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FROM THE EDITOR

Dear Reader,

This is the first issue for 2016 and we expect to be able to publish the next issue in autumn-winter 2016.

The authors are both PhD students and established academics. The articles are a heterogeneous set and cover a number of fields in the humanities and social sciences such as economic history, management, economics, history and literature. In this issue we have articles by authors not only from Latvia, but also from Sweden and Lithuania.

We hope you enjoy this issue and are looking forward to the next issue.

Best wishes

Viesturs Pauls Karnups
General Editor

DIVERGING ROADS FROM THE SOVIET KOLKHOZ-MODEL: ESTONIA AND HUNGARY – INSIDE AND OUTSIDE THE SOVIET UNION¹

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Abstract

After World War II, the large-scale Soviet agricultural production model was spread into the satellite states of CEE (Central and Eastern Europe). In spite of this, planned economic agricultural production was far from homogenous. This diversity – appearing inside and outside the Soviet Union – is worthwhile exploring, here represented by two of the most (in relative terms) productive agricultural regions of the Soviet bloc. The authors thus compare the agricultural development from the 1940s up to the 1980s in Post-War Estonia; a Soviet Republic, and Hungary; a Soviet satellite state. The authors' methodology is commonly known as *encompassing comparison*. Estonia was forced to become an integral part of the Soviet Union and a planned economy already in 1940, while Hungary – in theory – was able to remain as an independent state. In both cases, however, trade was re-oriented towards the CMEA-market. After Stalin's death, and especially from the late 1950s, the eased conditions enabled states to deviate from the initial Stalinist model. Hungary did so in a more formal way because of the national political development after the Revolution of 1956 while Estonia had to find other informal ways of rejecting the centralised orders. The investigation shows that the Estonian kolkhozes and the Hungarian co-operatives, representing two forms of deviation from the Soviet kolkhoz model, were able to deviate by means of specific measures such as the personal impact from national politicians, as well as the neglect of centralised orders. The authors conclude that the main explanation for this was due to specific national institutional legacies, such as the landed property relations, work ethics, and market economy experiences. Both the formal and informal political resistance that was exercised provided motives for new thinking in agrarian organisation and management. This had long-term effects on Soviet agricultural policy from the mid-1960s.

Keywords: Socialist agriculture, Estonia, Hungary, Soviet Union, encompassing comparison

¹ The authors want to thank the Research Institute at Umeå School of Business and Economics (USBE), Umeå University, Sweden, for benevolent financial support, which have enabled this comparative study.

Introduction

After the nationalisation of land and the forced mergers of private farms starting in 1929, large-scale kolkhozes and sovkhoses became the major symbols of the planned economic agricultural production system in the Soviet Union. Due to the Post-War Soviet presence and influence on reconstruction in CEE (Central and Eastern Europe), this model was introduced by force during the late 1940s. In large, this implied that the Soviet pattern of the 1930s was repeated. Resistance to collectivisation, mismanagement, and insufficient mechanisation created shortages in production, as well as resentment among the peasant workforce. A strategic concession, leaving a piece of market incentive and decision-making in the hands of the kolkhoz peasants, was therefore the introduction of private plots, as it had been fixed in the Model Charter in 1935. In spite of this, specific national regulations were circumventing these plots; they became indispensable, yet ideologically questioned, within the planned economic food-production system.² Social discontent was increasing in the Eastern bloc from around 1970s, partly due to aggravated food access, which necessitated substantial and costly imports in the USSR and in CEE. However, the development among the Soviet satellite states or among various Soviet republics was far from homogenous.

The aim of this article is to explore two cases of the reorganisation and structure of agricultural production in two of the most (in relative terms) productive agricultural regions of the Soviet bloc. Estonia became an integral part of the USSR and Hungary was a satellite state in CEE. The relative success of Estonian and Hungarian agricultural development will be explored and compared in relation to the Soviet kolkhoz system. In this endeavour the authors will cover the events from World War II up to the period of economic and stagnation in the Soviet bloc during the 1970s and 80s, added to a historical background from the interwar period.

This article applies what is termed by Charles Tilly as *encompassing comparison*. Following his definition this “places different instances at various locations within the same system, on the way to explaining their characteristics as a function of their varying relationships to the system as a whole”.³ Here, the authors compare two cases within the system of the Soviet-type agriculture, implying two collectivised agrarian economies. These two cases – Estonia and Hungary – were at various locations: one within and one outside the Soviet Union. The first, essential dimension of

² See e.g. Järvesoo, Elmar (1974), “Private Enterprise in Soviet Estonian Agriculture”, *Journal of Baltic Studies*, Vol. 5, No. 3, p. 170-171. See also Medvedev Z. A. (1987), *Soviet Agriculture*, WW Norton & Company, New York London, pp. 361 & 387.

³ Tilly Charles (1984), *Big Structures, Large Processes, Huge Comparisons*. New York, Russell Sage Foundation, p. 83.

the comparison carried out is based on the exploration of their respective relation to the Soviet Kolkhoz-model as a whole. This provides a way to investigate the second dimension: the similarities and differences between the two cases of collectivised agriculture. The author's comparison thus goes from the descriptive level towards explanations of the diversity of the Post-War socialist agricultural development.⁴

At first, one may ask to what extent the Estonian and Hungarian cases are comparable? Estonia was annexed by the USSR in 1940 and became a formal Soviet Republic the same year. However because of the interlude of German occupation 1941-1944 a full-scale introduction of the Soviet model was postponed until after WW II. Hungary, which had sided with the losers in the WW II, fell under the Soviet sphere of influence as a result of the preliminary agreements between the Allied Powers. This was followed by the installation of a Moscow friendly government and the Sovietisation of political and economic life from the late 1940s. Both countries were thus subjugated to Soviet policies, planned economy, forced collectivisation, and the orientation towards the CMEA-market. The authors' long-term synchronic perspective will cover the processes of forced collectivisation, reorganisation of farm-work, and management. For the comparison, specific national institutional legacies, the role of informal political resistance, management, and the long-term effects on the Soviet agricultural policy will be considered. The article is based on the results of the authors' archival research, literature, and to some extent statements from respondents.

The first section of this article deals with the interwar property relations in Estonia and Hungary. In the next section the authors present the essence of the Stalinist system of agriculture and the export of the Stalinist model into Estonia and Hungary. In the third section the authors elucidate the main features of the deviation phase. As a means to enhance the comparison and analysis, a comparative matrix is presented with the conclusions at the end.

I. Before the Soviet system: interwar agriculture in Estonia and Hungary

Land reforms were carried out in many parts of Europe after World War I. Brassley (2010) suggests that in Europe in general, leaving the Soviet Union aside, the area under reform constituted close to 10 percent of the total

⁴ See more on definition and goals of comparison in the introduction part of the following volume: Haupt Heinz-Gerhard & Kocka Jürgen (2009), *Comparative and Transnational History. Central European Approaches and New Perspectives*. New York & Oxford, Berghen Books, pp. 2-5.

agricultural land. In East Central Europe, this figure was around 20 percent.⁵ The greatest land-redistributions took place in areas previously belonging to the Russian and Habsburg empires. Land reforms were thereby part of both the creation of new nations and the redrawn boundaries in already existing states. An Agrarian Reform Zone was developing from Finland in the north down to Greece in the south.⁶ Most of these land reforms took place in countries which fell under Soviet domination after World War II. The Estonian land reform 1919-1926 has been described as one of the most radical in Europe because of the scale of expropriation of lands belonging to the Baltic-German nobility, the church and the state. Only 3.5 percent of the land was left untouched and maintained in the hands of municipalities.⁷ While frequent land transfers took place in the northern Baltic provinces from the early 1900s, the Baltic-German nobility still constituted the major landowners at the time for independence. One major characteristic of the Estonian land reform was the emphasis on viability, which transformed the rural landscape into a structure based on independent peasant proprietors. Towards the late 1920s this had resulted in a farm structure where the average peasant proprietor cultivated 24 ha, a farm size aiming at feeding a family with two horses.⁸

Table 1 Farm-size distribution in Estonia 1939 (in percent and numbers)

Size	Percent of holdings	Share of land in percent	No of holdings
1–5 ha	15.8	12.7	22 051
5–10 ha	17.0	15.2	23 869
10–20 ha	28.8	27.3	40 288
20–30 ha	18.2	19.4	25 415
30–50 ha	15.5	17.4	21 704
50–100 ha	4.4	7.3	6 215
>100 ha	0.3	0.7	442
Total	100	100	139 984

Source: *Konjunktuur*, No. 64/65 1940, pp. 105-106 & 129.

⁵ Brassley Paul (2010), "Land reform and reallocation in interwar Europe" in: Rosa Congost & Rui Santos (eds.) *Contexts of Property in Europe. The Social Embeddedness of Property Rights in Land in Historical Perspective*. Turnhut, Brepols, pp. 150-151.

⁶ See, Roszkowski Wojciech (1995), *Land Reforms in East Central Europe after World War One*, Warsaw, Institute of Political Studies, Polish Academy of Science, p. 5.

⁷ Jörgensen Hans (2006), "The Inter-War Land Reforms in Estonia, Finland and Bulgaria: A Comparative Study", *Scandinavian Economic History Review*, Vol 54, No. 1, pp. 64 ff.

⁸ Köll Anu Mai (1994), *Peasants on the World Market. Agricultural Experiences of Independent Estonia 1919-1939*, Stockholm, Almqvist & Wiksell, p. 43.

A majority of the Estonian interwar farms cultivated between 10 and 50 ha. Taagepera (1972), comparing the farm-size distribution among fifty countries by means of Gini index, concluded that the Estonian farm-size distribution in 1929 was the most equal.⁹ Table 1 shows the farm-size distribution in 1939, i.e. right before Soviet annexation in 1940.

In the 1870s the Tsarist Baltic provinces responded to the demands from the expanding St Petersburg region. Land sales from the early 1900s led to increased peasant farming and meat and milk production underwent further expansion during the short interwar independence. The land reform also became part of counteracting the failed re-industrialisation policy of the 1920s when trade with the USSR was increased. A turn towards increased refinement and marketing of agricultural products followed when the expanding producers' co-operative associations, owned by the peasants and supported by the state, found new West European markets. In this context, the peasants became major actors.¹⁰

The conditions in interwar Hungary, previously part of the Austro-Hungarian Monarchy, were remarkably different after World War I (see Table 2). Revolutions and interventions brought the dualistic state into disintegration. As a consequence of the Trianon Peace Treaty in 1920, Hungary's territory, excluding Croatia, was reduced by two-thirds and its population by three-fifths.¹¹ The country was thereby transformed from a medium-sized European state into one of the continent's small nations where more than half of the working population was dependent on agriculture. However, part of the legacy was also an ill-proportioned land distribution dominated by large-scale estates. Consequently, large shares of peasants were either landless or cultivating insufficient dwarf-holdings.

The bourgeois revolution of 1918 had a land reform incorporated in their programme, but the law – declaring expropriation of estates over 290 hectares – was never enacted. However, the Hungarian Bolshevik Government, in place from 1919, saw the road to agricultural development differently. They applied the socialisation of large and medium estates (above 43 hectares) and created producer's co-operatives on these estates. The results from the two revolutions and the associated reform attempts

⁹ Taagepera Rein (1972), "Inequality Indices for Baltic Farm Size Distribution, 1929-1940", *Journal of Baltic Studies*, No. 3, pp. 26-28

¹⁰ These co-operative associations created a relatively competitive force, e.g. on the British butter market, up to the point when the severe decline in world market prices during the Interwar Depression took on, which hit all agrarian producers hard. See: Köll (1994), pp. 63-73. See also: Jörgensen Hans (1999), "Competition and Market: Swedish Views on Estonia's Agricultural Development and Butter Export 1918-1939", *Acta Historica Tallinnensia*, No. 3, pp. 116 ff.

¹¹ Romsics Ignác (1999), *Hungary in the Twentieth Century*. Budapest, Corvina & Osiris, p. 121.

on land distribution left bitterness and resentments among the peasantry. The conservative regime coming to power in 1920 implemented a land reform. Yet, it only concerned 8.5 percent of arable land (approximately 650 000 hectares), a proportion in fact smaller than the 27 and 16 percent redistribution that took place in contemporary Rumania and Czechoslovakia.¹²

**Table 2 Farm size distribution in Hungary 1935 (in percent and numbers)
transformed from cadastral yokes (1 cadastral yoke = 0.58 ha)**

Size	Percent of holdings	Share of land in percent	No of holdings
< 2.9 ha	72.5	10.1	1 184 783
2.9–5.8 ha	12.5	9.2	204 471
5.8–11.6 ha	8.8	12.6	144 186
11.6–29 ha	4.5	13.5	73 663
29–58 ha	0.9	6.5	15 240
58–116 ha	0.4	5.0	5 792
116–580 ha	0.3	13.2	5 202
580 <	0.1	29.9	1 070
Total	100	100	1 634 407

Source: Miklos Szuhay (1998), "Evolution of Hungarian Agriculture during the Inter-War Years (1918-1945)", in: Peter Gunst (ed.), *Hungarian Agrarian Society from the Emancipation of Serfs (1848) to the Re-privatization of Land (1998)*. New York, CUP, p. 192

Unfortunately, the Hungarian land reform left the predominance of large estates untouched. As Table 2 shows nearly half of the arable land was owned by a few dozen of aristocratic families, yet the proportion of non-aristocratic large estates was high. In contrast, roughly 20 percent of total arable land, representing four-fifths of all agricultural holdings, belonged to peasant's holdings below 5.8 ha. Thus, less than 1/3 of the agrarian population was able to support their families from the land. Around 70 percent of the farmers had little or no landed property at all, and consequently they were compelled to do wage labour. Rural poverty therefore increased since industry was unable to absorb the rural labour surplus.¹³

¹² Szuhay Miklós (1998), "Evolution of Hungarian Agriculture during the Inter-War Years (1918-1945)", in: Peter Gunst (ed.), *Hungarian Agrarian Society from the Emancipation of Serfs (1848) to the Re-privatization of Land (1998)*. New York, CUP, pp. 178-179.

¹³ Gunst Péter (2004), "Hungarian Agriculture between 1919 and 1945", in: János Estók (ed.), *History of Hungarian Agriculture and Rural Life, 1848-2004*. Budapest, Argumentum Publishing & Museum of Hungarian Agriculture, pp. 202-208.

II. The Stalinist model and its export into Estonia and Hungary

The essence of the Stalinist system¹⁴ of agriculture derives from the late 1920s, when the Communist Party within the context of “capitalist encirclement” made a decision to carry through industrialisation as rapidly as possible. This involved the issue of capital accumulation.¹⁵ As Stalin explained for the Central Committee plenum in July 1928, a rapid, state-generated industrialisation drive had to be based on the forced accumulation of internal, mainly peasants, resources for capital formation.

According to Stalin, the situation in the Soviet Union demanded that the peasantry not only paid taxes, direct and indirect to the state, but also relatively high prices for the input and industry goods needed. Secondly, they should not receive payments for the full value of the agricultural produce. This was an additional tax put on the peasantry in the interests of developing industry, which served the whole country, including the peasantry. This was seen as something like a “tribute” or a surtax which was necessary to extract temporarily in order to sustain and further develop the rate of industrial growth. Needless to say Stalin maintained that this situation was unpleasant. Stalin also meant that: “we would not be Bolsheviks if we curtailed this fact and neglected that our industry and our country, unfortunately, cannot manage growth without the additional taxes paid by the peasantry.”¹⁶

According to Viola (2013), the Bolsheviks did not aim for forced collectivisation as such immediately. Rather, the policy was based on the necessity to procure more grain for both feeding the urban proletariat, as well the export market in order to purchase industry goods and technology

¹⁴ When considering the issue of the existence of the ‘Soviet model’, we follow Nigel Swain’s interpretation that: until the death of Stalin the ‘Soviet model’ was a Stalinist model. However, after 1953 this model changed and became a ‘moving target’, a changing set of features, due to the Khrushchev reforms. Swain Nigel (2014), “Eastern European Collectivization Campaigns Compared 1945-1962”, in: Constantin Iordachi & Arnd Bauerkämper (eds.), *The Collectivization of Agriculture in Communist Eastern Europe: Comparison and Entanglements*. Budapest & New York, CEU Press, pp. 502-503.

¹⁵ It has been debated in the scholarly literature whether a capital transfer took place at all. One may correctly make the point that the net transfer was actually much less than expected. On balance, it appears from the very low level of farm incomes during the thirties that as much as possible was transferred out of agriculture. However, there were also considerable transfers in the opposite direction (e.g., industrial inputs, training of managers, high urban consumer food prices on the free, as distinct from the state-owned, markets, etc.). See: Merl Stephan (1990), “The role of agriculture in Soviet industrialization”, in: Karl-Eugen Wädekin (ed.), *Communist Agriculture – Farming in the Soviet Union and Eastern Europe*, London & New York, Routledge, pp. 3-22.

¹⁶ For the original text in Russian: See Stalin, J. V., *Sochineniia*, 13 vols. Moscow, 1946-1952, p. 160.

necessary for rapid industrialisation.¹⁷ With the increasing problems of grain procurements, the organisation of large-scale non-private agricultural production units, by means of collectivisation, seemed to be a possible way out.¹⁸

During the late 1920s and early 1930s, the peasants of the Soviet Union were however facing both forced deliveries plus collectivisation. Allen (2003) denoted this “Preobrazhensky in action”. The initiative from Preobrazhensky was adopted by Stalin, implying increased taxes on the peasantry. Towards the late 1930s, lower producer’s prices and increased turnover-taxes thus put heavy burdens on the collectives in order to provide capital resources for the Stalinist industrialisation.¹⁹

The *sovkhoz* sector, the state farms, were initially foremost organised for grain farming in the steppe regions suitable for technical crops such as sugar beet, and for specialised animal breeding. In numbers, however, the *sovkhozes* were comparatively few up to the late 1950s when they became significant for state procurements, because of specialisation and refinement. The *Sovkhoz* was based on state budget funding. Capital access was better, and *sovkhoz* labour was paid regular wages.²⁰ Because of state-ownership the *sovkhoz* expressed a higher form of social property than the *kolkhoz*, which was considered as “group property” – a lower level of socialisation.²¹

From the beginning of collectivisation, the *artel* was the model organisation for collective farming. Incrementally, the *artel* was denoted *kolkhoz* (from *kollektivnoe hozyaistvo*, i.e., collective enterprise).²² The structure of the *kolkhoz* was determined by a Model Charter adopted on 17 February 1935. This Charter became compulsory implying that each *kolkhoz* had to adopt its individual charter almost literally along the lines of the Model Charter which only allowed for minor variations related to regional or local conditions. Although the Model Charter was changed in executive practice

¹⁷ Viola Lynne (2014), “Collectivization in the Soviet Union: Specificity and Modalities,” in: Constantin Iordachi & Arnd Bauerkämper (eds.), *The Collectivization of Agriculture in Communist Eastern Europe: Comparison and Entanglements*. Budapest & New York, CEU Press, pp. 50-52.

¹⁸ Fitzpatrick Sheila: (1994), *Stalin’s Peasants: Resistance and Survival in the Russian Village after Collectivization*. New York & Oxford, OUP, pp. 103-151.

¹⁹ See Allen Robert. C. (2003), *Farm to Factory. A Reinterpretation of the Soviet Industrial Revolution*. Princeton & Oxford, Princeton University Press, pp. 173-175.

²⁰ Nove Alec (1975) *An Economic History of the U.S.S.R.* Hardmondsworth, Penguin Books, pp. 238-239.

²¹ Wädekin Karl-Eugen (1982), in: Everett M Jacobs (ed), *Agrarian Policies in Communist Europe – A critical introduction*, Allanheld, Osmun Publishers, New Jersey, p. 25.

²² Nove (1975), pp. 240-244.

during the 1950s and the 1960s, it remained formally valid up to 1969.²³ When land was turned into “governmental property of all the people” in 1917, all private land disappeared. Along with collectivisation the kolkhoz received the right of free permanent utilisation and the allotted plots for private use to the member households.²⁴ The regulations on private agricultural activities for members constituted an extensive and important part of the Charter. The private plots supplied to kolkhoz members were around 0.6 hectare per family, while kolkhoz workers in general only had half of the area at their disposal. The use of plots also included the right to keep livestock in sufficient numbers for the household’s own consumption and even for some sales on the free market.²⁵

During collectivisation all kolkhoz members were forced to hand over their machinery, tools, implements and draught animals to the kolkhoz. All work outside the household plots was carried out collectively, in brigades or in work groups. Each member had a fixed amount of work days to fulfil annually and they could only obtain a household plot under these condition. “Labour day units,” were both used for measuring various kinds of work, as well as a measure for evaluating the work accomplished which served as a basis for the remuneration system. (The income of each member had been determined by the number of work units accomplished.)

