR JOHN F. TEFFT, REASONS
1.5 B AND D

1. (U) SUMMARY: A FUNDAMENTAL THEME IN ALL OF THE AMBASSADOR'S INITIAL MEETINGS WITH LITHUANIAN POLITICAL LEADERS HAS BEEN WHETHER OR NOT LITHUANIA WILL DEVIATE FROM THE THREE PILLARS OF ITS FOREIGN POLICY -- NATO MEMBERSHIP, EU MEMBERSHIP, AND GOOD NEIGHBORLY RELATIONS -- AFTER THE OCTOBER 8 ELECTIONS. THE PRESIDENT, PRIME MINISTER AND ALL OPPOSITION FIGURES HAVE STRESSED THAT THEY EXPECT CONTINUITY ON STRATEGIC GOALS. SEIMAS CHAIRMAN LANDSBERGIS, ON THE OTHER HAND, IS RAISING THE ALARM THAT RUSSIA IS WORKING BEHIND THE SCENES TO PREVENT LITHUANIA FROM JOINING NATO AND INTEGRATING INTO THE WEST LANDSBERGIS ALSO ALLEGES THAT RUSSIA IS FUNDING BOTH LEFTIST PARTIES AND RIGHT-WING EXTREMISTS IN ORDER TO RUIN LITHUANIA'S REPUTATION. END SUMMARY

2. (C) PRESIDENT ASKS LANDSBERGIS TO STOP HIS

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"RADICAL RHETORIC"; CALLS TOGETHER POLITICAL LEADERS TO REAFFIRM GOL FOREIGN POLICY GOALS

(C) PRESIDENT ADAMKUS WAS SO CONCERNED ABOUT LANDSBERGIS' ACCUSATIONS THAT THE LEFTIST PARTIES WILL BRING TO POWER A PRO-RUSSIAN COALITION, THAT HE (ADAMKUS) PUBLICLY DENOUNCED IT AS EXTREMIST RHETORIC THAT COULD CAUSE HARM TO LITHUANIA'S REPUTATION. AT THE SAME TIME, THE PRESIDENT HAS BEEN MANEUVERING PUBLICLY AND BEHIND THE SCENES FOR MONTHS TO ENSURE THAT THE NEXT GOVERNMENT ADHERES TO THE GOL'S OFT-STATED STRATEGIC FOREIGN POLICY PRIORITIES. RECENTLY, PRESIDENT ADAMKUS BROUGHT TOGETHER LEADERS OF SEVERAL MAJOR POLITICAL PARTIES TO DISCUSS LITHUANIA'S FOREIGN POLICY PRIORITIES. THE POLITIC RIVALRY AND PERSONAL ANTI-PATHY LEAD TO A VERY CONTENTIOUS MEETING, AND DID NOT ACCOMPLISH WHAT THE PRESIDENT HAD HOPED FOR, PROBABLY A JOINT STATEMENT OF POLICY.

3. (C) PRESIDENT EXPRESSES UNEASE ABOUT ELECTIONS

(C) DURING A MEETING WITH EPA REGIONAL REPS ON SEPTEMBER 13 ATTENDED BY EMBOFF, PRESIDENT ADAMKUS REITERATED HIS COMMITMENT TO THE GOL'S FOREIGN POLICY PRIORITIES. PRESIDENT ADAMKUS BEGAN BY ADMITTING THAT HE WAS "A LITTLE SCARED" ABOUT THE UPCOMING ELECTIONS. HE HOPED THE POLITICAL PENDULUM WOULD NOT SWING TO ANY EXTREME, AND THAT INSTEAD THE ELECTIONS WOULD BRING A CONSTRUCTIVE COALITION TO OFFICE. PRESIDENT ADAMKUS NOTED THAT SOME OF THE LEADING POLITICIANS WERE PUBLICLY TAKING POSITIONS THAT WERE "QUESTIONABLE", AND THAT HE HOPED THAT THE NEXT GOVERNMENT WOULD NOT FALL INTO THE TRAP OF FOLLOWING POPULIST PROGRAMS THAT WERE NOT IN LITHUANIA'S LONG-TERM INTEREST. SPECIFICALLY HE WAS CONCERNED WITH THE POSITIONS OF SOME PARTIES ON EU AND NATO ACCESSION. THE PRESIDENT STATED THAT HE HAD DECIDED TO SUMMON THE PARTY LEADERS TO STRESS HIS FOREIGN POLICY PRIORITIES, AND THE NEED FOR CONTINUITY. HE SAID THAT HE TOLD THE PARTY LEADERS THAT EU AND NATO ACCESSION WERE "UNTOUCHABLE" AND COULD NOT BE QUESTIONED. HE SAID HE WOULD FIGHT WITH ALL THE POWER OF HIS OFFICE TO PREVENT ANY DEVIATION FROM THESE FOREIGN POLICY PRIORITIES. THE PRESIDENT THOUGHT THE PARTY LEADERS UNDERSTOOD HIS POSITION, AND LEFT THE MEETING COMMITTED TO SUPPORT HIS (AND THE GOL'S) FOREIGN POLICY POSITIONS.

4. (C) PM TAKES WAIT AND SEE ATTITUDE TOWARD OPPOSITION

(C) PRIME MINISTER KUBILIUS TOLD AMBASSADOR THAT ALL MAJOR PARTIES HAVE DECLARED THAT THEY FULLY SUPPORT NATO AND EU MEMBERSHIP FOR

CLINTON LIBRARY PHOTOCOPY

LITHUANIA. NOW THEY MUST PROVE THAT THEY MEAN IT. KUBILIUS ADDED THAT HE THOUGHT THAT "THE APPEAL OF POPULIST RHETORIC MAY BE LIMITED." THE PM ASSURED THE AMBASSADOR THAT HE DID NOT
~~CONFIDENTIAL~~ SECTION 02 OF 04 VILNIUS 002671

E.O. 12958: DECL: 09/13/2010

TAGS: PREL, PGOV, NATO, MARR, LH

SUBJECT: THE QUESTION OF CONTINUITY IN LITHUANIAN FOREIGN POLICY AFTER THE OCTOBER 8 ELECTIONS

EXPECT THERE TO BE ANY PROBLEMS WITH FOREIGN INVESTMENT IN THE NEXT GOVERNMENT, WHICHEVER PARTY WINS. (NOTE: KUBILIUS HAS BEEN LANDSBERGIS' TRUSTED RIGHT-HAND MAN IN THE CONSERVATIVE PARTY FOR MANY YEARS, BUT, UNLIKE HIS MENTOR, IS NOT KNOWN FOR RUSSIA-BASHING.)

5. (X) LANDSBERGIS SEES RUSSIA'S HAND BEHIND LEFT AND RIGHT WINGS

(X) THE PM'S RESERVE IN ATTACKING OPPONENTS TO THE LEFT CONTRASTED SHARPLY WITH THOSE OF CONSERVATIVE PARTY LEADER, SEIMAS SPEAKER LANDSBERGIS. LANDSBERGIS TOLD AMBASSADOR FLATLY THAT THE LEFTIST COALITION (LITHUANIAN DEMOCRATIC LABOR PARTY AND SOCIAL DEMOCRATS), PAULAUSKAS' NEW UNION PARTY, AND EVEN THE NEO-NAZI GROUP LEAD BY MURZA, ARE FUNDED BY RUSSIAN MONEY. LANDSBERGIS SAID THAT THE LEFTIST COALITION LED BY BRAZAUSKAS AND PAULAUSKAS' NEW UNION WERE MAKING A SHOW OF COMPETING WITH EACH OTHER, BUT ARE ACTUALLY JUST MANEUVERING AS A WAY TO TAKE MORE VOTES FROM THE CENTER. LANDSBERGIS ACCUSED PAULAUSKAS OF COMPROMISING THE VERY IDEA OF LITHUANIAN ARMED FORCES AND OF CAMPAIGNING USING ANTI-NATO, POPULIST ARGUMENTS.

(X) LANDSBERGIS BELIEVES THAT THOSE WHO PROMOTE ANTI-FOREIGNER EXTREMISM IN LITHUANIA TODAY (E.G. NEO-NAZIS AND SUSTAUSKAS, MAYOR OF KAUNAS) ARE PAID PROVOCATEURS PLAYING ON THE FEARS OF A NAIVE POPULACE WHICH IS LOOKING FOR SIMPLE EXPLANATIONS ABOUT THEIR PROBLEMS. (HE NOTED THAT ANTI-FOREIGNER RHETORIC, SUSPICIOUSLY, ALWAYS SEEMS TO MEAN ANTI-WESTERN, NOT ANTI- RUSSIAN.) LANDSBERGIS ASSERTED THAT THE NEO-NAZIS OF SIAULIAI HAVE ADVISORS WHO ARE EX-KGB. THE APPEARANCE OF "HAIDER-LIKE" EXTREMISM IN LITHUANIA, ACCORDING TO LANDSBERGIS, IS MEANT TO COMPROMISE LITHUANIA IN THE EYES OF THE WORLD. LANDSBERGIS ASSERTED THAT SUSTAUSKAS IS A "RABBLE-ROUSING, ANTI-SEMITIC CLOWN" WHO COULD BECOME DANGEROUS IF HE IS NOT STOPPED EARLY. LANDSBERGIS BELIEVES THAT KAUNAS, AN EARLIER BASTION OF NATIONALISM AND THE INDEPENDENCE MOVEMENT, WAS "TAKEN OVER" WITH THE HELP OF MONEY FROM LITHUANIAN-RUSSIAN BUSINESSMAN VICTOR USPASKICH (A KEY BACKER OF PAULAUSKAS.) SUMMING UP, LANDSBERGIS WARNED THAT AMERICANS

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DON'T REALIZE THE SOCIAL AND PSYCHOLOGICAL PROBLEMS FACED BY LITHUANIANS, HOW NEAR THE RUSSIANS ARE, AND HOW THE RUSSIANS ARE TRYING TO RECAPTURE THE BALTICS.

6. (C) CENTER BLOC (PAULAUSKAS, PAKSAS, OZOLAS)
PLEDGE TO SUPPORT NATO AND EU MEMBERSHIP

(C) AS NOTED IN REFTELS, ARTURAS PAULAUSKAS AFFIRMED TO AMBASSADOR TEFFT AND TO AMBASSADOR VERSHBOW IN BRUSSELS THAT HE SUPPORTS NATO AND EU MEMBERSHIP. HIS VISITS TO NATO AND EU IN BRUSSELS WERE HIS WAY OF MAKING THE POINT AS CONCRETE AS POSSIBLE. HOWEVER PAULAUSKAS IS STILL JUST LEARNING HIS WAY AROUND NATIONAL SECURITY ISSUES.

(C) WHILE THE LEADER OF THE LITHUANIAN LIBERAL UNION (LLU), VILNIUS MAYOR RONALDAS PAKSAS DID NOT DIRECTLY ADDRESS THE ISSUE OF CONTINUITY IN GOL FOREIGN POLICY, HE DID MENTION THAT THE CENTER BLOC (WHICH INCLUDES PAULAUSKAS' NEW UNION, THE CENTER UNION PARTY, AND THE MODERN CHRISTIAN DEMOCRATS) HAS AGREED ON A COMMON PROGRAM. THE COMMON PROGRAM CLEARLY STATES SUPPORT FOR NATO AND EU MEMBERSHIP.) PAKSAS NOTED THAT EXTREMISM CAN CROP UP ANYWHERE, EVEN IN DEVELOPED STATES SUCH AS AUSTRIA. EXTREMISM IS NATURAL DURING A PERIOD OF SOCIAL PROBLEMS, BUT IS NOT A SERIOUS THREAT IN LITHUANIA, ACCORDING TO PAKSAS.

(C) CENTER UNION LEADER ROMUALDAS OZOLAS AFFIRMED THAT HIS PARTY WILL CONTINUE TO SUPPORT LITHUANIA'S BASIC FOREIGN POLICY PRIORITIES. HE NOTED THAT GOL DEFENSE SPENDING MIGHT NOT REACH THE GOAL OF 2% IN 2001, BUT THAT HE EXPECTED THE CENTER BLOC WOULD BE ABLE TO COME CLOSER THAN THE CONSERVATIVES WOULD IN REACHING THE 2% GOAL. HE POINTED OUT THAT THE
~~CONFIDENTIAL~~ SECTION 03 OF 04 VILNIUS 002671

E.O. 12958: DECL: 09/13/2010

TAGS: PREL, PGOV, NATO, MARR, LH

SUBJECT: THE QUESTION OF CONTINUITY IN LITHUANIAN FOREIGN POLICY AFTER THE OCTOBER 8 ELECTIONS

CONSERVATIVES HAD FALLEN FAR SHORT OF THEIR DEFENSE SPENDING GOALS IN THE LAST TWO YEARS, AND DESPITE THE CONSERVATIVES' HARSH CRITICISM THAT OTHER PARTIES WOULD NOT REACH THE 2% GOAL, WERE NOT ON TRACK TO MEET THE TARGET NEXT YEAR EITHER. OZOLAS ALSO INDICATED THAT THE CENTER UNION WOULD CHANGE DEFENSE SPENDING PRIORITIES, AWAY FROM SUCH THINGS AS "INTERIOR DESIGNER BARRACKS," AS HE CALLED THEM.

7. (C) LEFTIST LEADERS INSIST THEY WILL CONTINUE TO SUPPORT NATO MEMBERSHIP

(C) LITHUANIAN DEMOCRATIC LABOR PARTY (LDDP)

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LEADER CESLOVAS JURSENAS EMPHASIZED THAT THE GOL HAS MAINTAINED A STEADY FOREIGN POLICY COURSE OVER THE LAST DECADE WHEN LEADERSHIP CHANGED HANDS BETWEEN LEFT AND RIGHT, AND WILL DO SO AGAIN AFTER THIS ELECTION. JURSENAS SAID THAT THE SOCIAL DEMOCRATIC COALITION (WHICH INCLUDES THE SOCIAL DEMOCRATIC PARTY AND OTHERS) CHOSE FORMER PRESIDENT BRAZAUSKAS AS THEIR CANDIDATE FOR PRIME MINISTER "AS A GUARANTEE OF POLITICAL CONTINUITY." HE NOTED, AS OTHERS HAD, THAT IT WAS EX-PRESIDENT BRAZAUSKAS WHO SIGNED LITHUANIA'S 1994 REQUEST TO JOIN NATO. JURSENAS DECLARED THAT HIS PARTY IS PRAGMATIC, NOT EXTREMIST, AND THAT THE POLICIES OF THE SOCIAL DEMOCRATIC COALITION ARE BASED ON THE PRINCIPLES OF THE SOCIALIST INTERNATIONAL. HE CHARACTERIZED PAULAUSKAS' POLICIES AS MORE LEFTIST THAN THOSE OF THE SOCIAL DEMOCRATIC COALITION HIS PARTY LEADS.

(C) FORMER PRESIDENT ALGIRDAS BRAZAUSKAS (LDDP LEADER AND HEAD OF THE LEFTIST SOCIAL DEMOCRATIC COALITION) ALSO OFFERED ASSURANCES THAT THERE WILL BE NO CHANGE IN THE DIRECTION OF LITHUANIA'S FOREIGN POLICY, WHICH HAS BEEN IN PLACE SINCE HE WAS PRESIDENT (1993-1998). BRAZAUSKAS WAS HARSHLY CRITICAL OF THE CONSERVATIVES' HANDLING OF FOREIGN POLICY, IN PARTICULAR ITS INABILITY TO GET ALONG WITH NEIGHBORING COUNTRIES. AS AN EXAMPLE, HE NOTED THAT THE CONSERVATIVES HAVE NOT MANAGED TO OBTAIN RATIFICATION OF THE BORDER TREATY WITH RUSSIA. BRAZAUSKAS POINTED OUT THAT WHEN HIS PARTY WAS IN GOVERNMENT IN 1993 THE RUSSIAN MILITARY LEFT LITHUANIAN TERRITORY AHEAD OF SCHEDULE. WHILE LITHUANIA CANNOT CHOOSE ITS NEIGHBORS, BRAZAUSKAS BELIEVED THAT THE SOCIAL DEMOCRATIC COALITION WOULD BE BETTER AT MAINTAINING STEADY PRAGMATIC RELATIONS WITH RUSSIA AND BELARUS. BRAZAUSKAS COMPLAINED THAT LANDSBERGIS WAS ALWAYS SAYING THAT LITHUANIA WOULD BE RETURNED TO THE ARMS OF RUSSIA IF THE LEFT RECEIVED A MAJORITY IN THE PARLIAMENT -- BUT THAT WAS NEVER TRUE IN THE PAST AND IS NOT TRUE NOW. BRAZAUSKAS ASSERTED THAT HIS COALITION IS COMMITTED TO CONTINUING THE SAME FOREIGN POLICY GOALS OF NATO AND EU MEMBERSHIP AND GOOD NEIGHBORLY RELATIONS.

8. COMMENT:

(C) PRESIDENT ADAMKUS HAS STATED NUMEROUS TIMES, BOTH PUBLICLY AND PRIVATELY TO US, THAT AS LONG AS HE IS PRESIDENT HE WILL DO EVERYTHING IN HIS POWERS TO ENSURE THAT LITHUANIA REMAINS ON COURSE FOR NATO AND EU MEMBERSHIP. ADAMKUS POINTS OUT THAT LITHUANIA'S CONSTITUTION CHARGES THE PRESIDENT WITH FOREIGN POLICY AND HE INTENDS TO ACT AS THE ULTIMATE GUARANTOR OF LITHUANIA'S FOREIGN POLICY. THE PRESIDENT USED HIS MEETING WITH THE POLITICAL PARTY LEADERS TO SEND THEM A STRONG MESSAGE - THERE WILL BE NO TURNING BACK

ON THESE ISSUES.

(S) LANDSBERGIS FOCUS ON THE RUSSIANS IS ENTIRELY PREDICTABLE, BUT NOT ENTIRELY BASELESS. WHILE WE WOULD AGREE WITH HIM THAT RUSSIA IS LOOKING FOR WAYS TO PRESERVE ITS INFLUENCE IN THE BALTICS, WE ARE NOT CONVINCED THAT LEFT AND CENTER-LEFT CANDIDATES ARE READY TO SELL LITHUANIA DOWN THE RIVER. RUSSIAN INFLUENCE IS HARD TO PIN DOWN. LANDSBERGIS, FOR EXAMPLE, DOES NOT DISTINGUISH BETWEEN RUSSIAN MONEY FROM RUSSIA (EITHER GOVERNMENT OR "BUSINESS") FROM MONEY FROM ETHNIC RUSSIAN LITHUANIANS SUCH AS USPASKICH. USPASKICH'S
~~CONFIDENTIAL~~ SECTION 04 OF 04 VILNIUS 002671

E.O. 12958: DECL: 09/13/2010

TAGS: PREL, PGOV, NATO, MARR, LH

SUBJECT: THE QUESTION OF CONTINUITY IN LITHUANIAN FOREIGN POLICY AFTER THE OCTOBER 8 ELECTIONS

REPUTATION AS A BUSINESSMAN INCLUDES CORRUPTION AND STRONG-ARM TACTICS, BUT NOT ONE WHO DOES MOSCOW'S BIDDING. LANDSBERGIS ESPECIALLY SEEMS TO BE REACHING TOO FAR WHEN HE BLAMES RIGHT-WING POPULISM ALMOST ENTIRELY ON THE RUSSIANS.

(S) LANDSBERGIS ASSERTION THAT PAULAUSKAS AND HIS OLD MENTOR BRAZAUSKAS WILL FORM A COALITION, LEAVING THE OTHER MEMBERS OF THE CENTER BLOC OUT IN THE COLD, IS RAPIDLY BECOMING CONVENTIONAL WISDOM. PAULAUSKAS' OSTENSIBLE COALITION PARTNERS, OZOLAS AND PAKSAS, BOTH MENTIONED THAT PAULAUSKAS MAY OPT FOR A COALITION WITH THE LEFT AFTER THE ELECTIONS. THE ONLY PERSON WE HAVE MET WHO DENIES THIS IS PAULAUSKAS HIMSELF.

(S) THE JURY IS STILL OUT ON PAULAUSKAS. HE IS MAKING WHAT APPEARS TO BE A SINCERE EFFORT TO PROVE TO SKEPTICS THAT HE REALLY SUPPORTS NATO AND THE EU. AT THIS POINT WE DO NOT THINK THAT IF PAULAUSKAS OR THE SOCIAL DEMOCRATIC COALITION COMES TO POWER, TOGETHER OR IN A COALITION, THEY WOULD CHANGE LITHUANIA'S FUNDAMENTAL FOREIGN POLICY GOALS. THE REAL QUESTION IS -- WILL THEY DEDICATE THE RESOURCES AND ENERGY NEEDED TO ACHIEVE THOSE GOALS? LITHUANIA'S PROGRESS TOWARDS THOSE GOALS MAY COME MORE SLOWLY, BUT IS NOT LIKELY TO BE REVERSED.

END COMMENT.

TEFFT



Intelligence Memorandum

Office of Russian and European Analysis

6 September 2000

Lithuania: October Elections Likely to Set Back Western Integration 3.5(c)

The populist center-left coalition projected to win the 8 October parliamentary elections will probably stall Lithuanian efforts to meet NATO and EU membership criteria in favor of increased social spending and concessions to farmers. The Lithuanian economy is beginning to show signs of improvement, thanks to Prime Minister Kubilius's commitment to fiscal discipline, but the anticipated positive effects will be felt too late to benefit the reform-oriented ruling conservative government. 3.5(c)

- As the Lithuanian economy struggles to recover from the 1998 Russian financial crisis, there is widespread economic dissatisfaction among Lithuanians—especially within the hard-hit rural electorate, which accounts for approximately 40 percent of the population.
- Lithuania, along with Latvia, began EU accession negotiations earlier this year and has concluded five less controversial chapters of the 30 EU acquis, *but EU pressure for the early closure of the Ignalina nuclear power plant and sharp reductions in farmer subsidies have dampened popular support for EU accession.*
- *The leading center and leftist opposition leaders likely to take power lack tight fiscal policy credentials and a coherent strategy for western integration.* 3.5(c)

Lithuania has made the most progress of the three Baltics in building fledgling defense forces to meet minimum NATO interoperability standards, given its larger population, 1.4(c) and consistent efforts to boost defense spending. A center-left government, however, will likely deemphasize NATO integration and reallocate funds from defense to social programs.

This memorandum was prepared by the Office of Russian and European Analysis. Analysis is indicated in bold italics. Comments and queries are welcome and may be directed to the

3.5(c)

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3.5(c)

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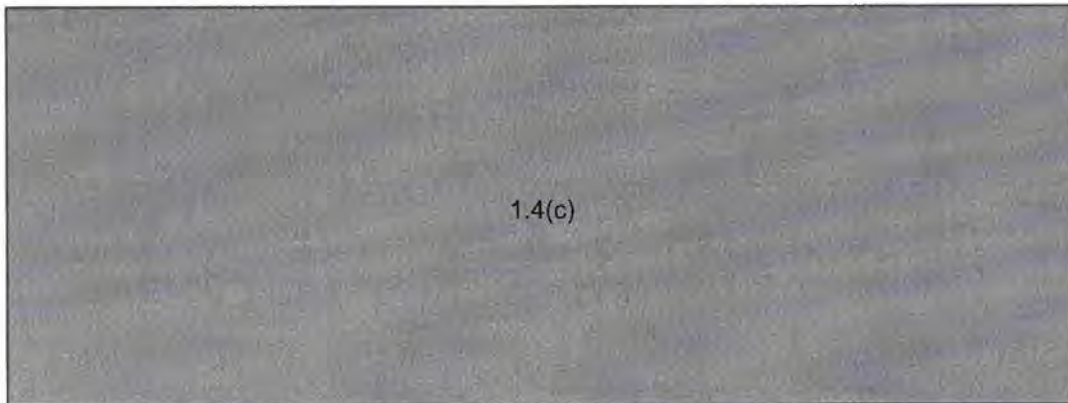
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KBH 6/23/2023

CLINTON LIBRARY PHOTOCOPY

- The leading opposition party has centered its campaign platform around reducing defense spending. 3.5(c)

Though Lithuania has maintained the most civil relations with Russia since independence in 1991, Lithuanian-Russian relations have taken a recent downturn. *Criticism from both sides will likely intensify as the Lithuanian elections approach and Lithuania moves closer to meeting NATO membership requirements.*



- Lithuanian and neighboring Russian Kaliningrad Oblast officials, however, remain committed to continuing border crime and transit cooperation. 1.4(c), 3.5(c)

~~CONFIDENTIAL~~

INR

Lithuania: Centrist Coalition Probable (U)

President Adamkus yesterday asked former Prime Ministers Paulauskas and Paksas to form a centrist coalition following Lithuania's October 8 elections, according to Embassy Vilnius. Former President and ex-communist Brazauskas's Social Democratic bloc and Paksas's center-right Liberal Union (LU) both did better than expected, gaining 51 and 34 out of 141 parliamentary seats respectively; Paulauskas's center-left New Union/Social Liberals (NU/SL) managed 29 seats. As expected, the ruling conservatives took a beating, winning only eight seats. Before the election, Adamkus and industrialists favored a centrist coalition, and the NU/SL, LU, and Center Union had already formed a loose bloc. (C)

*Doc
this is
good,
right?
CM*

■ **COMMENT:** Despite a disappointing showing, the NU/SL holds the key to forming a coalition and began talks with the LU and other centrist parties on October 9. Such a coalition would be pro-reform but also would be unstable in view of personality conflicts and some contradictory goals. Foreign policy will remain on course, however, because all party leaders want EU and NATO membership and improved relations with Russia. Paulauskas supports a proposed increase in defense spending to 2% of GDP but wants to delay it until 2002; 2000 defense spending will reach only about 1.7% owing to difficult economic conditions. Economic reforms negotiated with the IMF earlier this year will continue, especially because they are a prerequisite for EU membership. (C)

~~(CONFIDENTIAL)~~

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PER E.O. 13526**

2016-0384-M (1.42)
KBM 6/23/2023

2016-0384-M [1.43]

KBH 6/23/2023

Baltics: Defense Spending Goals Out of Reach 3.5(c)

Estonia, Latvia, and Lithuania have established ambitious annual defense spending targets with an eye toward NATO's expected enlargement decision in 2002, but none is likely to meet its goal for next year. 3.5(c)

All three have pledged gradual increases in military spending with the shared goal of eventually allocating 2 percent of GDP for defense. Lithuania has established the most ambitious timeline, calling for a 2 percent allocation next year. Estonia has vowed to reach this threshold by 2002; Latvia, by 2003. *None of the trio, however, is on track to meet its self-imposed commitment for next year without artificially boosting defense spending with nonmilitary expenditures.* 3.5(c)

Estonia increased defense spending to 1.5 percent of GDP this year—a 29-percent real increase over last year's level 1.4(c), (b)(1) *—but is unlikely to fulfill its pledge to allocate 1.8 percent next year. (See the chart on the next page.)*

□ The draft 2001 budget, if passed intact, nominally would meet Tallinn's target, *but the increase appears spurious.* It proposes allocating \$77 million for defense, but would shift 17 percent of total spending to the Ministry of Defense (MOD) from border guard and rescue units previously funded under the Ministry of Interior,

according to press reports. Funds associated with border guard and rescue units comprised 12 percent of last year's defense budget.

