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British Embassy
Tallinn

31 December 1995

The Rt Hon Malcolm Rifkind QC, MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

Sir,

ESTONIA: ANNUAL REVIEW FOR 1995

1. This has been a mixed but on the whole positive year for this small Baltic country. Neither the March General Election, the October government crisis, the December sacking of the defence chief, poor relations with Russia, nor rather too many scandals for comfort, did much to slow economic transition and a return to impressive growth. Despite having three successive Foreign Ministers, Estonia kept on its single-minded course towards integration with Western Europe, specifically the EU and NATO.

POLITICS

2. At the election, the free-market Fatherland party was ejected, mainly by the votes of disgruntled farmers and pensioners left behind by the transition. An unexpectedly lengthy period of horse-trading produced a three-party coalition linking Tiit Vähi's party with Arnold Rüütel's Farmers and Edgar Savisaar's Centrists, with Vähi as PM (for the second time). The inevitable foreign press articles about "former communists likely to slow reform" were belied by the way Vähi's government stuck to transition, even though the hectic privatisation programme slowed. Vähi is proud of having himself introduced the DM-linked kroon in 1992 - still the basis of this country's economic success - and he soon convinced me and others that he meant to keep Estonia on the same economic and foreign policy course. He resisted the pressure from his rural allies for protectionism and handouts.

3. But relations between him and the enigmatic Savisaar remained uneasy. A sudden crisis came up in October, when the press ran stories of illegal tapes, made on Savisaar's orders, of conversations between politicians dating back to the coalition negotiations. President Meri reacted by talking about 'our Watergate' and then sacking Savisaar (whom he distrusted).