It was clear that the *kolkhoznik* (the kolkhoz peasant) did not receive a fixed wage. As a consequence of the so-called ‘remainder principle’ the members could only get their shares after fulfilling the financial obligations to the state and after contributing to the pooling of resources of production.²⁶ The ‘remainder principle’, thus, guaranteed the absolute priority of state interests. As a result, the incomes derived from the work on the kolkhoz were scarce and not fixed. This underprivileged position was not only concerning the low incomes. Since kolkhozes were barred from owning their own machinery, they were dependent on the services of the MTS (Machine Tractor Stations).²⁷ The MTS, which was the extended

²³ Davies Robert W. (1980), *The Soviet Collective Farm, 1929-1930*. London, Macmillan, pp. 1-14 & 56-67.

²⁴ Coming from the old Russian and Tsarist peasant law, the property rights of the kolkhoznik were vested with the household (in most cases identical with a family living together). The house and premises, animals, implements, and usage rights on the plot belonged to the household, not to individual persons.

²⁵ Wädekin Karl-Eugen (1973), in Karcz G (ed.), *The Private Sector in Soviet Agriculture*, Berkeley, Los Angeles, London, UCP, pp. 10. ff.

²⁶ The collective crop and animal output in kind was to be disposed of in the following way (by order of priority): state delivery obligations and seed loans, payments for work done by the MTS (cf. below), other contract obligations, seed and fodder funds for the next year’s production cycle. Davies (1980), pp. 69-71.

²⁷ Nove (1975), pp. 181-184.

arm of the state, both controlled and interfered with production and decision-making on the kolkhozes. For the MTS the main interest was to maximise output. During the 1950s the MTS became the major instrument for channelling grain deliveries to the state by means of payments in kind from the kolkhozes. Of no less importance was political control, which was exerted in association with the services carried out.

Forced collectivisation in Estonia

Estonia was forced to allow for the establishment of USSR military bases and troops in September 1939. In June 1940 the Red Army started with full occupation and a puppet government was installed, confirmed in office by the rigged parliament elections held on 14-15 July. The new parliament voted in favour for joining the USSR and become a formal Soviet republic. President Päts had to resign and by the end of July he was deported. On 6 August Moscow accepted “the Soviet dictated Estonian request” to become a Soviet republic.²⁸

Soviet annexation and control from June 1940 was matched with a land reform giving a maximum of 30 ha per farm unit together with a proportional reduction of animals, machinery and assets. Along came the deportations of more than 10 000 people, 13-14 June 1941, foremost concerning the urban elite.²⁹ However, the real Sovietisation of farming was not possible to carry out due to World War II and not least due to the German interlude of occupation (June 1941 to September 1944). The Germans however, did not alter much of the imposed Soviet policies since Estonia was used for feeding the troops.³⁰

According to Köll (2013), the German ambitions were to incorporate the Baltic territories as parts of the greater Germany and War planning. Beside land and agriculture, this also concerned the industries, banks and businesses that had been nationalised under the Soviet occupation. Initially the Nazi administration also supported peasants to take back and cultivate the land that had been transferred to new settlers under

²⁸ Taagepera Rein (1993), *Estonia – Return to Independence*, Westview Press, pp. 60-63, Quotation, p. 63. See also and Hiden John & Salmon Patrick (1994), *The Baltic nations and Europe. Estonia, Latvia and Lithuania in the 20th Century*, London, Longman, pp. 113-114.

²⁹ Misiunas Romuald J. & Taagepera Rein (1993), *The Baltic State: Years of Dependence 1940-1990*. Westview Press, Boulder Colorado, Westview Press, p. 42.

³⁰ The Germans meant that the war had started 22 June, when no private property existed. The Germans also regarded themselves as liberators – as the true judicial descendants to the Soviet Union in the Baltic States. They maintained that restitution was not of any priority. Re-privatisation could, however, be possible in the long run. See: “The German State takes over all property in the Baltic States”, *Svenska Dagbladet (SvD)*, 25 October, 1941.

the Soviet occupation 1940-1941. However, this did not strengthen ownership rights, even though some cases of privatisation appeared in 1943 to 1944 because of the German setbacks in warfare and the needs for support from the Baltic peasants.³¹

The campaigns against so-called speculators began already in 1940 aiming at punishing those who profited from the transition from the market economy to the ad-hoc command economy. These people – often just petty traders – were among the first to be deported only a few days before the German interlude began in 1941. When the Red Army returned in 1944 they continued with the land reform, persecution of German collaborators and deportations.³² Ten collective farms were formed between 1940 and 1941, but they were not reactivated after 1944 because of the lack of support. Thus, after the end of the War more emphasis was put on the land reform and expropriation shifted to serving the purpose of supplying land to Red Army veterans, the land-less, tiny farms, and to the increasing numbers of sovkhoses and newly established MTS. This transitional stage prepared for the later collectivisation.³³

The *kulaks* became a specifically targeted group for speeding up the transition towards collectivisation. In Estonia, the concept of a kulak or a kulak household was just as elastically interpreted as it was in other parts of the USSR in the early 1930s. Landowners, shop keepers, anyone with incomes from commercial activities or supporters of capitalist activities, could be deprived of their assets and become prosecuted. From the summer of 1947 increasing taxes, confiscation of assets, and propaganda were used for speeding up collectivisation. However, the process was slow and district executive committees were therefore obliged to set up so-called kulak lists in order to collect the increasing agricultural taxes which the local level was responsible for delivering. A variety of definitions of kulaks thus appeared when the orders were to be executed.³⁴ Kõll shows that in the County of Viljandi it was quite common for farm households that were accused of so-called kulak-status to make appeals at the district level, often supported by letters from neighbours and friends, despite the potential risk it meant. Letters of denunciations were in fact much less frequent, which Kõll interpreted as a sign of weak support for

³¹ Kõll Anu-Mai (2013), *The Village and the Class War – Anti-Kulak Campaign in Estonia*, Central University Press, Budapest-New York, 2013, pp. 9-10.

³² Mertelsmann Olaf & Rahi-Tamm Aigi (2009), “Soviet mass violence in Estonia revisited”, *Journal of Genocide Research*, 11(2-3), June-September, pp. 310-12.

³³ Raun Toivo U. (2001), *Estonia and the Estonians*, Hoover Institution Press, Stanford University, p. 177.

³⁴ Kõll (2013), p. 20-22.

the hunting of kulaks.³⁵ Initially the appeals also led to a large numbers of acquittals, but from the spring of 1948 things worsened. All the appeals and letters of support seemed to bring embarrassment for the party officials which led to the instructions that no official was allowed to write any letter in support of the accused.³⁶

The first Post-war kolkhoz in Estonia was founded in September 1947. Yet, up to 20 March 1949 only 8 percent of the farms had joined the kolkhozes on a 'voluntary' basis. Between 1947 and 1948 the estimated income tax rate for kulaks increased from 40 to 75 percent and for ordinary farmers it went from 30 to 35 percent. Still, collectivisation was met with reluctance, even though collectivisation was faster in districts with larger numbers of "kulaks" since higher taxes and confiscation deprived them the means for subsistence.³⁷

Collectivisation did not have any major breakthrough until the large-scale deportations began in March 1949. While many households labelled with kulak-status tried to avoid taxes and persecution by simply moving away, the smaller and poorer peasants were more stubborn.³⁸ In this context, the mass deportations of around 21 000 Estonians took place. It aimed at speeding up collectivisation, eliminating enemies to the state, and to reduce the resistance to Soviet policies.³⁹ As Taagepera (1980), wrote: "Farmers escaping deportation had little choice but to join the guerrillas, even if they had not supported them beforehand." The immediate outcome was a quick increase in numbers of collectivised farms.⁴⁰

Already by the end of 1949 collectivisation had reached 80 percent. However, in the south east parts collectivisation had only reached 30 percent by July 1950 because of guerrilla resistance. For the Estonian republic as a whole, only 8 percent of the individual farms remained in the end of 1950.⁴¹ By the summer of 1952 collectivisation was more or less completed. The total numbers of deportees from 1949 amounted to between 50 and 60 000 people – or eight to twelve percent of the population.⁴² Deportations and resistance created huge losses of

³⁵ Köll (2013), p. 91-92.

³⁶ *Ibid.*, p. 122.

³⁷ Misiunas & Taagepera (1993), pp. 96-99. For a more in-depth account, see Rein Taagepera, "Soviet Collectivization of Estonian Agriculture", *Journal of Baltic Studies*, Vol. X No. 3, 1979, pp. 263-81.

³⁸ Taagepera Rein (1980), "Soviet Collectivization of Estonian Agriculture: The Deportation Phase", *Soviet Studies*, Vol. 32, No. 3, pp. 379-80.

³⁹ Mertelsmann & Rahi-Tamm (2009), pp. 315-16.

⁴⁰ Taagepera (1980), pp. 386-87.

⁴¹ Misiunas & Taagepera (1993), pp. 102-103.

⁴² Raun (2001), p. 179.

human capital and the initial years of collectivisation led to declining agricultural output. Collectivisation of the Baltic peasantry was completed in the mid-1950s. The Estonian communist party, however, had less than 3000 members in 1949 and very few of these lived in the rural areas among the thousands of small kolkhozes. Locally elected kolkhoz chairmen were rare since party members were predestined for these positions and local communists were often “simple activists”.⁴³

Collectivisation campaigns in Hungary

After 1945 Hungary’s international situation and political manoeuvrability was decisively influenced by the fact that the country had sided with the losers in the war, and that it fell under the Soviet sphere of interest as the result of the preliminary agreements between the Allied Powers.⁴⁴ By 1949, all power was concentrated in the hands of the Hungarian Workers’ Party (HWP). On 3 March 1949 at the session of the Politburo the first secretary of the HWP, Mátyás Rákosi stated that, in the course of the first five-year plan (1950-1954), the transition was to be accomplished from small peasant farming to large-scale farming. According to the plans of the party leadership 60 percent of arable land was to be cultivated by co-operatives and 6 per cent by state farms, by 1954.⁴⁵

As things turned out, a major conflict would emerge between a socialist state, trying to push through collectivisation and private farmers committed to preserving their property rights. The reason that this conflict proved to be particularly sharp in Hungary, a country based on large estates in the interwar period, was that the land reform of 1945 had brought a radical change to the structure of landed property. As the large and middle-sized estates were redistributed, the number of small-holders grew significantly up to 1941. While almost 46 percent of the agricultural population belonged to the agrarian proletariat and 47 percent were small scale farmers prior to the land reform, the following land reform altered these proportions to 17 and 80 percent respectively.⁴⁶ The great

⁴³ Abrahams Ray & Kahk Juhan (1994), *Barons and Farmers. Continuity and Transformation in Rural Estonia (1816-1994)*, University of Gothenburg, Faculty of Arts, pp. 66-69.

⁴⁴ Romsics (1999), pp. 220-224.

⁴⁵ Magyar Nemzeti Levéltár Országos Levéltár [National Archives of Hungary, hereafter cited as MNL OL] M-KS 276. f. 53. cs. 22. ó.e. Jegyzőkönyv a Politikai Bizottság (PB) 1949. március 3-i üléséről. [Minutes of the PC of HWP] 3 March 1949. Agenda 2. Javaslat a mezőgazdaság öt éves tervére. [Proposition on the agricultural part of the first five-year plan].

⁴⁶ Szakács Sándor (1998), “From Land Reform to Collectivization (1945-1956)” in: Peter Gunst (ed.), *Hungarian Agrarian Society from the Emancipation of Serfs (1848) to the Re-privatization of Land (1998)*, New York, CUP, pp. 262-263.

mass of the newly created class of land-owning peasants had no intention whatsoever of giving up their land. This was not only due to land as a means to earn a living, but landed property also defined the family's local social status. In a similar fashion the Hungarians distrusted the transformation of the agricultural and consumer oriented co-operative associations into the uniform Soviet-style model. Prior to WW II there were approximately 4000 co-operative associations in Hungary.⁴⁷

By way of response to this situation the representatives of the governing leadership sought to set limits to commodity production, as well as to market relations; and they launched an attack on private property, especially landed property. The first victim of these violations was the wealthy 'kulak' stratum of the peasantry. A kulak was a person whose land reached or exceeded 14.25 hectares (ha), or whose net cadastral income reached or exceeded 350 gold crowns. In Hungary, the value of land was traditionally expressed in a conventional value unit, the "gold crown".⁴⁸ The measures used by the state in the campaign against the 'kulaks' included economic and administrative pressure, as well as the use of physical force, involving arrests, imprisonment and deportation to labour camps.⁴⁹

Although the strength of the wealthy peasantry was shattered as a result of the state's agrarian campaign, the broad mass of the peasantry could neither be forced nor persuaded to abandon individual farming. Only the landless and some of the poorest peasants showed any interest in collective farming. It was on the Great Plain, predominantly in Békés, Csongrád, Hajdú and Szolnok counties, that the first collective farms were formed.⁵⁰ The vast majority was reluctant to join the co-operatives voluntarily. What they had seen as POWs or heard about the Soviet kolkhoz-system that had emerged had created profound distrust. The work organisation, not even mention the remuneration system of the *kolkhoz*, seemed so strange and disadvantageous for the Hungarian peasants, even for the agricultural labourers, that if they could they resisted following these principles.

While it was predominantly the burdens on the 'kulak' farms that increased in 1951, the burdens imposed on all peasant farms rose

⁴⁷ Szakács Sándor (1998), "From Land Reform to Collectivization (1945-1956)" in: Peter Gunst (ed.), *Hungarian Agrarian Society from the Emancipation of Serfs (1848) to the Re-privatization of Land (1998)*, New York, CUP, p. 285.

⁴⁸ MNL OL M-KS 276. f. 54. cs. 14. ő. e. A Titkárság előterjesztése a 'kulák' meghatározására [Proposition of the Secretariat on the definition of the 'kulak'] 14 October 1948.

⁴⁹ Varga Zsuzsanna (2004), "Agrarian development from 1945 to the present day" in: János Estók (ed.), *History of Hungarian Agriculture and Rural Life, 1848-2004*. Budapest, Argumentum Publishing & Museum of Hungarian Agriculture, pp. 230-232.

⁵⁰ *Ibid.*, pp. 234-236.

dramatically from 1951-1952 on.⁵¹ The subjugation of village residents to arbitrary and coercive measures did not result in open resistance, but the negative consequences grew by leaps and bounds. Hundreds of thousands abandoned agricultural work, more and more land became left uncultivated, the total agricultural output declined, and so did the productivity of land. Thus while there was a catastrophic decline in private peasant farming, the newly established and continuously expanding co-operative farm sector was incapable of compensating for the shortfall in production. The quantity of agricultural production during the five-year plan – with the exception of the positive year 1951 – did not reach the levels of the last pre-war year, 1938. The production of bread grains, which was of crucial importance in public sustenance, showed similar tendencies. Animal stocks exceeded pre-war levels, by a few percentage points, for the first time in 1950.⁵² By the turn of 1952-1953 the situation in the agrarian sector had become threatening in its consequences for the whole of Hungarian society.

III. The phase of deviation from the Soviet model

Collectives and co-operatives: the first corrections after Stalin's death

During the first years after collectivisation in Estonia, kolkhoz peasants were paid much lower than the sovkhos workers. This was a general pattern in the USSR. Due to the low procurement prices paid by the state and the organisational form of kolkhozes, each kolkhoz member was paid an annual remuneration from the profits made from the surplus product in relation to the number of workdays carried out. In this sense the kolkhoz members were individually responsible for mistakes not only in management, but also in agricultural policy. The kolkhoz also paid income taxes prior to the distribution of incomes. In the sovkhos workers were paid differently. While they had access to a smaller private plot, they earned a fixed monthly wage for which there was also a tax-free minimum.⁵³ The sovkhos was in comparison to the kolkhoz given ideological priority

⁵¹ MNL OL M-KS 276. f. 53. cs. 83. ó. e. Jegyzőkönyv a PB 1951. szeptember 20-i üléséről. [Minutes of the PC of HWP] 20 September 1951. Agenda 1. A Mezőgazdasági és Szövetkezeti Osztály javaslata a termelőszövetkezeti gazdaságok megerősítésére [Proposition of the Agricultural and Co-operative Department on the strengthening of collective farms].

⁵² Pető Iván & Szakács Sándor (1985), *A hazai gazdaság négy évtizedének története 1945-1985. I. (Az újjáépítés és a terüvatisítás irányítás időszaka 1945-1968* [The History of Four Decades of Domestic Economy, 1945-1985. vol. 1, The Period of Rebuilding and Command Economic Planning, 1945-1968] Budapest, KJK, pp. 208-210.

⁵³ Wädekin (1982), p. 20.

since it represented a higher form of socialist ownership. The general kolkhoz households in Estonia therefore had to rely heavily on the sales of production from the larger plots for cash earnings up to 1958-1959. As a result, discontent was widespread and many chose to migrate from the countryside into the urban areas/cities.⁵⁴

A few months after the death of Stalin in 1953, and before Khrushchev formally became the supreme leader, some restrictions were eased. While this implied more opportunities for raising cattle on the plots, as well as less tax and delivery duties it also gave some ease to the previous Stalinist squeeze of agriculture.⁵⁵ In 1953, procurement prices paid by the state to the producers – both to *kolkhozes* and to private producers – were raised. By 1954 these prices had doubled in relation to 1952 and continued to do so up to 1959 when the average procurement price had trebled in relation to 1952. In 1959 the price indices for livestock products and potatoes (1952 = 100) had increased to 561 and 834 respectively. However in the early 1960s increasing retail prices also necessitated increasing subsidies for the urban consumers and there was a huge differentiation between the prices on kolkhoz markets and in the state retail stores.⁵⁶

In Hungary, the death of Stalin aroused expectations and lessened the danger of a violent explosion of resentment. The party and the leadership were called to Moscow between 13 and 16 June 1953, where they were informed of the necessary corrections.⁵⁷ Mátyás Rákosi was instructed to retain his position as the Party's secretary-general, but to relinquish his prime-ministership to Imre Nagy whose special field was agriculture. The "advice" received was to introduce partial corrections of Stalinist agrarian policies, however, the corrections were not fully in line with the national circumstances since Hungarian agriculture was not dominated by co-operatives, but by peasant farms. The subsequent directives of Nagy's government therefore significantly reduced the peasantry's tax burdens and compulsory deliveries. More importantly, it also allowed for peasants to leave the collectives, which led to a reduction of almost one-fifth of the existing co-operatives and membership had fallen from 376 000 to 126 000 by the end of 1953. In 1954, 20 000 additional members chose to leave. Simultaneously, 200 000 private farms were reactivated between

⁵⁴ Misiunas & Taagepera (1993), pp. 190-191.

⁵⁵ Wädekin (1982), pp. 14 & 25.

⁵⁶ Wädekin Karl-Eugen (1989), "Attempts and Problems of Reforming a Socialized Agriculture – Case of USSR", *Economic and Political Weekly*, Vol. 24. No 42, p. 2386.

⁵⁷ T. Varga György (1992), "Jegyzőkönyv a szovjet és a magyar párt- és állami vezetők tárgyalásairól" [Minutes of the negotiations between the Soviet and Hungarian party- and state leaders, 13-16. June 1953.] *Múltunk* [Our Past], Vol. 37, No. 2-3, pp. 239-241.

1953 and 1954.⁵⁸ All this meant that the Hungarian corrections and reforms went beyond what Moscow had anticipated. Moreover, a group of the party and state leadership, supporters of Imre Nagy began to work on a long-term development strategy for the Hungarian agriculture. On the one hand they wanted to reduce the squeeze on agriculture and on the other hand to give more room for Hungarian agricultural specialties and traditions instead of copying of the Stalinist model. Later on one can find these politicians and agrarian specialists at the core of the agrarian lobby.

Unfortunately, hardly two years had passed when, in the spring of 1955, Nagy was forced from office and Mátyás Rákosi regained power. Rákosi and his supporters quickly reverted to the pre-1953 policies. For the agrarian population this meant increased taxes and deliveries, as well as a start for a second collectivisation campaign in the autumn 1955. By the summer of 1956, this campaign had caused a severe crisis situation and the newly organised co-operatives began to disband spontaneously.⁵⁹ This constituted a mass rejection of collectivisation and created a chaotic situation in the countryside.

The Kádár-regime, which had come to power by means of Soviet military aid and the suppression of the uprisings and Revolution of 1956, was however compelled to make radical changes in the agrarian policy. Because of the crisis Kádár's regime needed to make up for lacking political legitimacy by means of increased living standards, which for a long time would need to be dependent on increased food supplies. In order to settle things between the party-state and the agrarian population, the severe tensions generated by the previous agrarian policy therefore had to be eased.⁶⁰ The most significant measure was the abolition of compulsory deliveries, which meant a sharp break with the Stalinist model of agriculture since it removed one of the pillars of planned economic agriculture. Hungary was among the first of the socialist countries to carry out this measure.⁶¹

As the Hungarian peasants were no longer obliged to deliver, the state had to offer a more realistic price and to establish commercial relations with the all agricultural producers, and to provide incentives for

⁵⁸ Pető & Szakács (1985), p. 257.