1.4(c), (b)(1), (b)(3)

□ *Including interior ministry and border guard spending in defense allocations is allowable under NATO accounting procedures, but only if these forces are subordinated to the military in times of crises. Proposed defense restructuring legislation would subordinate Estonian border guard units to defense district commanders in wartime, but the current chain of command for wartime is unclear.*

□ Coalition and opposition politicians, including the chairman of the parliamentary defense committee, chide the MOD for failing to establish a comprehensive plan for spending the additional funds and *could pare the budget in parliament.*

3.5(c)

Latvia met this year's goal of allocating 1.05 percent of GDP for defense—an almost 11 percent real increase over 1999 spending levels—but it is unlikely to spend 1.5 percent next year as planned. Even the government-endorsed 2001 military budget—which would allocate only 1.3 percent of GDP for defense—may be inflated with non-defense spending.

□ The Finance Ministry initially proposed including funding for all defense- and security-related projects—including Interior Ministry border con-

1.4(c), 3.5(c), (b)(1), (b)(3)

Central & East European Update
22 September 2000

struction projects, State Land Service cartography programs, and government information data network services for all ministries—in the 2001 defense budget. Actual defense spending, meanwhile, would receive only a nominal increase. Defense Minister Kristovskis publicly objected, criticizing the Finance Ministry for “attempting to fool NATO with its current budget.”

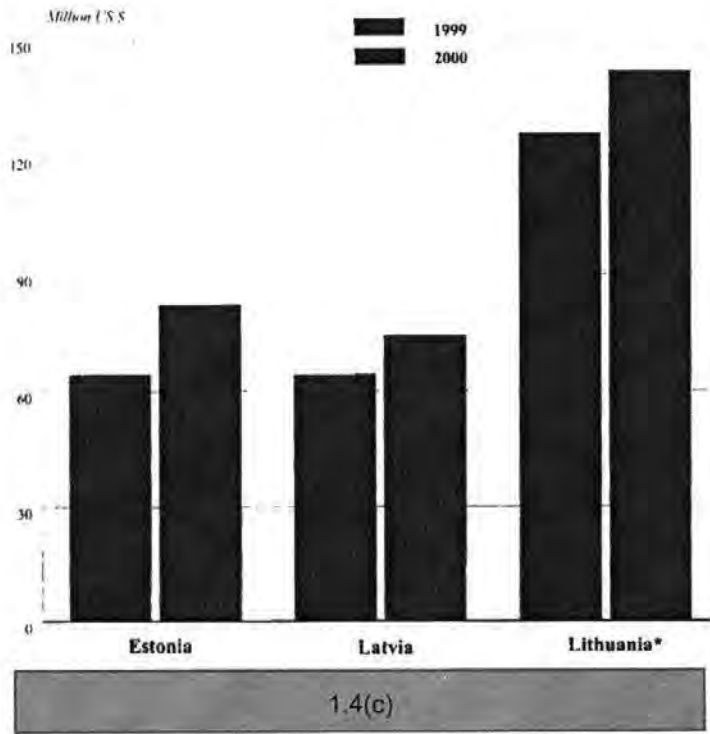
- The ministries subsequently agreed to spend an estimated 1.3 percent of GDP on defense next year. 1.4(c), (b)(1), (b)(3) It remains unclear, however, if the newest draft includes non-military funding. 3.5(c)

Even if the additional security-related expenditures are allowable under NATO accounting rules, neither Estonia nor Latvia will significantly increase its defense capabilities—or boost its interoperability with NATO forces—with the additional allocations.

- 1.4(c), (b)(1), (b)(3) the budget plan for next year, if approved, threatens key investments, including procuring air surveillance radars and an additional search and rescue helicopter and implementing quality-of-life construction projects because the increase in genuine military spending would be minimal. 3.5(c)

The conservative government of Baltic military reform leader Lithuania has made meeting its defense spending targets a priority, but it has fallen short of its goal because of the country's slow re-

Baltic Defense Spending, 1999-2000 (U 3.5(c))



1.4(c)
3.5(c)

bound from the 1998 Russian financial crisis. This year, the government successfully lobbied the legislature to allocate 1.7 percent of GDP on defense, but the military is unlikely to receive more than about 1.3 percent. 1.4(c), (b)(1), (b)(3)

- If a center-left coalition wins the 8 October parliamentary election as expected, it probably will cut defense spending to make room for promised agricultural and social benefits. New Party Union Leader Paulauskas recently told senior NATO officials that his party advocated delaying Lithuania's plan to spend 2 percent of GDP on defense next year. 1.4(c), 3.5(c), (b)(1), (b)(3)

2016-0384-M [1.44]

KBH 6/23/2023

Lithuania: Military Reform Under Fire 3.5(c)



Kronkaitis: CHOD's vision of military reform questioned.

The conservative government has been an aggressive advocate of building a NATO-compatible military, but financial constraints and growing opposition to its reform agenda threaten to derail military restructuring 3.5(c)

The government repeatedly has linked robust defense spending to Lithuania's chances for NATO membership. It has made meeting its self-imposed defense spending commitments a priority, *but has fallen far short of fulfilling them—in large part because of the economy's slow rebound from the 1998 Russian financial crisis.* Vilnius last year revised its military budget targets, pledging to allocate two percent of GDP for defense by 2002, rather than 2000, as originally planned.

- ❑ Even after the revisions, military units failed to pay their bills and funding shortfalls forced the Ministry of Defense (MOD) to put employees on unpaid leave at year's end.
- ❑ This year, the government ignored an IMF recommendation to freeze defense spending and successfully lobbied for parliament to allocate \$189 million—an estimated 1.7 percent of GDP. The MOD, however, is unlikely to receive more than \$142 million—about 1.3 percent of GDP,

1.4(c), 3.5(c), (b)(1), (b)(3)

The reform program spearheaded by Chief of the General Staff Brig. Gen. Kronkaitis and Vice Min-

ister of Defense Kilikauskas has sparked opposition in the armed forces. Active-duty and retired military officers aligned with center-left political parties have stepped up criticism of centralized training, mandated personnel rotations, and other key aspects of the government's reform agenda

1.4(c), (b)(1), (b)(3)

- ❑ The state-of-the-art Rukla Regiment for centralized training has been a lightning rod for criticism, at least in part because it has taken power away from unit commanders. Moreover, the rank-and-file resent the funds spent on Rukla when some battalions still lack basic equipment,

1.4(c), (b)(1), (b)(3)

- ❑ The push by Kronkaitis to purge Soviet-trained officers—some of whom have valuable expertise—has sapped morale and alienated key commanders and staff officers

1.4(c), (b)(1), (b)(3)

- ❑ Some military officers chide MOD leaders for failing to publish a national military strategy and for not focusing Lithuania's informal defense concept more heavily on territorial defense.

3.5(c)

These military officials criticize the government for staking Lithuania's security on the uncertain prospect of NATO membership and have proposed an alternate military strategy calling for greater reliance on reserve forces within a territorial defense concept.

- ❑ They envision building a 20,000 to 40,000 force of trained reservists while paring the regular army and making it fully professional. Regular units would include at least two combat battalions available for international peacekeeping operations

3.5(c)

Central & East European Update

25 August 2000

Given these plans, a center-left coalition—if it wins 8 October parliamentary elections as expected—will likely remove Kronkaitis and Kilikauskas and probably would pay only lip service to its pledge to retain NATO membership as a key priority. Moreover, it probably would cut defense spending to make room for promised agricultural and social benefits—a move that would alienate its current military supporters.

- *The leading opposition party has centered its campaign platform around reducing the defense budget. The public probably would be receptive to paring military spending because of declining popular support for NATO membership and growing skepticism about the size of the defense budget.*

3.5(c)

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2016-0384-17 (1.45)
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Osterhaus*

**COUNTRY RISK ASSESSMENT REPORT
JULY 21, 2000**



COUNTRY: LITHUANIA

**SOVEREIGN RISK RATING:
Current: D; Proposed: No Change**

**NONSOVEREIGN RISK RATING:
Current: D-; Proposed: D**

*Attn: Dick Norland
368*

*Dme
by 8/22*

EXPECTED PAYMENTS PERFORMANCE

Lithuania has made reasonably good progress in economic reforms -- including price and trade liberalization, privatization, and banking and legal reforms -- although it has not pursued them quite as aggressively as its Baltic neighbors. Since April 1994, monetary and exchange rate policy has been controlled by a currency board arrangement (CBA) which pegs the litas to the dollar. Trade has been redirected toward western markets, although Russia was still its largest trading partner until the August 1998 crisis. The Government of Lithuania's (GOLH) reform efforts resulted in high rates of economic growth and falling inflation. However, given that Lithuania has a small, open economy with a fixed exchange rate, it is very susceptible to external shocks. The impact of the Russian crisis was substantial due to Lithuania's relatively (compared to the other Baltic states) strong trade ties to the country. As a result, there was a deep recession last year, which attempts at fiscal stimulus could not overcome. The economy is projected to rebound modestly this year.

Lithuania's chief economic difficulties are its twin deficits -- fiscal and current account, which are inextricably intertwined. The GOLH concluded a 15-month, \$83 million stand-by arrangement (SBA) with the IMF in March (but retroactive to January) which commits it to an aggressive fiscal consolidation. The government claims it views the program as precautionary, i.e., there will be no purchases unless the situation unexpectedly deteriorates, but which it wanted to signal its commitment to fiscal adjustment. If the fiscal situation can improve appreciably, and there is reason to believe it will, the medium-term prospects will remain good. If little or no improvement results, the situation will ultimately become unsustainable and a severe adjustment could be required.

No change from the current sovereign rating of D is proposed. The rating is heavily influenced by the "balance of payments adjustment capacity" indicator, which in turn is in large part determined by the current account deficit factors. This stems from the fact that the current account imbalance will be the crucial issue in determining Lithuania's external sustainability over the medium-term. The "government deficit" factor also weighs heavily in the "macroeconomic environment" indicator, given that the current account deficit is driven to a significant degree by the fiscal shortfall.

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An upgrade to the nonsovereign rating to D from D- is proposed. This proposal is based on improvements to the "legal system" (two steps) and the "business climate" indicators (one step).

RATING AGENCY ASSESSMENT – D Rating

Lithuania has long-term foreign currency ratings from all the major private credit rating agencies as well as an OECD rating. Fitch IBCA and Moody's both rate Lithuania the equivalent of an ICRAS D; S&P's rating equates to C-; and the OECD rating equates to D-.

PAYMENTS/ARREARS HISTORY – B Rating

Lithuania has had a good repayment record since gaining independence from the Soviet Union in 1991. It has had no Paris or London Club rescheduling and arrears have been modest. However, this year it requested that the Department of Agriculture forgive approximately \$76 million in debt from the PL-480 program, which was not granted.

FOREIGN DEBT SERVICE BURDEN – C- Rating

Lithuania's foreign debt remains moderate, although it has grown substantially in recent years. Last year alone external debt increased to 91% of foreign exchange income from 69% in 1998. The significant increase is largely related to the fiscal deficit, which has primarily been financed by foreign borrowing. The government is also pursuing a policy of replacing domestic debt with foreign currency due to lower interest rates prevailing on the latter. The proportion of short-term debt is high – averaging 21% of total debt over the forecast period -- and, while a concern, the danger is somewhat mitigated by several factors. The short-term debt is largely privately held, approximately 70% of it consists of trade credits from suppliers with reduced rollover risks, and foreign reserves exceed short-term debt by approximately 25%.

BALANCE OF PAYMENTS ADJUSTMENTS CAPACITY – D- Rating

Lithuania's current account deficit is one of the country's salient economic problems and a substantial source of vulnerability, i.e., if foreign direct investment were to slow appreciably or access to capital markets faltered, the balance of payments could become unsustainable. Thus, the two current account indicator are overweighted in this factor. According to official data, the current account deficit fell from 12.1% in 1998 to 10.3% last year. However, in actuality it probably increased. Balance of payments data in 1999 incorporated improved coverage of current account receipts (particularly shuttle exports) and thus the IIF estimates that the 1998 current account imbalance was approximately 8%.

The current account shortfall is entirely the result of a merchandise trade imbalance. The combined remaining items of the current account show a slight surplus. The Russian crisis has been cited as a reason for the external shortfall, and it undoubtedly has played a role in the large (21%) decline in exports last year. However, Russia and other CIS countries are becoming less important in Lithuania's trade relative to EU markets.¹ Primarily, the deficit stems from Lithuania's heavy dependence on imports for energy and industrial restructuring, a large fiscal deficit (see below), and lagging external competitiveness. The latter stems from the dollar peg incorporated in the CBA, which resulted in a real, trade-weighted appreciation of the litas of 16% in 1998 and 22% in 1999 and sluggish productivity growth.² Thus it is imperative that the government consolidate its fiscal position and follow through with privatization and structural reforms to boost competitiveness. The forecast used in this analysis is optimistic in that regard and, therefore, a substantial deviation from these assumptions could render the current account deficit unsustainable.

MACROECONOMIC ENVIRONMENT – C- Rating

The chief issue concerning the macroeconomic environment is the fiscal situation. The fiscal deficit jumped from 2% of GDP in 1997 to 6% in 1998, and then rose further to 8% in 1999.³ Fiscal policy is particularly important in Lithuania in that the CBA board arrangement effectively removes monetary policy as a discretionary tool⁴ and also because the deterioration in the government's savings-investment balance contributes to the current account deficit.

¹The Russian crisis accelerated the redirection of exports from CIS to EU countries. For example, exports to Russia amounted to 13% of the total in 1997 and 7% last year. Conversely, exports to Germany (now Lithuania's leading export market) rose from 15% to 16% over the same period. Nonetheless, Russia remains the largest importer (20% of total imports) into Lithuania due to the latter's reliance on oil imports. Lithuania's redirection of trade, while significant, has lagged that of its Baltic neighbors.

²In contrast to the other Baltic countries, where large increases in industrial productivity have helped to offset real exchange rate increases, productivity improvements in Lithuania have been smaller.

³In addition to the deficit, the government has also accumulated budgetary arrears.

⁴Since the CBA requires 100% foreign currency cover of the monetary base, free movement of capital, and no central bank lending to the government, the money supply is entirely endogenous, i.e., dependent on foreign currency capital flows.

The new IMF SBA calls for a substantial fiscal consolidation that would cut the shortfall to just under 3% this year as well as to eliminate all arrears.⁵ There are reasons to be optimistic that this target can be reached. The target incorporates realistic economic assumptions (e.g., 2% GDP growth and 3% inflation). In addition, the outsized deficits in 1998-99 were in part a result of expenditures that are not regularly recurring -- primarily restitution for savers and loans to industrial enterprises⁶ -- and the dampening effect on revenues of the 1999 recession. The desire to maintain the IMF's imprimatur should also be incentive to improve the fiscal outlook. Conversely, parliamentary elections are scheduled for this October, which could induce fiscal laxity in measures requiring difficult political decisions. Pressure for greater expenditures will emanate from EU and NATO accession-related costs and Lithuania's unfavorable demographics. Also, some of the deficit is attributable to structural deficiencies (e.g., poor revenue collection and spending controls) which may not be resolved quickly. In any event, should the GOLH miss its fiscal deficit target, but still come reasonably close (e.g., 4%), the situation should be sustainable.

As noted above, Lithuania suffered a recession (-3.3%) in 1999, but is expected to rebound this year with 2% growth. The downturn was partly the result of lower exports to the CIS. However, the economy was also impacted by supply interruptions at the Mazeikiu Nafta oil refinery.⁷ This year, with Russian oil supplies flowing again, oil refinery production is providing a boost to GDP growth. Nonetheless, compared to the other Baltic countries, Lithuania's emergence from recession has been slow due to its greater structural difficulties.

⁵The IMF also recommends the establishment of a fiscal reserve fund (to be funded by privatization proceeds) which would provide a financial cushion in difficult times and would also separate the inflow of privatization proceeds from government expenditures.

⁶Restitution payments are intended to compensate depositors at state banks for the hyperinflation of 1991-92. Such payments amounted to 2.2% of GDP in 1999 (approximately \$230 million) and there are \$500 million in restitution claims outstanding. However, the GOLH has announced it will defer the remaining claims for two years. Loans to industrial enterprises accounted for 2.4% of GDP. However, approximately 75% of these loans were to one enterprise -- Mazeikiu Nafta -- in large part in order to sell a 33% stake to a strategic foreign investor. The sale committed the government to provide \$324 in medium-term loans. However, all but \$21 million was disbursed by end-1999, thus future loans should be minimal. Moreover, the government has announced that it will reduce its net lending to industrial enterprises across the board.

⁷Mazeikiu Nafta accounts for an estimated 10% of GDP. Lukoil, feeling it was shut out of the privatization, responded by temporarily cutting off crude oil supplies to the company.

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LITHUANIA

POLITICAL/SOCIAL CONSTRAINTS – C- Rating

The election of unstable multiparty coalitions will remain a problem for Lithuania beyond the 2000 elections. The numerous political parties, which are often dominated by personalities, render it exceedingly difficult for any single party to win control of the legislature. Moreover, voters are rejecting the more established parties and turning to younger, less-known ones. This is resulting in more political parties in an already overcrowded political landscape, ensuring that no party will receive a majority, and forcing larger, more complex coalitions. Privatization has proven politically controversial and resulted in several resignations.⁸ Nonetheless, while policymaking has clearly been somewhat hampered by the political instability, there is a consensus for orthodox macroeconomic policies and structural reforms.

The dominant issue of Lithuania's foreign relations is its desire to join the EU and NATO. Lithuania was invited to begin EU accession negotiations in December 1999, although membership is not expected within the medium term. Lithuania also hopes to be invited to join in the next wave of NATO expansion. Despite its expressed desire for NATO membership, Lithuania's relations with Russia are relatively good. The GOLH granted full citizenship to ethnic Russians within Lithuania, and it allows the Russian military personnel and equipment access across Lithuania to Kaliningrad.

Relations with the United States are good and expected to remain so.

VULNERABILITY TO FOREIGN EXCHANGE CRISIS – D Rating

The value of the Lithuanian litas has been fixed to the U.S. dollar since April 1994.⁹ The peg is achieved by virtue of a CBA, which guarantees conversion at the prevailing rate. As long as the government adheres to the CBA, Lithuania's vulnerability to a foreign exchange crisis is substantially minimized. Although there are various forms of CBAs, all require backing of the domestic monetary base by foreign reserves.¹⁰ Thus should foreign reserves fall for any reason (e.g., current account deficits, foreign capital outflows), the CBA requires that the domestic monetary base contract proportionately. This raises domestic interest rates and results in

⁸The major criticism is that some large-scale privatizations have lacked transparency and resulted in poor outcomes for the government.

⁹At a rate of 4 litas per dollar.

¹⁰Currently, there is more than 100% hard currency cover at 4 litas per dollar.

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LITHUANIA

economic contraction, which should reverse the trend of declining foreign reserves.¹¹ Thus, what might be a traditional foreign exchange crisis for other countries becomes a (sometimes severe) contraction of domestic demand for CBA countries. Under such scenarios, the primary issue for CBA countries is whether the government is willing to sacrifice domestic economic growth for exchange rate stability. If not, the CBA must be disbanded.

However, in a recent paper, the IMF defined currency crisis in economies with pegged exchange rate regimes in the following manner: "A currency crisis in a fixed exchange rate system may be said to occur when a speculative attack leads to a "major" loss of foreign exchange reserves or "very high" interest rates, or the abandonment of the exchange rate peg. This definition would apply equally to countries with currency boards and countries with conventional pegs."¹² Thus, one could conceivably consider a lower level of foreign exchange reserves or exorbitant interest rates equivalent to a large currency depreciation. However, as noted above, the equilibrating mechanism of monetary policy under a CBA would, in most instances, render such dislocations relatively short-lived so that losses of foreign reserves or increases in interest rates would not become "excessive." However, the GOLH has announced it will change the peg from the dollar to the euro in mid-2001. It is unclear if they will continue to maintain the CBA at that time. Also unclear is whether they will use that opportunity to devalue the litas, regardless of whether they maintain the CBA. If the current account deficit is not reduced, it is quite possible that either one or both options will be exercised. Thus, the current CBA does not definitively mitigate the chances of a currency crisis over the medium term.

The short-term debt factor has been slightly underweighted in this indicator for the same reasons outlined in the "foreign debt service burden" section.

BANKING SYSTEM – D Rating

Last year's merger of two large banks (Vilnius Bank and Hermis Bank) has reduced the number of banks in Lithuania to nine. The sector is relatively concentrated with the three largest banks accounting for 75% of banking assets and the largest (Vilniaus Bankas) for 41%. Foreign participation has increased recently with growing openness of the sector. Privatization has not yet been completed. However, the two remaining state-controlled banks -- the Agricultural Bank and the Savings Bank, which account for 50% of banking assets -- are supposed to be privatized as part of the current IMF program. The banking sector is somewhat less developed

¹¹ By cutting the current account deficit as well as enticing the return of foreign capital by relatively high interest rates.

¹²See IMF, "The Baltics — Exchange Rate Regimes and External Sustainability," 11/29/99, p. 5.

than in the other Baltic countries, as evidenced by a lower volume of lending and shorter average maturities.

Lithuanian banks were not as impacted as those in Latvia from the Russian crisis. The direct impact was small due to the limited exposure to Russia (about 2% of assets). However, indirectly it affected the banks via the strong trade ties between the two countries. According to the IMF, the average capital adequacy ratio is healthy and has remained at more than twice the required level. Nonperforming loans fell from 12.5% at the beginning of 1999 to 9.7% at the end of the year. There is the danger of increasing foreign currency exposure, which could impact the banks when the current CBA is altered. The proportion of foreign currency deposits is high and growing.¹³ The economy exhibits a low level of monetization reflecting the relatively weak credibility and depth of the banking system.

The government instituted a deposit insurance program in January 1999. It covers deposits up to 45,000 litas (\$11,250) but will be increased beginning January 2001 to 65,000 litas (\$16,250).

LEGAL SYSTEM - D Rating

Lithuania was invited to begin EU accession negotiations in December 1999. Therefore, Lithuania will be required to harmonize many of its laws with EU practices, which should facilitate continued improvements in the legal environment. According to the U.S. Embassy, the new foreign investment law of August 1995: "provides that equal protection is afforded to both foreign investors and domestic investors. No special permit is required from governmental authorities to invest foreign capital in Lithuania and there are no prohibitions or limitations provided the investor carries on business in accordance with Lithuanian law....State institutions have no right to interfere with the legal possession of the foreign investor's property....Foreign investors are entitled to enforce their rights by applying to the court of Lithuania or directly to the International Center for Settlement of Investment Disputes under the Washington Convention of 1965." Despite the promulgation of enhanced commercial laws, there are complaints about their effectiveness, such as in the case of intellectual property rights.

FOREIGN EXCHANGE AVAILABILITY - C Rating

There are currently no administrative obstacles to acquiring foreign currency in Lithuania and the CBA should prevent a shortage of foreign currency. Thus, until the CBA is abandoned, which is possible within a year, foreign exchange availability should not be an issue.

¹³It was 49% in 1999, up from 41% a year earlier.

BUSINESS CLIMATE – C- Rating

Lithuania's business climate is reasonably good. It aspires to WTO membership within the next year and has an open trade regime.¹⁴ Moreover, the government has a strong incentive -- EU membership -- to move further ahead with regulatory and legal reforms. This will require reducing or eliminating various subsidies conferred to specific industries. There are complaints among the American business community that commercial activity is hampered by over-regulation, excessive bureaucracy, and corruption.

According to EBRD, in mid-1999 70% of GDP was created by the private sector. There are various large-scale privatizations remaining and, as noted above, several privatizations have been controversial, thereby impeding a political consensus for further ones. Nonetheless, a number of large-scale privatizations should be completed by 2001 in order to satisfy IMF program conditionality as well as to fund the fiscal reserve fund.

Although the stock exchange is highly capitalized relative to other FSU countries, liquidity is limited to a minority of shares.¹⁵ Considering turnover rather than market capitalization would change the stock market factor from C to D- or E. In addition, the bourse is highly concentrated with 70% of the market capitalization accounted for by only 10 enterprises.

