

[REDACTED]

competitiveness has been maintained, inflation is down, and the strong privatisation impetus has been kept up, to the point where 60 - 70 % of the economy is in private hands. Next year the privatisation agency say they will tackle the natural monopolies (telecoms, energy, transport). A Foreign Investment Agency was set up, a lot of Swedish, German and Finnish investment money is coming in, and trade with Estonia's Nordic neighbours, especially Finland, is increasing very fast. Good earnings are made on the transit trade to Russia. World Bank and EBRD projects are under way, but the Estonians keep such borrowing to a minimum. A stock exchange is being created. Three big worries remain, though. Agricultural production is flat, and farmers are pressing for tariffs on imports. Secondly, economic crime is undoubtedly on the increase, with Estonia's proximity to St Petersburg - its natural market outlet - making it attractive to the mafia area. Thirdly, significant groups are getting left behind, notably those on fixed incomes, like pensioners. All this will play into the coming election campaign.

#### EXTERNAL: RUSSIAN-ESTONIAN RELATIONS

7. All through the first half of the year, the Estonians grappled with the Russians over removal of their last troops from Estonian soil. The negotiations were often bad-tempered, and seemed near collapse more than once. In the end it took a Moscow summit on 26 July between Yeltsin and Meri to reach a series of agreements. The remaining Russian troops would withdraw from Estonia on 31 August, though some concessions were made over residence rights for retired Russian officers. The terms of the agreements (officially agreed, it seems, only in Russian, not Estonian) caused a political furore when Meri's team returned to Tallinn. Neither the Estonian nor the Russian Parliaments have yet ratified the agreements. The Estonians, to Russian irritation, have been involved in a prolonged legal analysis, but the real reason for hesitation is that Parliament might well refuse to ratify them, especially as in October, the issue of over 1,300 alleged 'stay behind' Russian personnel had again caused an outcry here. But on the whole the atmosphere significantly lightened with the removal of the troops.

8. According to the parallel Moscow agreement on the nuclear reactors at the former naval training base at Paldiski, Russia will dismantle the reactors by 30 September 1995. During that period, Russia will keep 200 (non-uniformed) military there. Visitors are regularly taken by the Estonians to Paldiski to see the mess left by the Russians, but at least they removed the fuel rods safely in October.

9. There will always be some irritants. Autumn increases in Russian tariffs on Estonian food exports caused much resentment. There were sharp exchanges over the question of Estonian territorial claims (for two slivers of territory north and south of Lake Peipsi), especially when the Russians started unilaterally to demarcate the border in June. Tension rose again when Yeltsin visited the border near Pskov in November and swore not to surrender a 'centimetre' of land. The Estonians want the Russians to recognize the Tartu Treaty of 1920 as the basis of their independent

[REDACTED]