⁵⁹ Ö. Kovács József (2014), "The Forced Collectivization of Agriculture in Hungary, 1948-1961" in: Constantin Iordachi & Arnd Bauerkämper (eds.), *The Collectivization of Agriculture in Communist Eastern Europe: Comparison and Entanglements*. Budapest & New York, CEU Press, pp. 220-221.

⁶⁰ Varga Zsuzsanna (2007), "The Impact of 1956 on the Relationship between the Kádár Regime and the peasantry, 1956-1966", *Hungarian Studies Review*, Vol. XXXIV, Nos. 1-2. 2007, pp. 155-176. http://epa.oszk.hu/00000/00010/00041/pdf/HSR_2007_1-2_155-176.pdf.

⁶¹ Wädekin (1982), p. 65.

sales of the produce. In 1957, procurement prices paid by the state to the producers – both to co-operatives and to private producers – were raised. In 1957 the average procurement price indices (1955 = 100) had increased to 140.⁶² There were also some other reform measures that lightened the duties of the producers. As a result of these measures, two-thirds of the co-operatives dissolved themselves and along with that, several hundred thousand private farms started functioning.⁶³ For the “surviving co-operatives” there were modifications imposed on certain aspects of their organisation and management, which led to further deviations from the Soviet Model. The co-operatives were able to widen their activities and for example, began to buy tractors and machinery.⁶⁴ In Hungary this step was a step which began to undermine the monopolistic position of the MTS-system.

These corrections, or in fact changes of the agrarian policy, were closely related to the increasing importance of Hungary for the Soviet leadership after 1956. This “special treatment” implied a higher level of tolerance towards the Hungarian solutions.⁶⁵ In the eyes of the Soviet Union, internal stability was considered important and therefore it was also possible to show remarkable flexibility towards certain tactical issues.

However, the relationship between the Kádár-regime and the peasantry came under stress again when collectivisation was put on the agenda at the end of 1958. This created a dilemma for the Hungarian communist party, which in order to make sure that agricultural production did not suffer from the new wave of collectivisation, had to make new concessions to the peasantry. During the third wave of collectivisation (1959-1961) co-operative members therefore managed to maintain a ‘bargaining’ position implying that they were able to keep more cattle on the household farms, to do share-cropping on the collective farm, to receive their premiums in kind, and to elect successful local farmers as co-operative presidents, etc.⁶⁶

⁶² Petó, & Szakács (1985), p. 363.

⁶³ *Ibid.*, p. 301.

⁶⁴ Adair L. Bianca (2001), “The Agrarian Theses and Rapid Collectivization: Accommodation in Hungarian Agriculture, 1956-1960”, *Journal of Communist Studies and Transition Politics*, Vol. 17, No. 2, pp. 139-140.

⁶⁵ Rainer M. János (2005), “The Sixties in Hungary – some historical and political approaches.” in: György Péteri (ed.), *Muddling Through in the Long 1960s. Ideas and Everyday Life in High Politics and Lower Classes of Communist Hungary*, Trondheim: Norwegian University of Science and Technology, pp. 2-26.

⁶⁶ Varga Zsuzsanna (2014), “The Appropriation and Modification of the “Soviet Model” of Collectivization: The Hungarian Case” in: Constantin Iordachi & Arnd Bauerkämper (eds.), *The Collectivization of Agriculture in Communist Eastern Europe: Comparison and Entanglements*. Budapest & New York, CEU Press, pp. 454-457.

If one studies how the collectivisation was finished in communist Eastern Europe (except Poland and Yugoslavia) between 1958 and 1962, one finds a striking difference in relation to the first campaigns in the early 1950s. Khrushchev – who at that time was already preparing for catching-up with the capitalist West – wanted to complete collectivisation without serious shortfalls in production. Thus, behind the socialist facade of the newly collectivised agriculture there was considerable space for local specialties.⁶⁷

Agrarian reforms in the late 1950s and during the 1960s

For the organisation of agriculture in the USSR a number of important changes were made in the second half of the 1950s, both related to management and planning. Khrushchev, who formally replaced Stalin in 1956, and initially was following Stalin's aspirations on a more powerful position for the MTS at the kolkhoz level, was already in 1956 embarking on a different path. In the same year, Estonia was allowed to become first Soviet republic to apply regular payments/wages in cash for both kolkhoz members and sovkhoz workers. Towards the late 1950s, a specific strategy of the Estonian Ministry of Agriculture was to merge kolkhozes into sovkhozes, spurred by the sovkhozes organizational superiority and access to subsidies for machinery investments.⁶⁸ The mergers of kolkhozes, which took place all over the Union from the late 1950s, often created financial problems because of the economic weakness of many kolkhozes. The equalization of wages between kolkhoz and sovkhoz in many other parts of the Soviet Union were therefore conditional and related to various *premia* or percentages of plan fulfilment.⁶⁹ The Estonian case therefore showed a clear deviation from the original Soviet model by introducing fixed wages for kolkhoz peasants, which was in sharp contrast to the original ideas.⁷⁰

The dissolution of MTS also began in association with the mergers of kolkhozes into sovkhozes. By 1957 it was obvious that the efficiency of the MTS – or in fact the whole issue of economic accountability for both MTS and kolkhozes – was hard to calculate. Since the kolkhozes use of MTS services were paid by contractual arrangements in kind (in percentages of the grain harvested etc.) the size of these payments/incomes was hard to calculate in monetary terms in advance. All this led to the decision in 1958 implying a transfer of the MTS machinery into the ownership of individual

⁶⁷ Swain (2014), pp. 525-529.

⁶⁸ Abrahams & Khak (1994), pp. 70-71.

⁶⁹ Wädekin (1982), pp. 167-169.

⁷⁰ Wädekin (1982), pp. 15-16.

kolkhozes.⁷¹ From an ideological point of view, the mergers of kolkhozes into larger units also enabled for the party to have a more direct political influence through the local cadres and the kolkhoz chairman. In addition, the sales of machinery to the kolkhozes not only cut down one out of two administrative apparatus, it was also a way to bring the larger units closer – now in possession of their own machinery – to the more aspired form of *sovkhoz*.⁷² Khrushchev also aimed for restrictions of the use and size of private plots, motivated by the apprehension that the work on plots was counterproductive with the work efforts needed in the large-scale collective agriculture. His visions of “accelerating the countryside’s advance towards communism”, were however facing several problems. Fulfilment of the seven-year plan 1959-1965 demanded that kolkhozes and sovkhozes were supplied with appropriate machinery, but due to the abolition of the MTS many kolkhozes became more or less depleted of financial resources for other purposes since they had to invest in tractors and machines from the dissolving MTS units.⁷³

As it turned out, however, and contrary to the Moscow orders, there were no restrictions imposed on the use or the size of private plots in Estonia – from 0.6 to 0.3 ha per household, as it was supposed to be when kolkhozes were merged into the sovkhozes. The Estonians kept the same 0.6 ha as before since plan fulfilment was superior to regulations.⁷⁴ The first Party Secretary of the Estonian Republic, Ivan Käbin, confirmed this as a general pattern visible in the Baltic Republics and in several nearby regions.⁷⁵ The Estonian Minister of Agriculture (1953-1965), Edgar Tõnurist, was also said to have had influence on Khrushchev’s policies through his close relations with Käbin, for whom he suggested the dissolution of the MTS to be presented for Khrushchev. Since Tõnurist understood that Estonia’s integration in the USSR economy was irreversible, he worked for maximising the access to federal resources and inputs for specialisation in dairy and meat.⁷⁶ Tõnurist was thereby convincing Moscow to expand the efforts on higher agricultural education, often using the Estonian language of instruction. While only two percent of the Estonian kolkhoz chairmen and sovkhoz leaders had professional agricultural education in the early 1950s, there were on average 25 agricultural specialists in each

⁷¹ Laird Roy. D. (1958), “The Demise of the Machine Tractor Station”, *American, Slavic and East European Review*, Vol. 17, No. 4. pp. 420-24

⁷² Laird (1958), p. 425.

⁷³ Wädekin (1973), pp. 274-279. Quotations p. 274. See also Medvedev (1987), pp. 193-194.

⁷⁴ This was confirmed by one informer, a former Estonian kolkhoz chairman: C.L. in an interview in Tartumaa, February, 2004. Jörgensen (2004), p. 159.

⁷⁵ Wädekin (1973), p. 314.

⁷⁶ Udam Valter (1994), *Talust taluni. Põllumajandus läbi aegade*. Ilo, Tallinn, p. 73.

large-scale Estonian farm in the 1970s. This was eight times higher than the corresponding figures for the nearby Pskov-region.⁷⁷

The implementation of the *Sovnarkozy* in 1958 was another major change, which led to more decentralised decision making in the planning procedure for each Republic. In Estonia, small enough to only host one of these sovnarkhozy, this meant a turn towards relying more on local resources, inputs, experts and leaders. Yet, a number of centralised orders and uniform strategies prevailed, which expressed the planned economic systems general lack of understanding for diversity and regional preconditions. Tõnurist was critical to this and not least the lack of machinery while Moscow's recommended to intensify the use of fertilizers in order to increase the Union's crop yields. Thus, Tõnurist regarded the Estonian problems mainly as due to the lack of proper machinery for tillage while the party – and Khrushchev – firmly believed in the use of more chemicals as the major solution to these problems.⁷⁸ In the long-term however, the dissolution of the MTS and the rise in procurement prices during the late 1950s and early 1960s, increased access to machinery investments in large-scale agriculture.⁷⁹

With the dismissal of Khrushchev in 1964 and the entry of Brezhnev in 1965, the Sovnarkhoz reform and many other Khrushchev reforms were abolished. In association with this an ideological debate began which had far-reaching effects on the planning and incentive system: the so-called *Kosygin* or *Lieberman reforms*. This led to profit oriented reforms, which replaced the previous one-eyed focus on plan-fulfilment: a higher share of autonomy for reinvesting the profits earned. By 1973, there was a clear-cut difference between the operation of the Estonian sovkhozes and the general Soviet pattern. While nearly half of the USSR sovkhozes were operating without subsidies, all Estonian sovkhozes were running on self-management – and without subsidies from 1968. In the early 1970s, the labour productivity of the Estonian kolkhozes was almost twice as high as the USSR average kolkhoz. For the sovkhozes the corresponding productivity was 61 percent higher.⁸⁰

The agrarian Hungarian lobby, emerging as a new mediator between the party leadership and the peasantry in the early 1960s, managed to

⁷⁷ Udam (1994), pp. 69-70 & 85-87.

⁷⁸ Purre Arnold (1964), *Soviet Farming Failure hits Estonia*, Estonian Information Centre, Stockholm, pp. 19-20.

⁷⁹ In 1957 one Estonian kolkhoz with 4 500 ha, paid in kind: meat, milk and crops equal to a value of more than 155 000 roubles to the MTS for their services. This was equal to the price of eight new tractors in 1958. Purre (1964), pp. 19-20 & 41.

⁸⁰ Järvesoo (1978), "The Postwar Economic Transformation", in: Tõnu Parming & Elmar Järvesoo (eds), *A Case Study of a Soviet Republic – The Estonian SSR*, Boulder Colorado, Westview Press, pp. 143 & 149-50.

persuade the political leaders to making the concessions introduced during the final phase of the collectivisation permanent instead of only temporary. During the first half of the 1960s, more and more local co-operative initiatives concerning remuneration and work organisation were transferred from the category “banned” or “tolerated” into the category “favoured”, which significantly widened the scope of co-operatives.⁸¹ The liberal policy of the MSZMP towards the household plots of co-operative farmers also continued. As the products of these small plots could be sold freely at town markets, they did play an important role in supplying the urban population with vegetables, fruits, eggs, etc.⁸² This pragmatic approach was not the outcome of conscious planning, but took shape as a by-product of a number of decisions made in response to the challenges and problems (especially the intensive out-migration) of collectivised agriculture.⁸³

All this shows that most of the Khrushchev reforms – except the abolition of the MTS-system – were ignored by the Hungarian agrarian politicians. They followed a different problem solving strategy. Since the Hungarian political leadership did not want to question the excellence of the Soviet model, local co-operative initiatives had been authorised in the 1960s only in practice. Depending on the tolerance or dogmatism of the local party and state leaders, one can find, as it has been shown by Varga (2013), vast differences in the application of the agrarian policy, not only between counties, but also between districts.

The above mentioned initiatives coming from the grass roots were finally legalised by the new Co-operative Law (III/1967). This new law was a symbolic act of deviation of the Hungarian co-operatives from the original Stalinist Model Charter.⁸⁴ Referring to the most important novelties one should mention the right of co-operative members to receive their regular payments in cash. After 1967 every co-operative member could have a personal household plot (max. 0.5 ha). Beforehand this right went to the co-operative family. Co-operatives themselves gained increased

⁸¹ Varga Zsuzsanna (2013), “Conflicts and compromises between the Hungarian socialist state and the peasantry: contextualising the “Hungarian agricultural miracle”. in: Peter Moser & Tony Varley (eds.), *Integration through Subordination. The Politics of Agricultural Modernisation in Industrial Europe*. Turnhout, Brepols, pp. 214-218.

⁸² Swain Nigel (1985), *Collective Farms Which Work*, Cambridge, Cambridge University Press, pp. 42-44.

⁸³ Asztalos Morell Ildikó (1999), *Emancipation's dead-end roads? Studies in the Formation and Development of the Hungarian Model for Agriculture and Gender (1956-1989)*, Uppsala, Uppsala University, pp. 231-238.

⁸⁴ For a systemic analysis see: Varga Zsuzsanna (2014), *Model transzferek Keletről és Nyugatról: mezőgazdasági termelőszövetkezetek Magyarországon 1949-1989*. [Model transfers from East and West: the Hungarian agricultural cooperatives, 1949-1989] Manuscript, Budapest, 277-282.

autonomy. In addition to control over input plans, co-operatives also gained the right to make independent contracts with other co-operatives and state farms, including contracts for the marketing of output. The range of their activities became wider not only in food processing, fodder production, but also in auxiliary industrial and service activities for which there was a demand.⁸⁵

Most of Hungarian agricultural reform measures preceded the official introduction of the NEM (New Economic Mechanism) in 1968.⁸⁶ The overall goal of the reform was to alleviate the problems of the planned economy by reducing the role of central planning, and partly by increasing companies' independence.⁸⁷ One further objective of the NEM was to open the economy towards the capitalist world.⁸⁸ Hungary's policymakers were well aware of their economy's critical dependence on the East for energy, raw materials, and markets, and on the West for technology and many basic goods and intermediate products. Continued economic growth was therefore crucially dependent on Western imports. In this exchange the agrarian export did play an important role. Thus, the agrarian lobby convinced the political decision-makers about the necessity to import modern agricultural technology from the West, not only machinery for cultivation, but also closed production systems, foremost from West Germany and the U.S.⁸⁹ In exchange, for example, the export of corn, the Ministry of Agriculture and Food granted a relatively free hand to large agricultural units to import a certain amount of technology. One should refer to the fact that as a consequence of the NEM the ratio and the volume of agricultural investment had increased significantly compared to the earlier periods. Where in the beginning of the 1950s, agricultural investment amounted to 10 to 11 per cent of the total investment of national economy; this proportion surpassed 14 per cent annually during the third five-year plan (1966-1970).⁹⁰

⁸⁵ Swain (1985), pp. 85-87.

⁸⁶ Agricultural price limits were adjusted upward in two price reforms, one in 1966 and one in 1968, and many cooperative debts were cancelled. See more on this: Varga Zsuzsanna (2002) "Agriculture and the New Economic Mechanism", in: Anssi Halmesvirta (ed.), *Hungarologische Beiträge 14. Kádár's Hungary – Kekkonen's Finland*, ed. Jyväskylä, Kopi-Jyvä, pp. 201-217.

⁸⁷ For more detailed information on the New Economic Mechanism, see: Berend T. Iván (1990), *The Hungarian Economic Reforms, 1953-1988.*, New York, CUP, pp. 168-193.

⁸⁸ MNL OL M-KS 288. f. 15/163. ő.e. Előterjesztés a tőkés országokkal való gazdasági kapcsolatok irányelveire. [Submission on guidelines of the economic relations with the capitalist countries] 11 November 1966.

⁸⁹ The so-called currency credit made this transfer possible. Marer Paul (1986), *East-West Technology Transfer. Study on Hungary 1968-1984.* Paris: OECD, 159-160.

⁹⁰ Pető & Szakács (1985), p. 479.

In order to prepare the co-operatives' and state farms' leaders for the acceptance and adaptation of new technology, the agrarian lobby put efforts on modernising the medium- and high-level agrarian system during the 1960s.⁹¹ As a result, a highly-skilled and experienced labour force emerged in the large farms during the 1970s. While only one percent of the Hungarian co-operative chairmen had a university degree in the mid-1950s, 82 percent of them had professional agricultural education twenty years later. Among the state farm leaders, this ratio was 94 percent in the mid-1970s.⁹²

Large-scale agriculture in action: results and limits during the 1970s and 80s

Between 1960 and 1978 there was a substantial increase in gross production per agricultural worker in the USSR. In an all-Union perspective the Baltic republics were in the lead and Estonia was the leader. By 1978 the average for Estonia was 177 in comparison to the USSR average of 100.⁹³ According to Evans (1981), this was an anomaly because of the branch structure and specialisation. Because of incomplete mechanisation in the USSR, livestock and dairy farming tended to be more labour intensive and costly. But from another angle, productivity may have been spurred by the relative lack of agricultural work force due to the demographic trend and the level of urbanisation in the Baltic and Slavic republics, while the opposite relations prevailed in Kazakhstan, Moldavia, Transcaucasia and Central Asia.⁹⁴ In line with this discussion about the relative efficiency of large-scale agriculture in the Estonian republic, Järvesoo (1973) wrote: "Despite high wages for agricultural labour, the cost of production of major farm commodities is the lowest among the Union republics, an indication of efficient use of labour and other resources." Järvesoo suggested that these differences largely reflected different rates of progress that took place between 1918 and 1940.⁹⁵

⁹¹ The minister of Agriculture and Food, Imre Dimény (1967-1975) developed a special concept of a technical development in agriculture that considers training, up-to-date knowledge as equally important to the application of new breeds, fertilizers and chemicals and mechanization. The author's interview with Imre Dimény, 31 January 2012.

⁹² Harcsa Iván & Kovách Imre & Szelényi Iván (1998), "The Hungarian agricultural miracle and the limits of socialist reforms" in: Iván Szelényi (ed.), *Privatizing the Land. Rural political economy in post-communist societies*. London & New York, Routledge, pp. 21-42.

⁹³ Evans Jr. Alfred (1981), "Interrepublic Inequality in Agricultural Development in the USSR", *Slavic Review*, Vol. 40, No. 1, pp. 576-77.

⁹⁴ Evans Jr. (1981), p. 579.

⁹⁵ Järvesoo Elmar (1973), "Progress despite Collectivization", in: Arvid Ziedonis, Jr et al. (eds.), *Problems of Mininations – Baltic Perspectives*, San José, California State University, pp. 137ff.

Throughout the Soviet period and foremost from the late 1970s, the density of cattle per ha in Estonia was increasing. Estonia and Latvia were the most efficient in both dairy and meat production in the Union. On average, the cattle delivered for slaughter in the early 1980s were 15 to 25 percent heavier than the corresponding USSR average.⁹⁶ This was partially due to organisation. Leasing agreements were introduced in the late 1970s, which turned the private plots into resorts for the feeding of cattle that was sold back before slaughter to the socialised sector. In this context the value of production on private plots became more important. Another side of the coin, however, was that the Estonian SSR was never self-sufficient in fodder grain. Livestock production was heavily dependent on cheap energy and fodder imports from other parts of the USSR. Thus the Estonian production system was deeply integrated into – and dependent upon – the All-Union planned economy, which supplied a kind of hidden subsidies.⁹⁷ Increased agricultural investment from the 1960s enhanced for maintaining this leading position.⁹⁸

Another pattern visible in the late 1970s and throughout the 1980s was the improved attractiveness of the rural areas, because of the needs for labour and the better conditions for living. Owing to the structure of large-scale farming, many kolkhoz and sovkhos families resided in the old family farmsteads, to which the necessary plot was attached. Many kolkhoz leaders also used federal investments and credits for purposes beyond agricultural production, which enabled for the construction of housing. In addition, the access to larger private plots spurred the settlements in rural areas.⁹⁹ In sum, this covered some of the out-migration from the countryside in the 1950s and 60s. But the net inflow was still not sufficient. Relatively costly investments were made in Estonian agriculture during the 1970s and 1980s because of the decrease of available agricultural workers. Towards the second half of the 1980s this gave record levels of agricultural output.¹⁰⁰

The agricultural experimental reforms in the Baltic republics began in the early 1980s with the introduction of new working groups on the kolkhozes, which to some extent replaced the previous brigades. While it was not officially acknowledged in the media before 1984, this was a first step to transform agricultural production towards the 'family

⁹⁶ Medvedev (1987), pp. 267-268.