¹⁴Several trade restrictions were instituted in the wake of the Russian crisis, but the current IMF program incorporates structural benchmarks that require elimination of a number of them and EU membership will also involve dismantling various trade barriers.

¹⁵See IIF, Lithuania Economic Report, 3/10/00, p. 4 and Bank of Finland Institute for Economies in Transition, May 2000, "Baltic Securities Markets", p. 6.

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A B C C- D D- E E- F F- F=

EXPECTED PAYMENTS PERFORMANCE

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RATING AGENCY AND OECD ASSESSMENT

FITCH IBCA RATING

. . . . █

MOODY'S RATING

. . . . █

OECD RATING

. . . . █

STANDARD AND POOR'S RATING

. . . . █

PAYMENT/ARREARS HISTORY

1. WITH THE UNITED STATES

. █

2. WITH OFFICIAL CREDITORS

. █

3. WITH COMMERCIAL BANKS

. █

4. OFFICIAL TRANSFERS DEPENDENCY

. █

5. OFFICIAL CREDIT DEPENDENCY

. █

FOREIGN DEBT SERVICE BURDEN

6. DEBT-TO-GDP RATIO

. . . . █

7. DEBT SERVICE RATIO

. █

8. DEBT-TO-FX RATIO

. █

9. INTEREST-TO-FX RATIO

. █

10. SHORT-TERM DEBT

. . . . █

11. MULTILATERAL DEBT

. . . . █

BOP ADJUSTMENT CAPACITY

12. EXPORT ORIENTATION

. . . . █

13. FOREIGN EXCHANGE POLICIES

. █

14. COMMODITY EXPORT DEPENDENCY

. █

15. CURRENT ACCOUNT WITHOUT AID

. █

16. CURRENT ACCOUNT WITH AID

. █

17. EQUITY INFLOWS

. █

18. PRIVATE CREDIT INFLOWS

. █

19. FOREIGN EXCHANGE RESERVES

. . . . █

MACROECONOMIC ENVIRONMENT

20. PER CAPITA INCOME LEVEL

. . . . █

21. REAL GDP GROWTH

. . . . █

22. PRIVATE INVESTMENT

. █

23. SIZE OF GOVERNMENT

. . . . █

24. REVENUE TRANSFERS DEPENDENCY

. . . . █

25. FISCAL POLICIES

. . . . █

26. ADJUSTMENT PROGRAMS

. . . . █

27. RATE OF INFLATION

. █

28. GOVERNMENT DEFICIT

. . . . █

29. MILITARY SPENDING

. █

30. DOMESTIC DEBT

. █

31. DEBT SERVICE TO REVENUES RATIO

. . . . █

32. ADULT LITERACY

. █

POLITICAL/SOCIAL CONSTRAINTS

33. INTERNAL POLITICAL STABILITY

. . . . █

34. EXTERNAL THREATS

. . . . █

35. RELATIONS WITH UNITED STATES

. . . . █

LITHUANIA

NONSOVEREIGN RISK RATING: D

JULY 21, 2000

	A	B	C	C- D	D- E	E- F
EXPECTED PAYMENTS PERFORMANCE	.	.	.	.	■	.
VULNERABILITY TO FOREIGN EXCHANGE CRISIS	.	.	.	.	■	.
36. DEBT-TO-FX RATIO	■	.	.	.	.	.
37. SHORT-TERM DEBT	.	.	.	.	.	■
38. CURRENT ACCOUNT WITHOUT AID	.	.	.	.	.	■
39. BANKING SYSTEM FACTOR	.	.	.	■	.	.
BANKING SYSTEM	.	.	.	.	■	.
40. NONPERFORMING LOAN RATIO	.	.	.	■	.	.
41. CREDIT RATING AGENCY ASSES.	.	.	.	■	.	.
42. FINANCIAL STRENGTH	Not Available				.	.
43. GUARANTEE NETWORK	.	.	.	■	.	.
44. REGULATORY ENV. AND BANK SUP.	.	.	.	■	.	.
45. NATIONAL ACCOUNTING STANDARDS	.	.	.	■	.	.
46. CONCENTRATION OF LOANS	.	■	.	.	.	.
LEGAL SYSTEM	.	.	.	.	■	.
47. BANKRUPTCY AND FORECLOSURE LAWS	.	.	.	■	.	.
48. TRANSPARENCY OF THE LEGAL SYSTEM	.	.	.	■	.	.
49. CONTRACT ENFOR. AND DISPUTE RESOL.	.	.	.	.	■	.
FOREIGN EXCHANGE AVAILABILITY	.	.	.	.	.	.
50. EXPORT ORIENTATION	■	.	.	.	.	.
51. FOREIGN EXCHANGE RESERVES	.	.	.	■	.	.
52. FOREIGN DEBT SERVICE BURDEN	.	.	.	■	.	.
53. FOREIGN EXCHANGE CONTROLS	.	■	.	.	.	.
BUSINESS CLIMATE	.	.	.	.	■	.
54. FOREIGN EQUITY INVESTMENT	■	.	.	.	.	.
55. RATE OF INFLATION	■	.	.	.	.	.
56. STOCK MARKET	.	.	■	.	.	.
57. ADULT LITERACY	■	.	.	.	.	.
58. PHYSICAL INFRASTRUCTURE	.	.	.	■	.	.
58A. KILOWATT HOURS PER CAPITA	.	.	.	■	.	.
58B. KMS PAVED ROAD PER MN PEOPLE	■	.	.	.	.	.

30 July 2000

LITHUANIA: MEDIUM TERM OUTLOOK
(US\$ MNS.)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average 00 - 04</u>
Merch. Exports	4192	3962	3250	3790	4220	4600	5014	5465	4618
% Top Two Exports	21%	21%	21%	21%	21%	21%	20%	20%	21%
Merch. Imports	5340	5480	4480	4850	5320	5719	6148	6609	5729
Trade Balance	-1147	-1518	-1230	-1060	-1100	-1119	-1134	-1144	-1111
Service Credits	1112	1234	1153	1350	1430	1488	1683	1860	1562
Service Debits	1176	1248	1168	1390	1520	1460	1614	1783	1553
Net Priv Trsfrs	134	132	110	100	100	100	100	100	100
Net Offl Trsfrs	100	103	55	100	100	125	125	125	115
% of FXCI	2%	2%	1%	2%	2%	2%	2%	2%	2%
% of Gov Revenue	5%	4%	2%	4%	3%	4%	4%	4%	4%
CAB, without N.O.T.	-1078	-1401	-1135	-1000	-1090	-992	-965	-967	-1003
% of GDP	-11%	-13%	-11%	-9%	-9%	-8%	-8%	-7%	-8.2%
CAB, with N.O.T.	-977	-1298	-1080	-900	-990	-867	-840	-842	-888
% of GDP	-10%	-12%	-10%	-8.1%	-8.3%	-7.0%	-6.6%	-6.3%	-7.3%
FX Current Inflows	5539	5431	4568	5340	5850	6313	6922	7550	6395
G&S Exports	5304	5196	4403	5140	5650	6088	6697	7325	6180
as % of GDP	55%	48%	42%	46%	47%	49%	52%	55%	50%
Debt Service	646	404	534	681	554	757	782	793	713
% of FXCI	12%	7%	12%	13%	9%	12%	11%	11%	11%
% of Gov Revenue	29%	16%	22%	26%	19%	25%	23%	23%	23%
Debt Amortization	506	233	324	421	264	469	485	492	426
Interest Payments	140	171	210	260	290	287	297	301	287
% of FXCI	3%	3%	5%	5%	5%	5%	4%	4%	4.5%
External Debt	3253	3740	4136	4705	5388	5697	5886	5973	5530
% of GDP	34%	35%	39%	42%	45%	46%	46%	45%	45%
% of FXCI	59%	69%	91%	88%	92%	90%	85%	79%	87%
% Short-Term	32%	28%	23%	22%	21%	20%	20%	19%	21%
% Multilateral	16%	15%	14%	14%	14%	13%	13%	12%	13%
FX Reserves/Imports	16%	21%	21%	21%	22%	22%	22%	22%	22%
Gross FX Capital Inflows, % of FX Current Inflows:									
Equity (Direct & Portfolio)	5%	16%	8%	10%	10%	11%	11%	12%	10.7%
Private Credit	15%	5%	8%	6%	7%	7%	8%	8%	7.2%
Official Credits	2%	3%	3%	4%	4%	4%	4%	4%	3.6%
Population	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Noml GDP, Bn \$	9.6	10.7	10.5	11.1	11.9	12.3	12.8	13.3	12.3
P/C Income, \$	2588	2901	2846	3017	3257	3384	3534	3690	3376
Real GDP Growth, %	7.3%	5.1%	-3.3%	2.0%	3.5%	4.0%	4.0%	4.0%	3.5%
Inflation, %	9%	5%	1%	2%	3%	3%	3%	3%	2.9%
Priv Investment/GDP	24%	22%	21%	21%	22%	22%	21%	21%	21%
Gov Revenues/GDP	23%	23%	23%	24%	25%	25%	26%	26%	25%
Gov Spending/GDP	25%	29%	31%	27%	28%	28%	29%	29%	28%
Mil. Spending/GDP	2%	2%	2%	2%	2%	2%	2%	2%	1.9%
Gov Deficit/GDP	2%	6%	8%	3%	3%	3%	3%	3%	3.0%
Cred to Pub Sec, %	16%	12%	16%	16%	15%	15%	14%	14%	14.9%

LITHUANIA: NONSOVEREIGN SECTOR INDICATORS
(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average 00 - 04</u>
FXCI/External Debt	59%	69%	91%	88%	92%	90%	85%	79%	87%
ST Debt/External Debt	32%	28%	23%	22%	21%	20%	20%	19%	21%
CAB, without N.O.T./ GDP	-11.2%	-13.0%	-10.8%	-9.0%	-9.2%	-8.0%	-7.5%	-7.3%	-8%
Export of G&S as % of GDP	55%	48%	42%	46%	47%	49%	52%	55%	50%
FX Reserves/Imports	16%	21%	21%	21%	22%	22%	22%	22%	22%
Foreign Equity Inv/FXl	5%	16%	8%	10%	10%	11%	11%	12%	11%
Rate of Inflation	9%	5%	1%	2%	3%	3%	3%	3%	3%

THE WHITE HOUSE

WASHINGTON

June 26, 2000

Dear Mr. President:

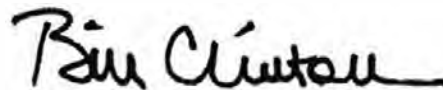
Thank you for your letter regarding my visit to Moscow. I understand that Lithuania's oil industry and Lukoil are making progress in their negotiations on long-term crude oil supply contracts. We will continue to facilitate commercial contacts between the Lithuanian oil industry and the Russian government as the parties work toward negotiated contracts this summer.

Your concerns were very much in mind during my discussions with President Putin. I am convinced that, based on our talks, President Putin understands clearly the importance the United States attaches to ensuring stable and cooperative relations between Russia and its neighbors, including in the Baltic region. This issue, along with respect for democratic principles and the success of economic reforms, will have a direct impact on Russia's international integration.

To underscore our support for Lithuania, Latvia, and Estonia, I asked Deputy Secretary of State Strobe Talbott to represent the United States at the meeting of the U.S.-Baltic Partnership Commission in Tallinn. I welcome the reaffirmation at that meeting of our common vision of a Europe whole and free, and of our goal to jointly create conditions to complete the integration of Lithuania, Latvia, and Estonia into European and transatlantic institutions.

Again, thank you for your letter. I hope we will have a chance to meet later this year.

Sincerely,



His Excellency
Valdas Adamkus
President of the Republic
of Lithuania
Vilnius

CLINTON LIBRARY PHOTOCOPY

[2016-0384-M, 1.46]

CLINTON LIBRARY PHOTOCOPY

Norland, Richard B. (EUR)

From: WHSR
Sent: Thursday, June 29, 2000 6:49 PM
To: Bolan, Christopher J. (VP); Cables; Davidson, Leslie K. (VP); Ficklin, John W. (RECORDS); Millison, Cathy L. (EXSEC); Norland, Richard B. (EUR); Spence, Matthew J. (EUR/INTERN); Wasserman, Elaine P. (EXSEC); Yee, Hoyt B. (EUR)
Subject: LETTER FROM PRESIDENT CLINTON TO HIS EXCELLENCY VALDAS ADAMKUS (S/S NUMBER 200011548)

ActionAddrees: AMEMBASSY VILNIUS IMMEDIATE 1324
Classification: UNCLASSIFIED
DateTime: 292158Z JUN 00
Distribution: SIT: BOLAN NSC DAVIDSON Ficklin Millison NORLAND SPENCE Wasserman YEE
PRT: JACOBSON

Identifier: M4516381
InfoAddrees: ///
Line1: OAAUZYUW RUEHCAA4899 1812200-UUUU--RHEHAAX.
Line2: ZNR UUUUU ZZH
Line3: O 292158Z JUN 00
Line4: FM SECSTATE WASHDC
Originator: SECSTATE WASHDC
Precedence: IMMEDIATE
Profiles: BOLANC
CABLES
DAVIDSOL
FICKLINJ
MILLISOC
NORLANDR
SPENCEM
WASSERME
YEEH

StationRoutingIndicator: RUEHC
StationSerialNumber: 4899
TimeOfReceipt: 06/29/2000 18:48:20 ET

UNCLAS STATE 124899

E.O. 12958: N/A
TAGS: OPDC, LH
SUBJECT: LETTER FROM PRESIDENT CLINTON TO HIS EXCELLENCY VALDAS ADAMKUS (S/S NUMBER 200011548)

1. PLEASE DELIVER FOLLOWING MESSAGE FROM PRESIDENT CLINTON TO HIS EXCELLENCY VALDAS ADAMKUS, PRESIDENT OF THE REPUBLIC OF LITHUANIA. THE WHITE HOUSE DOES NOT PLAN TO RELEASE TEXT OF MESSAGE BUT HAS NO OBJECTION IF GOVERNMENT OF LITHUANIA WISHES TO DO SO. THE SIGNED ORIGINAL WILL FOLLOW VIA POUCH.

2. BEGIN TEXT:

JUNE 26, 2000

DEAR MR. PRESIDENT:

THANK YOU FOR YOUR LETTER REGARDING MY VISIT TO MOSCOW. I UNDERSTAND THAT LITHUANIA'S OIL INDUSTRY AND LUKOIL ARE MAKING PROGRESS IN THEIR NEGOTIATIONS ON LONG-TERM CRUDE OIL SUPPLY CONTRACTS. WE WILL CONTINUE TO FACILITATE COMMERCIAL CONTACTS BETWEEN THE LITHUANIAN OIL INDUSTRY AND

THE RUSSIAN GOVERNMENT AS THE PARTIES WORK TOWARD
NEGOTIATED CONTRACTS THIS SUMMER.

YOUR CONCERNS WERE VERY MUCH IN MIND DURING MY DISCUSSIONS
WITH PRESIDENT PUTIN. I AM CONVINCED THAT, BASED ON OUR
TALKS, PRESIDENT PUTIN UNDERSTANDS CLEARLY THE IMPORTANCE
THE UNITED STATES ATTACHES TO ENSURING STABLE AND
COOPERATIVE RELATIONS BETWEEN RUSSIA AND ITS NEIGHBORS,
INCLUDING IN THE BALTIC REGION. THIS ISSUE, ALONG WITH
RESPECT FOR DEMOCRATIC PRINCIPLES AND THE SUCCESS OF
ECONOMIC REFORMS, WILL HAVE A DIRECT IMPACT ON RUSSIA'S
INTERNATIONAL INTEGRATION.

TO UNDERSCORE OUR SUPPORT FOR LITHUANIA, LATVIA, AND
ESTONIA, I ASKED DEPUTY SECRETARY OF STATE STROBE TALBOTT
TO REPRESENT THE UNITED STATES AT THE MEETING OF THE U.S.-
BALTIC PARTNERSHIP COMMISSION IN TALLINN. I WELCOME THE
REAFFIRMATION AT THAT MEETING OF OUR COMMON VISION OF A
EUROPE WHOLE AND FREE, AND OF OUR GOAL TO JOINTLY CREATE
CONDITIONS TO COMPLETE THE INTEGRATION OF LITHUANIA,
LATVIA, AND ESTONIA INTO EUROPEAN AND TRANSATLANTIC
INSTITUTIONS.

AGAIN, THANK YOU FOR YOUR LETTER. I HOPE WE WILL HAVE A
CHANCE TO MEET LATER THIS YEAR.

SINCERELY,

BILL CLINTON /S/

HIS EXCELLENCY
VALDAS ADAMKUS
PRESIDENT OF THE REPUBLIC
OF LITHUANIA
VILNIUS

END TEXT.
ALBRIGHT

THE WHITE HOUSE

WASHINGTON

June 26, 2000

Dear Mr. President:

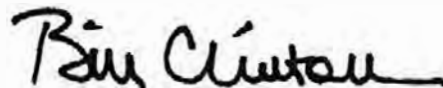
Thank you for your letter regarding my visit to Moscow. I understand that Lithuania's oil industry and Lukoil are making progress in their negotiations on long-term crude oil supply contracts. We will continue to facilitate commercial contacts between the Lithuanian oil industry and the Russian government as the parties work toward negotiated contracts this summer.

Your concerns were very much in mind during my discussions with President Putin. I am convinced that, based on our talks, President Putin understands clearly the importance the United States attaches to ensuring stable and cooperative relations between Russia and its neighbors, including in the Baltic region. This issue, along with respect for democratic principles and the success of economic reforms, will have a direct impact on Russia's international integration.

To underscore our support for Lithuania, Latvia, and Estonia, I asked Deputy Secretary of State Strobe Talbott to represent the United States at the meeting of the U.S.-Baltic Partnership Commission in Tallinn. I welcome the reaffirmation at that meeting of our common vision of a Europe whole and free, and of our goal to jointly create conditions to complete the integration of Lithuania, Latvia, and Estonia into European and transatlantic institutions.

Again, thank you for your letter. I hope we will have a chance to meet later this year.

Sincerely,



His Excellency
Valdas Adamkus
President of the Republic
of Lithuania
Vilnius

CLINTON LIBRARY PHOTOCOPY

[2016-0384-M, 1.48]

THE WHITE HOUSE

WASHINGTON

June 22, 2000

ACTION*signed 6/26/00*

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER *for*

SUBJECT: Response to President Adamkus

Purpose

Respond to President Adamkus' request that you raise Lithuanian energy issues during your visit to Moscow.

Background

President Adamkus wrote you before your trip to Moscow to urge that you ask Putin to facilitate commercial cooperation between Russian energy companies and a U.S. firm, the Williams Company, that is playing a major role in modernizing Lithuania's oil industry. In fact, Williams has made progress in its negotiations with the Russian energy giant, Lukoil, and recently signed a protocol aimed at securing long-term crude oil supply contracts needed to obtain financing for plant modernization. Our Embassy in Moscow is facilitating contacts between Williams and the Russian government as the parties work toward negotiated contracts this summer, and Jim Steinberg recently advised the Lithuanian foreign minister of our support.

Your response to Adamkus is a useful opportunity to reaffirm the U.S. commitment to Baltic independence and to doing all we can to promote stability and cooperation in Russia's relations with its neighbors.

RECOMMENDATION

That you sign the response to President Adamkus at Tab A.

Attachments

Tab A Response to President Adamkus
 Tab B Incoming Correspondence



Lietuvos Respublikos Prezidentas

Vilnius, May 26, 2000

Dear Mr. President:

I recall our excellent meeting in Istanbul in which you expressed strong support for Lithuania's partnership with the United States. As you may know, the Williams Company, an excellent American energy company, has taken an equity position and major management role in Lithuania's oil industry (refinery, port facility and pipelines). The success of our company and our energy sovereignty depends on good commercial cooperation with Russian companies. Support of the Russian Government for normal business practices is necessary so that Russian oil companies will work commercially with the American managers (Williams Company) and Lithuania. Oil supplies from Russia have been interrupted for long periods for political rather than commercial reasons.

Therefore, Mr. President, during your forthcoming trip to Moscow, I would appreciate very much if you would urge President Putin to encourage Russian companies to work cooperatively with Williams Company and Lithuania in order to provide an example of a new policy strengthening Russian business ties with the United States. Mr. President, your intervention in support of this project would be good for Lithuania, the United States and for Russia.

I send my wishes for a successful visit to Moscow. More important, I wish you and your wonderful family the best of happiness in the future.

With best regards,

Valdas Adamkus

MAY 26 17:12

William J. Clinton
President
United States of America

*pls. enter
 in system.*
 ACTION: RUI (NOR/land)
 CONC: RUSSIA (G/Kind)
 INTERCOM (Dun/na)

CLINTON LIBRARY PHOTOCOPY

[2016-0384-M, 1.49]

Dear Mr. President:

Thank you for your letter regarding my visit to Moscow. I understand that Williams-Lithuania's oil industry and Lukoil are making progress in their negotiations on long-term crude oil supply contracts. We will continue to facilitate commercial contacts between the Lithuanian oil industry Williams and the Russian government as the parties work toward negotiated contracts this summer.

Your concerns were very much in mind during my discussions with President Putin. I am convinced that, based on our talks, President Putin understands clearly the importance the United States attaches to ensuring stable and cooperative relations between Russia and its neighbors, including in the Baltic region. This issue, along with respect for democratic principles and the success of economic reforms, will have a direct impact on Russia's international integration.

To underscore our support for Lithuania, Latvia, and Estonia, I asked Deputy Secretary of State Strobe Talbott to represent the United States at the meeting of the U.S.-Baltic Partnership Commission in Tallinn. I welcome the reaffirmation at that meeting of our common vision of a Europe whole and free, and of our goal to jointly create conditions to complete the integration of Lithuania, Latvia, and Estonia into European and transatlantic institutions.

Again, thank you for your letter. I hope we will have a chance to meet later this year.

Sincerely,

His Excellency
Valdas Adamkus
President of the Republic
of Lithuania
Vilnius

THE WHITE HOUSE

WASHINGTON

Dear Mr. President:

Thank you for writing prior to my recent visit to Moscow. Your concerns were very much in mind during my discussions with President Putin. I am convinced that, based on our talks, President Putin understands clearly the importance the United States attaches to ensuring stable and cooperative relations between Russia and its neighbors, including in the Baltic region. This issue, along with respect for democratic principles and the success of economic reforms, will have a direct impact on Russia's international integration.

I am glad that a U.S. firm is playing a major role in developing Lithuania's energy sector. I understand that Williams and Lukoil are making progress in their negotiations on long-term crude oil supply contracts. We will continue to facilitate contacts between Williams and the Russian government as the parties work toward negotiated contracts this summer.

To underscore our support for Lithuania, Latvia and Estonia, I asked Deputy Secretary ^{of State} Strobe Talbott to represent the United States at the June 7 meeting of the U.S.-Baltic Partnership Commission in Tallinn. I welcome the reaffirmation at that meeting of our common vision of a Europe whole and free, and of our goal jointly to create conditions to complete the integration of Lithuania, Latvia and Estonia into European and transatlantic institutions.

Again, thank you for your helpful letter. I hope we will have a chance to meet later this year.

Sincerely,

① His Excellency ② Valdas Adamkus
③ President of the Republic
of Lithuania
④ Vilnius

THE WHITE HOUSE

WASHINGTON

Dear Mr. President:

Thank you for ^{your letter regarding} writing prior to my recent visit to Moscow. [I am glad that a U.S. firm is playing a major role in developing Lithuania's energy sector.] I understand that Williams and Lukoil are making progress in their negotiations on long-term crude oil supply contracts. We will continue to facilitate contacts between Williams and the Russian government as the parties work toward negotiated contracts this summer.

Your concerns were very much in mind during my discussions with President Putin. I am convinced that, based on our talks, President Putin understands clearly the importance the United States attaches to ensuring stable and cooperative relations between Russia and its neighbors, including in the Baltic region. This issue, along with respect for democratic principles and the success of economic reforms, will have a direct impact on Russia's international integration.

To underscore our support for Lithuania, Latvia and Estonia, I asked Deputy Secretary of State Strobe Talbott to represent the United States at the [June 7] meeting of the U.S.-Baltic Partnership Commission in Tallinn. I welcome the reaffirmation at that meeting of our common vision of a Europe whole and free, and of our goal jointly to create conditions to complete the integration of Lithuania, Latvia and Estonia into European and transatlantic institutions.

Again, thank you for your letter. I hope we will have a chance to meet later this year.

Sincerely,

His Excellency
Valdas Adamkus
President of the Republic
of Lithuania
Vilnius



Lietuvos Respublikos Prezidentas

Vilnius, May 26, 2000

Dear Mr. President:

I recall our excellent meeting in Istanbul in which you expressed strong support for Lithuania's partnership with the United States. As you may know, the Williams Company, an excellent American energy company, has taken an equity position and major management role in Lithuania's oil industry (refinery, port facility and pipelines). The success of our company and our energy sovereignty depends on good commercial cooperation with Russian companies. Support of the Russian Government for normal business practices is necessary so that Russian oil companies will work commercially with the American managers (Williams Company) and Lithuania. Oil supplies from Russia have been interrupted for long periods for political rather than commercial reasons.

Therefore, Mr. President, during your forthcoming trip to Moscow, I would appreciate very much if you would urge President Putin to encourage Russian companies to work cooperatively with Williams Company and Lithuania in order to provide an example of a new policy strengthening Russian business ties with the United States. Mr. President, your intervention in support of this project would be good for Lithuania, the United States and for Russia.

I send my wishes for a successful visit to Moscow. More important, I wish you and your wonderful family the best of happiness in the future.

With best regards,

Valdas Adamkus

William J. Clinton
President
United States of America

From: Norland, Richard B. (EUR)
Sent: Friday, May 26, 2000 4:55 PM
To: Davidson, Leslie K. (VP); Elkind, Jonathan H. (RUE); Duncan, John D. (INTECON/DOS)
Cc: @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

my sense is that Strobe et al will make that point to the Russians on margins of summit.

-----Original Message-----

From: Davidson, Leslie K. (VP)
Sent: Friday, May 26, 2000 4:13 PM
To: Norland, Richard B. (EUR); Elkind, Jonathan H. (RUE); Duncan, John D. (INTECON/DOS)
Cc: @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Just to add more to this. When I was in Lithuania last weekend, I had a chance to talk to Williams reps directly. They gave us a run-down of their most recent experiences; they're feeling cautiously positive these days. Real signal that Lukoil/Moscow has decided to suddenly play ball will be coming up when next quarter's schedule for oil allocations comes out (Lukoil is the controller of that schedule). If Williams/Butinge appear on the main schedule, then all is ok for now. If not, then they will be forced to buy oil on the spot market again to keep the refinery open. Ironically, the most cost efficient way they've identified is not to buy North Sea crude (which one might guess because of connections to BP-Amoco), but instead to buy oil from Ventspils in Latvia, ship it up, refine it, and ship it back.

ANYWAY, this is a long discourse to get to the point relevant to this thread. We asked them "what can we do to help?" Their #1 wish was for John Baumgartner to get off the plane in Moscow right behind Bill Clinton. We explained there wasn't going to be a business delegation for the POTUS trip to Russia. #2 wish is for a sufficiently senior person to utter talking points that essentially say: quit screwing around on this. you're allowing a company to use ostensibly "commercial" reasons to make a very heavy-handed political point."

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Friday, May 26, 2000 2:55 PM
To: Elkind, Jonathan H. (RUE); Davidson, Leslie K. (VP); Duncan, John D. (INTECON/DOS)
Cc: @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

thanks. As it happens, Lithuanian Embassy has just delivered a letter from President Adamkus to POTUS urging us to raise with Putin the issue of oil supplies that "have been interrupted for long periods for political rather than commercial reasons" (copy being sent to you and John Duncan through the system). I have faxed it over to State/Nordic-Baltic affairs for use in Strobe's discussions in Moscow. I don't believe it rises to POTUS talking point level, particularly in wake of recent progress, but we'll aim to prepare a response to Adamkus following the President's trip.

I still see value in trying to move Jim's letter, assuming we can get it signed before he flies out on Monday (may be tough since he's away for the weekend). The POTUS response to Adamkus could be good follow-up.

-----Original Message-----

From: Elkind, Jonathan H. (RUE)
Sent: Friday, May 26, 2000 10:35 AM
To: Norland, Richard B. (EUR); Davidson, Leslie K. (VP); Duncan, John D. (INTECON/DOS)
Cc: @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Dick:

Sorry for slow response. Was on leave due to a family matter. I clear for RUE.

Jon

CLINTON LIBRARY PHOTOCOPY

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Monday, May 22, 2000 12:26 PM
To: Davidson, Leslie K. (VP); Elkind, Jonathan H. (RUE); Duncan, John D. (INTECON/DOS)
Cc: @BLINKEN
Subject: FW: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

This looks good to me.

Jon Elkind, John Duncan -- is this revised language OK with you too? If so, will move this version of the letter forward to JBS. thanks.

-----Original Message-----

From: Davidson, Leslie K. (VP)
Sent: Monday, May 22, 2000 12:16 PM
To: Norland, Richard B. (EUR)
Cc: @BLINKEN; Elkind, Jonathan H. (RUE)
Subject: FW: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Here are my suggested fixes, based on Friday's protocol signing.

What was Saudargas asking for, precisely? Certainly, it seems he would know as much about the deal as anyone...

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Monday, May 22, 2000 9:32 AM
To: Davidson, Leslie K. (VP); Hinckley, Steedman (VP); Elkind, Jonathan H. (RUE)
Cc: @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Leslie, the letter is still here -- Tony signed it out over the weekend but it had not left our office yet. Would you like to propose some additions to the current version (attached)?

<< File: Steinberg-Saudargas.doc >>

-----Original Message-----

From: Davidson, Leslie K. (VP)
Sent: Monday, May 22, 2000 9:26 AM
To: Hinckley, Steedman (VP); Norland, Richard B. (EUR); Elkind, Jonathan H. (RUE)
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Has this letter gone? Williams just had a break-through on Friday -- we talked with them on Saturday. They had specific requests vis-a-vis upcoming POTUS trip.

-----Original Message-----

From: Hinckley, Steedman (VP)
Sent: Friday, May 19, 2000 6:36 PM
To: Davidson, Leslie K. (VP)
Subject: FW: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Thursday, May 18, 2000 4:55 PM
To: Norland, Richard B. (EUR); Elkind, Jonathan H. (RUE); Duncan, John D. (INTECON/DOS)
Cc: @INTECON - Economic Affairs; @BLINKEN; @RUSSIA - Russia/Ukraine
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Jon, how about if I open the Williams "portion" of my letter by striking the current sentence saying we're committed to the success etc., and substitute the following:

Given the size and importance of the Williams Company investment, the United States is committed to making it work to the benefit of all, including Lithuania.

-----Original Message-----

From: Norland, Richard B. (EUR)

Sent: Thursday, May 18, 2000 4:37 PM
To: Elkind, Jonathan H. (RUE); Duncan, John D. (INTECON/DOS)
Cc: @INTECON - Economic Affairs; @BLINKEN; @RUSSIA - Russia/Ukraine
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

I fiddled with State's language a bit (I believe it came from Russ Trowbridge in EB) because it was just all over the place -- but I'm happy to tone it back if you want. Here's what State sent over to begin with:

Draft Letter for DAPNSA Steinberg to Lithuanian FM
Saudargas

Dear Mr. Minister:

I was glad to have the opportunity to meet with you recently and discuss how we can advance our common Baltic Partnership agenda. We agree that we have to help ensure the profitability of the Williams Company investment if it is to bring maximum economic and social benefits to Lithuania. Obtaining financing for plant modernization is complicated by the need for a long-term crude supply contract. We have reiterated to the European Bank for Reconstruction and Development (EBRD) our support for the Williams project in general and the benefits it will bring to your country. We understand Williams will complete a business proposal and submit formal applications to the EBRD and other financial institutions in the near future, and we will follow the progress of these proposals closely.

We also understand that Williams is currently negotiating with Lukoil and Yukos for long-term supply contracts. Our Embassy in Moscow is facilitating contacts between Williams and the Russian Government in the hope that mutually-beneficial agreements can soon be reached. Given the size and importance of this investment, we are committed to making it work to the benefit of all, including Lithuania.

On World Trade Organization (WTO) accession, we stand by President Clinton's January 1998 commitment to facilitate the integration of Lithuania into the WTO. We believe that Lithuania is now very close to completing negotiations, although your government's position on agricultural tariffs remains a problem for many member countries, including, but not restricted to, the United States. Your government's March 30 offer made in Geneva proposed higher tariffs, which we cannot accept at this stage in the negotiations. I believe this issues can be settled in a manner satisfactory to all countries if your negotiators are given sufficient leeway to engage in the give-and-take necessary to complete an accession package. We sincerely hope that these issues can be resolved in Geneva before too long, and we are working toward that goal.

CLINTON LIBRARY PHOTOCOPY

Sincerely, etc.

Drafted:EUR/NB:DRLeader
\\SEUREXSNTSF\NB\SHARED FOLDERS\Baltics\Lithuania\LH -
Draft Letter for DAPNSA Steinberg 5-17-00.doc
Cleared:EUR/NB:DGraze
EB/TPP/BTA/DCT:Jspeck
EB/ESC:Rthrowbridge
EB/IFD/ODF:ELuftman
EUR/RUS:Pquanrud
E:Jkessler
USTR:CKlein

-----Original Message-----

From: Elkind, Jonathan H. (RUE)
Sent: Thursday, May 18, 2000 4:10 PM
To: Norland, Richard B. (EUR); Duncan, John D. (INTECON/DOS)
Cc: @INTECON - Economic Affairs; @BLINKEN; @RUSSIA - Russia/Ukraine
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

Dick:

What part of State drafted this language on Williams? ...and who cleared?

I ask the question because the statement -- in writing -- that we are committed to the success of Williams' investment takes us to what I believe is a new level in this matter. LUKOIl's actions cannot be interpreted as having been free of political muscle-flexing, and that is bad medicine. But on the other hand Williams has at times been amateurish in their actions. Are we sure we want Jim's name on the line so unambiguously???

Jon

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Thursday, May 18, 2000 3:50 PM
To: Norland, Richard B. (EUR); Duncan, John D. (INTECON/DOS); Elkind, Jonathan H. (RUE)
Cc: @INTECON - Economic Affairs; @BLINKEN; @RUSSIA - Russia/Ukraine
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

State has produced a draft letter from Jim to the Lithuanian FM, following up on (a) Williams and (b) WTO accession (language on the latter came from Cecelia Klein in USTR).

I have tightened it up a bit and would appreciate your clearance by COB tomorrow if possible. thanks.

<< File: Steinberg-Saudargas.doc >>

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Friday, April 28, 2000 5:30 PM
To: Duncan, John D. (INTECON/DOS)
Cc: @INTECON - Economic Affairs; @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

many thanks. will look for her paper once you get it.

-----Original Message-----

From: Duncan, John D. (INTECON/DOS)
Sent: Friday, April 28, 2000 5:15 PM
To: Norland, Richard B. (EUR)
Cc: @INTECON - Economic Affairs
Subject: RE: Follow up to JBS meeting with Lithuanian FM [CONFIDENTIAL]

CLINTON LIBRARY PHOTOCOPY

Dick,

On the Williams oil deal, first we have heard of it. We would also be checking with State to see where they are so we have nothing to add at this time.

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CLINTON LIBRARY PHOTOCOPY

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Sent: Friday, May 26, 2000 2:55 PM
To: Elkind, Jonathan H. (RUE); Davidson, Leslie K. (VP); Duncan, John D. (INTECON/DOS)
Cc: @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM ~~(CONFIDENTIAL)~~

thanks. As it happens, Lithuanian Embassy has just delivered a letter from President Adamkus to POTUS urging us to raise with Putin the issue of oil supplies that "have been interrupted for long periods for political rather than commercial reasons" (copy being sent to you and John Duncan through the system). I have faxed it over to State/Nordic-Baltic affairs for use in Strobe's discussions in Moscow. I don't believe it rises to POTUS talking point level, particularly in wake of recent progress, but we'll aim to prepare a response to Adamkus following the President's trip.

I still see value in trying to move Jim's letter, assuming we can get it signed before he flies out on Monday (may be tough since he's away for the weekend). The POTUS response to Adamkus could be good follow-up.

**DECLASSIFIED
PER E.O. 13526**
2016-0384-M (1.55)
KSH 4/23/2023

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Cc: @BLINKEN
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Sorry for slow response. Was on leave due to a family matter. I clear for RUE.

Jon

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Steinberg-Saudargas.d

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EB/ESC:Rthrowbridge
EB/IFD/ODF:ELuftman
EUR/RUS:Pquanrud
E:Jkessler
USTR:CKlein

—Original Message—

From: Elkind, Jonathan H. (RUE)
Sent: Thursday, May 18, 2000 4:10 PM
To: Norland, Richard B. (EUR); Duncan, John D. (INTECON/DOS)
Cc: @INTECON - Economic Affairs; @BLINKEN; @RUSSIA - Russia/Ukraine
Subject: RE: Follow up to JBS meeting with Lithuanian FM ~~CONFIDENTIAL~~

Dick:

What part of State drafted this language on Williams? ...and who cleared?

I ask the question because the statement -- in writing -- that we are committed to the success of Williams' investment takes us to what I believe is a new level in this matter. LUKOil's actions cannot be interpreted as having been free of political muscle-flexing, and that is bad medicine. But on the other hand Williams has at times been amateurish in their actions. Are we sure we want Jim's name on the line so unambiguously???

Jon

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Thursday, May 18, 2000 3:50 PM
To: Norland, Richard B. (EUR); Duncan, John D. (INTECON/DOS); Elkind, Jonathan H. (RUE)
Cc: @INTECON - Economic Affairs; @BLINKEN; @RUSSIA - Russia/Ukraine
Subject: RE: Follow up to JBS meeting with Lithuanian FM ~~(CONFIDENTIAL)~~

State has produced a draft letter from Jim to the Lithuanian FM, following up on (a) Williams and (b) WTO accession (language on the latter came from Cecelia Klein in USTR).

I have tightened it up a bit and would appreciate your clearance by COB tomorrow if possible. thanks.

<< File: Steinberg-Saudargas.doc >>

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Friday, April 28, 2000 5:30 PM
To: Duncan, John D. (INTECON/DOS)
Cc: @INTECON - Economic Affairs; @BLINKEN
Subject: RE: Follow up to JBS meeting with Lithuanian FM ~~(CONFIDENTIAL)~~

many thanks. will look for her paper once you get it.

-----Original Message-----

From: Duncan, John D. (INTECON/DOS)
Sent: Friday, April 28, 2000 5:15 PM
To: Norland, Richard B. (EUR)
Cc: @INTECON - Economic Affairs
Subject: RE: Follow up to JBS meeting with Lithuanian FM ~~(CONFIDENTIAL)~~

Dick,

On the Williams oil deal, first we have heard of it. We would also be checking with State to see where they are so we have nothing to add at this time.

On Lithuanian WTO accession, I called Cecilia Klein (395-9437) in the WTO/Multilateral Affairs Office. I hit a raw nerve with that call. Bottom line is there is not much more we can do without Lithuania's help. Cecilia is not at all happy with Lithuania or their negotiating tactics. She says that both Larson and Eizenstat have essentially told them what they need to do is make some difficult decisions and then be willing to negotiate. USTR is of the view that their political people (President, Prime Minister, Foreign Minister) need to give their negotiator some cover. Right now he is hanging out there with some difficult agriculture interests ready to leap on him so he is frozen in place. Cecilia thinks they are negotiating in the "Russian" mode and are into high stakes brinkmanship so they are going to take it down to the last minute. She thinks they are just yanking us around and trying to use their small size to make us give them unilateral concessions that we have no intention of providing. She thinks if they do not get it done this year it is unlikely that they will any time soon because of the agriculture negotiations starting in the WTO. I asked her to send me a one-pager on the problem that we can pass to Jim.

John

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Friday, April 28, 2000 3:54 PM
To: @INTECON - Economic Affairs; Duncan, John D. (INTECON/DOS)
Cc: @EUROPE - European Affairs; @RUSSIA - Russia/Ukraine
Subject: Follow up to JBS meeting with Lithuanian FM ~~(CONFIDENTIAL)~~

John, not sure if Lithuania comes under your bailiwick or not, but there were two follow up

items to a meeting Jim Steinberg held yesterday with the Lithuanian foreign minister, Algirdas Saudargas.

(1) Williams oil deal -- Jim wants to know whether the U.S. could consider weighing in with the Russians in support of a long term supply contract for the Williams refinery in Lithuania. I understand Al Larson has been involved in this (he visited Lithuania April 6-7), and I've asked State (EUR/NB) if the upshot of Al's meetings is that we are willing to weigh in with Moscow on this -- but any info you have on this score would be valuable.

(2) WTO membership for Lithuania -- Saudargas asked for U.S. support. Jim responded that we want to be sure each new member gets it right, we have concerns about Lithuania's agricultural sector, etc. -- but he has asked us to look into whether there is anything more that could be done to support Lithuania's bid. Should I talk to USTR, and if so, who? thanks. Dick.

Norland, Richard B. (EUR)

From: WHSR
Sent: Thursday, April 06, 2000 10:06 AM
To: Andreassen, Steven P. (DEFENSE); Binnendijk, Johannes A. (Hans) (DEFENSE); Black, Steven K. (VP); Blinken, Antony J. (EUR); Brzezinski, Mark F. (RUE); Cables; Crawford, Bernard T. (EUR/INTERN); Cullom, Philip H. (DEFENSE); Davidson, Leslie K. (VP); Elkind, Jonathan H. (RUE); Hinckley, Steedman (VP); Kass, Nicholas S. (EUR); Massey, Stephen M. (RUE/INTERN); Medish, Mark C. (RUE); Munter, Cameron P. (EUR); Norland, Richard B. (EUR); Peterman, David (Brian) (DEFENSE); Pimentel, Betsy J. (DEFENSE); Tedstrom, John E. (RUE); vonLipsey, Roderick K. (SEE); Weiss, Andrew S. (RUE); Witkowsky, Anne A. (DEFENSE); Yee, Hoyt B. (EUR)
Subject: LITHUANIAN CONCERNS ABOUT NATO, ESDI, AND RUSSIA ARE THE DOMINANT THEMES OF EUR/DAS ANDRUSYSZYN'S VISIT (U) CLASSIFIED BY AMBASSADOR KEITH SMITH FOR REASONS 1.5 B

ActionAddrees: RUEHC/SECSTATE WASHDC IMMEDIATE 1590
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Classification: ~~CONFIDENTIAL~~
DateTime: 061244Z APR 00
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CULLOM
DAVIDSON ELKIND HINCKLEY KASS MASSEY MEDISH MUNTER NORLAND
PETERMAN
PIMENTEL TEDSTROM VONLIPSEY WEISS WITKOWSKY YEE

Identifier: M4382174
InfoAddrees: RUEHZL/EUROPEAN POLITICAL COLLECTIVE
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MASSEYS
MEDISHM
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PETERMAD
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TEDSTROJ
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WEISSA
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2016-0384-M (1.61)
KBH 6/23/2023

~~CONFIDENTIAL~~ SECTION 01 OF 03 VILNIUS 000900

EUR FOR DAS ANDRUSYSZYN

E.O. 12958: DECL: 4/6/2010
TAGS: PREL, NATO, ECON, LH, RS
SUBJECT: LITHUANIAN CONCERNS ABOUT NATO, ESDI, AND RUSSIA

ARE THE DOMINANT THEMES OF EUR/DAS ANDRUSYSZYN'S VISIT

(U) CLASSIFIED BY AMBASSADOR KEITH SMITH FOR REASONS 1.5 B AND D.

SUMMARY

1. (C) DURING BILATERAL MEETINGS IN VILNIUS EUR/DAS WALTER ANDRUSYSZYN MET WITH THE PRESIDENT, FOREIGN MINISTER, FINANCE MINISTER, DEFENSE OFFICIALS AND PARLIAMENTARIANS. COMMON THEMES EMERGED IN ALL THE MEETINGS, NAMELY WORRIES ABOUT NATO, ESDI AND RUSSIA. LITHUANIAN OFFICIALS WELCOMED THE VISIT OF ANDRUSYSZYN TO OUTLINE THEIR NATO ACCESSION AND DEFENSE MODERNIZATION PLANS (REPORTED SEPTEL) AS WELL TO OUTLINE THEIR FOREIGN POLICY TOWARDS RUSSIA, BELARUS AND THE REGION. DAS ANDRUSYSZYN ALSO MET WITH OFFICIALS FROM WILLIAMS COMPANY, WHO DISCUSSED CRUDE OIL SUPPLIES AND NEGOTATIONS WITH RUSSIA. END SUMMARY.

PRESIDENCY: COMMITMENT TO NATO; CONCERN ABOUT RUSSIA, ESDI

2. (C) PRESIDENT ADAMKUS STRESSED LITHUANIA'S COMMITMENT TO NATO MEMBERSHIP AND TO GOOD RELATIONS WITH ITS NEIGHBORS PARTICULARLY RUSSIA. THE PRESIDENT UNDERSCORED THAT NATO MEMBERSHIP IS THE NATION'S TOP FOREIGN POLICY PRIORITY AND THAT LITHUANIA WOULD CONTINUE TO HAVE A STRONG, CLEAR PRO-NATO STANCE. LITHUANIAN PARTICIPATION IN PKO'S IN BOSNIA AND KOSOVO IS A DEMONSTRATION OF COUNTRY'S WILL TO JOIN AND CONTRIBUTE TO NATO, SAID THE PRESIDENT. HE WARNED DAS ANDRUSYSZYN THAT THE U.S. SHOULD NOT BE OVERLY CONCERNED ABOUT SOME OF THE STATEMENTS IT WILL HEAR OVER THE NEXT SIX MONTHS LEADING UP TO PARLIAMENTARY ELECTIONS (I.E. ABOUT NATO, ABOUT DEFENCE SPENDING). THE PRESIDENT'S ADVICE WAS TO DISREGARD ABOUT 50% OF WHAT WE WILL HEAR.

3. (C) ADAMKUS EMPHASIZED LITHUANIA'S SUCCESSFUL POLICY OF MAINTAINING GOOD RELATIONS WITH RUSSIA. HE HIGHLIGHTED THE GOL'S WORK WITH KALININGRAD, AN INVITATION TO RUSSIA TO WORK MORE CLOSELY WITH THE COUNCIL OF BALTIC SEA STATES (CBSS), AND EXPANDING CULTURAL EXCHANGES. THE PRESIDENT ALSO UNDERSCORED THAT THE FACT THAT LITHUANIA HAS NO RUSSIAN MINORITY PROBLEM, UNLIKE THE OTHER BALTIC STATES, ALLOWING LITHUANIA TO ENJOY BETTER RELATIONS WITH RUSSIA. NONETHELESS, THE PRESIDENT NOTED THAT THE GOL STILL HAS A COUPLE OF IRRITATING PROBLEMS WITH RUSSIA, NAMELY 1) DIFFICULTLY IN OBTAINING A COMMITMENT FOR A LONG-TERM OIL SUPPLY FOR MAZEIKIU NAFTA, PART-OWNED AND MANAGED BY THE WILLIAMS CO., AND 2) FOOT-DRAGGING BY THE RUSSIAN PARLIAMENT IN RATIFYING THEIR BORDER TREATY. ADAMKUS ADDED THAT HIS VISIT TO MOSCOW, POSTPONED IN DECEMBER DUE TO YELTSIN'S POOR HEALTH AND THEN BECAUSE OF THE RUSSIAN ELECTIONS HAS NOT BEEN RESCHEDULED YET. RUSSIAN PRESIDENT PUTIN IS VERY DIFFICULT FOR THEM TO READ, SAID ADAMKUS. FINALLY, THE PRESIDENT STRESSED THAT LITHUANIA BELIEVES THAT AMERICA'S PRESENCE IN EUROPE IS CRUCIAL; HE REJECTED THE NOTION OF THE EU BUILDING UP A SEPARATE MILITARY CAPACITY IN COMPETITION WITH NATO.

FOREIGN MIN'4\BF0xHAT EU MEMBERSHIP MIGHT BECOME A SUBSTITUTE FOR NATO MEMBERSHIP. THE FM STARTED OUT BY SAYING THAT PUTIN WAS A MYSTERIOUS PERSON STILL AND THAT HE WAS MORE SUCCESSFUL IN THE PRESIDENTIAL ELECTIONS THAN THEY WOULD HAVE WISHED. AFTER ALL, SAID SAUDARGAS, PUTIN MANAGED TO BE ELECTED SAYING NOTHING ABOUT ANYTHING. THE FM NOTED THAT THE RUSSIANS STILL PUSH THE IDEA THAT FORMER SOVIET COUNTRIES CANNOT BE ACCEPTED INTO NATO, BUT THAT THE GOL BELIEVES THE DIFFERENCE BETWEEN POLAND AND LITHUANIA (IN GEOSTRATEGIC TERMS) IS PURELY ARTIFICIAL. FOR THAT REASON,

SAUDARGAS ASSERTED, IT IS ESPECIALLY IMPORTANT TO INCLUDE AT LEAST ONE BALTIC STATE IN THE NEXT ROUND OF NATO ENLARGEMENT SOON, IN ORDER TO MAKE THE BREAK AND PROVE THAT IT IS POSSIBLE. THE FM ALSO ASSURED ANDRUSYSZYN THAT GOL COMMITMENT TO NATO MEMBERSHIP HAS BEEN A WELL-ESTABLISHED PRINCIPLE OF LITHUANIAN POLICY FOR 10 YEARS AND WILL NOT CHANGE NO MATTER WHO IS ELECTED NEXT FALL.

5. (C) ON EU AND ESDI, THE FM SAID THAT THERE SEEMS TO BE A NEW EMPHASIS ON THE EU AS A SUBSTITUTE FOR NATO. SAUDARGAS SAID IT WAS DIFFICULT TO KNOW THE SOURCE -- INDIVIDUAL COUNTRIES SUCH AS THE UK, FRANCE, AND GERMANY ARE ALWAYS VERY POSITIVE WHEN TALKING TO THE GOL ABOUT NATO AND EU MEMBERSHIP -- BUT THAT THE GOL IS GETTING THE MESSAGE THAT EU MEMBERSHIP OFFERS SOME SORT OF REGIONAL SECURITY. SAUDARGAS SAID THAT HE HAD ASKED THE EU'S SOLANA DIRECTLY - - WHAT IS OUR (LITHUANIA'S) ROLE (IN ESDI)? THE GOL DOES NOT WANT TO CHOOSE BETWEEN NATO AND THE EU, BELIEVING
~~CONFIDENTIAL~~ SECTION 02 OF 03 VILNIUS 000900

EUR FOR DAS ANDRUSYSZYN

E.O. 12958: DECL: 4/6/2010

TAGS: PREL, NATO, ECON, LH, RS

SUBJECT: LITHUANIAN CONCERNS ABOUT NATO, ESDI, AND RUSSIA ARE THE DOMINANT THEMES OF EUR/DAS ANDRUSYSZYN'S VISIT

THAT IS A FALSE CHOICE, THE FM SAID. SAUDARGAS MENTIONED THAT HE WOULD BE IN NEW YORK ON APRIL 24 FOR THE NON-PROLIFERATION TREATY TALKS.