⁹⁷ Unwin Tim (1994), "Structural Change in Estonian Agriculture: From Command Economy to Privatization", *Geography*, No. 344, Vol. 79, No. 3, p. 251.

⁹⁸ Abrahams & Kahk (1994), pp.75-76.

⁹⁹ See Jörgensen, H. (2004), *Continuity or not? Family Farming and Agricultural Transformation in 20th Century Estonia*, Umeå studies in Economic History, No. 30, Diss, Department of Economic History, p. 165.

¹⁰⁰ *Review of Agricultural Policies Estonia* (1996), OECD, pp. 46 & 62.

farm principle' since it meant that the responsibility was put on a family or a group of friends. The outcome was promising because of better results reached than the work brigades, which had problems both with continuity and responsibility.¹⁰¹ Significant for this change was that these types of contracts were also open to people outside the farming sector.¹⁰² In comparison to late 1940, when the average Soviet kolkhoz household had 2.2 persons occupied in the kolkhoz work, it was 1.0 in 1985. The others either worked on the plot or in other occupations.¹⁰³ The economic motive to join kolkhozes was thus to get access to a plot from which a share of the produce could be sold on kolkhoz markets. In the end of the 1980s this generated net annual incomes between three and eight times the earnings from their regular work on the kolkhoz/sovkhoz.¹⁰⁴

During the 1970s, Hungarian agriculture was able to import and rapidly disseminate a certain amount of the western technology it needed. By 1981, 96% of all large agricultural units (state farms, collective farms) were participating in some so-called closed production system the goal of which was to optimise yield, minimise costs, and maximise profits in specialised areas of production, such as corn, wheat, or livestock operations. 90 percent of the country's corn and 88 percent of its wheat crop were produced by system members.¹⁰⁵ The rapid and widespread dissemination of these new production systems meant that practically all large farms in Hungary adopted modern agricultural machinery, and combined it with modern know-how.

If one tries to measure the contribution from imported technology to growth, the following statistical data could be taken into account. Within crop farming, the greatest success was with cereals, chiefly wheat and corn. Yields, which were between 7 and 8 million tons in the previous decades rose to 11.4 million tons in the first half of the 1970s. With respect to the successes achieved in crop farming it should also be borne in mind that, besides the transformation of the material and technical conditions of production, there were major changes in the use of new varieties of crops. During the 1970s this was, for example, leading to

¹⁰¹ When a family or a group of related people took on a long-term rental contract for managing certain fields or stables it was in their interest to maximize the profit and even though this profit could not be reinvested it could at least be consumed. Misiunas & Taagepera (1993), p. 291.

¹⁰² An Estonian scholar told me that he as a young teacher in 1982 and 1983 earned extra money during the summer by joining a group with responsibility to clear the weeds on a large field with beetroots and sugar beets.

¹⁰³ Medvedev (1987), p. 362.

¹⁰⁴ See Jörgensen (2004), p. 165.

¹⁰⁵ Romány (1998), p. 322.

changes in the cultivation of wheat and corn. As a result, average wheat yields per hectare rose from 3.3 tons in the early 1970s to 4 tons by the end of the decade. In the same period, corn rose from 4.1 tons to 4.8. This dynamic increase in average yields laid the foundations for a rapid development of livestock keeping and meat production.¹⁰⁶

Between 1970 and 1985, total meat production rose by 37 percent, from 957,000 tons to 1,300,000 tons. While beef production more or less stagnated, the production of pork, chicken and mutton increased more rapidly. In the first half of the 1970s an annual average of almost 1.9 billion litres of milk were produced. Ten years later this had increased to almost 2.7 billion litres. During the same period egg production rose from 3.5 billion to almost 4.4 billion and raw wool production increased from 8,300 to 12,200 tons. The results achieved in grain and meat production made it possible for Hungarian agrarian exports to triple between 1965 and 1975. This was of particular significance because of the reduction of imports of bread-grain and meat that existed up to the mid-1960s.¹⁰⁷ The achievements in cereal and meat production were significant even by international standards. In terms of per capita production of grain, Hungary was ranked fifth in the world in 1985. The 1391 kg produced per capita followed such extensive – with the exception of Denmark – grain-producing countries as the United States, Canada and Australia. In terms of wheat production Hungary was second after Canada, and in meat production only surpassed by Denmark, Holland and Australia. In the mass-scale production of eggs, Hungary was second to Holland.¹⁰⁸ The ‘Hungarian agricultural miracle’ became a topic among western analysts who tended to talk about the ‘Hungarian model’.

Later, in the 1980s Hungary became a symbol as a laboratory for liberalising reforms in the socialist block.¹⁰⁹ However, the everyday realities of the co-operatives showed a different picture. Just like Estonia, Hungary was heavily dependent on cheap energy imports. From the mid-1970s, the boom in energy and raw-material prices radically changed

¹⁰⁶ Statistical data collected from: *Hungarian Agriculture 1851-2000. (CD-ROM)* Budapest, Hungarian Central Statistical Office, 2000.

¹⁰⁷ Pető & Szakács (1985), p. 468.

¹⁰⁸ This data was published by the Central Statistical Office of Hungary (KSH) but it is based on calculations made by the United Nations Food and Agriculture Organization (FAO). See: *A magyar mezőgazdaság nemzetközi összehasonlításban.* [Hungarian agriculture in international comparison] (Budapest: KSH, 1987), pp. 25-28.

¹⁰⁹ Harcsa & Kovách & Szelényi (1998), pp. 21-42.

the Hungarian terms of trade.¹¹⁰ As result, the costs of the energy-intensive agricultural systems were increasing significantly and the potential for adjustments to the new conditions were limited. Due to the increasing economic burdens and external debt-payment dues, agricultural incomes were cut-down by the leadership of MSZMP.¹¹¹ However, the increasing crisis of large-scale farming was hidden for some time because of two major reasons. The first was due to the non-agricultural activities carried out by the auxiliary/supplementary branches of agricultural co-operatives. By early 1980s about half of all income of the co-operatives came from non-agricultural activities.¹¹² The second reason, which also significantly influenced the output of large farms, was the small-scale production on household plots.¹¹³

In this context of growing tensions, the co-operatives began to search for solutions to improve farming results. The labour force became increasingly more expensive, and the significance of rent seeking to stimulate more economic and professional labour increased. In the 1980s agricultural co-operatives and state farms began to lease out not only agricultural land and animal stocks to small producers, but also farm buildings and, to a smaller extent, machinery. Private producers were able to establish contract-based enterprises, not only in single segments of production. By renting farm buildings, and occasionally the necessary machinery, they could even organise the entire farming process.¹¹⁴ These simultaneous reforms reflected the inflexibility that was caused by the absence of a market for land and other assets. These barriers could only be removed after the change of the political system.

Conclusions

This comparative study has elucidated the Post-War collectivisation and agrarian development in two parts of the Soviet bloc: Estonia as a case within, and Hungary as a case outside, the USSR. The deviations from the Soviet model, taking place from the mid or late 1950s and

¹¹⁰ Berend T. Iván (2009), *From the Soviet bloc to the European Union. The economic and social transformation of Central and Eastern Europe since 1973*. Cambridge, Cambridge University Press, pp. 20-27.

¹¹¹ By 1978, a debt of 8 billion dollars had been accumulated by Hungary. *Ibid.*

¹¹² Swain (1985), pp. 141-143.

¹¹³ *Ibid.*, p. 70-79.

¹¹⁴ Tóth Erzsébet (1986), "A mezőgazdasági vállalatok belső érdekeltségű rendszerének jellemzői és a fejlesztés irányai" [Features of the Internal Interest System for the Agricultural Cooperatives and the Development Courses] *Gazdálkodás* [Farming] Vol. 30, No. 3, pp. 45-60.

the subsequent events are here interpreted as related to specific national characteristics and socio-economic legacies. While the authors are aware of the methodological and empirical problems of comparing the two cases, because of their different positions within the Soviet bloc, the benefits of the comparison is nevertheless that it pinpoints both the specific or unique and the similar features, which may spur more of similar comparisons. The analysis here rests on the fact that the socio-economic legacies in Estonia and Hungary were – if not markedly – at least partially different from the ones in Soviet-Russia. The general lack of acceptance for building or establishing a kolkhoz-based system constitutes one important factor in in this regard. While the comparison, as shown in Matrix I below, can be enhanced by referring to specific comparable issues, this article nevertheless stresses the implications from specifically unique features.

The Emancipation Manifest in Tsarist Russia after 1861 was not sufficient for creating a class of individual peasant proprietors out of the peasant serfs. This was not only due to the lack of redemption payments and resistance from the ignorant nobility. Another group resisting the changes was the *Narodniki* in favour of preserving the old Village Community *Obschina*, which held back the spread of market conditions and private ownership in many parts of Tsarist Russia. However, when regarding the property relations, the development in the Russian Baltic-German provinces and in the vast and expanding Siberian areas, the conditions seemed much more similar to the changes taking place in Central Europe. Prior to the Russian revolution in 1917, the growth of producer's co-operative associations and market integration was profound. The Estonian, Latvian and Lithuanian independence from 1918 allowed for continued land redistribution/land reform and expanded peasant farming. In most other parts of Post-revolutionary Soviet-Russia peasant farming was terminated when private ownership of land was practically abolished in 1917.

In spite of the interwar problems associated with land reforms and the effects from the Great Depression (1929-1933), there were at least two divergent directions of the farming systems in the USSR and in CEE before 1940. This concerned the property relations and market adaptation. When Hungary and Estonia were integrated in the Soviet production system, formally after 1945, the initial Soviet style land reforms aimed at reducing the amount of land cultivated by the large landowners/estate owners. In rhetoric the new system was favouring the small and medium sized peasants, which also constituted the majority of population. However, both the Estonian and Hungarian peasants, as well as the owners of larger estates were market oriented, relying on private ownership of land. For the small-holders the well-developed co-operative associations were

important in this regard. This gives an explanation to why the execution of collectivisation by the communist parties was met with such strong resistance from the peasantry in both cases

Matrix I Agricultural development in Estonia and Hungary (1920s to the 1980s)

Issues	Estonia	Hungary
Interwar Property Structure 1939	Radical land reform ending Baltic-German landlordism (1919-26). 3.5% of land left untouched by the land-redistribution. 140,000 'viable' farms created, on average 24 ha (aiming at supporting a family with two horses). In 1939,95% of the farms possessed between 10 and 50 ha.	Europe's most extreme estate system. Nearly half of all arable land owned by large estates. 20% of total cropland belonged to small-holders. 80% of all farms had below 5.7 ha, out of which less than 1/3 could support a family. 70% had insufficient land and were dependent on wage labour.
Farm structure 1940s on	A handful of kolkhozes established 1940-41. Tax squeeze and kulak hunting when voluntary association failed. 439 kolkhozes were founded 1947-48. March 1949: forced collectivisation and large deportations. Collectivisation completed 1953. By means of mergers and reorganisation 648 kolkhozes and 154 sovkhoses existed in 1960	Spontaneously formed co-operatives during WW II, not approved by Moscow. Forced collectivisation in three waves: 1949-53; 1955-56; 1959-61. In 1961 there were 271 state farms, approximately 4200 co-operatives and almost 165 000 individual farms. 70% of cultivated land was owned by co-operatives, employing $\frac{3}{4}$ of the agrarian workforce.
Relations in the 1950s	In 1950 the average kolkhoz had 961 ha of land. In 1980 it was almost nine times larger. Estonia specialised in dairy and meat production for the USSR market. Mechanisation was increasing faster in the Baltic republics than in other parts of the USSR.	Post-1953: criticism and attempts at correction followed by the 1956 uprising, which had a permanent impact on Hungarian-USSR relations. More tolerance as a means for preserving internal stability. By allowing flexibility, the special Hungarian agrarian development could proceed
The role of MTS	Introduced during collectivisation as the extended arm of the party for control and maximising plan fulfilment from kolkhozes. Up to 1958 only sovkhoses were equipped with large-scale machinery. The dissolution of MTS in 1958-59, aiming at improving access to machinery, was matched with restrictions on private plots.	From 1948 to 1952 a network of 364 MTS was built for proving technical support for collectivisation and for supervising the work of the co-operatives. However, a Central Committee decision in 1964 ordering that the MTS was to be wound up by the end of 1965.

Land status and property relations	Only state land after 1940. However, the previous farmsteads could informally continue to some extent. Private plots on kolkhozes allowed for 0.6 ha/family and for 0.3 ha/family on sovkhozes. In the 1970s and 1980s the access to a private plot was one of the reasons for the migration into the country side.	Almost 3/4 of co-operatively utilised land remained in private hands. From 1967 land under co-operative use could only be inherited by members. Leaving the co-operative implied handing over the title to land, yet with a minimal five-year compensation for rent. Members of co-operatives thus had partial ownership rights acknowledged.
The role of private plots	The limits on private plot production in favour of large-scale production implied mergers of kolkhozes into sovkhozes. But the plots became indispensable due to insufficient mechanisation. In Estonia the plots thus remained untouched, partially due to the native management in kolkhozes and sovkhozes. Brezhnev's reintroduction of the plots all over the USSR – a means to improve the access to egg, meat, vegetables and berries – rather strengthened the role of private plots.	While co-operatives achieved good results in the highly mechanised branches of plough-land crops, private/household plots excelled in labour-intensive products, such as meat, poultry, vegetables and fruit. In the 1970s, household plots produced 25 percent of the combined total income from crops and animal husbandry in the co-operatives. Yet, the plots, representing 12 per cent of the co-operative agricultural area, were generally poorly equipped with mechanisation.
Management & leaders	Up to the late 1950s both kolkhozes and sovkhozes were administratively – not technically – managed. Separately organised for planning and supply. Native kolkhoz managers trained in Estonia taking over from the late 1950s. From the 1960s Estonia turned into a show piece for USSR agriculture. In the 1980s Estonian kolkhoz leaders were able to use federal investments for housing projects, which together with the access to private plots implied increased attractiveness for the countryside.	The typical co-operative president in the 1950s was a political cadre of usually 'worker' origin, in place for ensuring the Soviet model. 1959-61 the party showed readiness to accept managers of middle-peasant or 'kulak' origin. The party thus went from appointing the 'elected' president of co-operatives among loyal party members to let the local communities elect the head of their own co-operative. This development had well experienced and generally respected local farmers take over the leadership
Autonomy	The earliest agricultural reforms in the USSR: the Brigade-contract system in 1982 gave increased incentives for production and larger private plots. In 1987-88 so-called reform farms, based on eternal leases of kolkhoz land were able to function as private farms.	The Law of 1967 created a new co-operative concept. The co-operative was defined as a large agricultural farm that carried out company-style farming on the basis of individual accounting. It also stressed the organisational and economic independence of co-operatives.

Specific institutional features	Interwar legacies of agricultural co-operative associations and export production. Agricultural training and schools. Closeness to large markets in St Petersburg & Pskov for private plot production.	Substantial organisational and institutional change with the establishment of a body to represent the interests of co-operative farms. The National Council of Agricultural Co-operatives and its regional alliances founded in 1967.
National influences or deviations from the Soviet model	Initial mergers of family farms into kolkhozes. Many families resided on their farmstead. Native Estonians dominated in management from the late 1950s. Mid-1960s: kolkhoz/sovkhoz division about to vanish when regular cash payments were introduced in kolkhozes.	The revolution in 1956 brought forward important agrarian policy changes and corrections, unprecedented within the socialist bloc. The Kádár-regime was compelled to secure food access and thereby increasing living standards in order to make up for lacking political legitimacy. The New Economic Mechanism (NEM) introduced in 1968 was the most radical and theoretically most innovative reform in the region – not mentioning the one in Yugoslavia. Its aim was to alleviate the problems of the planned economy by reducing the role of central planning, and partly by increasing companies' independence.

Source: Parts of the matrix (on Estonia) is derived from: Jörgensen, H (2004), *Continuity or Not? Family Farming and Agricultural Transformation in 20th Century Estonia*, pp. 78, 155 & 161.

In Estonia, the resistance could only be broken through massive deportations. In Hungary it took more than ten years to force the peasants into agricultural co-operatives, which had not succeeded until a third campaign was closed. In association with collectivisation in the 1950s, large-scale migration out of the villages appeared in both cases, which led to shortages of labour and negative effects on production in the newly established large-scale socialist farms. For a significant period of time, conditions were worsened by the fact that it was not possible to compensate for missing manpower through mechanisation.

A uniting feature was the initial difficulties of food supply. This forced the local political administration into emergency situations, especially in Hungary. Public consumption was significantly restricted in favour of the development of heavy industry and food restrictions contributed greatly to the outbreak of the revolution in 1956. Following the repression of the revolution, the Kádár-government, aided by the USSR, was only able to pacify Hungarian society by increasing living standards. This, in turn, was only feasible through a corresponding growth in agricultural

production. In order to achieve this, they had to depart from the original Stalinist model of the kolkhoz-system. This development required a group of agrarian experts who were able to ensure the necessary political support. In Hungary, it was a lobby group formed around the Agricultural Department of the Central Committee, in Estonia it was a group around the minister of agriculture who managed to assume a mediating role. Subsequently there were increasing numbers of nationally trained specialists and experts who became leaders of kolkhozes, co-operatives and state farms, who knew about the local conditions and had the ability to adapt to the circumstances quite well.

Of importance for the development in both countries – away from the Soviet model – was the use of the household plots. In the original kolkhoz model, this kind of farming was – just like the kolkhoz itself – only considered as a transitional solution. Even though Khrushchev liberalised the conditions of household farming, as late as in 1958, he also set out to eliminate it. This measure was neither followed in Estonia, nor in Hungary, probably because of the fact that plan fulfilment and national subsistence became a higher priority for the policy makers than the ideological burden the plot in fact constituted for Moscow.

From the late 1960s, the modernisation of agriculture in the two cases compared here went into different directions, implying deviations from the general Soviet model and instructions. This was, for example, seen in the application of various measures in order to compensate for the shortcomings of price policy and planning procedure, for example, the organisational structure of farming in general, and specifically the pricing reforms in Hungary and the extended role of private plots in Estonia. All this enabled for the large-scale farm units to make greater individual adjustments, both among co-operatives and kolkhozes, as well as among sovkhoses, for example, in terms of reduction of planning targets. Estonia became a kind of a show piece for the USSR and specialised in dairy and meat production. From the beginning of the 1970s on, Hungarian agriculture had been able to satisfy the requirements of three different kinds of market: the home market, the market of COMECON and the one of capitalist countries. This was a unique achievement within the Soviet bloc.

Thus, geography, time and organisational characteristics seemed to have been important. Both Hungary and Estonia had a short period under Stalinism, implying that less damage was done before a window of opportunity appeared. In line with this, Alec Nove (1998) emphasised that the preservation of the “peasant spirit” in the Baltic republics was not only due to late collectivisation. In comparison to other parts of the USSR, most kolkhozes were formed by mergers of the existing peasants’ farmsteads, which gave a different village structure. Fewer younger people also chose

to leave the countryside. Infrastructure was more developed and work ethics were different too. In addition, the party representatives could act more independently on the local level.¹¹⁵ From the late 1950s when more investments were directed towards agriculture and its associated upstream and downstream industries it was possible to take some advantages of these national institutional features.

High-quality professional training in agronomy, agricultural economics and associated fields of higher agricultural education, played a key role in both Estonia and Hungary. Towards the 1970s Hungary could also – based on its experiences – provide influences to other parts of the Soviet bloc and take advantages from its farm structure and management, which was the outcome of the previous resistance towards forced collectivisation. In fact, in the search for increased food production, party decrees from Moscow in 1977 and in 1981 emphasised the increasing role of private plot production by referring to the positive experiences of better utilisation of the existing productive potential based on the Hungarian model.¹¹⁶ Through the export of agricultural products to Western Europe Hungary was able to purchase western technologies and implements. This facilitated mechanisation of the large farms that showed excellent results both in crops, as well as livestock farming, poultry and egg-production. The Estonian kolkhozes, which had less organisational freedom, were also in relative terms more mechanised than the kolkhozes in most other Soviet republics. Yet, production itself was dependent on the symbiosis between the large-scale farming and the production on the private plots. In spite of the specialisation in dairy production and meat for the USSR market.

From the late 1950s, in both Hungary and Estonia, national political choices seemed to be to a larger extent in the hands of dedicated party members with visions for the future that allowed for specific reforms that were spread within the Soviet bloc. In this regard the pressures from below, initially from the private farmers exposed to the changes and later from the members of co-operatives and kolkhozes, seemed to have played a major role.