6. (C) ON WILLIAMS, THE FM SAID THAT IS WAS DEPLORABLE HOW THE ISSUE HAD BEEN MANIPULATED BY POLITICIANS, BUT THAT IT IS IMPORTANT TO REMEMBER THAT THE COUNTRY'S ECONOMIC STABILITY DEPENDS ON THE NEGOTIATIONS FOR A LONG-TERM OIL SUPPLY CONTRACT WITH LUKOIL/MOSCOW. HE NOTED THAT THE WILLIAMS CO. STILL NEEDS TO DO MUCH MORE TO IMPROVE ITS PUBLIC IMAGE.

MFA MEETINGS: THE GOL'S RELATIONS WITH KALININGRAD

7. (C) DAS ANDRUSZYN ROUNTABLE DISCUSSION AT THE LITHUANIAN MFA TOUCHED ON NATO INTEGRATION, HOLOCAUST ISSUES AND WAR CRIMINALS, AND LITHUANIA'S RELATIONS WITH ITS NEIGHBORS, PARTICULARLY KALININGRAD. THE DISCUSSION INCLUDED THE CHIEF OF THE SECOND (BILATERAL) DEPARTMENT A. TAURANTUS, TOGETHER WITH THE DIVISION CHIEFS FOR THE AMERICAS, NATO INTEGRATION AND CIS DIVISIONS.

8. (C) NATO INTEGRATION CHIEF RYTIS PALAUSKAS COMMENTED THAT THE GOL IS DOING MORE NOW TO WIN OVER THE BACKING OF EUROPEAN NATO MEMBERS. THE GOL IS FOCUSING ON WHAT THEY VIEWED AS SEVERAL KEY COUNTRIES (INCLUDING THE UK AND GERMANY) AND WOULD EXPAND THAT EFFORT TO OTHERS IN 2001. PALAUSKAS MENTIONED THE UPCOMING NATO CONFERENCE IN MAY IN VILNIUS AND EXPRESSED THEIR HOPE THAT DAS ANDRUSYSZYN WOULD BE ABLE TO ATTEND. NINE ASPIRANT COUNTRIES FOREIGN MINISTERS HAVE CONFIRMED. THE THREE NEW NATO MEMBERS' FM'S ARE ALSO EXPECTED TO ATTEND.

9. (C) CIS DIVISION CHIEF IGNATAVICIUS COMMENTED ON THE SPECIAL RELATIONSHIP LITHUANIA HAS WITH KALININGRAD AND PROGRAMS UNDERWAY, BILATERALLY AND WITH THE HELP OF THE USG, FOR COOPERATION AND DEVELOPMENT. EVEN THOUGH RUSSIAN PRESIDENTIAL ELECTIONS ARE OVER, LITHUANIA STILL IS WATCHING CLOSELY REGIONAL ELECTIONS FOR KALININGRAD'S GOVERNOR AND DUMA THIS YEAR. IGNATAVICIUS SAID THAT THOSE OFFICIALS ARE AT LEAST AS IMPORTANT AS THOSE IN MOSCOW FOR

LITHUANIAN'S BILATERAL RELATIONSHIP. HE NOTED THAT KALININGRAD IS AND WILL FOR THE FORESEEABLE FUTURE BE TIED TO MOSCOW. IGNATAVICIUS ADDED, HOWEVER, THAT WITH DETERIORATING SOCIO-ECONOMIC CONDITIONS AND KALININGRAD'S SPECIAL STATUS AS A FUTURE ENCLAVE SURROUNDED BY THE EU, THIS MAY CHANGE. THE YOUNGER GENERATION OF KALININGRAD'ERS SEEM MORE ORIENTED TO THE WEST. AS AN EXAMPLE STATISTICS SHOW THAT TWO THIRDS OF THEM HAVE NEVER EVEN BEEN TO RUSSIA PROPER, PREFERRING TO TRAVEL AND WORK IN POLAND AND EUROPE.

SEIMAS MEMBERS WORRIED ABOUT NMD, RUSSIA, BELARUS

10. (X) DURING A VERY FRIENDLY HOUR DISCUSSION, COMMITTEE MEMBERS EMPHASIZED THEIR STRONG SUPPORT FOR NATO MEMBERSHIP AND THE MAP PROCESS, AND NOTED THAT LITHUANIA TRIES TO BE VERY ACTIVE IN AS MANY PFP PROGRAMS AS POSSIBLE. SEVERAL MEMBERS EXPRESSED THEIR MISGIVINGS ABOUT THE NEW RUSSIAN PRESIDENT AND AGREED THAT RUSSIA IS GOING TO BE TOUGHER ON ALL THE BALTIC STATES IN THE COMING MONTHS. THE COMMITTEE CHAIRMAN KATKUS QUESTIONED WHETHER MISSILE DEFENSE ISSUES ~~WILL COMPLICATE NATO ENLARGEMENT AND IF THE BALTS WOULD BE SACRIFICED IN A DEAL WITH RUSSIA ON NMD.~~ AS IN EVERY OTHER MEETING WITH GOL OFFICIALS, THE MPS EXPRESSED CONCERN ABOUT ESDI AND EU INVOLVEMENT IN EUROPEAN SECURITY. THE LITHUANIANS SEE NATO AS THE ONLY POSSIBLE GUARANTOR OF EUROPEAN SECURITY AND WANT THE U.S. TO STAY FULLY ENGAGED. MORE THAN ONE MP STRESSED THAT A RUSSIAN-BELARUSAN MILITARY UNION IS A THREAT TO ITS NEIGHBORS. ONE NOTED THAT RUSSIA HAS SIMPLY MOVED ITS BORDER TO THE WEST AS A RESPONSE TO NATO ENLARGMENT. ANOTHER MP PLEADED FOR CONTINUED U.S. ATTENTION TO BELARUS AND FUNDING FOR PROGRAMS WHICH SUPPORT DEMOCRACY IN BELARUS.

DINNER WITH GOL OFFICIALS

11. (X) AT A DINNER WITH GOL OFFICIALS FROM THE FINANCE, DEFENSE, AND FOREIGN MINISTRIES AND THE SEIMAS DAS INFORMALLY DISCUSSED THE LITHUANIAN PARLIAMENTARY ELECTIONS, THE STRUGGLING LITHUANIAN ECONOMY, AND NATO MEMBERSHIP. THE GENERAL CONSENSUS AMONG THE LITHUANIANS WAS THAT THE RESULTS OF THE MARCH MUNICIPAL ELECTIONS, IN WHICH THE RULING CONSERVATIVE PARTY FINISHED THIRD, REFLECTED A MOVE TOWARD POPULISM BY THE ELECTORATE. PARTIES EXPLOITING THIS POPULIST SENTIMENT, ESPECIALLY STRONG IN THE RURAL AREAS, CAPITALIZED ON THE GENERAL DISSATISFACTION RESULTING FROM
~~C O N F I D E N T I A L~~ SECTION 03 OF 03 VILNIUS 000900

EUR FOR DAS ANDRUSYSZYN

E.O. 12958: DECL: 4/6/2010
TAGS: PREL, NATO, ECON, LH, RS
SUBJECT: LITHUANIAN CONCERNS ABOUT NATO, ESDI, AND RUSSIA ARE THE DOMINANT THEMES OF EUR/DAS ANDRUSYSZYN'S VISIT

THE 1999 ECONOMIC CRISIS. ON THE ECONOMY, MINISTER OF FINANCE DUDENAS NOTED THAT THE PRIMARY REASON FOR THE CRISIS WAS THE EFFECT OF THE RUSSIAN CRISIS. PREVIOUS GOVERNMENTS HAD NOT CORRECTLY EVALUATED THE IMPACT THE RUSSIAN CRISIS WOULD HAVE ON THE LITHUANIAN ECONOMY, WHICH WAS HEAVILY DEPENDENT ON TRADE WITH RUSSIA, AND FAILED TO PREPARE FOR IT. DUDENAS NOTED THAT THE AUSTERITY PROGRAMS OF THE KUBILIUS GOVERNMENT WERE WORKING, AND THAT WHILE THERE WAS NO ECONOMIC REVIVAL YET, THE ECONOMY WAS POSITIONED TO TAKE OFF. HOWEVER, IT WILL COME TOO LATE TO STOP VOTERS FROM EXPRESSING THEIR STRONG DISSATISFACTION.

BREAKFAST WITH WILLIAMS

12. (C) THE DAS HAD A VERY PRODUCTIVE MEETING WITH WILLIAMS INTERNATIONAL, DURING WHICH HE DISCUSSED THE CRUDE SUPPLY NEGOTIATIONS, FINANCING, AND ISSUES. WILLIAMS REPORTED THAT CRUDE SUPPLY NEGOTIATIONS WERE GOING SLOWLY, AND THAT LUKOIL WAS STALLING UNTIL AFTER THE FALL PARLIAMENTARY ELECTIONS BROUGHT A NEW GOVERNMENT WILLING TO GIVE LUKOIL AN EQUAL EQUITY AND MANAGEMENT STAKE IN THE REFINERY IN RETURN FOR A CRUDE OIL AGREEMENT. WILLIAMS STATED THAT NEGOTIATIONS WITH YUKOS FOR A CRUDE SUPPLY DEAL TRANSFERRING A 10% STAKE IN THE REFINERY WERE GOING WELL, BUT THAT LUKOIL'S POSITION AS RUSSIAN COUNTRY COORDINATOR THREATENED EVEN THIS SUPPLY. WILLIAMS ALSO NOTED THAT THE CURRENT IMPASSE ON FINANCING FOR THE REFINERY RENOVATION GAVE LUKOIL ADDITIONAL LEVERAGE OVER THE REFINERY. THE FINANCING IS ESSENTIAL FOR THE PROFITABILITY OF THE DEAL, BUT EBRD HAS INFORMALLY STATED THAT IT WILL NOT SUPPORT THE DEAL WITHOUT A LONG-TERM CRUDE SUPPLY AGREEMENT. LUKOIL KNOWS THIS, AND THUS BELIEVES THAT IT CAN FORCE WILLIAMS TO ACCEPT EQUAL EQUITY AND MANAGEMENT AS A CONDITION FOR A SUPPLY DEAL THAT WILL UNLOCK THE FINANCING. WILLIAMS REQUESTED USG INTERVENTION WITH THE IFIS AS A MEANS TO DE-LINK THE FINANCING FROM THE CRUDE SUPPLY DEAL. WILLIAMS ALSO RAISED PROBLEMS WITH THE GOL, SUCH AS SLOW ISSUANCE OF ENVIRONMENTAL PERMITS AND TITLE TO THE REFINERY LAND. THE DAS URGED WILLIAMS TO WORK THROUGH THESE ISSUES QUICKLY, AND SUGGESTED THAT WILLIAMS AND THE GOL WORK CLOSELY TO SOLVE THE SUPPLY AND FINANCING PROBLEMS. SMITH

Norland, Richard B. (EUR)

From: WHSR
Sent: Friday, March 31, 2000 11:25 AM
To: Blinken, Antony J. (EUR); Cables; Norland, Richard B. (EUR)
Subject: SCENESETTER FOR U/S LARSON VISIT TO LITHUANIA

ActionAddres: RUEHC/SECSTATE WASHDC PRIORITY 1560
Classification: UNCLASSIFIED
DateTime: 311507Z MAR 00
Distribution: SIT: Blinken NSC Norland
Identifier: M4372794
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RUEHRA/AMEMBASSY RIGA 1476
RUEHWR/AMEMBASSY WARSAW 2869
RUEHSM/AMEMBASSY STOCKHOLM 1459
RUCNNEI/NORTHERN EUROPEAN INITIATIVE COLLECTIVE
PAAUZYUW RUEHVLA0847 0911507-UUUU--RHEHAAX.

Line1: ZNR UUUUU ZZH
Line2: P 311507Z MAR 00
Line3: FM AMEMBASSY VILNIUS
Line4: AMEMBASSY VILNIUS
Originator: PRIORITY
Precedence: BLINKENA
Profiles: CABLES
NORLANDR

StationRoutingIndicator: RUEHVL
StationSerialNumber: 0847
TimeOfReceipt: 03/31/2000 11:26:27 ET

UNCLAS SECTION 01 OF 02 VILNIUS 000847

STATE FOR EB
WARSAW FOR PHILLIPS
STOCKHOLM FOR PILMANIS

E.O. 12958: N/A
TAGS: ECON PREL OTRA LH
SUBJECT: SCENESETTER FOR U/S LARSON VISIT TO LITHUANIA

1. SUMMARY: YOUR VISIT TO LITHUANIA COMES AT A KEY TIME, AS LITHUANIA SLOWLY BEGINS ITS RECOVERY FROM AN ECONOMIC CRISIS AND A YEAR OF POLITICAL TURMOIL. YOUR MESSAGE THROUGHOUT YOUR VISIT SHOULD BE TO CONGRATULATE THE KUBILIUS GOVERNMENT FOR ITS COMMITMENT TO ECONOMIC REFORM AND FINANCIAL AUSTERITY, AND ENCOURAGE IT TO CONTINUE ITS REFORM PROGRAM IN THE RUN-UP TO THE FALL PARLIAMENTARY ELECTIONS. THIS IS ESPECIALLY IMPORTANT SINCE KUBILIUS' CONSERVATIVE PARTY FINISHED A DISTANT THIRD IN THE RECENT MUNICIPAL ELECTIONS, AND IS UNDER PRESSURE TO ADOPT POPULIST MEASURES TO GET VOTES. OTHER IMPORTANT THEMES YOU SHOULD STRESS INCLUDE SUPPORT FOR LITHUANIA'S EARLY MEMBERSHIP IN NATO, EU, AND WTO; SUPPORT FOR THE WILLIAMS OIL DEAL AND LITHUANIA'S EFFORTS TO RESIST RUSSIAN OIL BLACKMAIL; AND ENCOURAGEMENT FOR INCREASED LITHUANIAN EFFORTS TO CONFRONT HOLOCAUST-RELATED ISSUES. END SUMMARY.

2. YOUR VISIT TO LITHUANIA WILL BE HIGHLIGHTED BY YOUR CO-CHAIRMANSHIP OF THE ECONOMIC BILATERAL WORKING GROUP (EBWG) MEETING, WHICH WILL FOCUS ON KEY MULTILATERAL, REGIONAL, AND BILATERAL ISSUES OF INTEREST TO THE UNITED STATES AND LITHUANIA. THE LITHUANIAN DELEGATION WILL BE LED BY VICE MINISTER OF FOREIGN AFFAIRS RIMKUNAS, WHO ALSO SERVES AS LITHUANIA'S WTO NEGOTIATOR. AN EXPERIENCED NEGOTIATOR, YOU CAN EXPECT RIMKUNAS TO ATTEMPT TO GATHER DEFINED COMMITMENTS FROM THE U.S.

DELEGATION ON KEY ISSUES SUCH AS WTO ACCESSION, DECOMMISSIONING FINANCING FOR IGNALINA NUCLEAR POWER PLANT (INPP) UNIT 1, AND ON REGIONAL ENERGY ISSUES. THE LITHUANIANS CONSIDER THE EBWG A KEY BILATERAL FORUM, AND HAVE SPENT CONSIDERABLE TIME PREPARING FOR THE TALKS. RIMKUNAS WOULD LIKE TO LEAVE THE TABLE WITH SOME REAL DELIVERABLES, AND YOU CAN EXPECT HIM TO MAKE A STRONG PITCH ON THE ABOVE ISSUES.

3. RIMKUNAS WILL PRESS FOR INCREASED FLEXIBILITY IN THE U.S. WTO ACCESSION POSITION, PARTICULARLY REGARDING AGRICULTURAL ISSUES. THE GOL BELIEVES THAT IT IS UNLIKELY ANY POTENTIAL CENTER/LEFT GOVERNMENT THAT COMES TO POWER AFTER THE FALL ELECTIONS WILL CONTINUE MOVEMENT ON WTO MEMBERSHIP, AND THEREFORE BELIEVES THE TIME IS NOW FOR WTO. THE GOL BELIEVES ITS POSITION IS REASONABLE GIVEN ITS LARGE (35%) AGRICULTURAL SECTOR, AND LOOKS TO THE U.S. TO BE MORE FLEXIBLE IN OUR CONSIDERATION OF THE LATEST GOL MANDATE. SPECIFICALLY, THE GOL WANTS U.S. ACCEPTANCE OF TIME-PHASED, AS OPPOSED TO IMMEDIATE, ELIMINATION OF AGRICULTURAL SUPPORT MEASURES.

4. ON INPP UNIT 1, THE GOL WILL SEEK U.S. COMMITMENT TO ASSIST WITH FUNDING FOR THE DECOMMISSIONING. THIS ISSUE IS PARTICULARLY TIMELY FOR THE GOL, AS IT HAS JUST SCHEDULED A DONORS' CONFERENCE FOR JUNE. AS WITH WTO, THE GOL BELIEVES THAT PROGRESS ON THIS ISSUE MAY FALTER AFTER THE ELECTION, AND WILL USE THIS POINT TO TRY TO LEVERAGE IMMEDIATE MANIFESTATIONS OF FINANCIAL DECOMMISSIONING ASSISTANCE IN ALL AREAS, INCLUDING SOCIAL PROGRAMS FOR THE ETHNIC-RUSSIAN POPULATION OF THE TOWN DEPENDENT ON INPP.

5. ALSO IN THE ENERGY SECTOR, THE GOL WILL SEEK U.S. SUPPORT FOR THE CREATION OF A COMMON BALTIC ENERGY MARKET. THIS ISSUE, ALONG WITH ENERGY SECTOR PRIVATIZATION, WAS RECENTLY HIGHLIGHTED DURING ENERGY SECRETARY RICHARDSON'S VISIT AND AT THE BALTIC ENERGY CONFERENCE HELD IN VILNIUS. THE GOL WILL LOOK FOR U.S. TECHNICAL ASSISTANCE AND ALSO FOR STRATEGIC PARTNERS WILLING TO ENTER THE BALTIC MARKET AS THE NATIONAL ASSETS ARE PRIVATIZED.

6. YOUR VISIT WILL ALSO INCLUDE MEETINGS WITH U.S. INVESTORS AND LITHUANIAN GOVERNMENT OFFICIALS. EACH OF THESE MEETINGS WILL GIVE YOU THE OPPORTUNITY TO ADVANCE U.S. INTERESTS AND SUPPORT CONTINUED MARKET REFORM WITHIN THE LITHUANIAN GOVERNMENT. YOUR DINNER WITH MAJOR U.S. INVESTORS WILL ALLOW YOU TO HEAR FIRST-HAND THE CHALLENGES OF DOING BUSINESS IN LITHUANIA, AND ALLOW YOU TO QUERY THE ATTENDING GOL OFFICIALS ON HOW REFORMS WILL BOTH BENEFIT U.S. BUSINESSES CURRENTLY IN LITHUANIA AND ATTRACT ADDITIONAL U.S. AND OTHER FOREIGN INVESTMENT.

7. YOUR MOST IMPORTANT PRIVATE SECTOR MEETING WILL BE WITH WILLIAMS INTERNATIONAL. WILLIAMS, WHICH TOOK A 33% SHARE AND MANAGEMENT CONTROL OF MAZEIKIU NAFTA (OIL REFINERY, PIPELINE, AND TERMINAL) COMPLEX IN A CONTROVERSIAL DEAL SIGNED LAST OCTOBER, HAS BEEN BLOCKED BY LUKOIL (THE RUSSIAN OIL SUPPLY COORDINATOR FOR UNCLAS SECTION 02 OF 02 VILNIUS 000847

STATE FOR EB
WARSAW FOR PHILLIPS
STOCKHOLM FOR PILMANIS

E.O. 12958: N/A
TAGS: ECON PREL OTRA LH
SUBJECT: SCENESETTER FOR U/S LARSON VISIT TO LITHUANIA

LITHUANIA) IN ITS ATTEMPT TO SECURE A LONG-TERM RUSSIAN CRUDE OIL SUPPLY FOR THE REFINERY. WITHOUT A LONG-TERM SUPPLY CONTRACT, EBRD AND OTHER LENDERS ARE UNWILLING TO PROVIDE THE FINANCING NECESSARY FOR THE RENOVATION OF THE REFINERY, WHICH IS AN ESSENTIAL PART OF WILLIAMS BUSINESS STRATEGY AND CRUCIAL FOR LITHUANIA'S ECONOMIC RECOVERY. WILLIAMS WILL PROVIDE UPDATED INFORMATION ON CRUDE OIL SUPPLY AND FINANCING NEGOTIATIONS. YOUR SUPPORT FOR USG INTERVENTION WITH EBRD IN FAVOR OF THE DEAL WILL HELP THIS STRATEGIC PROJECT MOVE FORWARD, AND MAY PROVIDE WILLIAMS THE FLEXIBILITY TO NEGOTIATE A CRUDE SUPPLY WITH RUSSIAN SUPPLIERS ON MARKET COMMERCIAL TERMS.

8. IN YOUR MEETING WITH THE PRIME MINISTER, YOU SHOULD PRAISE HIM FOR HIS DECISIVE LEADERSHIP AND HIS TOUGH FINANCIAL DECISIONS WHICH HAVE LED LITHUANIA FROM THE BRINK OF INSOLVENCY TO THE BEGINNING OF RECOVERY. YOU SHOULD ALSO PRAISE HIS SUPPORT FOR THE WILLIAMS DEAL, AND HIS RESOLVE IN RESISTING RUSSIAN EFFORTS TO GAIN CONTROL OF THE REFINERY THROUGH A CRUDE OIL BLOCKADE. YOU SHOULD ENCOURAGE HIM TO STAY THE COURSE ON THE ECONOMIC REFORMS, AND TO IMPLEMENT THE RECOMMENDATIONS OF THE "SUNSET" COMMISSION (DEALING WITH ELIMINATING GOVERNMENT BUREAUCRACY) AS SOON AS POSSIBLE. YOU MAY ALSO WISH TO ENCOURAGE HIM TO MOVE FORWARD ON PRIVATIZATION, PARTICULARLY IN THE ENERGY FIELD. IN THIS REGARD, YOU SHOULD EXPRESS SUPPORT FOR THE U.S. "POWERBRIDGE" PROJECT, WHICH WILL EXPORT LITHUANIAN POWER TO EUROPE. YOU CAN EXPECT KUBILIUS TO ASK FOR INCREASED U.S. SUPPORT FOR LITHUANIAN MEMBERSHIP IN NATO, EU, AND WTO.

9. FOREIGN MINISTER SAUDARGAS WILL HIGHLIGHT THE GOOD RELATIONS LITHUANIA HAS WITH THE U.S. AND OUR STRONG BILATERAL TIES. HE WILL ALSO STRESS U.S. SUPPORT FOR NATO, EU, AND WTO MEMBERSHIP, AND MAY PARTICULARLY HIGHLIGHT WTO (DEPENDING ON THE RESULTS OF THE EBWG). SAUDARGAS MAY ALSO COMMENT ON REGIONAL ISSUES, AND YOU SHOULD USE THIS OPPORTUNITY TO DRAW OUT HIS OPINION ON THE IMPACT PUTIN'S ELECTION WILL HAVE ON LITHUANIAN-RUSSIAN RELATIONS, AND ON RELATIONS WITH THE BALTIC NATIONS AS A REGION. YOU MAY ALSO WISH TO RAISE LITHUANIA'S EFFORTS TO CONFRONT ITS HOLOCAUST HISTORY, IN PARTICULAR THE WORK OF ITS HISTORICAL COMMISSION.

10. LITHUANIA'S GENERAL FINANCIAL SITUATION AND THE WILLIAMS FINANCING WILL BE THE MAJOR TOPICS OF YOUR DISCUSSIONS WITH THE MINISTER OF FINANCE. ON THE POSITIVE SIDE, THE GOL RECENTLY NEGOTIATED AN IMF STANDBY, AND EXPECT TO RECEIVE A WORLD BANK STRUCTURAL ADJUSTMENT LOAN THIS SUMMER. THIS, ALONG WITH THE AUSTERITY BUDGET AND DEMONSTRATED COMMITMENT OF THE GOL TO STICK TO IT, HAS LED TO LITHUANIA'S FINANCIAL RATING BEING CONFIRMED, AND ITS OUTLOOK BEING CHANGED TO "STABLE". ON THE NEGATIVE SIDE, REVENUE COLLECTION IS WELL SHORT OF EXPECTATIONS, AND (UNLESS THIS TREND REVERSES) THE GOL WILL COME UNDER SIGNIFICANT PRESSURE LATER IN THE YEAR TO INCREASE ITS BUDGET DEFICIT. THIS TREND COULD BE REVERSED IF THE REFINERY FINANCING CAME THROUGH, AS THE REFINERY PROVIDES APPROXIMATELY 10% OF GDP AND GOVERNMENT REVENUES. YOU SHOULD EXPRESS YOUR SUPPORT FOR THE MINISTER'S AUSTERITY BUDGET, FINANCIAL DISCIPLINE, AND SOLICIT HIS INPUT ON HOW THE USG CAN BEST ENGAGE THE EBRD AND OTHER LENDERS IN SUPPORT OF THE WILLIAMS DEAL.