¹¹⁵ Nove, Alec (1998), in: Ian D. Thaxter (Ed.), *Alec Nove on Communist and Post-Communist Countries – Previously Unpublished Writings*, 2, Edward Elgar 1998, p. 106-108.

¹¹⁶ Cook Edward (1985), “Soviet Agricultural Policies and the Feed-Livestock Sector”, *American Journal of Agricultural Economics*, Vol. 67, No. 5, pp. 1049-1053.

LATVIAN-JAPANESE ECONOMIC RELATIONS 1918-1940¹

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Dr. oec.

Abstract

Currently Latvia and Japan enjoy close and friendly relations and engage in active political co-operation; economic ties develop in a dynamic way and there is excellent co-operation in culture and education. This article provides an overview of Latvian-Japanese economic relations in the interwar period. Although Japan had been one of the first nations to recognise Latvia *de facto* (10 January 1919), Latvia established formal diplomatic relations (*de iure*) with Japan on 21 January 1921 together with the other large powers. In the interwar period Latvian and Japanese economic relations were mainly confined to foreign trade. A Commercial and Navigation Treaty was signed in 1925 and came into force in 1928. This Treaty formed the basis of Latvian and Japanese economic relations up to 1940. Latvia's main imports from Japan in the interwar period were food products (mainly rice and spices), fats and oils, chemicals and pharmaceuticals, agar, soya beans, and haberdashery (buttons and pearls), whilst Latvia's main exports to Japan were paper and paper products, *Šprotes* and other fish conserves.

In general, despite a growth in trade in the late 1930s, trade and thus economic relations were of marginal significance to both countries in the interwar period.

Keywords: Latvia, Japan, Interwar, Trade, Import, Export

Introduction

Although currently Latvia and Japan enjoy close and friendly relations and engage in active political co-operation; economic ties develop in a dynamic way and there is excellent co-operation in culture and education; for most Japanese Latvia was *terra incognita* until the early 20th century. However, Latvians had knowledge of Japan at least since the middle of the 19th century, mainly through travellers' tales, missionary reports and translations from English and Russian newspapers.² Japan nevertheless was an exotic land somewhere in the Far East, which only a few Latvian sailors had ever visited.

¹ A version of this article was prepared for the XVIIth World Economic History Congress, 3-7 August 2015, Kyoto, Japan.

² For example, Latvian newspapers reported on the Meiji Restoration (e.g. *Mājas Viesis*, No. 14, 1868, p. 108).

For Latvians, Japan came into close focus during the Japanese-Russian War of 1905, in which many Latvian officers and men fought in the Tsarist Russian army against Japan. Several subsequent Latvian army generals, including the first commander of the Latvian army, David Sīmansons; the second commander and later Minister of War, Jānis Balodis; and the Inspector General of the Latvian Legion, Rudolfs Bangerskis, as well as many other officers and soldiers of the Latvian army participated in the war. In addition, a Latvian Prime Minister, Hugo Celmiņš and Latvia's second President, Gustavs Zemgals were also veterans of the Japanese-Russian War.³

Japan was one of four countries (including Great Britain, Germany, Haiti, Japan), which recognised the Latvian government *de facto* before the Versailles peace agreement.⁴ On 10 January 1919, Japan's ambassador to the UK, Viscount Sutemi Chinda, announced the Japanese government's decision to recognise the Latvian People's Council as "a *de facto* independent body pending the final settlement at the forthcoming Peace Conference".⁵ In this Japan followed the lead given by the United Kingdom.

During the Russian civil war, in autumn 1918, the nationally minded Latvians in Siberia created Latvian military formations: the Troickas and Imanta regiments. The Japanese role in the Allied intervention in Siberia was amongst other things to safe-guard the Amur Railway. During this time the tragic "Bochkareva incident" took place. On 15 March 1919, 32 Latvian volunteers on their way to join the Imanta regiment were executed by Japanese forces near Bochkareva railway station.⁶ The Japanese had received false information that these men were Bolsheviks. The Japanese Government later apologised for the misunderstanding and promised to erect a memorial for the men at Bochkareva and to pay compensation⁷ (eventually compensation to the value of 172 800 Yen⁸ was paid to their families).

³ See Katajns, E. (1994), *Japāna: vakar un šodien* [Japan: Yesterday and Today], Rīga: Latvijas Ārpolitikas institūts, p. 57.

⁴ Feldmanis, I. (2001), Latvijas starptautiskā atzīšana [International Recognition of Latvia], in Zīle, Ļ. (ed.) *Latvija divos laika posmos: 1918-1928 un 1991-2001* [Latvia in Two Time Periods: 1918-1928 and 1991-2001], Rīga: LU žurnāls "Latvijas Vēsture" fonds, p. 36.

⁵ Cited by Shima, S. (2005), "Introduction to Japanese-Latvian Relations between the Wars: The Beginning of diplomatic intercourse" in *Gakuen* No. 772, pp. 89-96 [English version].

⁶ See Krasnais V. (1938) reprint 1980, *Latviešu kolonijas* [Latvian Colonies] – Melbourne: Kārļa Zariņa Fonds, p. 337.

⁷ *Ibid.*, p. 337.

⁸ See Buks, A., Bočkarevas incidents latviešu un krievu virsnieku ziņojumos [Bochkareva Incident in the Reports of Latvian and Russian Officers]. http://vesture.eu/index.php/Bo%C4%8Dkarevas_incidents_latvie%C5%A1u_un_krievu_virsnieku_zi%C5%86ojumos. At the 1920 exchange rate this was worth some 87 000 US dollars or over 214 000 lats.

Japan recognised Latvia *de iure* on 26 January 1921 together with the other large powers.⁹

Comparison of Latvia and Japan in the Interwar Period

As can be seen from Table 1, Latvia's share of urban population was almost 16% less than that of Japan and the share of agriculture in the labour force in Latvia was higher (about 17%). National Income per capita was only slightly higher in Japan than in Latvia (about 10% higher); however the share of agriculture in NI was over twice as high in Latvia than in Japan. Moreover, Latvia's share of manufacturing in NI was two times less than in Japan. Thus, while Latvia had for all intents and purposes an agricultural economy, Japan was an industrialised economy.

Table 1 Selected economic indicators for Latvia and Japan in the interwar period

	Latvia	Japan
Population (millions)	2 (1939)	73.1 (1940)
Share of urban population (%)	34.6 (1935)	50.1 (1940)
Share of agriculture in the labour force (%)	67.8 (1935)	50.3 (1930)
National Income (millions Ls)	1256 (1938)	51315 (1940)*
National Income per capita (Ls)	628 (1938)	702 (1940)
Share of Agriculture in NI (%)	39.2 (1938)	15.9 (1939)
Share of Manufacturing in NI (%)	20.5 (1938)	41.3 (1939)

*Conversion of 1940 US dollars to Latvian Lats.

Sources: POPULATION OF JAPAN (Final Report of The 2000 Population Census), Statistics Bureau; *Economic Survey of Asia and the Far East, 1947* (1948), Shanghai: United Nations, pp. 15, 18, 30, 32; Darbiņš, A. & Vītiņš, V. (1947), *Latvija: Statistisks pārskats* [Latvia: A Statistical Overview], pp. 7, 18, 69; *Economists*, [The Economist], 1934, No. 22, 30.11.1934, p. 816.

Role of Latvian honorary consuls in Japan

Latvia had a number of honorary consuls in Japan.¹⁰ Thus, although formal *de iure* recognition of Latvia by the Japanese Government occurred in 1921, from 1919 to 1920, Jānis Ozoliņš, a Latvian resident of Kobe, Japan operated as an honorary consular agent, firstly unofficially, but

⁹ Feldmanis, I. (2001), p. 41-42.

¹⁰ Jēkabsons, Ē. & Ščrebinskis, V. (eds) (2003), *Latvijas konsulārie pārstāvji ārvalstīs, 1918-1991 in Latvijas ārlietu dienesta darbinieki 1918-1991. Biogrāfiskā vārdnīca*. Rīga: Zinātne, p. 375.

from May 1920 officially.¹¹ Ozoliņš taught English literature and aesthetic subjects at Kvansei Gakuin University, Kobe. He informed the Latvian Government on Japanese politics, the economy, tried to build trade links between the two countries,¹² assisted in the issue of the evacuation of Siberian Latvians, and took part in the discussions regarding the opening a Latvian Legation in Japan. In June 1920, he provided a comprehensive analysis of Japan's trade with Germany¹³, which he used to illustrate the possible areas in which Latvian trade with Japan could also benefit. His report included lists of goods in German, English and Japanese and he pointed out that linseed oil and pig bristles as products which, in the first instance, Latvian goods could substitute for German goods.¹⁴ He returned to Latvia in 1921.¹⁵

From May 1926 to August 1940, the honorary consul in Tokyo was an Englishman, Hans Hunter. Hunter was a businessman (Hunter financial combine) and is still remembered as the founder of the Tokyo Angling and Country Club at Nikko.¹⁶ He had a Latvian deputy consul, B. Janekalns. In 1927, Janekalns provided a full report on the economic, financial and commercial situation in Japan from 1912 to 1926.¹⁷ It included suggestions regarding what Latvia could export to Japan (canned goods, liquor, paper, pulp and plywood, and amber).¹⁸ The consulate also had advice for Latvian merchants who wish to trade with Japan, i.e. that they should place agencies with the larger Japanese firms such as Mitsubishi, Mitsui, Okura and others, which control the market in Japan and are old established firms, as well as a warning regarding high tariffs in Japan.¹⁹

For a few months in 1938 until his death, a Dutch national, Johannes Willem Bode, served as Latvian honorary consul in Yokohama.²⁰

¹¹ LVVA, 2574. f., 2. apr., 11. l., 35. lp.

¹² LVVA, 2574. f., 2. apr., 64. l., 29-30. lp.

¹³ Ozoliņš, J. (1920), *Japānas eksporta un importa ar Vāciju* [Japan's Exports and Imports with Germany], 2. daļa, Japānas Importa, Latvijas Konsulāts, Kobe, Japānā.

¹⁴ *Ibid.*, p. 1.

¹⁵ For a fuller description of the life and times of Jānis Ozoliņš see Karablina, T. (2008), unpublished Bachelor thesis, *Latvijas-Japānas attiecības starpkaru periodā (1918-1940)* [Latvian-Japanese Relations in the Interwar Period (1918-1940), University of Latvia Library, pp. 15-22, as well as in Shima, S. (2005).

¹⁶ Sotah, M. (1999), *Contemporary Bamboo Fly Rod Makers of Japan*, <http://www.maxrod.net/article/>

¹⁷ LVVA, 2574. f., 2. apr., 4425. l., 19-41. lp.

¹⁸ LVVA, 2574. f., 2. apr., 4425. l., 40. lp.

¹⁹ LVVA, 2574. f., 2. apr., 4425. l., 11. lp.

²⁰ Jaunākas Ziņas, No. 173, 04.08.1938.

Latvia's Economic Relations with Japan 1918-1940

In general, in the interwar period, Latvian and Japanese economic relations were confined to foreign trade and transit. There is no record of Latvian investments in Japan or of Japanese investments in Latvia. However, there is a record of a Japanese national, *Kisaburo Jokoi*, who from 1928 owned and operated a shop selling Japanese products and toys in Rīga.²¹

Latvia's foreign trade in the interwar was based in large measure on a system of commercial and trade treaties. By 1929, Latvia had concluded commercial treaties with all important European and non-European states, including Japan. They provided the regulatory framework within which were stated the obligations undertaken by Latvia in its foreign trade relations with its trading partners.

On 4 July 1925, Latvia signed a provisional Trade and Navigation Treaty with Japan.²² Negotiations continued in Berlin during 1927 and an additional Protocol was signed 7 April 1927.²³ The whole treaty was ratified by the Latvian Parliament (*Saeima*) on 3 June 1927 and came into force on 3 September 1928.²⁴ The Treaty was similar to an earlier treaty that Latvia signed with Great Britain (22.6.1923). The Treaty with Japan provided generally for Most Favoured Nation (MFN) treatment for both parties and as with other treaties signed by Latvia to that date it contained the Baltic and Russian clause²⁵. This Treaty was in operation for the whole of the interwar period.

Latvian-Japanese Trade 1922-1939

Prior to the signing of the Treaty there were only some minimal imports up to 1924. Latvian trade with Japan took off in 1925 and continued until the outbreak of WWII. The value of Latvian imports and exports to Japan can be seen in Figure 1.

²¹ *Valdības Vēstnesis* [Government Gazette], No. 94, 26.04.1935, p. 9.

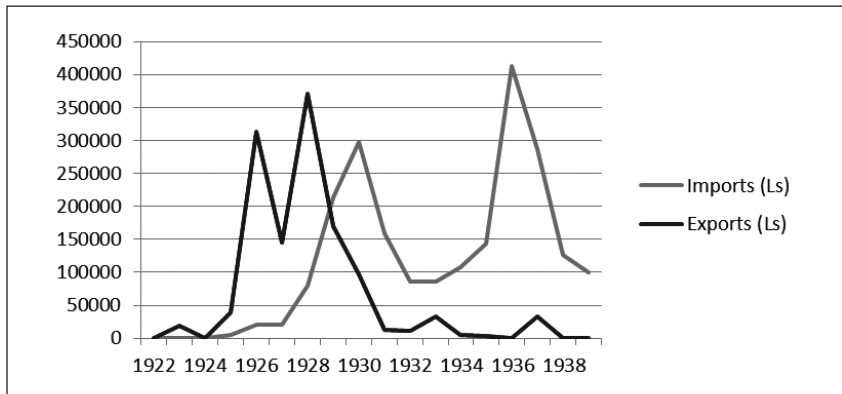
²² Munter, W.N. (1928), Commercial Treaties and Commercial Policy in *The Latvian Economist*, Riga: Ministry of Finance, p. 138, 151.

²³ *Valdības Vēstnesis* [Government Gazette], No. 194, 29. 08. 1928, p. 1.

²⁴ Likumu un ministru kabineta noteikumu krājums [Codification of Laws and Cabinet Regulations], 15. burtnīca, 30.06.1927, pp. 507-515; *Valdības Vēstnesis*, No. 194, 29.08.1928, p. 1.

²⁵ The Baltic and Russian clause was in the nature of a geographical and regional restriction of the MFN principle and provided that the MFN principle does not apply to rights, preferences and privileges which Latvia reserves or may reserve to Estonia, Finland, Lithuania and the Soviet Union. Reciprocally, there was a similar provision for agreements between Japan and the Soviet Union or China (Article 25).

Imports increased at fairly low levels up to 1929 and reached their peak in 1930. They fell sharply with the Great Depression, but recovered by 1933 and in 1936 reached their highest value – over 400 thousand lats. Exports, on the other hand, were greater than imports up to 1929 with a peak in 1928. They fell with Great Depression and never really recovered, reaching a low peak in 1937 with a value of over 33 thousand lats. Generally, exports exceeded imports only in the 1920s; for the 1930s imports greatly exceeded exports.



Sources: *Latvijas Statistika Gada Grāmata 1923* [Latvian Statistical Year Book 1923] Rīga: Valsts Statistiskā Pārvalde; *Latvijas ārējā tirdzniecība un transīts – 1924-1939*. [Latvian Foreign Trade and Transit. 1924-1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10*, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1057.

Figure 1 Latvia-Japan Imports and Exports 1922-1939²⁶

For its exports to and imports from Japan Latvia relied mainly on Japanese shipping through Hamburg, Germany. Although there were discussions regarding the extension of Japanese shipping to Rīga, the idea never came to fruition.²⁷ The utilisation of the overland route by railway through Siberia was little used for the export of Latvian goods to and import of goods from Japan.²⁸

²⁶ Latvia, following the practice of other nations, stopped publishing data regarding foreign trade after the commencement of WWII. See *Economists*. No. 4, 1940, p. 231. The data for 1939 is for eight months only – to 31 August 1939.

²⁷ *Economists*, No. 5, 15.03.1934, p. 179.

²⁸ See section on Transit below.

This was despite the fact that following the end of the Russian Civil War there were fairly large colonies of Latvians in China, especially Manchuria (*Manchukuo* after 1931).²⁹ In 1920 there were some 2500 Latvians in Manchuria, which had been reduced to 351 by 1935 and most of whom lived in Harbin.³⁰ Nevertheless, they were very active and had even established a Latvian Chamber of Commerce, which actively sought to interest Latvian manufacturers in exporting to Manchukuo after the Japanese occupation in 1931.³¹ Although very small lots of *Šprotes* (sprats)³² and other fish conserves and rubber galoshes were exported (presumably via the railway link), Latvian exports to Manchukuo were insignificant. Interestingly, the only recorded import from Manchukuo was 2091 tons of Soya beans worth 47700 lats in 1939, which came by Japanese shipping to Hamburg and then on to Latvia.³³

Latvia also participated in a Nordic Trade and Industry exhibition held in Osaka from 1-21 October 1937.³⁴

Latvian Exports to Japan

Latvia's main exports to Japan were paper and paper products (See Table 2).

The export of paper and paper products reached their peak in 1928. They fell dramatically with the onset of the Great Depression and never really recovered. Latvia's other main export to Japan was the famous Latvian canned fish export – *Šprotes* and other fish conserves, which continued intermittently throughout the interwar period.

²⁹ See Krasnais, V. (1938), pp. 258-367.

³⁰ *Ibid.*, pp. 358-359.

³¹ See *Dzimtenes Atskaņas*, No. 4, 01.10.1939, pp. 21-24.

³² Sprats are close relatives of anchovies, sardines and herrings. The Latvian style is to smoke and/or preserve them in oil.

³³ *Mēneša Biļetens* Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1063.

³⁴ *Kurzemes Vārds*, No. 165, 25.07.1937, p. 4

Table 2 Latvia's Main Exports to Japan

Year	Paper and paper products		Šprotes and other fish conserves	
	kg	Value (Ls)	kg	Value (Ls)
1923	23 588	11 115	0	0
1924	0	0	0	0
1925	79 354	38 943	0	0
1926	574 502	313 403	106	522
1927	267 018	141 540	2135	2927
1928	589 434	366 323	366	691
1929	293 048	165 418	2790	3382
1930	165 145	86 639	0	0
1931	20 644	12 357	0	0
1932	11 585	3829	0	0
1933	43 190	15 026	2526	3028
1934	22 082	4921	297	280
1935	5436	1022	2616	2235
1936	0	0	314	664
1937	30 000	7223	0	0
1938	0	0	0	0
1939	0	0	0	0

Sources: *Latvijas Statistika Gada Grāmata 1923* [Latvian Statistical Year Book 1923] Rīga: Valsts Statistiskā Pārvalde; *Latvijas ārējā tirdzniecība un transits – 1924-1939.* [Latvian Foreign Trade and Transit. 1924-1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10, oktobris 1939* [Monthly Bulletin, No. 10, October 1939], pp. 1060-1081.

Latvian imports from Japan

Latvia's main imports from Japan were chemical and pharmaceuticals; agar; food products (mainly rice and spices); fats and oils, soya beans and haberdashery (including buttons and pearls). The amounts and value of Latvia's main imports imported from Japan in the interwar period are shown in Table 3.

Most Latvian imports from Japan commenced in 1924 although some imports of textiles and books, as well as various manufactures had commenced as early as 1922.³⁵

³⁵ *Latvijas ārējā tirdzniecība un transits –1922.* [Latvian Foreign Trade and Transit. 1922.] Rīga: Valsts Statistiskā Pārvalde, p. 93.

Table 3 Latvia's Main Imports from Japan

Year	Chemicals and Pharmaceuticals		Agar		Food products (mainly rice and spices)		Fats and oils (industrial, vegetable and animal) etc.		Soya beans		Haberdashery (including buttons and pearls)	
	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)
1924	1	50	0	0	0	0	0	0	0	0	1	300
1925	78	335	0	0	0	0	0	0	0	0	22	3832
1926	2104	9416	0	0	0	0	20	103	0	0	189	8161
1927	3063	14277	0	0	0	0	462	2507	0	0	92	3959
1928	4436	15268	838	11138	1193	2628	22783	17549	0	0	330	6231
1929	3876	15502	5880	63473	3550	5681	78140	91241	0	0	869	12694
1930	5812	19797	2655	28406	4827	6654	188711	159123	0	0	2171	24917
1931	2877	11778	2823	29634	59429	17629	82408	66791	1041	333	1037	14708
1932	934	4792	4319	30175	36114	10688	7370	22141	992	218	528	7243
1933	2831	14306	2929	9356	84864	17331	22826	31225	0	0	459	4468
1934	808	1964	1855	5735	36481	8550	30200	21534	499639	54090	823	7115
1935	3154	5501	4454	21372	18867	5713	19496	21196	504080	57551	999	11530
1936	833	1375	4965	25582	19566	8774	17449	30131	1999572	270203	3316	43336
1937	980	6612	2494	20384	2442	5497	16814	44505	345350	90969	4919	68820
1938	444	6130	4057	30914	8822	25794	277	417	0	0	1556	35462
1939	0	0	0	0	0	0	...	6000	0	0	1000	28000

Sources: Latvijas ārējā tirdzniecība un transīts – 1924-1939, [Latvian Foreign Trade and Transit, 1924-1939,] Rīga: Valsts Statistiskā Pārvalde; and Mēneša Bijetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], pp. 1060-1081.

The main import in terms of volume was fats and oils, which reached their peak in terms of volume and value in 1930. Imports of chemicals and pharmaceuticals fluctuated throughout the period, reaching a peak in terms of both volume and value also in 1930. Agar was an important import product and reached its peak in terms of both volume and value in 1929. Food products (mainly rice and spices) were also important import items in the 1930s, reaching a peak in terms of volume in 1933 and in terms of value in 1938. Soya beans became an important import product in 1930s reaching a peak in terms of both volume and value in 1936. Haberdashery imports especially buttons and pearls were small but steady import items for the whole of the interwar period, reaching a peak in terms of both volume and value in 1937.

During the interwar period Latvia imported a whole range of Japanese goods in small quantities including toiletries, textiles, glassware, precision instruments, toys, silk and silk thread, paper products, etc.

Transit

Historically, Latvia has been a transit point for both north-south and east-west trade flows. In particular, during the interwar period, Latvian railways linked Latvia with Russia, connecting the country to destinations as far as the Russian Far East, and thus providing opportunities for trade connections with Japan.

The groundwork for a transit trade route from Japan to Latvia and then on to Western Europe was laid in the 1920s. In 1927, a Convention regarding a direct passenger and luggage traffic Europe-Asia through Siberia came into force.³⁶ This route was Vladivostok-Paris-Ostend-Calais through Khabarovsk, Moscow, Rīga and Berlin. Direct traffic from Vladivostok to Japan was maintained by the “Osaka-Chosun (Korea)-Kyushu” shipping company.³⁷

From 1 October 1931, a direct goods traffic railway link existed between Germany, Lithuania, Latvia, Estonia, China and Japan through Siberia, which operated up to 1940.³⁸ From the beginning of WWII when Germany closed the Baltic Sea to Latvian exports and imports, this railway link was seen as a possible route for Latvian trade both with the Far East and the USA.³⁹ However, the link was not utilised either before or during WWII.

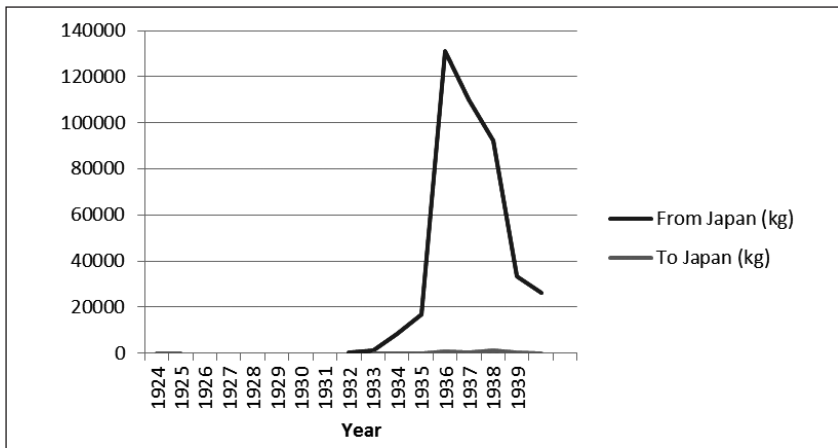
³⁶ *Valdības Vēstnesis [Government Gazette]*, No. 216, 27.09.1927, pp. 1-4.

³⁷ *Ekonomists*, No. 15/16, 01.08.1926, p. 636.

³⁸ *Ekonomists*, No. 8, 15.04.1940, pp. 547-549.

³⁹ *Ibid.*, p. 549.

The opening of a goods traffic railway link is reflected in the large increase in transit goods flows from Japan in the 1930s (see Figure 2).



Source: Latvijas ārējā tirdzniecība un transits – 1924-1939. [Latvian Foreign Trade and Transit, 1924-1939.] Rīga: Valsts Statistiskā Pārvalde.

Figure 2 Transit Goods Flows from and to Japan through Latvia

As can be seen in Figure 2, the vast majority of transit flow was from Japan with minimal transit to Japan. Most of the goods were bound for Germany and included wooden articles, chemical products, textiles, paper products, ceramics and electric motors. There was also a minimal amount of transit goods from Japan to Estonia and Lithuania (chemical products, toys and textiles).⁴⁰

Conclusion

In 1929, when Latvian foreign trade reached its pre-Depression peak, Latvian exports to Japan made up only 0.1% of total Latvian exports, and Japanese imports made up 0.1% of total Latvian imports. Similarly in 1938, when Latvian foreign trade reached its post-Depression peak, exports to Japan barely registered in the total of Latvian exports, and imports from Japan were only 0.1% of total Latvian imports. One suspects that the figures from the Japanese point of view would be similar or even less. In other words, trade and thus economic relations were of marginal significance to both countries in the interwar period.

⁴⁰ *Ekonomists*, No. 24, 31.12.1933, p. 925.

It is interesting to note⁴¹ that in 2015 Latvian exports to Japan totalled 41.8 million EUR or 0.3% of total Latvian exports (mainly timber, peat, furniture) whilst imports from Japan totalled 22.4 million EUR or 0.2% of total Latvian imports (mainly electronic goods, automobiles).

Although there is minimal investment (in 2015, an accumulated capital of 0.1 million EUR) by Latvian companies in Japan (there were none in the interwar period); in April 2016, some 8 Japanese-Latvian joint ventures were registered in the Latvian Enterprise Register with an accumulated capital of 47.1 thousand EUR.

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⁴¹ The following is from <http://eksports.liaa.gov.lv/japanas-latvijas-ekonomiska-sadarbiba> [accessed 02.05.2016].

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LATVIAN VOLUNTEERS IN THE SPANISH CIVIL WAR

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Abstract

The purpose of this article is to analyse the participation of Latvian volunteers in the Spanish Civil War (1936-1939). To examine this historical episode, diverse international archival sources have been processed, in order to produce a common narrative. This is a topic which had remained lost in the limbo of oblivion, however, on a documented basis is now possible to narrate the feats of the Latvian *brigadistas*¹. While the authoritarian government of Latvia had declared itself neutral towards the Spanish conflict, it took place with the mobilisation of a particular generation made up of young men and women who understood this war as the beginning of an international struggle against Nazi-Fascist powers. These volunteers interpreted the war in Spain in a universal dimension – the Spanish Republican Army was assisted by volunteers from 54 nationalities out of the 56 recognised independent states of the time. Between 1936 and 1938, about 200 Latvians reached Spain and joined regular Republican military units: the International Brigades. They left their daily routines, families and homes in order to enlist in a foreign army to kill and die for. In Spain the Latvian volunteers distinguished themselves because of their idiomatic skills, medical knowledge and previous military experience (especially in the field of artillery). In numerical terms their participation was limited, but in percentage and narrative terms, their story is fascinating and illustrative.

Volunteering for Spain was categorised as a serious felony by the Ulmanis regime. Taking sides in the Spanish Civil War was punished by the loss of citizenship penalty. Due to this fact, after Franco's victory, a considerable number of the Latvian *brigadistas* ended up in French concentration camps until 1941.

Not all the Latvian volunteers who fought for the Republican side served in the International Brigades. The Soviet Union was involved in the Spanish Civil War, and a whole intervention mission was launched under Stalin's orders. Approximately, 2000 Soviet officers from different military fields, served in Spain as advisors, instructors or technicians. A considerable group of them were Latvians, who, by the way, experienced first-hand the horrors of the Great Purge.

Despite being a tremendous and fascinating topic, the existing bibliography about it is very scarce. This study begins to fill this literature gap, joining together the existing materials, which combined with documentary sources allow one to make a social picture about the Latvians who volunteered for Spain in those uncertain times of the history in the late 1930's.

Keywords: Antifascism, Comintern, International Brigades, Latvian volunteers, Non-Intervention Pact, Second Spanish Republic, Soviet participation, Spanish Civil War

¹ A member of the Spanish International Brigades (*Brigadas Internacionales*).

Introduction

On Thursday, 8 May 1941, an enormous crowd was walking to Riga Central Station, in total expectation. The multitude was formed by a large group of men in long coats and hats, women carrying flowers and an orchestra. At last, more than 4 years after their departure, twelve Latvian *brigadistas*² were about to arrive back in their homeland. Their way back home had been even more tortuous than their initial outbound journey. When the train arrived at the platform, the multitude welcomed the *cīnītāji*³ very warmly, as heroes. Several photographers immortalised the scene. After the hugs and greetings, some speeches were given. They commemorated “the struggle of the international working class in Spain” – a Latvian leftist newspaper stated⁴ – “workers, artists, scientists, revolutionaries, old and young men from all over the world, both communists as well as progressives, volunteered in order to help the Spanish people to fight for freedom”.

This was a symbolic closure for the episode of the Latvian volunteers in the Spanish Civil War (SCW). The outbreak and dimensions of World War II in the Eastern front eclipsed it. However, after 1945, the Spanish Civil War began to be understood as the prelude for WWII. Actually, this consideration fitted very well in the Soviet narrative. The international mobilisation of volunteers for Spain developed into a prophylactic measure against fascism. During the next decades, the International *brigadistas* were included in the consecutive homages and cultural tribute in the whole Eastern Block, as a crucial part of the fight against Hitler.

The few themed books published about the Latvian volunteers were fruit of it. By the time of the warmth of the Khrushchev Thaw, some themed works about the Latvians in Spain surfaced. The first of them was “Viva república!” (Riga, 1957), which is in fact, the first historical work on the SCW in the Latvian language. It was written by Rudolfs Lācis, who fought in Spain. The work provides us a general picture of the background and development of the conflict, with constant references to the Latvian volunteers. A second work was published under the title: “Latvijas cīnītāji Spānijā, 1936-1939: atminas un dokumenti” (Riga, 1966), firstly in Latvian and later a Russian translation was published. This work was published by the Institute of History of the Communist Party of Latvia, and it is mainly a memoirs compilation of several *brigadistas*.

² Their identities were Gurēvičs, Spalāns, Lipkins, Broziņš, Pūce, Folmanis, Kadiķis, Cielēns, Beniķis, Donchins, Markovņiks and Rozenbergs.

³ “Fighters” in Latvian.

⁴ Jaunais Komunārs, Nr. 110 (09.05.1941), p. 1.

The flame of the Latvian *brīvprātīgie*⁵ extinguished concurrently as they died out. The leap into capitalism and the regaining of the national sovereignty entailed a full renunciation of the former Soviet cultural narratives, and with that the story of the Latvian *brigadistas* was lost. For almost 40 years the topic passed out of all knowledge, until the opening of the former Soviet and Spanish archives took place. Thanks to both political transitions, it is currently possible to build up a scientific historical story, based on the relevant primary evidence of the time.

The Setting and Recruitment

The late 1930s were a period of upheaval throughout Europe. Faith in democracy was already sinking to the bottom. Authoritarian and totalitarian regimes were proliferating in Europe since the March on Rome in 1922, but the main rise of authoritarianisms took place during the thirties. Democracy only survived in those countries with a longer democratic tradition, such as France, United Kingdom or the Nordic countries, but even in some of them, the breach of fascism took place as a political alternative. The dimensions of this division between democracy and tyranny were such that by the end of the decade only 12 countries out of the 29, that composed Europe, retained a democratic system. The Baltic States were not an exception. Almost two decades after gaining their independence as democratic republics, due to the unfavourable context conditioned by the political polarisation of Central and Eastern Europe, all three Baltic nations acquired authoritarian regimes. Paradoxically, democracy in Latvia came to the end by the hand of one of the political key figures in the creation of the Republic of Latvia, the first and former Prime Minister, Kārlis Ulmanis. He carried out a *coup d'état* in May, 1934 and introduced authoritarianism⁶ in Latvia. At the end of the day, the European balance was in danger since Hitler launched his aggressive campaigns. In order to avoid the participation of third countries in the Spanish

⁵ "Volunteers" in Latvian

⁶ Some authors, as George Von Rauch, have said that Latvia (like Estonia) was an "authoritarian democracy". However, Ulmanis' Latvia shared fascist features, as for instance: the chamber system in government, anti-Marxist speech and policies, ultranationalism, fascist aesthetics regarding uniforms and propaganda of the regime, cult of the personality of their leading figures, single ruling party. The control on education and press was also considerable. But unlike the best-known examples of authoritarianisms, the Baltic authoritarianisms did not practice a general or brutal violence policy against opposition and there was no physical elimination of political enemies, in any case there was a severe regime of censorship, political prosecution and imprisonment. Björn M. Felder and Paul J. Weindling (2013) have recently studied some of these aspects.

conflict and to keep the appeasement policy towards Germany (specially carried out mainly by United Kingdom), France proposed the creation of an international Non-Intervention Pact. Immediately several governments of Europe agreed this project and by 15 August 1936, UK and France accepted to establish a committee. The decision was agreed by 27 European states, including Latvia. But it was never captured in a paper⁷. In February 1937 Ulmanis' Latvia passed a national decree in order to ban the organisation and participation of national citizens in the Spanish Civil War. In general terms Latvia fulfilled the Non-Intervention Pact during the three years of war. Only few episodic diplomatic or commercial dealings took place with both Spanish governments.

The Spanish Civil War gained, since its early beginning, the characteristic features of an international conflict. The rebellion, supported by Nazi Germany and Italy, faced a Spanish Republic isolated in the international negotiations. But, beyond the attitude of the European governments, thousands of citizens from all the countries supported the antifascist cause of the Republic. The participation of foreign volunteers took place from the very outbreak. Until the summer of 1936, diverse foreign volunteers joined militia units, depending on their political similarity. Some others gathered because of their nationality. But the organised international mobilisation was the direct result of a Comintern⁸ decision. It organised the moral and material support that culminated in the foundation and recruitment of the International Brigades (IB): regular military units integrated in the Republican Army, formed by foreign volunteers from all over the world. About 200 men (and a dozen of women) were Latvians. Dreamy proletarians, peasants, doctors, intellectuals...all kinds of men and women were convinced: "fighting fascism in Spain was fighting their domestic fascism"⁹.

The Comintern followed attentively the events which were taking place in Spain since the very beginning. Exactly two months after the outbreak of the coup, when it had already evolved into a war status, the Comintern approved "the gestation of an organised recruitment in all the countries of volunteers who counted on military experience in order to be sent to Spain¹⁰". The decision was made by the Secretariat of the ECCI¹¹ on 18 September 1936, and it entrusted the organising tasks to the national

⁷ Aróstegui, Julio (1997).

⁸ The Communist International, abbreviated as Comintern.

⁹ Statement of most of the Latvians once arrived in Spain.

¹⁰ RGASPI/KOMINTERN/E.517/OP.3/D.15.

¹¹ The Executive Committee of the Communist International, commonly known by its acronym, ECCI.

Communist Parties. The main tasks were given to the PCF¹², led by the distinguished Comintern agent André Marty. Along the antifascist bibliography, the creation of the International Brigades has been shown as a response of the international working class to the Non-Intervention Pact, but the formation of the International Brigade as an organised mobilisation was actually a direct result of Stalin's change of mind towards Spain. A few days earlier, he had agreed to a wide involvement in Spain, but in secrecy Stalin encouraged and supported the recruitment and shipment of *brigadistas*. By the end of September "the Spanish comrades requested to intensify the shipment of volunteers, – Luigi Longo wrote – but few days earlier the Comintern had already decided to reinforce and to carry out a massive scale recruitment".¹³ Longo also reveals that in every country a special committee was created in order to organise the transportation of its national volunteers. In 1933, the ECCI established an international committee against war and fascism: the so-called "Amsterdam-Pleyel committee". It was the beginning of a complementary policy to the Popular Front's strategy. The main goal was to create plural committees of international solidarity, but ruled *de facto* by the Communist Party. Since the outbreak of the Spanish conflict, these committees proliferated rapidly thanks to the work carried out by International Red Aid branches. Firstly, they carried out tasks related to economic donations,¹⁴ but after August 1936, due to the increase of foreign volunteers, the committees began carrying out recruitment tasks. The recruitment criteria for volunteers was very lax, and it was not allocated only for communists, it was allocated to all antifascist trends and no other political, national or racial criteria was applied. The French organisations played a very important role, co-operating in the organisation and shipment of volunteer groups to the Spanish borders. France became the key point for the final step into the Republican frontlines. It was a shuttle platform for the IB. In France two middle-bases were established: one in Marseille (for the maritime transportation) and another in Perpignan (for the land access). But, the political and clandestine organising work was carried out in Paris.

The recruitment process required a considerable economic funding and the most important thing: a clandestine framework to work under Ulmanis' regime. Depending on the effectiveness of the Comintern in each country, the more complete would be each national network¹⁵. In the case of the Baltic States, the Comintern was very active and involved

¹² The French Communist Party (French: Parti communiste français, PCF).

¹³ Longo, Luigi (1966), p. 42.

¹⁴ A donation list can be found in the Latvian War Museum.

¹⁵ Skoutelsky, Rémi (2006).

in the all three countries. Due to this fact, Latvia experienced a very wide social support towards the Spanish cause and the motto *iNo pasarán!*¹⁶ was quickly adopted. Since September 1936, the Latvian Communist Party (LKP) committee got in touch with the communist organisations in Paris, where two Latvian activists were working as organisers for the internationalist effort, specially focused on communications and the shipment of antifascist volunteers from Eastern Europe. Their names were Masja Zilbermane and Janis Palkavnieks¹⁷. Both were LSP activists (the Latvian branch for the Red International Help). It is not clear if they were sent to Paris or if they were already exiled. The author is personally inclined towards this second option. Anyhow, they were mainly responsible for the arrival of Latvian volunteers, and other Baltic nationalities. Their work was about facilitating the trip and the incorporation into the Spanish lines. The French organisations arranged two departure bases on the southern border, one for maritime transportation and a second one for land transport. But the trip previously included a whole system of combinations.

From Latvia the first step was usually to move to Sweden and Denmark, pretending to be tourists in order to evade authorities. From there, they headed to France through Central European countries. Obviously, Germany, where the Gestapo was already playing a horrifying role, was not on their plans, and they rather preferred crossing through the Czech Republic and Belgium. But, there were no safe stops. In September 1936 the Swedish authorities arrested a Latvian group of volunteers who were in their way to Spain.¹⁸

Once they arrived in Paris, they were gathered and sent in small groups¹⁹. Each one was formed by many different nationalities. Usually the Latvians never exceeded more than three volunteers per outbound group. Latvians and Lithuanians especially (and Estonians in less measure) used to meet in France and left together into Spain. Some of them carried their books and musical instruments²⁰. They were transported by train to Perpignan, a French city close to the Spanish border. The next stop was Figueras, a Catalonian city, where they used to arrive by train and sometimes in trucks. In Figueras they were concentrated and few days later taken to Albacete, where the Spanish Government had established the IB General Headquarters.

¹⁶ Spanish for "They shall not pass".

¹⁷ RGASPI/KOMINTERN, F.545, OP.6, D.604/18.

¹⁸ Sugarman, Martin (2013), p. 79.

¹⁹ According to Longo (1966), by Autumn, 1936, every night were prepared and sent about 40 foreign volunteers.

²⁰ Vidal Castaño, José (2004), p. 207.

Latvians and the International Brigades

Nowadays it becomes evident that the feats of the International Brigades (IB) have been subject to a certain degree of mystification, distorting their genuine social picture. Of course, it is a major task for the historian to make up a general outline about the (approximately) 35000 volunteers²¹ from 54 countries (out of the 56 independent and recognised countries within the League of Nations in 1936). But it is possible to point out some general characteristics and features about their socio-political picture: they were men and women from different races, social classes, religious beliefs and political convictions. Their link in common was the understanding of Spain as the first open battlefield where to fight International Nazi-Fascism.

As some authors have pointed out, the social picture of the IB is frequently shown among bibliography as too intellectual²², frequently omitting a more truthful analysis. This intellectual and romantic touch rests partially on the oversized picture broadcast by the constant appearance of characters such as Hemingway, Orwell, Malreux, Renn or Regler, who are some of the best known cases of international figures who supported the Republican cause, even though none of them joined the brigades. Many notorious figures of the IB count on well documented works while the general picture, composed mostly by anonymous volunteers has not begun to be fully approached until recently.