SMITH

Norland, Richard B. (EUR)

From: WHSR
Sent: Wednesday, March 22, 2000 2:59 PM
To: Cables; Norland, Richard B. (EUR)
Subject: FORMER PRESIDENT'S VIEW OF WILLIAMS LUKOIL NEGOTIATIONS

ActionAddrees: RUEHC/SECSTATE WASHDC PRIORITY 1514
RUEADOC/USDOE WASHDC PRIORITY
Classification: ~~CONFIDENTIAL~~
DateTime: 221518Z MAR 00
Distribution: SIT: NSC Norland
Identifier: M4356122
InfoAddrees: RUEHMO/AMEMBASSY MOSCOW 1511
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Line2: ZNY CCCCC ZZH
Line3: P 221518Z MAR 00
Line4: FM AMEMBASSY VILNIUS
Originator: AMEMBASSY VILNIUS
Precedence: PRIORITY
Profiles: CABLES
NORLANDR
StationRoutingIndicator: RUEHVL
StationSerialNumber: 0746
TimeOfReceipt: 03/22/2000 14:59:33 ET

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PER E.O. 13526**
2016-0384-M (1.62)
KBH 6/23/2023

~~CONFIDENTIAL~~ SECTION 01 OF 02 VILNIUS 000746

STATE FOR S/NIS, S/NISC, EB/CBED, EUR/RUS, EB/ESC
DOE FOR SECRETARY RICHARDSON AND DAS FARIELLO

E.O. 12958: DECL: 3/21/10
TAGS: ECON, POL, LH
SUBJECT: FORMER PRESIDENT'S VIEW OF WILLIAMS LUKOIL

NEGOTIATIONS

1. CLASSIFIED BY AMBASSADOR KEITH C. SMITH,
REASONS 1.5 (B) AND (D).

2. SUMMARY ON MARCH 22, AMBASSADOR SMITH MET WITH FORMER PRESIDENT BRAZAUSKAS TO DISCUSS THE WILLIAMS LUKOIL NEGOTIATIONS FOR LONG TERM OIL SUPPLIES FOR THE MAZAIKU REFINERY. BRAZAUSKAS IS WELL CONNECTED WITH LUKOIL AND HAS ACTED ON THEIR BEHALF. BRAZAUSKAS COMMENTED THAT WILLIAMS APPEARS NAIVE IN THEIR NEGOTIATIONS AND THAT NO AGREEMENT WOULD BE REACHED. HE EXPLAINED THAT RUSSIAN OIL ENTERPRISES ARE GOVERNMENT CONTROLLED, THAT THE OIL EXPORT COORDINATOR IS A GOVERNMENT TOOL USED TO CONTROL FLOW AND PERHAPS LUKOIL WAS MERELY FOLLOWING INSTRUCTIONS. HE STATED THAT THE ENERGY COMMISSION HAD DECIDED NOT RPT NOT TO EXPORT OIL TO LITHUANIA. BRAZAUSKAS CONFIRMED THAT LUKOIL WANTED EQUAL EQUITY WITH WILLIAMS AND A SHARED MANAGEMENT POSITION IN THE REFINERY. THE AMBASSADOR EXPRESSED CONCERN THAT THE NEGOTIATIONS SEEM MORE AND MORE POLITICALLY MOTIVATED. PRESIDENT BRAZAUSKAS COMMENTED THAT THE RECENTLY APPROVED EBRD LOAN SEEMED TO BE A VOTE OF CONFIDENCE FOR LUKOIL. THE AMBASSADOR EXPLAINED THAT THE APPROVAL CAUSED A LENGTHY DEBATE, THAT THE LOAN CAME WITH TRANSPARENCY REQUIREMENTS AND THAT IT WAS HOPED THAT LUKOIL WOULD PROVE RUSSIAN FIRMS CAN RECOGNIZE WIN/WIN SITUATIONS AND NEGOTIATE ON PURELY ECONOMIC GROUNDS. END SUMMARY.

3. FORMER PRESIDENT BRAZAUSKAS STATED THAT HE WAS NOT

OPPOSED TO THE WILLIAMS COMPANY, WHICH HE BELIEVES, IS A SERIOUS INTERNATIONAL FIRM. HE DID EXPRESS CONCERN THAT PUBLIC COMMENTS BY WILLIAMS SEEM TO REFLECT WISHFUL THINKING RATHER THAN THE FACTS AS HE SEES THEM. BRAZAUSKAS BELIEVES THE SITUATION CONCERNING OIL SUPPLIES FOR MAZAIKU NAFTA ESPECIALLY AT CONCESSIONAIRE PRICES IS MORE COMPLEX THAN WILLIAMS ADMITS. BASED ON HIS UNDERSTANDING OF THE WILLIAMS BUSINESS PLAN WITHOUT A LONG TERM SUPPLY AGREEMENT WITH LUKOIL, WHICH BRAZAUSKAS BELIEVES WILLIAMS WILL NOT GET, WILLIAMS HAS NO FINANCIAL FUTURE IN LITHUANIA. HE BELIEVES THAT WILLIAMS IS BEING NAIVE TRYING TO REACH AN AGREEMENT FOR OIL AT PRICES EQUAL TO THOSE GRANTED TO BELARUS, AS ALL RUSSIA CONSIDERS BELARUS A DOMESTIC DESTINATION AND LITHUANIA A FOREIGN DESTINATION.

4. AMBASSADOR SMITH COMMENTED THAT IT WAS VERY DIFFICULT FOR WILLIAMS TO REACH A BUSINESS AGREEMENT WITH ANY RUSSIAN OIL SUPPLIER BECAUSE OF THE RUSSIA OIL EXPORT COORDINATOR SYSTEM. LUKOIL, AS THE COORDINATOR FOR EXPORTS TO LITHUANIA WITH A MONOPOLY POSITION CONTROLLING ALL EXPORTS, IS CAPABLE OF PREVENTING ANY AGREEMENT. PRESIDENT BRAZAUSKAS AGREED AND STATED THAT THE SYSTEM WILL NOT CHANGE. BRAZAUSKAS EXPLAINED THAT WHILE RUSSIAN OIL ENTERPRISES HAVE BEEN PARTIALLY PRIVATIZED, MAJORITY CONTROL IS STILL IN THE HANDS OF THE GOVERNMENT. THE COORDINATOR SYSTEM IS THE MEANS, THE TOOL THE GOVERNMENT USES TO CONTROL ALL OIL TRANSACTIONS. ALL OIL EXPORT QUOTAS ARE SET BY A TWENTY (20) MEMBER ENERGY COMMISSION THAT CONTROLS ALL FLOW AND SETS QUARTERLY QUOTAS FOR EVERY PIPELINE AND TERMINAL. BRAZAUSKAS STATED THAT THERE WOULD BE NO OIL FOR LITHUANIA AS IT HAS BEEN ELIMINATED FROM THE EXPORT QUOTA LIST.

5. AMBASSADOR SMITH STATED THAT OUR PERCEPTION WAS THE NEGOTIATIONS SEEM TO BE GETTING MORE POLITICALLY RATHER THAN ECONOMICALLY MOTIVATED. LUKOIL SEEMS TO HAVE CHANGED THEIR REQUIREMENTS FROM REQUIRING A CONTROLLING EQUITY POSITION TO REQUIRING AN EQUITY POSITION WITH A SHARED MANAGEMENT ROLE. BRAZAUSKAS STATED THAT HE IS WELL ACQUAINTED WITH LUKOIL'S ALEGPEROV AND MET WITH HIM AS RECENTLY AS LAST YEAR. BRAZAUSKAS' INTERPRETATION IS THAT LUKOIL NEVER WANTED A CONTROLLING EQUITY POSITION BUT THEY DO WANT EQUITY, PERHAPS AS MUCH AS THIRTY-THREE (33) PERCENT, WITH SHARED MANAGEMENT ALONG THE LINES THAT EXIST WITH OTHER WESTERN FIRMS SUCH AS IN KAZAKHSTAN. BRAZAUSKAS OPINED THAT THIS TYPE OF ARRANGEMENT WAS WORKING VERY WELL IN OTHER VENTURES INVOLVING LUKOIL AND RUSSIAN OIL FIRMS.

6. AMBASSADOR SMITH COMMENTED THAT SINCE THE LOSSES SUFFERED AS A RESULT OF THE 1998 CRISIS, INTERNATIONAL LENDERS ARE LEERY OF SHARED MANAGEMENT ARRANGEMENTS WHILE EQUITY POSITIONS ARE NOT A PROBLEM. LUKOIL APPEARS TO BE A GOOD COMPANY WITH GOOD PROSPECTS BUT IN THIS INSTANCE SEEMS TO BE ACTING WITH SHORT TERM POLITICAL MOTIVATIONS OF CONTROLLING OIL FLOW RATHER THAN WITH A LONG TERM ECONOMIC MOTIVATION OF SUSTAINED PROFITS. BRAZAUSKAS COMMENTED THAT PERHAPS LUKOIL IS SIMPLY BEING TOLD WHAT TO DO AS RUSSIA HAS BEEN AND

~~C O N F I D E N T I A L~~ SECTION 02 OF 02 VILNIUS 000746

STATE FOR S/NIS, S/NISC, EB/CBED, EUR/RUS, EB/ESC
DOE FOR SECRETARY RICHARDSON AND DAS FARIELLO

E.O. 12958: DECL: 3/21/10
TAGS: ECON, POL, LH
SUBJECT: FORMER PRESIDENT'S VIEW OF WILLIAMS LUKOIL

NEGOTIATIONS

REMAINS IRRITATED AT THE WAY LITHUANIA SHUT OUT RUSSIA FROM THE WHOLE WILLIAMS DEAL. BUT PRESIDENT BRAZAUSKAS COMMENTED THAT THE SAME INTERNATIONAL LENDERS (EBRD) PREVIOUSLY SET AGAINST LUKOIL SHARED MANAGEMENT HAVE NOW APPROVED A 250 MILLION DOLLAR CREDIT LINE FOR LUKOIL. AMBASSADOR SMITH ADVISED THAT THE LOAN WAS LINKED TO CERTAIN TRANSPARENCY REQUIREMENTS AND THAT AS YET NO MONEY HAD MOVED. HE ALSO EXPLAINED THAT THE APPROVAL OF THE LOAN PROVOKED LENGTHY DEBATE. THE US DECISION WAS TO TAKE A POLITICAL RISK AND APPROVE THE LOAN HOPING THAT LUKOIL WOULD TAKE A MORE ECONOMICALLY BASED POSITION IN NEGOTIATION WITH WILLIAMS AND LITHUANIA. THE AMBASSADOR COMMENTED THAT IN STRICTLY ECONOMIC TERMS A LONG TERM AGREEMENT COULD BE A WIN-WIN SITUATION FOR EVERYBODY. RUSSIA'S ABILITY TO RECOGNIZE THE WIN-WIN ASPECTS OF THIS DEAL IS BEING SEEN BY MANY AS A LITMUS TEST OF THE ABILITY TO NEGOTIATE AND DEAL WITH RUSSIAN FIRMS ON A STRICTLY ECONOMIC BASIS. PRESIDENT BRAZAUSKAS COMMENTED THAT ECONOMIC CONCERNS SHOULD BE PRIMARY.

7. COMMENT. PRESIDENT BRAZAUSKAS HAS VERY CLOSE TIES WITH ALEGPEROV AND OTHER RUSSIAN BUSINESS LEADERS. WE ARE CONFIDENT THAT THE ENTIRE CONVERSATION WILL BE REPORTED. END COMMENT
SMITH

2016-0384-M [1.63]

KBH 6/23/2023

Special Analysis

Russia's Lukoil Still Playing Hardball Over Lithuanian Oil Supplies 3.5(c)

The Russian oil giant Lukoil may be holding off until after Lithuania's Seimas (parliamentary) election this fall on a long-term deal to supply Lithuania's Mazeikiu Nafta (MN) oil refinery, Butinge terminal, and pipeline complex in hopes that a more favorable government will come to power in Vilnius.

□ In a late January meeting with the US firm that bought a 33-percent stake in MN last year, Lukoil renewed its demands for at least equal equity and management rights in MN and for deep discounts for MN's refined products—in some cases the price paid would be below the cost of refining—
1.4(c)

□ *At the same time, Lukoil may be positioning itself to forgo MN and concentrate instead on its recent refinery acquisitions in Bulgaria, Romania, and Ukraine if it realizes that it cannot get at least an equal share of MN.* 3.5(c)

Lukoil Has the Upper Hand

Lukoil's hardball tactics in negotiations with MN and the US oil firm probably are based on the Russian firm's perception that the much lower prices of Russian crude—compared to alternative suppliers—give it the upper hand.

□ MN has imported enough North Sea crude—more expensive than Russian crude—to operate the

refinery through monthend. Further delays in reaching a supply agreement, however, would force Vilnius to draw down its strategic fund to pay for MN's losses and would exacerbate Lithuania's already serious fiscal problems,
1.4(c)

□ Tax revenue from MN's refinery is drying up, threatening Lithuania's slow recovery from the Russian financial crisis 1.4(c)

MN accounts for about 10 percent of Lithuania's GDP.

□ MN officials recently said that lack of regular crude oil supplies for its refinery—which was idle for 56 days last year—accounts for one-third of its \$32.7 million loss last year. MN refined 4.56 million tons last year—one-third less than



Lukoil's Alekperov (top) collaborating with ex-Prime Minister Paksas (right) against the Kubilius (left) government? ©

Central & East European Update

17 March 2000

in 1998 and far short of its 12 million ton annual capacity—according to press reports [REDACTED] 3.5(c)

If Lukoil uses its political clout to disrupt oil deliveries to MN—even from other Russian suppliers beholden to it—political rather than commercial interests would probably be the primary motive.

- Prime Minister Kubilius last month [REDACTED] 1.4(c) [REDACTED] believed a deal was not likely because Lukoil— [REDACTED] 1.4(c) [REDACTED] [REDACTED]—was using the oil issue to drive his Conservative Party out of office.
- Paksas has been the most popular Lithuanian politician since he resigned last October after refusing to sign an agreement with the US oil firm. *He would be a likely prime ministerial candidate if his Liberal Union Party—currently ahead in the polls—wins a plurality.* [REDACTED] 3.5(c)

To date, the extent of Russian Government involvement in Lukoil's pressure on Vilnius remains unclear, but senior Russian officials at a minimum have provided tacit support for Lukoil's efforts to gain control of Lithuania's energy sector. The Russian Embassy has supported Lukoil's campaign to discredit the US firm since late 1997, and Moscow's new Ambassador to Lithuania spent the last year of his 22-year KGB/SVR career serving as liaison between the SVR and Lukoil. [REDACTED] 1.4(c)

Vilnius Weighing Options

Vilnius seems to realize that a long-term supply agreement with a Russian firm may be the most viable option economically, but it remains concerned that continued dependence will make it vulnerable to Russian pressure and to costly supply cutoffs, as occurred a few times last year. To help ease its vulnerability to Lukoil's tough negotiating tactics, the Lithuanian Government has decided to delegate a government representative to participate in talks between MN and Russian crude oil suppliers and has begun exploring alternative deals with other Russian firms.

- Officials from Yukos—Russia's second-largest oil company—and the US firm were scheduled to meet on March 17 to discuss a deal in which Yukos would provide firmer guarantees of crude oil supplies in exchange for a stake in MN, according to press reports.
- According to press reports, Lithuania wants 6 million tons of crude annually for 10 years and would consider selling at least a 10-percent stake to a Russian supplier. Press reports indicate Yukos is prepared to buy such a stake.
- Yukos last month supplied almost half of Russia's 60,000-barrel-per-day deliveries to Lithuania. [REDACTED] 1.4(c), 3.5(c)

Russia: Renewed Pressure on the Baltic States 3.5(c)

After a year of relative quiet, Russia has once again stepped up its criticism of Latvia's treatment of its ethnic Russian minority. This campaign—*which is probably aimed at weakening Riga's EU and NATO bids*—has dashed Baltic officials' hope that Acting President Putin would be more constructive toward them. Putin's tough tone may in part reflect Russian electoral politics, but *his actions—and those of other Russian officials—suggest there is little chance for near-term improvement in Russian-Baltic relations.*

- Putin last month sent a letter to the Latvian President warning that the late January conviction of an elderly Soviet-era veteran for war crimes could harm future Russian-Latvian relations, and Foreign Minister Ivanov has complained about the case to US, EU, and Council of Europe officials.

1.4(c)

- Dmitri Rogozin, the new leader of the Duma's influential Foreign Affairs Committee and founder of a group to protect ethnic Russians abroad, plans to submit to the Duma later this month bills on economic sanctions against Latvia and on providing aid to Latvia's Russian-speaking population.

3.5(c)

1.4(c), 3.5(c)

1.4(c), 1.4(d), 3.5(c)

SENSITIVE BUT UNCLASSIFIED

March 16, 2000

MEMORANDUM

FROM: EB/ESC/EPC - Russ Trowbridge

TO: The Files

SUBJECT: Update on Williams project in Lithuania

On March 15, I had a conference call with Randy Majors (Williams Project Manager for Lithuania) and Glenn Jackson (Williams Rep, Washington) to get an update on Williams' status in Lithuania.

Yukos:

Williams has been in discussions with Yukos for the past 18 months concerning their interest in acquiring a 10% equity in the refinery (Mazeikiu Nafta - MN). Yukos claims that if they obtain an equity position, Russian law guarantees their right to ship to the refinery. Williams has accepted this assertion at face without additional checking or analysis.

Majors described the Williams/Yukos discussions as straight forward with no hidden agenda, based on a profit motive. If the price is right, the two sides will probably cut a deal. Majors predicted the sides would reach agreement soon because Yukos is realistic and the gap between the bid/offer proposals is narrow at this point. Williams Intl President Bumgartner and MN President Hunkus will meet with Yukos Friday March 17 to see how close they are to an agreement.

A key part of the element would be that Lukoil provide 1.7 million tons of crude to the refinery annually, out of a total refining capacity of 16 million tons once the refinery is upgraded. While this is only about 10 percent of the refinery's total needs, Williams sees it has very significant because it would break the stranglehold that Lukoil has on shipments to Lithuania under the current coordination system.

Asked about the role of the GOL in the negotiations on an equity position for Yukos, Majors said the GOL was on board in principle and Williams was keeping the GOL fully in the loop. Williams would recommend to the GOL the terms it would like for Yuko's participation and Williams would be in the lead on negotiations. (Yukos equity position would be transferred from the GOL's ownership interest, but would

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reduce the maximum equity position that Williams could acquire in the future.)

Williams had told Lukoil about its intentions to negotiate an equity position with Yukos, and Lukoil voiced "no major objections."

Buying oil from Yukos

Majors said that Williams had been "playing it soft" in their overall business relationship with Yukos (i.e., no hardball tactics), which includes contracting for crude supplies in addition to the negotiations for an equity position.

However, Yukos was frustrated on the crude supply negotiations because Williams was playing them off against Sibneft as a supplier; and this was transparent.

Sibneft and the Butinge Terminal

I asked about the Sibneft contract that had just been announced. (See below.) Majors said the press item was accurate. He also noted that March for the first time Butinge had been offered more oil than it could handle.

A benchmark would be set in two weeks when Butinge would ship its one millionth ton of oil from the commencement of operations.

Sibneft To Export Crude Through Butinge

VILNIUS, Mar 14, 2000 -- (Reuters) Russian oil company Sibneft is planning to export some 75,000 metric tons of crude through Lithuania's Butinge oil terminal starting March 25, daily Lietuvos rytas reported on Tuesday.

Sibneft would be the third Russian oil company that will export crude through Butinge, a part of local Mazeikiu Nafta oil concern, one third owned and operated by U.S. Williams International, the newspaper said.

The land-based Butinges terminal with a floating buoy has an annual capacity to export annually eight million metric tons of crude and currently has agreements to handle some 4.8 million metric tons this year, the newspaper quoted unnamed sources as saying.

Relationship with Lukoil

The relationship with Lukoil remains problematic. A Sibneft source characterized as reliable told Majors that they had been warned off of doing business with Lithuania. (Majors said the warning had come from either Lukoil or the Ministry of Fuels and Energy -- he did not know which.)

Despite Lukoil's hardball tactics, Williams is attempting to maintain good relations with Lukoil based on the reality that Lukoil is the "big fish" in the region and the largest potential supplier for the refinery.

Williams' has attempted to make it clear within the region that their business plan does not include freezing out the Russians. As a result, they have taken several steps that have generated criticism against them in Lithuania including:

- a) signing an agreement to supply Lukoil's gas station network (Lukoil Baltica); and
- b) agreeing to resupply Kaliningrad with fuel.

Majors said there were a number of cries to apply tactics that Lukoil would have used -- cut off the gas stations and Kaliningrad. Russian Lithuanian press got flack.

Game plan is not to block out Russians. Should have just cut off stations.

Proposal for a New Russian Refinery in Latvia

I asked whether the report of a new Russian oil refinery in Latvia was a pressure tactic on Williams to cut a deal with Lukoil.

(Note: See press release below. MN is currently the only refinery in the Baltic States and furnishes all three markets.)

Majors said he had heard about the proposal several weeks ago. The number don't add up -- it made no sense for a small refinery (40,000 bpd) to attempt competing with MN (four or five times larger) on price terms. While he did not rule out the possibility that an investor might step forward, he noted that any competent investor would be well aware that he was probably writing off \$200 million.

4

Furthermore, nobody seems to be aware of this project. The Latvian Minister of the Economy said it was news to him, and a senior Williams contact in the Russian oil and gas federation (who should have know about it) said he was unaware of it.

Russian Oil Companies Consider Latvian Refinery, Interfax Says

Moscow, March 15 (Bloomberg) -- Russian oil companies are in talks with Latvian authorities over construction of a \$200 million refinery in Latvia, Russian news agency Interfax reported, citing Aivar Lemberg, the mayor of Ventspils without elaborating on the negotiations' participants. The refinery will have 2 million tons of oil processing capacity. The refinery's oil products would be marketed locally and in the Kaliningrad region in Russia, the agency said.

Norland, Richard B. (EUR)

From: WHSR
Sent: Tuesday, February 01, 2000 2:39 AM
To: Black, Steven K. (VP); Brody, Richard J. (VP); Brzezinski, Mark F. (RUE); Cables; Davidson, Leslie K. (VP); Duncan, John D. (INTECON/DOS); Elkind, Jonathan H. (RUE); Lee, Malcolm R. (NEC); Medish, Mark C. (RUE); Roberts, Michael W. (VP); Saunders, Richard M. (VP); Tedstrom, John E. (RUE); Weiss, Andrew S. (RUE)
Subject: LUKOIL VS. WILLIAMS: IDENTIFYING LEVERAGE

ActionAddrees: RUEHC/SECSTATE WASHDC IMMEDIATE 6641
Classification: ~~CONFIDENTIAL~~
Date Time: 010702Z FEB 00
Distribution: SIT: BLACK BRODY BRZEZINSKI NSC DAVIDSON DUNCAN ELKIND LEE MEDISH
ROBERTS SAUNDERS TEDSTROM WEISS
PRT: FUERTH

Identifier: M4270473
InfoAddrees: RUEHVL/AMEMBASSY VILNIUS 1855
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RUCPDOG/USDOC WASHDC
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Precedence: BLACKS
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StationSerialNumber: 2454
TimeOfReceipt: 02/01/2000 02:37:50 ET

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2014-0384-M (1.64)
KBH 6/23/2023

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E.O. 12958: DECL 01/31/10
TAGS: EPET, ENRG, RS, LH
SUBJECT: LUKOIL VS. WILLIAMS: IDENTIFYING LEVERAGE

REFS: A) VILNIUS 263 B) MOSCOW 524 C) 99 MOSCOW 31970

1. (U) CLASSIFIED BY MINISTER COUNSELOR FOR ECONOMIC AFFAIRS MICHAEL MATERA, REASONS 1.5 (B) AND (D).

2. (S) SUMMARY. THE LUKOIL-WILLIAMS MEETING REPORTED REF A IS WHOLLY IN CHARACTER WITH LUKOIL'S HARD-BALL NEGOTIATING STYLE. REGARDLESS OF LUKOIL'S MOTIVES, THE IMMEDIATE ISSUE

IS HOW TO HELP OVERCOME THE CURRENT IMPASSE. THE LEVERAGE AVAILABLE TO THE U.S. GOVERNMENT IS MODEST, AND AT THE END OF THE DAY, ENLIGHTENED SELF INTEREST WILL DICTATE THE TERMS OF ANY AGREEMENT BETWEEN THE TWO COMPANIES. GIVEN THE IMPORTANCE OF CEO-TO-CEO RELATIONS IN RUSSIAN BUSINESS CULTURE, IT WOULD BE BENEFICIAL IF WILLIAMS' BUMGARTNER WERE ABLE, IF POSSIBLE, TO KEEP TO THE SCHEDULED FEBRUARY 7 MEETING WITH LUKOIL PRESIDENT ALEKPEROV. THOUGH REITERATION OF U.S. INTEREST IN WILLIAMS' CASE MAY HELP FRAME GOR PERCEPTIONS, ULTIMATELY, THE GOR MUST BE PERSUADED THAT HIGH-LEVEL INTERVENTION IS IN RUSSIA'S INTEREST IF RESOLUTION IS TO COME FROM THAT QUARTER. WILLIAMS IS IN THE BEST POSITION TO MAKE THIS ARGUMENT TO THE GOR. WILLIAMS WILL NEED TO COME TO TERMS WITH LUKOIL DIRECTLY, RECOGNIZING THAT CONSTANT "RENEGOTIATION" IS LIKELY. END SUMMARY.