According to the documentation at the author's disposal, it can be inferred that the Latvian volunteers can be divided in two different groups according to their identified professional status. The first and largest was formed by workers from manual labour fields. About 80% of them were factory workers, mechanics, painters, chauffeurs, and peasants; as well there is a registered case of a Riga tram driver! The second group was a minority, which included engineers, doctors, nurses, military officers of diverse rank, pharmacists and some people from the arts world. This second group of learned people, carried out their university studies in Western and Central European countries (such as France, Germany, Czechoslovakia and Austria), where they also began their political activity and learned other languages, which would be very useful later within the frame of the International Brigades. In fact, these international experiences and organisational contacts, with other European activists during the decade prior to the Spanish Civil War, meant a turning point in their lives and motivated them to join the Spanish cause some years later.

²¹ RGASPI: KOMINTERN/E517/OP.3/D.15. Quoted by Skoutelsky, Rémy : *Novedad en el frente* (Temas de hoy, 2006).

²² Skoutelsky, Rémy (2006).

From a geographical point of view, they mostly came from the industrial cities of Latvia. Especially workers from Riga, but also from factories located in Daugavpils and Liepāja. Also there were volunteers from some flourishing urban areas as Valmiera or Ventspils, as well as from some other areas of the countryside connected to the railway network. At this point it is important to point out the decisive role played by the railways in the political and cultural spread throughout the Latvian countryside. However, there was a considerable number of Baltics who volunteered from their immigration destinations, where they have already fled to, especially since the 1929 crisis. Some Latvians came from the United States, such as Elias Begelman and Isadore Leavitt (aka “Jack Cooper”)²³. Usually they were included in English-speaker battalions and counted as Americans or some time they were double counted which generates a problem for an accurate quantification. However, there were also Latvians who volunteered also from Soviet Union or from Central European countries where they were already exiled or studying.

The Latvians who fought in Spain were mostly born between 1905 and 1915, having an average age for enlistment of 27 years. There were some exceptions. The oldest volunteer was the General, Voldemars Ozols, who was born in 1884 and was 51 years old when he joined the IB. The youngest ones were in their teen years when they enlisted. They were born in 1917 and 1916²⁴. Only three of them were WWI veterans. These were experienced Red Army officers who served in Spain as members of the Soviet involvement mission. Their names were Jānis Tikiņš, the Latvian rifleman Jānis Artmanis²⁵ and Augusts Ratnieks. However, the impact of

²³ Both were born in Riga and immigrated with their families in the early 30's. The Abraham Lincoln Battalion Archive counts on files about both of them at the Taminent Library in New York. Under the entry name and code: “Elias Begelman Papers (ALBA.124)”, it can be found some correspondence and official documentations related to the IB. Also it can be found a photograph of Isadore Leavitt (Jack Cooper): “ALBA/Photo-nr/11-0147”.

²⁴ The two youngest Latvian volunteers were both from Liepāja. They were Jascha Israelsen (1917) and Rudolfs Smits (1916). Israelsen joined the Republican Army in February, 1938, and was a private of the XIVth International Brigade (4th battalion, 2nd company). Rudolfs Smits fought in Spain between March, 1937 and February, 1939, as gunner of the Division of Artillery of the XIIIth International Brigade.

²⁵ Jānis Artmanis, whose real name was Alfrēds Tiltiņš was born in 1897 in the region of Mežotne. He was the older brother of Pol Arman, Soviet tank commander who also volunteered for Spain. Jānis fought for the Russian Army during the Great War and later joined the Red Army during the Russian Civil War (1917-1922). He served in Spain between October, 1936 and May, 1937, as advisor in the Soviet mission. In November, 1937, he was arrested with other Soviet Latvian officers under Stalin's purge orders. Condemned to 15 years of imprisonment, he died in 1941. He was rehabilitated during the Khrushchev Thaw.

the Great War was present in all of them. The majority of them were children who were raised in a society traumatised by warfare. Unfortunately, war had marked the prologue of their lives and for many it meant also its epilogue. The young Baltic States had been born during the last beats of WW1 and through National Independence Wars. Their sovereignty and independence was erased at the outbreak of WW2. This close relationship between the Latvian people and war can – only partially – explain the high rates of volunteer participation in the International Brigades. Many of them were too familiar regarding war.

From an ethnic approach, the Latvians composed a heterogeneous group that depicted the multi-ethnic society of Latvia at that time. There were mainly ethnic Latvians, Jewish (a very large group) and Latvians with Slavonic roots. It was the result of the Tsarist control in the Eastern Baltic shore since the end of the XVIIIth century. They all had a strong national feeling and affection for Latvia, the homeland of all of them, as it can be deduced from their letters.

For the great majority of Latvians who volunteered for Spain, their true profession was Revolution. Their personal records allow such a categorical statement. Most of the documented individual cases were committed political activists. Prosecuted, arrested and imprisoned in several different countries all over Europe. There was a large group of Latvians who dedicated their whole life since late childhood to communist activities, both in their motherland and abroad. As a result it is rare to find any volunteer among them with no police records. These personal files reveal that many of the Latvian *brigadistas* had lived in an intense political environment prior to the Spanish Civil War. So far, the most interesting files regarding their political background can be found at the RGASPI²⁶. A considerable number counted a large number of arrests; two of them had been arrested 9 and 10 times each. Tired of being intensely prosecuted, they saw in Spain an open battlefield for their convictions, far away from hiding.

Concerning their political and ideological leanings, the Latvians volunteers (as for the other two Baltic nationalities) show a very homogeneous result: most of them with a defined and known ideology were Communist. Members of the national Marxist-Leninist parties, clandestine local brunches of the VKP(b). In Latvia the Communist Party (CP) was represented by the *Latvijas Komunistiskā partija* (LKP). Those who already had immigrated to America and elsewhere also joined different brunches of the CP in their hosting countries, most of which were inclined to the Soviets. There are not yet documented cases of members of other

²⁶ The Russian State Archive of Socio-Political History, formerly the Comintern Archive, preserves the main documentary fund about the International Brigades and nowadays it stands for a mandatory visit for any researcher.

parties. Some of them collaborated also in the “MOPR” (Russian acronym for the “International Red Aid”). However this seems very compatible, since the political guidelines of the “MOPR” were under the direction of the CP. As it can be inferred from the Comintern’s files, some other volunteers had no defined ideology, but in their registration files they considered themselves simply as *antifascistas*. These same files also demonstrate that, during and (especially) after the Spanish Civil War, the Comintern carried out an intense work of “*political evaluation*” on the individuals who joined the IB, but on the Baltic volunteers in particular. This political supervision took place concurrently with Stalin’s Great Purge, causing the arrest and execution of a number of Soviet Latvian officers.

However, these International veterans were very valued by the Republican Army, at least as for leading the International Brigades and composing the General Staff. Actually all the IB were headed by foreign figures such as the brigade generals Hans Kahle, “Kléber”, “Gómez”, Dumont, “Lukács”, “Walter”, Copic, Cunningham, Ludvig Renn etc. They were exceptions because they were some of the few of the International volunteers who counted on previous military experience as officers. However, many of them reached officer and sub-officer ranks within the EPR²⁷. Many Latvians reached officer positions.

Latvian Volunteers

Janis Benikis became Commander of an artillery division. Rudolfs “Wilks” Lacis²⁸ achieved the rank of Major of the XIIIth IB. “Claudio Chispa”, whose real name was Aleksander Berzins, reached the rank of Captain and led the anti-tank battery of the Dumbrovski battalion from the XIIIth IB. Georgs Brozins, who became Captain after the Battle of Jarama, in February, 1937, was later promoted to Commander of the 341st battalion. He achieved also the officer rank of Chief of Infantry of the XVth IB. His main assistant was also a Latvian, Frīcis Puce. There is also a large list of lieutenants and sergeants. The Lieutenant Aleksanders Ginsburg was commended for courage posthumously, after he was killed in action in the Aragon front. Another interesting case was Voldemars Ozols, a Red Army veteran who immigrated to France. According to some sources reached the rank of brigade general, but it still has to be confirmed. After the Spanish Civil War he ended up in a French internment camp and joined the *Resistance*.

²⁷ The People’s Republican Army, Spanish: Ejército Popular de la República (EPR).

²⁸ His recruitment form is preserved at the Latvian Museum of War. Rudolfs Lācis wrote the first historical work in Latvian about the Spanish Civil War, entitled: “Viva república!” (Rīga, 1957).

After WW2 Ozols became professor at the University of Latvia. He died in 1949. One of the most notorious Latvian volunteers was “Egon Schmits”, whose real name was Mihails Švarcs. His previous military experience and his “political curriculum” were well valued by the IB General Staff, who promoted him to Captain after Jarama Battle, where he was wounded. He became Chief of the Sappers Company of the XVth IB’s engineers unit in order to carry out counterintelligence tasks. On August 18th, 1938, Švarcs was killed in action in the major Republican offensive over the Ebro river²⁹. “On August 18th, about noon, I announced that Švarcs had fallen” – Peter Ludvig, who was head officer of fortifications from the XVth IB wrote on his memoirs. “We gathered around his corpse. We dug the grave and over it we built a memorial of 1.5 meters: a monument³⁰ which memorised and honoured the names of those comrades who had fallen fighting for the Sierra de Pandols.”

However, not all the Latvian volunteers served in military units. There were also a considerable number of doctors and nurses who worked in the “Servicio Sanitario Internacional” (ISS), an institution run by the IB Headquarters, which counted several hospitals over all the different fronts. By December 1936, the Republican troops planned a major offensive over Teruel front, in Aragon. Therefore, the IB Staff established in Benicassim a hospital the goal of which was to aid the foreseeable wounded troops for the battle. The creation of this complex became the corner stone for the establishment of an IB Health Service with its own hospital network. During the first months, this service worked at battalion and brigade levels. However, after the Battle for Madrid, the subsequent transfer of the government to Valencia and the overflowing of the hospital system into the Central front produced a saturation of the Albacete clinic, which became a hospital. However, it became evident that the Republican army required a well-organised and extensive network of hospitals through all the active fronts. Meanwhile the wounded *brigadistas* were dispersed in about 50 different hospitals and clinics³¹.

The wounded that were hospitalised in Madrid were evacuated: the city was exposed to the daily bombings. In Murcia, the IB Staff established another hospital in order to relieve the occupancy rates. This hospital net is established concurrently when the largest number of Latvian volunteers joined the International Brigades in 1937, coinciding with the hardest battles. Many of them were wounded and were hospitalised at some

²⁹ His recruitment form is preserved at the Latvian Museum of War. Rudolfs Lācis directed the first historical work in Latvian about the Spanish Civil War, entitled: “Viva república!” (Riga, 1957).

³⁰ A picture of this monument can be found in Lācis, Rudolfs (1957), p. 99.

³¹ Casañ, Guillermo (2004).

point³². Mostly, they stayed at the hospitals placed in Santa Coloma del Farnés, Murcia, Farnés de la Selva, Benicassim, S'Agaró, Villanueva de la Jara, Mataró and Albacete. A considerable number of them were several times hospitalised. About 50% of all the Baltic *brigadistas* died or wounded in Spain.

However, the hospital network required more resources, both material and personnel. If by November, 1936, the IB counted on only one clinic with capacity for 30 patients, with 6 doctors and a handful of nurses, by the summer of 1937, the Republic had 21 hospitals (with an approximate capacity for 6000 patients) staffed by the ISS. As the horrors of the war intensified, the strengthening of propaganda campaigns took place. Especially they were carried out by Spanish institutions, the MOPR and the Comintern. It was the time of the photomontages. Hundreds of different posters, which showed the horror, lived by the civilian population in Madrid. Especially pictures of children were used. They were produced in several languages. They made an appeal for international solidarity, under slogans such as "What do you do to avoid this?"

It seems these campaigns were extraordinarily effective and supported. The recruitment of military and sanitary volunteers increased considerably in 1937. By the fall of 1937, the ISS was composed by more than 1500 doctors, nurses and ambulance drivers. There were Baltics among them! Latvian Jewish and Latvian women played a very relevant role.

Latvian Jewish Volunteers

Despite the fact that the total quantification of the Jewish group in the frame of the IB is still controversial and matter of discussion, generally, the historiography estimates this group at about 7000 persons³³. This high presence, about 20% of the total number of *brigadistas*³⁴, is obviously related to the large amount of political activism among the left-wing parties and Hebrew movements, which Jewish groups were involved in since the second half of the 19th century in Eastern Europe. Prior to WW2 in Latvia there was a large Jewish community. It was, almost totally, erased during the Holocaust. Riga was a political centre, due to its population

³² A very nice picture of some Latvian volunteers at the Murcia Hospital during summer, 1937, can be found in the Latvian War Museum.

³³ Ibáñez Sperber, Raquel (2006). It includes Jewish and people from Jewish roots. The most complete biographic dictionary is the work of Martin Sugarman: "Jews who served in The International Brigade in the Spanish Civil War", which is mainly a compilation of Jewish IB members.

³⁴ Some other authors estimates it up to 25% . For instance Fernández, Alberto (1975) or Medem, Gina (1937).

size and industrial life, for diverse Hebrew movements. The motivations of the *brigadistas* were always a personal issue, but it is possible to address some general causes that influenced Jewish volunteers in particular. Their reasons were not strictly religious, but they were mainly affected by the situation of their religious community at that moment.

To explain the why there was such a massive Jewish enlistment in the Spanish Civil War, it is necessary to take a look back to the political development in the Europe of the thirties. Anti-Semitism was being reinforced and reincorporated as part of the right wing parties' general speeches. It is a crucial factor. A considerable number of Jewish volunteers came from immigrant families, which were starting to suffer the social-political repudiation and prosecution in Central and Eastern Europe. In Latvia, the Jewish population became a tolerated ethnic minority, well recognised after establishment of the new independent state. During the 19th century, the Jewish community got very conscious about itself as ethnic group. The formal foundation of the Latvian state was for many, as the Zionist movement, a divisor episode among the Jewish communities, which experienced a political diversification depending on national, religious and ideological identities. In the Baltic Sea Region during the Interwar period, the Jewish traditional communities experienced a crisis of values and political division. Especially the generation born during the first two decades of the 20th century intensified its role on politics. It took a major role in the urban and industrial areas. The Jewish political activists in the Baltic territories of the Russian Empire radicalised ideologically, especially from the 1917 Revolution on. During the Independence Era, they carried out relevant political activism, which can be appreciated in the Jewish publications and newspapers of the period. But by 1936, due to the consolidation of authoritarian regimes the ethnic minorities were less favoured and experienced more difficulties in their daily life, adopting an antifascist attitude and taking up a stance towards the Communist Party and other radical left-wing parties. However, in Spain, their ideological, national and social precedence was very diverse. Within the frame of the International Brigades they were divided by national affinity in battalions, but the use of Yiddish among sanitary personnel and officers has been registered³⁵. The Hebrew volunteers even created their own military unit under the name "Botwin company"³⁶.

³⁵ Ibáñez Sperber, Raquel (2006).

³⁶ The best description of this company can be found in González, Isidro (2004, pp. 286-294). The Botwin company was formerly named Second Palafox Battalion's Company. It counted on about 150 soldiers and it lasted for nine months, until the Ebro offensive in September, 1938. This company published its own magazine in Yiddish.

Peisach Bernshtam held very important sanitary responsibilities during the Spanish Civil War. He was born to a middle-class family in Bauska in 1906. During the 1920s, Peisach moved to Vienna and later to Paris, where he carried out medical studies until he became a doctor in 1934. So far, in France, he had developed a considerable interest about politics and as soon as he got back in Riga he joined antifascist circles and established and ran a printing press in his own flat for two years!³⁷ After the outbreak of Spanish Civil War, he got in touch with the Latvian supportive committee in order to volunteer for Spain. At that time, the Baltic Sea was well controlled by authorities, especially after the Non Intervention Pact was agreed, the prosecution of volunteers for Spain increased. His first trip to Spain via Stockholm was cancelled, the previous week the Swedish authorities arrested a group of Latvian volunteers. He finally arrived in Barcelona by May 1937, after have travelled via Tallinn-Paris-Marseille-Figueres. The process of the constitution of the ISS was being developed, and the first destination for Doctor Bernshtam was the central headquarters at Albacete. His first tasks were about checking up and approving the volunteers for military service. The middle of 1937 was the time when more foreign volunteers enlisted in the IB. At those days his unit examined about 200-300 men daily. By September 1937, he was finally sent to the front and during the next two years he served in the battlefronts of Ebro, Teruel, Belchite, etc. and in the IB hospitals of Alicante and Caspe. During these military actions, Dr. Bernshtam was promoted to Captain in September 1938. But by 1939 the war was almost lost for the Republic, and, as many other Baltic volunteers, he crossed into the French border on February 1, 1939. He was placed in a concentration camp in Argelés sur-Mer, with a large group of Latvian volunteers. The situation in these camps was dramatic. For the doctors it became a new front where to help their comrades who were “exposed to the hunger, the cold and the illnesses”³⁸. In 1941 he was sent to the Soviet Union. He survived WWII and married a Catalonian woman with who he lived in Riga until the 1980’s. Then he moved to Barcelona with his family.

Latvian Women Volunteers

Despite the fact that most of the Latvian volunteers were men, there were also a dozen or so women among them. Their stories deserve their own lines. Spain became the first battlefield in history where women

³⁷ Sugarman, Martin (2013), p. 79. This story is based on the memoirs of Simon Hirschman.

³⁸ RGASPI/KOM/F545/OP4-D22. An interesting and dramatic tale can be found in a Lithuanian magazine written in the French concentration camp of Gurs. It is in Lithuanian.

volunteered in order to take an active part. WWI and the Russian Revolution changed definitively the role of woman in society. Since the incorporation of the women into the salaried labour system, the political dimensions of the female gender expanded. It's most evident example: the right to vote. Universal suffrage was established during the 1920's in several countries of the world. In Spain, it was adopted during the general elections of 1933. During the 1930's in Spain the political parties and trade unions worked for equality. But with the Spanish Civil war began a new age for the women.

They broke gender limits and joined the militia units during the first months of war. It was the government of Largo Caballero which withdrew female troops from the front lines and they were incorporated to administrative, productive and interpretation tasks³⁹. For first time in History, women took part voluntarily in a foreign conflict, risking their lives for a major cause which they considered worthy. The women volunteers who came from the Baltic States mostly joined the ISS. But there were also women in the trenches during the first months of the war, organising the shipment of volunteers in secrecy, working for the SIM⁴⁰ and even spies⁴¹. Most of the Latvian women took part as personnel of the ISS. In 1937 the Spanish conflict went bloody – major offensives, the rebel bombings over Madrid, etc. The subsequent wounded and refugees configured a dramatic atmosphere which became the motivation for hundreds of volunteers to help the Loyalist population as nurses, doctors or mere volunteers. Not all the nurses and doctors were women, but most of the Latvians worked as doctors and nurses. The following three *latvietes* served as nurses in the International Sanitary Service: Dora Donda, Frida Marta Ginsburg and Cijva Vospe. But there were quite a large number of women doctors from Latvia. So far five cases have been documented. Their names were: the sisters Braina and Miriam Rudina, Ela Aronovna, Sara Svalbe and Sara Gavrilovna. Actually, the Latvian women doctors composed the largest group (in percentage terms) out of all the nationalities which joined the IB.

The most illustrative example among the Latvian doctors is the personal case of Braina Rudina. She was a very politically active woman, who illustrates the degree of importance that some Latvian women achieved within the frame of the Republican ISS. Despite the fact that she used several

³⁹ For further readings on women during the Spanish Civil War the author recommends: "Defying Male Civilization: Women in the Spanish Civil War" (1995) by Mary Wash and Mangini's article "Memories of Resistance: Women Activists from the Spanish Civil War" (1991).

⁴⁰ The Servicio de Información Militar (Military Information Service) or SIM.

⁴¹ Such as Lise Ricol, who worked for the International Liaison Department (Comintern) during the Spanish Civil War.

“nombres de guerre” (in Spain she was also known as Brain Voss or Rodin-Voss and by the Comintern she was also known as Marlena Nenadova), she was born as Braina Rudina Pedanova in Riga on June 11th 1902 to a lower-class Jewish family⁴². Similarly to her older sister Miriam, she carried out her studies in Germany, at the faculties of Berlin and Friburg between 1922 and 1927, when she became a doctor. During the next years she stayed in Germany, where she joined the KPD⁴³ in 1931 and married Alfons Bergmann, a German former member of the RFB⁴⁴ who later would also join the IB (as would her own sister). As soon as Hitler came to the power and anti-Semitism actions began in Germany and in that same year, 1933, she moved to Yugoslavia. There she kept on carrying out antifascist activism and in early 1935 she moved to work for a hospital in Moscow. Her effort in that hospital was such that she was considered worthy enough as to be awarded with a Stakhanovite medal⁴⁵ for workers. In 1936 she went back to Belgrade, probably as Comintern agent, organising the transportation of volunteers from Yugoslavia to Spain. As result, she was arrested and imprisoned for 8 months. Meanwhile her sister Miriam and her husband had already joined the IB. Miriam, who was doctor as well, was promoted to lieutenant and head at the Albacete IB Hospital. In January 1938 Braina was released from prison and volunteered, arriving in Albacete on February 10th, 1938, was promoted to lieutenant and became head of Villanueva de la Jara IB hospital, in the Catalanian front. Later, due to the Rebel advance in the front lines she became head of S'Agaró IB hospital. Because she was able to speak fluently Serbian, Russian, German, French and Spanish and she was considered a good doctor and organiser, she was promoted to Captain. At the end of the war she escaped to Moscow, where she lived until the outbreak of WWII for Soviet Union in 1941, when she joined the sanitary service of the Red Army. As soon as the war ended in 1945, she moved to Riga, her hometown, where she reencountered her sister. She died in Riga in 1973.