HARDBALL REDUX: CEO-CEO CONTACT KEY

3. (X) THE RETURN-TO-SQUARE-ONE POSITIONS ADVANCED BY LUKOIL NEGOTIATORS DESCRIBED IN REF A WOULD BE FAMILIAR TO MANY WESTERN VETERANS OF NEGOTIATIONS WITH RUSSIAN BUSINESS PARTNERS. LIKE MANY OTHER RUSSIAN COMPANIES, LUKOIL HAS IN OTHER NEGOTIATIONS IN THE PAST ADVANCED BLUSTERY, MAXIMALIST POSITIONS LONG AFTER THEY WERE BELIEVED TO HAVE BEEN DEAD AND BURIED. WHILE BUOYANT WORLD OIL PRICES MAY WELL HAVE CONTRIBUTED TO LUKOIL "FEELING ITS OATS," THE PATTERN OF THE COMPANY'S NEGOTIATIONS WITH WILLIAMS ALSO SUGGESTS A TACTICAL MOTIVE. THAT SAID, WE BELIEVE THAT IT WOULD BE IN WILLIAMS' INTEREST TO PURSUE THE PROPOSED FEBRUARY 7 MEETING WITH LUKOIL PRESIDENT ALEKPEROV. ONE OF THE UNIVERSAL FEATURES OF SUCCESSFUL RELATIONSHIPS BETWEEN U.S. COMPANIES AND RUSSIAN PARTNERS IS A WELL-ESTABLISHED CEO-TO-CEO RELATIONSHIP. THIS IS ESPECIALLY THE CASE WITH LUKOIL AND ALEKPEROV. IF GROUND RULES FOR THE MEETING ACCEPTABLE TO WILLIAMS CAN BE AGREED UPON (SETTING ASIDE THE DRAFT MOU, PERHAPS) SUCH A RELATIONSHIP-BUILDING OPPORTUNITY SHOULD NOT BE MISSED.

GOR LEVERAGE COULD HELP

4. (X) EMBASSY MOSCOW'S PAST EXPERIENCE WITH SIMILAR DISPUTES, INCLUDING A SPAT BETWEEN A U.S. OIL MAJOR AND LUKOIL THAT DRAGGED ON FOR ALMOST A YEAR, INDICATES THAT DIRECT LOBBYING OF HIGH LEVELS OF THE GOR BY THE U.S. COMPANY INVOLVED OFFERS THE BEST PROSPECT OF SUCCESS. WHILE GOVERNMENT-TO-GOVERNMENT CONTACT CAN HELP TO FRAME THE DEBATE, THE U.S. COMPANY INVOLVED IS IN THE BEST POSITION TO ARGUE ITS CASE EFFECTIVELY. SETTING ASIDE THE COMMERCIAL COMPONENT OF THE RELATIONSHIP, THE OPERATIVE ISSUE FOR WILLIAMS IS TO IDENTIFY RUSSIAN INTERESTS AT STAKE THAT WOULD MOTIVATE, OR EVEN COMPEL, THE GOR TO INTERVENE AS PEACEMAKER. OUR EXPERIENCE IN ANALOGOUS DISPUTES SUGGESTS THAT THE GOR MUST BE PERSUADED OF AT LEAST TWO THINGS: FIRST, THAT IT IS IN RUSSIA'S INTEREST TO RESOLVE THE DISPUTE BETWEEN LUKOIL AND WILLIAMS OVER MAZEIKIAI, AND SECOND, THAT DECISIVE INTERVENTION AT EXTREMELY HIGH LEVEL (READ PRIME MINISTER) IS CALLED FOR. APPEALS TO THE MINISTRY OF FUELS AND ENERGY ARE WASTED EFFORT.

BUT WHAT RUSSIAN INTERESTS AT STAKE?

5. (X) GIVEN CURRENT HIGH WORLD OIL PRICES AND LUKOIL'S ABILITY TO EXPORT CRUDE AT WILL VIA OTHER EXPORT TERMINALS, IT IS NOT IMMEDIATELY APPARENT WHAT RUSSIAN NATIONAL

INTERESTS WOULD BE SERVED BY THE GOR LEANING ON LUKOIL TO MAKE PEACE WITH WILLIAMS. UNLIKE IN OTHER CASES WHERE THE GOR DID INTERVENE AT PM LEVEL, SUCH AS IN THE CASE OF THE CASPIAN PIPELINE CONSORTIUM, WHERE THERE WAS A GOR EQUITY STAKE AND GEOPOLITICAL INTEREST IN OIL TRANSPORTATION VIA RUSSIA, RUSSIA'S INTEREST IN CRUDE OIL EXPORTS VIA LITHUANIA AND THE SUCCESS OF WILLIAMS' MAZEIKIAI INVESTMENT ARE LESS WELL DEFINED. APPEALS TO THE OBVIOUS RUSSIAN NATIONAL INTEREST IN PROMOTING ECONOMIC INTEGRATION WITH THE WEST VIA COOPERATION WITH LITHUANIA ARE ABSTRACT AND AFFECTED BY THE CHARGED RELATIONSHIP BETWEEN THE TWO COUNTRIES. SOME ROLE FOR LUKOIL THAT IS ACCEPTABLE TO WILLIAMS COULD CHANGE THIS PICTURE.

WILLIAMS AND THE GOR

6. (e) AGAINST THIS BACKGROUND, WE BELIEVE THAT IT IS INCUMBENT UPON WILLIAMS TO ENGAGE THE GOR AT THE HIGHEST LEVEL TO EXPLORE AREAS OF MUTUAL INTEREST RELATING TO THE MAZEIKIAI DEAL. WHETHER BY DESIGN OR DEFAULT, IN THE RUSSIAN VIEW, WILLIAMS HAS NOT YET ADEQUATELY ADDRESSED THE SPECIFIC INTERESTS OF MAZEIKIAI'S PAST PRINCIPAL SUPPLIER, OR OF LITHUANIA'S POWERFUL NEIGHBOR IN GENERAL. REGARDLESS OF WILLIAMS' FRUSTRATION WITH THE CURRENT SITUATION, REACHING A MODUS VIVENDI WITH RUSSIA MAY WELL NUMBER AMONG THE PRECONDITIONS FOR WILLIAMS' SUCCESS IN LITHUANIA. DESPITE CLAIMS THAT IT COULD OPERATE ECONOMICALLY USING NORTH SEA OR OTHER CRUDE, WILLIAMS' REPEAT RE-ENGAGEMENT OF VARIOUS POTENTIAL RUSSIAN SUPPLIERS AND ENTREATIES TO THE U.S. TO USE LEVERAGE ON LUKOIL TO MAKE TERMS SIGNALS TO RUSSIAN INTERLOCUTORS, AT LEAST, THAT WILLIAMS NEEDS THEM. DESPITE OUR REQUESTS, THE ABSENCE OF CONTACT WITH WILLIAMS EXECUTIVES DURING THEIR VISITS TO MOSCOW HAS MADE IT DIFFICULT FOR US TO IMPRESS UPON THEM THE NEED TO ESTABLISH CONTACTS AT THE HIGHEST LEVELS OF THE GOR. WILLIAMS MAY NOT BE OPERATING IN RUSSIA, BUT SUCH CONTACTS CAN BE DECISIVE.

THE U.S. ROLE AND THE PRACTICALLY OBTAINABLE

7. (e) U.S. LEVERAGE OVER THE GOR TO HELP PERSUADE LUKOIL TO AGREE TO TERMS ACCEPTABLE TO WILLIAMS IS LIMITED. REITERATION OF OUR HOPE THAT THE GOR WILL USE ITS GOOD OFFICES HAS RESULTED IN GOR REFERENCES TO ONGOING COMMERCIAL NEGOTIATIONS BETWEEN TWO COMPANIES WHICH THEY MUST RESOLVE THEMSELVES. BEYOND REPEATING THE MESSAGE THAT IT IS IN EVERYONE'S INTEREST TO RESOLVE THE IMPASSE BETWEEN LUKOIL AND WILLIAMS AND THEREBY SIGNALING OUR SUSTAINED INTEREST IN THE CASE, OUR OPTIONS ARE CIRCUMSCRIBED. WHILE WE CAN RAISE OBJECTIONS TO ABUSE BY LUKOIL OF ITS COORDINATOR POSITION FOR LITHUANIA, IT WOULD BE INADVISABLE FOR THE USG TO GO ON RECORD ENCOURAGING THE GOR TO EXPAND THE MARKET DISTORTING "COORDINATOR" PRACTICE, AS SOME HAVE SUGGESTED, AT THE SAME TIME THAT INTERNATIONAL FINANCIAL INSTITUTIONS ARE PRESSING RUSSIA TO IMPLEMENT FAIR AND TRANSPARENT PIPELINE ACCESS RULES. EXHORTING THE GOR TO ENSURE FREE AND FAIR ACCESS TO THE LITHUANIAN MARKET APPEARS TO BE A MORE CONSISTENT APPROACH, WITH ALBEIT, LIKELY MODEST IMPACT.

PRESIDENTIAL ELECTIONS LOOM

8. (e) IN ANY EVENT, IT IS HIGHLY UNLIKELY THAT THE GOR WILL UNDERTAKE ANY MAJOR POLICY INITIATIVES PRIOR TO THE MARCH 26 PRESIDENTIAL ELECTION. LUKOIL'S RECENT PURCHASE OF A MAJOR NEWSPAPER PRINTING HOUSE REFLECTS THE IMPORTANT ROLE

THAT LUKOIL AND OTHER ENERGY COMPANIES PLAY IN FINANCING AND INFLUENCING ELECTORAL CAMPAIGNS AS WELL AS SHAPING THEIR AFTERMATH. REGARDLESS OF THE OUTCOME OF THE ELECTIONS, IT IS HARD TO IMAGINE THAT LUKOIL WOULD NOT REMAIN WELL-POSITIONED AND INFLUENTIAL. WHILE LUKOIL'S CONTINUED INFLUENCE WILL CERTAINLY HAVE IMPLICATIONS FOR WILLIAMS, THE TACTICAL ISSUE IS TO RECOGNIZE THAT LITTLE PROGRESS IS LIKELY UNTIL AFTER THE ELECTION AND FORMATION OF A NEW GOVERNMENT. WILLIAMS SHOULD USE THE TIME TO MAKE PROGRESS WHERE MOVEMENT IS POSSIBLE, SPECIFICALLY IN CEMENTING TOP-LEVEL RELATIONS WITH LUKOIL AND OTHER RUSSIAN OIL COMPANIES.

COMMENT

9. (c) SEEN FROM MOSCOW, LUKOIL'S ANTICS REFLECT THE NO-HOLDS-BARRED APPROACH OF A RUSSIAN COMPANY THAT SEEMS TO BELIEVE THAT IT HAS NOTHING TO LOSE BY ASKING FOR THE STORE. IN THE ABSENCE OF IMMEDIATELY APPARENT REAL LEVERAGE, IT APPEARS THAT WILLIAMS HAS LITTLE CHOICE BUT TO PURSUE A TWO-TRACK APPROACH OF NEGOTIATING WITH LUKOIL AND EXPLORING AREAS OF COMMON INTEREST WITH THE GOR. U.S. IMPRECATIONS TO THE GOR TO HELP FOSTER GOOD RELATIONS BETWEEN THE COMPANIES APPEARS TO GENERATE LITTLE RESONANCE, THOUGH THE U.S. CAN CONTRIBUTE TO FRAMING THE DEBATE IN CONTACT WITH THE GOR. IN OUR VIEW, A SUCCESSFUL RELATIONSHIP BETWEEN WILLIAMS AND LUKOIL IS PREDICATED ON AT LEAST THREE COMPONENTS: CLOSE HIGH-LEVEL TIES BETWEEN LUKOIL AND WILLIAMS; HIGH-LEVEL ENGAGEMENT BY THE GOR IN SUPPORT OF A MAZEIKIAI DEAL IN RUSSIAN NATIONAL INTEREST AS EXPLAINED BY WILLIAMS, AND FINALLY, AN INCENTIVE FOR LUKOIL THAT IS ACCEPTABLE TO WILLIAMS. THOUGH INSPIRED, WILLIAMS' EFFORTS TO OUTMANEUVER LUKOIL BY FORGING ALLIANCES WITH OTHER RUSSIAN OIL COMPANIES SUCH AS YUKOS SEEM UNLIKELY TO SUCCEED, GIVEN LUKOIL'S DOMINANT ROLE IN THE RUSSIAN OIL SECTOR. END COMMENT.
COLLINS

Norland, Richard B. (EUR)

From: WHSR
Sent: Friday, January 28, 2000 9:44 AM
To: Black, Steven K. (VP); Brody, Richard J. (VP); Brzezinski, Mark F. (RUE); Cables; Davidson, Leslie K. (VP); Duncan, John D. (INTECON/DOS); Elkind, Jonathan H. (RUE); Lee, Malcolm R. (NEC); Medish, Mark C. (RUE); Tedstrom, John E. (RUE); Weiss, Andrew S. (RUE)
Subject: RUSSIA'S LUKOIL BACKS AWAY FROM DEAL - WITH WILLIAMS CLASSIFIED BY AMBASSADOR KEITH SMITH, REASONS 1.5 B AND D

ActionAddres: RUEHC/SECSTATE WASHDC 1289
Classification: ~~CONFIDENTIAL~~
DateTime: 281407Z JAN 00
Distribution: SIT: BLACK BRODY BRZEZINSKI NSC DAVIDSON DUNCAN ELKIND LEE MEDISH TEDSTROM WEISS
Identifier: M4265779
InfoAddres: RUEHMO/AMEMBASSY MOSCOW 1461
RUEHRA/AMEMBASSY RIGA 1386
RUEHTL/AMEMBASSY TALLINN 5119
RUEATRS/DEPT OF TREASURY WASHDC
RUEHBS/USEU BRUSSELS
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Line2: ZNY CCCCC ZZH
Line3: R 281407Z JAN 00
Line4: FM AMEMBASSY VILNIUS
Originator: AMEMBASSY VILNIUS
Precedence: ROUTINE
Profiles: BLACKS
BRODYR
BRZEZINM
CABLES
DAVIDSOL
DUNCANJ
ELKINDJ
LEEM
MEDISHM
TEDSTROJ
WEISSA
StationRoutingIndicator: RUEHVL
StationSerialNumber: 0263
TimeOfReceipt: 01/28/2000 09:42:54 ET

**DECLASSIFIED
PER E.O. 13526**

2016-0384-M (1.65)
KBH 6/23/2023

~~CONFIDENTIAL~~ SECTION 01 OF 02 VILNIUS 000263

DEPT FOR DS TALBOTT, EUR FOR AS GROSSMAN,
EB FOR DAS WAYNE

TREASURY FOR DAVID WRIGHT

E.O. 12958: DECL: 01/29/2010
TAGS: PREL, EPET, ENRG, EINV, LH
SUBJECT: RUSSIA'S LUKOIL BACKS AWAY FROM DEAL
- WITH WILLIAMS

CLASSIFIED BY AMBASSADOR KEITH SMITH, REASONS 1.5 B
AND D

1. (S) SUMMARY: LUKOIL AND WILLIAMS HAD A VERY UNPRODUCTIVE MEETING JANUARY 25-26 IN VIENNA. WILLIAMS HAD AGREED TO THE MEETING EXPECTING TO REACH A FINAL DEAL ON OIL SUPPLIES AND TO CONFIRM A FEBRUARY 7 DINNER BETWEEN LUKOIL PRESIDENT ALEKPEROV AND WILLIAMS PRESIDENT BUMGARNER. UNFORTUNATELY, WILLIAMS WAS GIVEN A DRAFT PROTOCOL BY LUKOIL THAT WOULD GIVE THE

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RUSSIAN COMPANY EQUAL EQUITY AND MANAGEMENT HOLD IN THE LITHUANIAN OIL INDUSTRY, A POSITION THAT LUKOIL HAD PREVIOUSLY BACKED AWAY FROM.

LUKOIL ALSO CONFIRMED THAT THEY INTENDED TO USE THEIR ROLE AS 'COORDINATOR' FOR ALL RUSSIAN OIL SHIPMENTS TO LITHUANIA TO PREVENT WILLIAMS FROM REACHING A LONG-TERM DEAL WITH OTHER RUSSIAN SUPPLIERS FOR ADEQUATE CRUDE DELIVERIES. LITHUANIA'S MINISTER OF ECONOMY ASKED FOR USG HELP IN SECURING MOSCOW'S AGREEMENT TO ASSIGN SEVERAL COORDINATORS FOR OIL SHIPMENTS TO LITHUANIA, SUCH AS NOW EXISTS WITH LATVIA. BOTH WILLIAMS AND THE GOL ARE DISAPPOINTED THAT LUKOIL IS BACK TO HARD-BALL NEGOTIATING TACTICS. THE MAJOR ISSUE NOW IS WHETHER LUKOIL WILL CARRY THROUGH WITH ITS THREATS BY BLOCKING NEWLY CONTRACTED SUPPLIES FROM YUKOS. END SUMMARY

2. (C) THE EMBASSY WAS GIVEN AN EXTENSIVE DE-BRIEF ON THE VIENNA MEETING AND WAS PROVIDED A COPY OF LUKOIL'S DRAFT MEMORANDUM OF UNDERSTANDING (COPIES SENT TO EB AND EUR). THE MEMORANDUM APPEARS TO SIGNAL A RETURN TO LUKOIL'S 1997-98 POSITION THAT IT SHOULD BE GIVEN AT LEAST EQUAL EQUITY AND MANAGEMENT RIGHTS TO THOSE GRANTED TO WILLIAMS, A POSITION STRONGLY OPPOSED BY THE LITHUANIAN GOVERNMENT, WILLIAMS AND CHASE MANHATTAN, WHICH HOLDS MOST OF THE REFINERY'S DEBT. IN ADDITION, LUKOIL DEMANDED DEEP DISCOUNTS FOR MAZEIKIAI NAFTA'S REFINED PRODUCTS, IN SOME CASES THE PRICE PAID WOULD BE BELOW THE COST OF REFINING; SIMILAR TO THE KIND OF DEAL THEY HAD IN THE PAST.

3. (C) RANDY MAJORS OF WILLIAMS STATED THAT AT THE VIENNA MEETING LUKOIL ADMITTED THAT THEIR OWN EXPORT CAPACITY WAS FULLY COMMITTED TO OTHER COUNTRIES. NEVERTHELESS, THEY COULD MAKE SURE THAT SUFFICIENT SUPPLIES OF OIL WOULD BE FORTHCOMING FROM OTHER RUSSIAN COMPANIES IF WILLIAMS SIGNED THE MEMORANDUM OF UNDERSTANDING AND IF WILLIAMS AGREED TO PAY LUKOIL A COMMISSION ON EACH BARREL SHIPPED TO LITHUANIA. WHEN WILLIAMS REJECTED THE TERMS OF THE MEMORANDUM AND ADDITIONAL ORAL DEMANDS, THE LUKOIL REPS REMARKED THAT THERE WAS NO BASIS FOR A FEBRUARY 7 MEETING BETWEEN THE TWO PRINCIPLES.

4. (C) ACCORDING TO WILLIAMS, THE VIENNA MEETING AND THE IDEA FOR A BUMGARNER/ALEKPEROV MEETING WAS THE BRAIN-CHILD OF FORMER MINISTER OF ECONOMICS MALDEIKAS, WHO RESIGNED IN PROTEST OVER THE WILLIAMS DEAL. (COMMENT: WITH MALDEIKIS TRYING TO ACT AS MIDDLE-MAN IT LOOKS MORE AND MORE LIKE HE WAS LOOKING OUT FOR LUKOIL'S, RATHER THAN LITHUANIA'S, INTERESTS DURING THE CONTENTIOUS NEGOTIATIONS. THERE HAVE BEEN RUMORS HERE THAT THE RUSSIANS 'HAVE SOMETHING ON HIM' AS A RESULT OF HIS 8 YEARS EDUCATIONAL BACKGROUND IN MOSCOW.)

5. (C) MAJORS REPORTS THAT LUKOIL'S OFFICIAL REP IN LITHUANIA, PALEICHIK, WAS VISIBLY UNCOMFORTABLE WITH THE RETURN BY HIS COMPANY TO A TOUGHER STANCE ON COOPERATION WITH WILLIAMS. PALEICHIK HAD EARLIER ASSURED WILLIAMS THAT THEY WERE CLOSE TO REACHING A LONG-TERM AGREEMENT WHICH WOULD PROTECT THE INTERESTS OF BOTH SIDES.

6. (C) AT A JANUARY 27 MEETING WITH ENERGY MINISTER EUGENIJUS MILAKNIS, ATTENDED BY THE AMBASSADOR, WILLIAMS AGREED TO GIVE THE MINISTER BY COB TODAY A MEMORANDUM WITH SEVERAL DRAFT SCENARIOS WHICH COVER POSSIBLE SALES OF EQUITY IN EXCHANGE FOR GUARANTEED

OIL SUPPLIES. THE MINISTER IS INTERESTED IN EXPLORING WITH YUKOS OR OTHER COMPANIES SOME WAY OF ESCAPING FROM LUKOIL'S 'STRANGLEHOLD' (HIS WORDS). THE MINISTER REMARKED THAT HE DID NOT HAVE MUCH CONFIDENCE
~~CONFIDENTIAL~~ SECTION 02 OF 02 VILNIUS 000263

DEPT FOR DS TALBOTT, EUR FOR AS GROSSMAN,
EB FOR DAS WAYNE

TREASURY FOR DAVID WRIGHT

E.O. 12958: DECL: 01/29/2010
TAGS: PREL, EPET, ENRG, EINV, LH
SUBJECT: RUSSIA'S LUKOIL BACKS AWAY FROM DEAL
- WITH WILLIAMS

IN HIS GOVERNMENT'S ABILITY TO CONVINCING MOSCOW TO ALLOW SEVERAL RUSSIAN COORDINATORS, SUCH AS EXISTS WITH LATVIA AND OTHER COUNTRIES. MILAKNIS ASKED THE AMBASSADOR WHETHER THE USG WOULD APPROACH RUSSIAN OFFICIALS FOR FLEXIBILITY ON THE COORDINATOR ISSUE. THE AMBASSADOR PROMISED TO REPORT HIS REQUEST TO WASHINGTON.

7. (S) COMMENT: THE EMBASSY BELIEVES THAT WILLIAMS HAS BEEN TOO NAIVE IN ITS DEALINGS WITH LUKOIL. IT APPEARS TO US THAT HIGHER INTERNATIONAL OIL PRICES COMBINED WITH POLITICAL SIGNALS FROM PEOPLE LIKE FORMER MINISTER MALDEKIS HAVE ONLY ENCOURAGED LUKOIL TO HARDEN ITS POSITION. WILLIAMS HAS NAIVELY ASSUMED THAT LUKOIL WILL BE MOTIVATED BY SHORT AND MEDIUM-TERM ECONOMIC INTERESTS TO REACH A DEAL WITH THEM. LUKOIL IS MORE INTERESTED IN LONG-TERM CONTROL OF LITHUANIA'S ENERGY SECTOR AND WILL WORK TO UNDERMINE WILLIAM'S ABILITY TO MAKE THIS EFFORT BY A U.S. STRATEGIC INVESTOR SUCCEED. END COMMENT.
SMITH

Norland, Richard B. (EUR)

From: Norland, Richard B. (EUR)
Sent: Friday, January 07, 2000 2:38 PM
To: Blinken, Antony J. (EUR)
Cc: @EUROPE - European Affairs
Subject: Lithuania [CONFIDENTIAL]

DECLASSIFIED
E.O. 13526, Sec. 3.5 (b)
White House Guidelines, September 11, 2006
By K&M NARA, Date 6/23/2023
2010-0384-17

Points for meeting with Stasys and Deputy Defense Minister Kilikauskas:

EU Accession

- Congratulations again on being invited to start accession talks with the EU -- President Clinton was pleased to write directly to President Adamkus last month to offer his own congratulations.

NATO

- As Ron Asmus told you yesterday, we remain firm in our "open door" policy on Baltic state membership in NATO.
- Of course, the final decision will be up to our successors.
- We commend you for your good work thus far on MAP and on economic and social components of becoming a viable NATO member.
- Strobe Talbott will be speaking in Tallinn on Jan. 24th and will reaffirm this message.

Williams Deal

*- R&B PR campaign against Williams.
- Lukoil & Williams negotiating deal - "Better Deal as posted".
Doesn't kill by making statements.*

- How concerned should we be about anti-American perceptions created by the Williams deal?
- What is your government's position on this -- frankly, it is a little worrisome to receive private assurances from some officials that they will support the deal, only to find that publicly they criticize American business practices. [note: we are talking about Keith Smith being told one thing by President Adamkus, only to have him say something completely different in public.]
- We are concerned about Russian pressure on Lithuania through the energy sector, and we are gathering more information in an effort to be supportive.

Nazi War Crimes

- I gather there's been a flap in the press over the past few days regarding Tom Lantos' meeting with the state prosecutor -- what's your sense of what happened?
- I understand the prosecutor or his representative may be coming to the U.S. soon to meet with people at Justice -- this would be helpful.
- I don't need to remind you how important it is for there to be continued progress in addressing the crimes of the past.

(Note: Cameron reports a rumor that Stasys is leaving this summer -- I might prod gently after the meeting, unless you want to.)

Norland, Richard B. (EUR)

From: WHSR
Sent: Friday, January 07, 2000 11:28 AM
To: Babbitt, James F. (VP); Blinken, Antony J. (EUR); Cables; Davidson, Leslie K. (VP); Feldman, Daniel F. (MULTI); Guarnieri, Valerie N. (MULTI); Mclean, Matthew K. (MULTI); Naplan, Steven J. (MULTI); Norland, Richard B. (EUR); Patten, Wendy L. (MULTI); Schwartz, Eric P. (MULTI); Stromseth, Jane E. (MULTI); Vaccaro, Jonathan M. (Matt) (MULTI)
Subject: LITHUANIAN PROSECUTOR'S REMARKS ON HOLOCAUST WAR CRIMINALS AND DOJ ASSISTANCE. CLASSIFIED BYAMB. KEITH C. SMITH, REASON 1.5

ActionAddres: SECSTATE WASHDC IMMEDIATE 1217
Classification: ~~CONFIDENTIAL~~
DateTime: 071234Z JAN 00
Distribution: SIT: BABBITT Blinken NSC Davidson FELDMAN GUARNIERI MCLEAN NAPLAN Norland PATTEN SCHWARTZ STROMSETH VACCARO
Identifier: M4235719
InfoAddres: ////
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Line4: FM AMEMBASSY VILNIUS
Originator: AMEMBASSY VILNIUS
Precedence: IMMEDIATE
Profiles: BABBITTJ
BLINKENA
CABLES
DAVIDSOL
FELDMAND
GUARNIEV
MCLEANM
NAPLANS
NORLANDR
PATTENW
SCHWARTE
STROMSEJ
VACCAROJ

StationRoutingIndicator: RUEHVL
StationSerialNumber: 0072
TimeOfReceipt: 01/07/2000 11:27:20 ET

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PER E.O. 13526**
2016-0324-M (1.44)
KBH 6/23/2023

~~CONFIDENTIAL~~ SECTION 01 OF 02 VILNIUS 000072

DEPT FOR EUR - RON ASMUS
DEPT FOR PA - JAMES RUBIN

E.O. 12958: DECL:01/07/10
TAGS: PHUM, PREL, LH, SNAR, CJAN
SUBJECT: LITHUANIAN PROSECUTOR'S REMARKS ON
HOLOCAUST WAR CRIMINALS AND DOJ ASSISTANCE.

CLASSIFIED BYAMB. KEITH C. SMITH, REASON 1.5

REF: A.) VILNIUS 00051 B.) VILNIUS 00050

1. (S) SUMMARY: EMBASSY BELIEVES THAT CONTROVERSY SURROUNDING PROSECUTOR GENERAL'S PRIVATE REMARKS TO CONGRESSMAN LANTOS HAVE RESULTED IN HEIGHTENED RECOGNITION THAT THE JUDICIAL PROCESS DIRECTED AGAINST NAZI-ERA WAR CRIMINALS SHOULD BE ACCELERATED. IN ADDITION THE PROSECUTOR GENERAL HAS ISSUED A PUBLIC STATEMENT STATING THAT DOJ ASSISTANCE HAS BEEN VERY HELPFUL TO HIS OFFICE AND HE HAS INVITED DOJ PERSONNEL TO COME TO LITHUANIA FOR SEVERAL MONTHS TO HELP DEVELOP PROSECUTABLE CASES. WE STRONGLY BELIEVE THAT

THE PRESS STATEMENT DRAFTED BY EUR STRIKES A PERFECT BALANCE BETWEEN THE NEED FOR U.S. TO PROMOTE FASTER ACTION ON THE PART OF THE LITHUANIA PROSECUTORS OFFICE AND THE DANGER OF FANNING UP THE LATEST ANTI-SEMITISM THAT IS STILL PRESENT IN MANY OF THE 50+ GENERATION. THE DRAFT STATEMENT WE HAVE SEEN FROM DOJ/OSI WOULD PLAY INTO THE HANDS OF THE NATIONALIST ELEMENTS AND PUT ON THE DEFENSIVE THOSE NATIONALIST ELEMENTS REPRESENTED BY THE PRESIDENT, PRIME MINISTER, JEWISH MEMBERS OF PARLIAMENT, AND THIS EMBASSY WHO VERY MUCH WANT TO SEE THESE HOLOCAUST-ERA KILLERS BROUGHT TO JUSTICE BEFORE THEY DIE. END SUMMARY

2. (S) THE EMBASSY HAS REPORTED EXTENSIVELY ON THE PUBLIC CONTROVERSY RESULTING FROM CONGRESSMAN LANTOS JANUARY 4TH MEETING WITH LITHUANIAN PROSECUTOR-GENERAL PEDNYCIA (SEE REFTEL A-B) AS A RESULT OF THE PROSECUTOR'S REMARKS THAT THE U.S. DEPARTMENT OF JUSTICE HAS FAILED TO RESPOND TO REQUESTS FOR INFORMATION, HE AND HIS OFFICE HAVE COME UNDER INTENSE CRITICISM FROM THE PRESIDENT'S OFFICE, THE PRIME MINISTER AND FOREIGN MINISTRY. THE PROSECUTOR HAS ISSUED SEVERAL STATEMENTS, EACH ONE MORE POSITIVE ABOUT THE HELP HIS OFFICE HAS RECEIVED FROM DOJ. THE PROSECUTOR AND HIS ASSISTANT CAME TO THE EMBASSY AND MET WITH THE AMBASSADOR. AT THE MEETING HE APOLOGIZED FOR LEAVING THE IMPRESSION WITH LANTOS THAT THE SLOW PACE OF INVESTIGATIONS IS A RESULT OF FOOT-DRAGGING BY DOJ. HE REITERATED HIS PUBLIC STATEMENT THAT DOJ'S ASSISTANCE HAS BEEN EXCELLENT AND THAT IT IS IMPORTANT TO THE EFFORT TO BRING HOLOCAUST-ERA WAR CRIMINALS TO JUSTICE. MORE SIGNIFICANTLY, HOWEVER, THE PROSECUTOR STATED PRIVATELY AND PUBLICLY THAT HE WOULD WELCOME DOJ'S SENDING AT LEAST TWO OFFICIALS TO LITHUANIA TO WORK FOR SEVERAL MONTHS SIDE-BY-SIDE WITH LITHUANIAN PROSECUTORS IN ORDER TO DEVELOP STRONG JUDICIAL CASES WHICH CAN BE MOVED MORE RAPIDLY TO TRIAL. HE REMARKED THAT HIS GOAL IS TO RECEIVE TECHNICAL ADVICE ON HOW TO PUT STRONG CASES TOGETHER AND TO DEMONSTRATE, THROUGH OPENNESS AND TRANSPARENCY, THE GOOD WILL OF HIS OFFICE.

3. (S) IT HAS TAKEN TOO LONG FOR THE PROSECUTOR'S OFFICE AND THE LITHUANIAN GOVERNMENT TO MOVE FORWARD WITH THE TRIALS OF SUSPECTED WAR CRIMINALS WHO HAVE RETURNED INVOLUNTARILY FROM THE U.S. THE SLOW PACE IS A RESULT OF WEAK POLITICAL COMMUNICATIONS, PARTICULARLY BY PAST GOVERNMENTS, INEXPERIENCE AND INEFFECTIVENESS BY THE PROSECUTOR'S OFFICE AND RESIDUAL ANTI-SEMITISM BY MANY IN OVER-50'S GENERATION. PRESIDENT ADAMKUS, HOWEVER, TOOK THE LEAD IN THE BALTICS IN ESTABLISHING A HISTORICAL COMMISSION TO EXAMINE AND REPORT ON NAZI-ERA AND SOVIET-ERA WAR CRIMES. THIS COMMISSION, WHICH CONTAINS SEVERAL MEMBERS FROM THE JEWISH COMMUNITY, IS NOW UP AND RUNNING, AND IT LOOKS LIKE IT WILL SOON HAVE A MEMBER FROM YAD VASHEM.

4. (S) WHILE ONLY PART OF THE PROBLEM, THE PROSECUTOR GENERAL IS FACED WITH THE LEGAL PROBLEM OF NOT BEING ABLE TO CONTINUE TRIALS OF SUSPECTED WAR CRIMINALS WHO ARE MEDICALLY-CERTIFIED AS BEING UNABLE TO STAND TRIAL PHYSICALLY. IN ALMOST ALL COUNTRIES, INCLUDING THE U.S., A TRIAL CANNOT PROCEED IF THE DEFENDANT IS DECLARED UNFIT MEDICALLY TO APPEAR IN COURT. THERE IS A BILL NOW WORKING ITS WAY THROUGH THE LITHUANIAN PARLIAMENT WHICH WOULD ALLOW FOR TRIAL IN ABSENTIA, PERHAPS THROUGH VIDEO CONFERENCING. ACCORDING TO THE HEAD OF THE PARLIAMENT'S HUMAN RIGHTS COMMITTEE, EMMANUELAS ZINGERIS, THE BILL STANDS A BETTER THAN 50/50 CHANCE OF APPROVAL--EVEN THOUGH THE COUNCIL OF EUROPE HAS REPEATEDLY INFORMALLY EXPRESSED ITS OPPOSITION TO THE BILL.

5. (S) COMMENT: THE EMBASSY BELIEVES CONGRESSMAN LANTOS WAS EXTREMELY SUCCESSFUL IN INCREASING GOVERNMENTAL AND PUBLIC AWARENESS OF THE NEED FOR LITHUANIANS TO CONFRONT THE DARK SIDE OF THEIR HISTORY-- THE PARTICIPATION OF SOME LITHUANIANS IN THE MURDER OF OVER 220,000 JEWS DURING THE WORLD WAR TWO . HIS WELL-RECEIVE SPEECH TO THE PARLIAMENT STRUCK JUST THE RIGHT BALANCE
~~CONFIDENTIAL~~ SECTION 02 OF 02 VILNIUS 000072

DEPT FOR EUR - RON ASMUS
DEPT FOR PA - JAMES RUBIN

E.O. 12958: DECL:01/07/10
TAGS: PHUM, PREL, LH, SNAR, CJAN
SUBJECT: LITHUANIAN PROSECUTOR'S REMARKS ON
HOLOCAUST WAR CRIMINALS AND DOJ ASSISTANCE.

IN ADMONISHING LITHUANIA FOR FOOT-DRAGGING, WHILE REMARKING THAT WE ALL, INCLUDING THE U.S., HAVE DARK CHAPTERS IN OUR HISTORY. THIS APPROACH TO THE WAR CRIMES ISSUE IS THE BEST WAY TO MOVE THE LITHUANIANS TO ACTION BEFORE THE SUSPECTS DIE OFF. AN OVERLY CRITICAL APPROACH BY THE U.S. WOULD CAUSE A STRONGLY NATIONALISTIC REACTION, PLAY INTO THE HANDS OF THE REMAINING ANTI-JEWISH ELEMENTS AND THOSE WHO WOULD WRAP THEMSELVES IN THE FLAG AND TIE "PRESSURE FROM THE U.S." TO THE STRONG PUBLIC OPPOSITION TO THE INVESTMENT BY THE WILLIAMS COMPANY. THEREFORE, WE BELIEVE THAT THE BALANCED DRAFT PUBLIC STATEMENT PREPARED BY THE DEPARTMENT ON JANUARY 6, SHOULD BE RELEASED AS IS. THE STRONGLY CRITICAL DRAFT PREPARED BY DOJ WOULD PLAY INTO THE HANDS OF THOSE OPPOSED TO DEALING WITH THIS SORRY CHAPTER IN LITHUANIA'S HISTORY.
SMITH

Norland, Richard B. (EUR)

From: WHSR
Sent: Friday, January 07, 2000 9:59 AM
To: Blinken, Antony J. (EUR); Cables; Davidson, Leslie K. (VP); Norland, Richard B. (EUR)
Subject: REP. LANTOS' VISIT TO LITHUANIA HAS POSITIVE IMPACT (U) CLASSIFIED BY POL/ECON CHIEF MARILYN ERESHEFSKY FOR

ActionAddrees: RUEHC/SECSTATE WASHDC IMMEDIATE 1221
RUEHVL/AMEMBASSY VILNIUS
Classification: ~~CONFIDENTIAL~~
DateTime: 071432Z JAN 00
Distribution: SIT: Blinken NSC Davidson Norland
Identifier: M4235536
InfoAddrees: RUEHRA/AMEMBASSY RIGA 1364
RUEHTL/AMEMBASSY TALLINN 5097
RUEHCP/AMEMBASSY COPENHAGEN 1571
Line1: OAACZYUW RUEHVA0074 0071432-CCCC--RHEHAAX.
Line2: ZNY CCCCC ZZH
Line3: O 071432Z JAN 00
Line4: FM AMEMBASSY VILNIUS
Originator: AMEMBASSY VILNIUS
Precedence: IMMEDIATE
Profiles: BLINKENA
CABLES
DAVIDSOL
NORLANDR
StationRoutingIndicator: RUEHVL
StationSerialNumber: 0074
TimeOfReceipt: 01/07/2000 09:58:26 ET

Tony -

**DECLASSIFIED
PER E.O. 13526
2016-0384-M (1.47)
KBH 4/23/2023**

~~CONFIDENTIAL~~ VILNIUS 000074

DEPT FOR EUR/NB DAMIAN LEADER AND DAS ASMUS
PLEASE PASS TO DOJ/OSI

E.O. 12958: DECL: 01/05/10

TAGS: KNAR, PGOV, PREL, CJAN, LH

SUBJECT: REP. LANTOS' VISIT TO LITHUANIA HAS POSITIVE IMPACT

(U) CLASSIFIED BY POL/ECON CHIEF MARILYN ERESHEFSKY FOR
REASON 1.5 B.

1. ~~(S)~~ SUMMARY: WITH THE EXCEPTION OF ONE MEETING WITH THE PROSECUTOR, CONGRESSMAN LANTOS ENJOYED A WARM RECEPTION FROM EVERY LITHUANIAN OFFICIAL HE MET, INCLUDING THE PRESIDENT, PRIME MINISTER, SPEAKER OF THE PARLIAMENT AND THE FOREIGN MINISTER. LANTOS GAVE A VERY WELL-RECEIVED SPEECH TO THE LITHUANIAN PARLIAMENT AND WAS GIVEN A STANDING OVATION BEFORE AND AFTER HE SPOKE. HE ALSO MET WITH MEMBERS OF THE PARLIAMENT'S COMMITTEES ON FOREIGN AFFAIRS, SECURITY, AND HUMAN RIGHTS, WITH MEMBERS OF THE LITHUANIAN HISTORICAL COMMISSION INTO NAZI AND SOVIET CRIMES, WITH THE LOCAL SOROS FOUNDATION HEAD, AND WITH JEWISH COMMUNITY LEADERS. REP. LANTOS' ADDRESS TO THE LITHUANIAN PARLIAMENT WAS ESPECIALLY EFFECTIVE AND PRESS COVERAGE OF THE LANTOS' SPEECH AND THE FILM WERE QUITE POSITIVE. AS LANTOS WAS ABLE TO SEE FOR HIMSELF, LITHUANIAN GOVERNMENT LEADERS ARE UNANIMOUS IN THEIR BELIEF THAT LITHUANIA MUST TAKE POSITIVE STEPS TO DEMONSTRATE THAT IT IS WILLING TO DEAL WITH ITS TERRIBLE HISTORY DURING THE NAZI ERA. THE LANTOS VISIT GAVE THEM A PLATFORM TO MAKE THAT POINT PRIVATELY AND PUBLICLY. END SUMMARY

?

2. ~~(S)~~ LANTOS' MESSAGE ABOUT THE NEED FOR LITHUANIA TO FACE

ITS PAST WAS SURPRISINGLY WELL-RECEIVED, PARTICULARLY IN THE PARLIAMENT. LANTOS SAID IN HIS SPEECH THAT ALL DEMOCRATIC COUNTRIES HAVE TO COME TO TERMS WITH THEIR "HYPOCRISY GAP," NOTING THAT THE U.S. HAD HAD TO FACE UP TO THE LEGACY OF SLAVERY. HE APPEALED TO THEIR SENSE OF PATRIOTISM AND SAID THAT THIS WAS A QUESTION OF THE HONOR OF LITHUANIA. LANTOS ALSO PLEDGED THAT HE WOULD BE LEADING SUPPORT IN THE CONGRESS FOR LITHUANIA'S MEMBERSHIP IN NATO -- THE LINE WHICH GARNERED THE MOST APPLAUSE FROM THE MEMBERS OF PARLIAMENT. SEIMAS MEMBERS HAVE TOLD US THAT THE SPEAKER LANDSBERGIS THOUGHT IT WAS ONE OF THE BEST SPEECHES EVER GIVEN IN THE PARLIAMENT AND THAT MPS ACROSS THE POLITICAL SPECTRUM THOUGHT IT WAS A GOOD SPEECH.

3. (S) THE PRESIDENT, PRIME MINISTER AND CHAIRMAN OF THE PARLIAMENT ALL ISSUED STATEMENTS EXPRESSING THE NEED FOR LITHUANIA TO DEAL WITH ITS PAST AND TO PROSECUTE THOSE ACCUSED OF CRIMES AGAINST HUMANITY. THE FILM ALSO RECEIVED POSITIVE NOTICE, INCLUDING ONE VERY FINE PIECE IN "LIETUVOS AIDAS" (E-MAILED TO EUR/NB SILSKI.) MANY LITHUANIANS COMMENTED THAT THE FILM SHOULD GET A WIDER SHOWING IN LITHUANIA AND THE EMBASSY IS TRYING TO ARRANGE A SCREENING ON LITHUANIAN TELEVISION. SINCE THE FILM FOCUSES ON EVENTS IN HUNGARY, LITHUANIAN VIEWERS WERE ABLE TO SEE THAT THERE IS A MUCH WIDER EUROPEAN CONTEXT FOR NAZI-ERA HORRORS -- THAT IT IS NOT JUST LITHUANIA OR LITHUANIANS WHO ARE BEING HELD RESPONSIBLE FOR SOME OF THE CRIMES COMMITTED.

4. (S) COMMENT: WITH ALL THE BROUHAHA ABOUT LANTOS' MEETING WITH THE PROSECUTOR THIS SHOULD NOT BE DISMISSED AS JUST SOME "ASIDE FROM THAT, MRS. LINCOLN HOW WAS THE PLAY" THINKING. LANTOS GOT HIS MESSAGE ACROSS IN A VERY EFFECTIVE, YET SENSITIVE MANNER. IT IS VERY GOOD FOR THIS SOCIETY TO HAVE ITS TOP LEADERS ALL DECLARE THE NEED FOR THE COUNTRY TO DEAL WITH ITS PAST. IT IS ALL THE MORE UNFORTUNATE THAT THE POSITIVE FEELINGS ACHIEVED BY REP. LANTOS' VISIT WERE SO OVERSHADOWED A DAY LATER BY THE PRESS AND ONE MEMBER OF PARLIAMENT TRYING TO SOW CONFLICT. EMBASSY BELIEVES THAT REP. LANTOS' PUBLIC REMARKS STRUCK JUST THE RIGHT CHORD AND WERE UNDERSTOOD BY POLITICIANS ACROSS THE POLITICAL SPECTRUM. THERE WILL BE NO INSTANTANEOUS RESULTS, HOWEVER. NO WAR CRIMINALS WILL BE PROSECUTED IMMEDIATELY. IF THE BILL IN PARLIAMENT TO ALLOW TRIALS IN ABSENTIA FOR THOSE ACCUSED OF CRIMES OF GENOCIDE PASSES -- PROBABLY SOME TIME IN MARCH -- THE PROSECUTORS WILL BE ABLE TO PROCEED QUICKLY ON TWO SUSPENDED TRIALS. AS EMBASSY HAS MADE CLEAR IN OTHER CABLES, HOWEVER, WE HAVE VERY LITTLE CONFIDENCE IN THE PROSECUTORS ABILITY TO ASSEMBLE AND ARGUE THEIR CASES, SO FURTHER RESULTS MAY STILL BE SLOW IN COMING. SMITH

Norland, Richard B. (EUR)

From: WHSR
Sent: Friday, January 07, 2000 9:59 AM
To: Blinken, Antony J. (EUR); Cables; Davidson, Leslie K. (VP); Norland, Richard B. (EUR)
Subject: REP. LANTOS' VISIT TO LITHUANIA HAS POSITIVE IMPACT (U) CLASSIFIED BY POL/ECON CHIEF MARILYN ERESHEFSKY FOR

ActionAddrees: RUEHC/SECSTATE WASHDC IMMEDIATE 1221
RUEHVL/AMEMBASSY VILNIUS
Classification: ~~CONFIDENTIAL~~
DateTime: 071432Z JAN 00
Distribution: SIT: Blinken NSC Davidson Norland
Identifier: M4235536
InfoAddrees: RUEHRA/AMEMBASSY RIGA 1364
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RUEHCP/AMEMBASSY COPENHAGEN 1571
OAACZYUW RUEHVLA0074 0071432-CCCC--RHEHAAX.
Line1: ZNY CCCCC ZZH
Line2: O 071432Z JAN 00
Line3: FM AMEMBASSY VILNIUS
Line4: AMEMBASSY VILNIUS
Originator: IMMEDIATE
Precedence: BLINKENA
Profiles: CABLES
DAVIDSOL
NORLANDR
StationRoutingIndicator: RUEHVL
StationSerialNumber: 0074
TimeOfReceipt: 01/07/2000 09:58:26 ET

**DECLASSIFIED
PER E.O. 13526**
2016-0384-M (1.68)
KBH 4/23/2023

~~CONFIDENTIAL~~ VILNIUS 000074

DEPT FOR EUR/NB DAMIAN LEADER AND DAS ASMUS
PLEASE PASS TO DOJ/OSI

E.O. 12958: DECL: 01/05/10

TAGS: KNAR, PGOV, PREL, CJAN, LH

SUBJECT: REP. LANTOS' VISIT TO LITHUANIA HAS POSITIVE IMPACT

(U) CLASSIFIED BY POL/ECON CHIEF MARILYN ERESHEFSKY FOR
REASON 1.5 B.

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CLINTON LIBRARY PHOTOCOPY

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Norland, Richard B. (EUR)

From: Norland, Richard B. (EUR)
Sent: Monday, January 03, 2000 5:15 PM
To: Norland, Richard B. (EUR); Elkind, Jonathan H. (RUE)
Cc: @NIS; @EUROPE - European Affairs
Subject: RE: lithuania and russia's energy realpolitik [CONFIDENTIAL]

Further to our exchange on this issue, I understand that the Baltic folks at State have been in touch with their Russia Desk counterparts to discuss a possible approach to the Russians. However, Embassy Moscow reportedly first wants to evaluate some new info, viz. that a Williams rep in Moscow told Jim Collins at a reception recently that everything was going fine. Embassy Moscow will reportedly also talk to people in the Petroleum Forum, before coming back to Washington with its reactions to the Vilnius cable.

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Wednesday, December 29, 1999 7:44 PM
To: Elkind, Jonathan H. (RUE)
Cc: @NIS; @EUROPE - European Affairs
Subject: RE: lithuania and russia's energy realpolitik [CONFIDENTIAL]

Jonathan, had a chance to take a look at this -- certainly seems persuasive, though I'll be curious if Embassy Moscow chooses to weigh in further in response. Ultimately, Lithuania was able to import oil from the North Sea -- which deprives Lukoil of a customer, hardly in Russia's long-term interest. But it may have cost the Lithuanians a lot more to buy the oil from the West. I'd be inclined to see whether Embassy Moscow couldn't do a little productive nudging on this issue -- at least to let some folks know we're watching and we care. Dick.

-----Original Message-----

From: Elkind, Jonathan H. (RUE)
Sent: Wednesday, December 29, 1999 11:30 AM
To: Norland, Richard B. (EUR)
Subject: FW: lithuania and russia's energy realpolitik [CONFIDENTIAL]

Dick:

Wasn't sure whether this was an item for you or for Nick. I guess it's you, eh?

Jon

-----Original Message-----

From: Elkind, Jonathan H. (RUE)
Sent: Wednesday, December 29, 1999 11:20 AM
To: Pascual, Carlos E. (RUE)
Cc: @NIS; Kass, Nicholas S. (EUR); Blinken, Antony J. (EUR)
Subject: lithuania and russia's energy realpolitik [CONFIDENTIAL]

Carlos and EUR colleagues:

Reading the attached cable (which builds on an interchange between Embassies Moscow and Vilnius), I cannot help but see parallels to the gas situation in Georgia. In this case, EmbVilnius previously asked Moscow to intervene and press the Russians not to (allow LUKOil to) turn the thumb screws on Lithuania. EmbMoscow replied, "no, this is just a commercial matter." Now EmbVilnius retraces the history of Russia's use of energy supply as an instrument of state power -- a persuasive argument for USG intervention.

In support of EmbMoscow's perspective is the question of where one would draw the boundary line on commercial versus political actions. Do we as the USG open ourselves to legitimate criticism from a sensitive Moscow if we press on the GOR politically over the actions of one of their commercial entities? Maybe.

On the other hand, Russian thuggishness toward newly independent neighbors (even if it is "only" in the form of a private entity attempting to use market intimidation) is something that I think we ought to mull before we let it slip past.

Reactions?

Jon

<< Message: OIL POLITICS AND THE STRATEGIC IMPORTANCE OF LITHUANIAN ENERGY SOVEREIGNTY >>

Norland, Richard B. (EUR)

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Cc: @NIS; @EUROPE - European Affairs
Subject: RE: lithuania and russia's energy realpolitik [CONFIDENTIAL]

DECLASSIFIED
PER E.O. 13526
2011-0384-M (1.70)
K8H 6/23/2023

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Subject: FW: lithuania and russia's energy realpolitik [CONFIDENTIAL]

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Message: 

OIL POLITICS AND THE STRATEGIC IMPORTANCE OF LITHUANIAN ENERGY SOVEREIGNTY >>

Lead:
→ wait for Emb Moscow response.
→ Collins spoke to Williams?
→ Petroleum Forum? (in Warsaw)
→ "all other" (?)

Norland, Richard B. (EUR)

From: Elkind, Jonathan H. (RUE)
Sent: Wednesday, December 29, 1999 2:16 PM
To: Norland, Richard B. (EUR)
Subject: RE: lithuania and russia's energy realpolitik [CONFIDENTIAL]

**DECLASSIFIED
PER E.O. 13526
2016-0384-M (1.71)
KBH 6/23/2023**

no urgency

-----Original Message-----

From: Norland, Richard B. (EUR)
Sent: Wednesday, December 29, 1999 11:45 AM
To: Elkind, Jonathan H. (RUE)
Subject: RE: lithuania and russia's energy realpolitik [CONFIDENTIAL]

It is me indeed, and I had pulled this item earlier but have not had a chance to think about it - let me get back to you later today. thanks. Dick.

-----Original Message-----

From: Elkind, Jonathan H. (RUE)
Sent: Wednesday, December 29, 1999 11:30 AM
To: Norland, Richard B. (EUR)
Subject: FW: lithuania and russia's energy realpolitik [CONFIDENTIAL]

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