⁴² RGASPI: KOMINTERN/ F545/ OP6/ D606/40-44

⁴³ The Communist Party of Germany (German: Kommunistische Partei Deutschlands, KPD).

⁴⁴ The Roter Frontkämpferbund (German) – “Alliance of Red Front-Fighters”, abbreviated RFB

⁴⁵ The Stakhanovite medal was established during the second Stalinist 5-year plan in 1935 as a new stage of the socialist competition. The Stakhanovite movement was named after Aleksei Stakhanov, who mined 102 tons of coal in less than 6 hours. That amount was about 15 times the usual quota. This medal became an award which provided political and social recognition within the Soviet community.

Latvians in the International Brigades

Taking into account the most shared characteristics and features from all the documented cases at the author's disposal, it is possible to state that the perfect example of a Latvian *brīvprātīgais* was a young man between 21 and 26 years old, born into a working class family in some Latvian industrial area; raised up during the WW1 post-war and close to clandestine political movements since his teens. Probably he had already been arrested more than once by 1936. At the outbreak of the Spanish Civil War, due to the intense supportive propaganda campaigns and after the decision of the Comintern, he joined the first wave of Latvian volunteers, which took place during the "optimistic times" for the Republican Army, before the major German-Italian support for the Rebels influenced, once and for all, the war in favour of Franco.

Language became an important problem during the first months after the creation of the brigades. Most of the volunteers only knew their mother tongue⁴⁶. There were several difficulties regarding organisation and communications, which were slow and problematic, until the incorporation of translators and interpreters. If with French and Italian volunteers, the communication was possible due to the short distance between these different Latin languages, with the Latvian volunteers it was only possible using interpreters. Some of them were Lithuanians who had lived in South America, where they had learned Spanish (a very large group of Lithuanians volunteered from Argentina), but some others were Poles or from other Slavonic groups who usually translated from Spanish into Russian. The Latvian language was only used in those units where there was a large gathering of *latvieši*, as in the artillery battalion of the XIIIth IB, which had the largest presence of Latvians among sub-officers and troops.

Actually, the Latvians played a very meaningful role for the Republican Artillery Park, which after the "coup" suffered a lack of organised and powerful battalions. The amounts of guns in both armies were scarce and these artillery cannons were very coveted. As result of the foreign aid, the Republican Artillery Park was enlarged by the massive incorporation of Soviet weaponry, ammunitions and other goods. Many new cannon models were imported from the USSR, but not exclusively Soviet models.⁴⁷ All these Soviet war materials were accompanied with instruction guides in

⁴⁶ Longo, Luigi: "Las Brigadas Internacionales" (1966), p. 52. Longo, whose "nome de guerre" was Gallo, was the main supervisor and a key organiser of the International Brigades. His testimony, despite being a bit outdated, is still being mandatory for a basic understanding of this mobilisation of men from all over the world.

⁴⁷ These Soviet exportations included Schneider howitzers (155 mm), Perm cannons (152 mm) and a large variety of models that vary between 105 and 75 mm.

Russian. Most of the Baltic *brigadistas* spoke Russian (either fluently or as mother tongue) and had basic military service. The young Baltic States had improvised modern armies and military service was mandatory, so many Latvian volunteers had already served in their national army and some of them in particular had served in artillery units. Such is the case of Leons Kleinmanis. Using a firearm was something that people – more or less – got used to in a couple of weeks, but being an artillery gunner required a wider military experience and discipline. There were several Latvian officers and non-commissioned officers. Jānis Benikis became commander of an artillery division, being one of those who achieved a very high military rank among all the Baltic volunteers. Also a Latvian Red Army officer was sent by the time of “Operation X” as an advisor for the Republican Artillery. His name was Vilhems Kumelans and his main orders were to instruct and organise the whole artillery division.

The End of the Spanish Civil War

The war was almost over. The Republican army was in retreat. Thousands were imprisoned, others executed. The fronts vanished. Meanwhile on October 18, 1938, a “Community Initiative to Reduce Violence” (CIRV) was sent by the League of Nations to Spain in order to supervise the withdrawal of foreign volunteers from the Loyalist army⁴⁸, as it was requested by the British government. The commission exited from their cars and saluted the Republican authorities. It was formed by several officers from different states, including the presence of the Latvian Colonel Jeske⁴⁹. After having fought in all the major operations of the Spanish Civil War – the Defence of Madrid, the battles of Jarama, Brunete, Belchite, Teruel, Aragon and the final offensive of the Ebro – the International Brigades were withdrawn. By the acceptance of this withdrawal, the Prime Minister Negrin aimed to gain diplomatic backing in the international arena, expecting that Franco also would get rid of his Italian and German troops or, at least, to re-establish the right to purchase war materials for the Republic. But that did not happen. Franco did not withdraw his international forces and the Republic was still not authorised to buy weapons.

A Latvian film really understood the true nature of this episode. The film was *Noktirne*, directed by Rostislav Goryayev in 1966, and inspired

⁴⁸ For some authors, as Daniel Kowalsky (2004), the withdrawal of the International Brigades is evidence of the weakness of Stalin’s international relations system in prior to WW2 Europe.

⁴⁹ “La Vanguardia” (newspaper library): October 18, 1938.

by Žanis Grīva's story⁵⁰. In one of its most impressive scenes it reproduces the farewell parade of the International Brigades, which took place on October 28, 1939. A street of Riga, splendidly decorated as the *Avenida 14 de Abril* in Barcelona recreates how the *brigadistas* marched for last time, acclaimed by thousands of civilians who see that their unique international defenders are leaving them. The beautiful scene ends with the sound produced by the weapons of the soldiers, who throw them into enormous piles. It was the sound of defeat.

With this parade, the Republic fulfilled the CIRV demands. The International Brigades were dismissed. In January 1939, the committee verified that at the time there were 12673 international volunteers on the Republican side. Most of them were evacuated between November 1938 and January. But not, however, all of them. What would happen with those whose countries were ruled by fascist and authoritarian regimes? What fate was waiting for the Latvians? Ulmanis' regime passed a law in particular regarding the participation of Latvian citizens in the Spanish conflict. If the Baltic *brigadistas* would have gone back to their homeland they would have been arrested and imprisoned. After October 1938, about 6000 *brigadistas* were transferred to the 35th Division of the Spanish Republican Army. This explains why most of the Latvians did not leave. By the end of 1938, many Latvians asked to the Republican government for their repatriation⁵¹. They stayed in Spain until February 1939, when the Francoist troops broke the front of Catalonia. Only when their capture was imminent, they left Spain together with half a million Spanish refugees who crossed the Pyrenees looking for a shelter far away from the horror. The time for exile had come.

French Concentration Camps

Once they crossed the border, the French authorities (gendarmerie and members of the Foreign Legion) detained and imprisoned civilians and

⁵⁰ Žanis Grīva was born in Talsi (Latvia) on November 24, 1910. He joined the LKP in 1934 and volunteered for Spain in January 1937, where he fought in the IB until February, 1938, when he was imprisoned in a French POW camp. His experience in Spain marked a turning point in his life that was immortalised in his literature. He is considered as one of the most notorious Latvian men of letters from all the Soviet era. He died in Riga, on June 14, 1982.

⁵¹ These reports can be found in RGASPI. They show a large variety of destinations, mostly: Mexico, Argentina and Soviet Union. But there are no confirmation letters for these applications.

soldiers in “internment camps”⁵². The French government, at that time under right-wing influence, received them with hostility and considered them “undesirable”⁵³. The French border was closed. After Franco’s offensive into Catalonia, in February 1939, the Republican Northern army dispersed. The situation was dramatic; masses of Spanish families walking through the mountains, in the very depth of winter, carrying their suitcases and children. The photographic sources – like nowadays in other regions of the world – are the best testimony of the tragedy of exile. On February 5, 1939, due to the pressure of public opinion and the crowded situations that were taking place in the border access points, France finally allowed the massive internment of refugees. There were the Latvians among them.

The French authorities firstly separated troops from civilians, men from women and officers from their troops. With the International Brigades, they applied some particular criteria, usually gathering and concentrating every national group in one block. The memories of the Latvian and Lithuanian volunteers show and coincide in the mistreatment of the French authorities towards them. They “were abused, malnourished and guarded by Moroccans and Senegalese colonial soldiers”⁵⁴.

The first imprisonment destination for the Baltic *brigadistas* was Argelés sur-Mer. This camp was established in the village, close to the Pyrenees and the Mediterranean coast, about 35 km from the Portbou border point. The first *brigadistas* and Spanish refugees, who were sent to Argelés sur-Mer, experienced the prologue of a long and cruel captivity. The camp had no barracks where to shelter, just improvised walls and barbed wire. They were totally exposed to cold and mistral wind that continually triggered the sand from the beach. Colitis began few days after, which led to dysentery; then, parasites and typhoid. Several hundred of those who were wounded or sickened died in the following days. During the following months, the population of Argelés camp increased exponentially. Between 1939 and 1941 about 100 000 refugees were interned in the camp. Due to the excess and avalanches of refugees in the camp of Argelés sur-Mer, the French authorities arranged the construction of two more camps in

⁵² This euphemism was the term used at the time, but most of the bibliography coincides in pointing out its “concentration camp” nature. The photographs speak for themselves.

⁵³ On November 12, 1938, the French government, headed by Édouard Daladier, had already promulgated a decree in which he mentioned the internment of “undesirable aliens” and proposed the “removal of all of them from the French territory”.

⁵⁴ Under the title: “Už vielu: Lietuvių Savanorių Grupės Biuletėnis”, it can be found a very relevant source about this episode. It is a periodical bulletin in which the Lithuanian volunteers relate information about their daily life and about some individuals in particular. From their stories it can be observed the hard life conditions of in the camp of Gurs, where diseases and misuse became usual.

the same area: Saint Cyprien and Barcarés. A considerable number of Baltic refugees were also concentrated in Saint Cyprien. The first interned refugees were forced to build the temporary barracks. They were made of wood, and their roofs of corrugated iron. They lacked heating, electricity and furniture. There were just rickety straw beds. The memories of the Baltic *brigadistas* confirm what looks obvious: they froze in winter and they suffocated during the summer. The nutrition of the prisoners was terrible. There was no cutlery and instead of it, the prisoners used wooden tools and metal tins to eat. All these conditions, in addition to the absence of sanitary resources, configured the perfect context for diseases proliferation. In October 1940, a devastating storm destroyed most of the barracks and the inmates were transferred to other camps⁵⁵.

In the case of the Baltic brigadiers, they were sent, especially, to Gurs. The camp of Gurs was open in April 1939, and it worked until July 1945. It became the biggest and most important internment camp out of the whole chain of camps which proliferated in Southern France. Between April 5 and 7, 1939, 18523 inmates were imprisoned in Gurs. 5558 out of them were IB members⁵⁶. As in Saint Cyprien, there were no barracks at the beginning, and they were built gradually by the inmates. The internees were distributed in about 400 barracks. Later some administrative barracks were built, as kitchens, warehouse, clinic, troop encampments, etc. Gurs became the main destination for the imprisoned Baltic *brigadistas*. The Latvians consist of 40 men. The Latvians established in Gurs their own Communist Party cells, wrote bulletins and organised lessons on politics and history.⁵⁷

The *brigadistas* were not the only Latvians who passed through Gurs at that time. The author has also documented the case of Anna Dziza (Riga, 1880) who died in Gurs in February, 1941⁵⁸. A Latvian Jewish woman, Tsipora Edelberg, also known as Tatjana Barbakov (Kurland, 1899) was imprisoned in Gurs in January 1940 and later sent to Auschwitz, where she was murdered in February 1944. Both Latvian citizens seem to have been imprisoned as result of the Nazi control of France.

By summer 1939, the situation of the *brigadistas* had not changed. They remained imprisoned in the camps of southern France, with most of the Baltics gathered in the camp of Gurs as were most of other national groups of *brigadistas* and political prisoners. Three days after

⁵⁵ Lacharie, Claude (1993), pp. 173-175.

⁵⁶ "Conseil Général des Pyrénées-Atlantiques/ Service Départemental des Archives (Pau)/ Administration générale et économie du département/ Répertoire numérique de la Série M. 1800-1940". Quoted by Aguirre Herráinz, Pablo (2012), p. 50.

⁵⁷ One of the teachers was Alberts Spalans, former instructor of the XIIIth IB.

⁵⁸ Lachaire, Claude (1993). It includes attached lists of dead prisoners in Gurs.

the “Molotov-Ribbentrop pact” (August 23, 1939), Georgi Dimitrov, who was president of the Comintern and Manuilskii sent a letter to Stalin reporting the situation of the *brigadistas* in France. The letter is very enlightening⁵⁹. Both EICC figures demanded Stalin’s attention and “aid for the more than 4500 emigrants from states where communists have been driven underground” [47 of them were Latvians]. No bourgeois government wishes to receive them. Winter is now approaching. The prisoners do not even have barracks and live under open skies. The French bourgeoisie is deliberately supporting the physical destruction of these comrades. The extremes of imprisonment in the concentration camps are eating away the volunteers, but with very few exceptions, they are not grumbling, and are maintaining themselves steadfastly, like Bolsheviks.” Finally Dimitrov and Manuilskii beg Comrade Stalin, appealing to his “paternalist nature”. “Having exhausted all possibilities for achieving the liberation of these volunteers, we appeal to you, Comrade Stalin, with this favour. Won’t you allow into the USSR 3000-3500 former fighters of the IB, subjected to a thorough examination?”

As Kowalski states, there is no registered response from Stalin to this letter⁶⁰. This absence of a response could confirm the accusations repeated by part of the historiography through the decades: Stalin abandoned the *brigadistas* to their own fate, the same volunteers he had already supported to fight in Spain. If according to Kowalski there is no record that indicates Soviet measures towards the imprisoned *brigadistas* in France, the case of Latvians who arrived at the Central Station of Riga in May, 1941, shows something different. They were liberated through the Soviet negotiations and repatriated to Latvia, which was then under Soviet occupation. However, according to the documentation at the author’s disposal, some Latvians were released from the French camps in July, 1939. Such is the case of Eduards Upesleja, who was freed through Soviet diplomatic negotiations with the French authorities. However this case was a real exception. The slow process of their liberation evidences that – at least – for Stalin it was not at all a priority. The letter from Dimitrov and Manuilskii was taken into consideration. Negotiations between Soviet Union and French government must have taken place. At this point, it would be interesting to check the documentary archives of the Russian embassy in France, which keeps documentation related to the Spanish Civil War and is still not very well known for scholars. The issue regarding imprisonment and repatriation has still to be studied deeper.

⁵⁹ RGASPI: F.545/OP.76/LIST.11/D.36–39. Quoted by Daniel Kowalski (2006), p. 700.

⁶⁰ *Ibid.*, p. 702.

In July, 1940, an application letter was sent⁶¹ to the Ministry of Foreign Affairs of Latvia, demanding the liberation of the *brigadistas* who remained in the French camps. They were mostly liberated between 1940 and 1941. It was fruit of diplomatic negotiations between Soviet Union and France and, also, a direct result of Stalin's annexation of the all three Baltic States in June, 1940. The new national Communist "puppet-governments" were installed in Latvia, Estonia and Lithuania with the total management by the Soviet authorities. The previous indifference towards the Latvian volunteers, which had characterised the attitude of the Ulmanis government, was replaced by the diplomatic support of the new Soviet rule. As Daniel Kowalsky has observed, the International Brigades were part of Stalin's strategy in a double sense. On one hand in order to link the Republican cause to International Communism promoted by the Soviet Union, and on the other a way to improve relations between USSR and Western Europe against a feasible fascist offensive under Livinov's plan for Foreign Affairs.

Conclusion

A wider discussion about the total quantification of the *brigadistas* did not take place in the historiography until the very end of the 20th century. The Moscow documentation has enlightened this debate during the last two decades, discarding the numbers given by the previous historiography. These previous quantifications usually included lists of wounded, casualties, disappeared, individual reports, unit records, application forms for entry in the Spanish Communist Party, etc. Nowadays 35000 is the most accepted number of volunteers who joined the International Brigades⁶². This article also offers a precise number of Baltic volunteers: 892; but it must not be taken as unequivocal and definitive. If the exact quantification of the International Brigades in general is difficult, the case of the Baltic *brigadistas* is not different. Their own features make even more difficult a very accurate calculation. The Latvians and Lithuanians, who had already immigrated, were very often double counted; both from their motherland as from their origin country. The case of those volunteers who came from

⁶¹ The letter was published by the left-wing Latvian newspaper: *Brīvā Jaunatne* on July 5, 1940.

⁶² "RGASPI: KOMINTERN/ F.545/ OP. 2/ D. 108". The document was recovered by Rémi Skoutelsky. It had remained for decades in the Cominter's archive. This document, produced by the IB Albacete Headquarters, stipulates that until August, 1938, 32.256 troop volunteers had been registered in Albacete. This number does not include the tens of foreign volunteers who joined Anarchist or POUM militias (however there are not registered cases of Latvians in these units).

Southern American countries and had already taken Latin names and even adapted their surnames is especially chaotic⁶³. In addition, it is not clear enough yet, if under the label *Bálticos* are included also Finnish volunteers. In some relevant documentation, the Finnish are counted as Baltic. In some other they are counted as a separate group. However, this quantification of 892 Baltic volunteers does not include the Finns, who were included in the Scandinavian group. The author is inclined to think that over 200 Latvians fought in Spain between 1936 and 1939, including the Red Army officers. The International Brigades were involved in terrifying battles, and were often used as shock forces. Their instruction was usually brief and many of the volunteers went in action just few days after their first arrival on Spanish soil. Few of them could imagine such violent fights in the middle of a total war. However, their attitude was extraordinary, reaching in some particular cases sacrifice rates. The Baltics in particular suffered some of the highest casualties and wounded percentages: about the 50% of them were killed or wounded.

In numerical terms, the Latvian presence was very low and usually they were incorporated in units with a large diversity of participation⁶⁴. Actually, it is possible to state that the Baltic States were some of the nations with a higher participation – in percent terms per national population – in the International Brigades. The Baltic group would be placed as the third one, with a rate 0.018%. It is composed by the separate rates of Estonia (0.02%), Latvia (0.02%) and Lithuania (0.015%), and it is only exceeded by the country who gave the highest number of volunteers France (0.022%) and Belgium (0.02%). Therefore, despite being small states, the degree of social politicisation, authoritarian repression and Soviet influence in the Baltic States explain the high number of people who volunteered for Spain.

The military effectiveness of the IB has been also widely discussed in the historiography. The heroic episodes and actual sacrifice of the International Brigades are undeniable. But despite the fact that they functioned as vanguard in many of the hardest battles, their presence in the Republican Army had mainly a moral influence, besides a considerable military significance. In any case despite the fervent Communist spirit, which dominated in most of the volunteers, many were reluctant to impose and apply a certain level of military discipline⁶⁵, which made

⁶³ Latvian names as Kārlis turned into Carlos, Arturs – Arturo, Janis – Juan, etc. But these Spanish alias names were more often in officers and Soviet advisors than in the case of simple volunteers. At least they have become better known.

⁶⁴ Some units composed by more than 20 nationalities. Such is the case of the “Batallón 21 naciones”.

⁶⁵ Alpert, Michael (1999), p. 236.

the most obvious difference between the Rebel army and the Loyalist one. The participation of the Latvian volunteers in the Spanish Civil War was not determining at all, and its contribution to the Loyalist forces was modest. It was relatively important in the fields of artillery, instruction, health care and translation, but above all they gave moral support and put their country on the map for the Republican Spaniards.

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LAW AS LITERATURE: A LATVIAN PERSPECTIVE

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Abstract

This article deals with the issue of legislative texts being examined from the point of view of *law as literature* approach that seeks to reveal narrative structures in legal discourse. Law as a specific branch of culture and intellectual activity is a very peculiar field of cross-disciplinary research, and especially extensive research has been done at the intersection of law and language. It is widely acknowledged that one has to possess both legal and linguistic competences to be able to produce a meaningful legislative text. Still, alongside with these two competences there is one more competence that is usually less acknowledged: it is textual competence or narrative competence essential to succeed in drafting of a legislative text, since legislative text (as any written text) should meet certain requirements as regards structure and integrity of the whole body of the text. This article outlines certain characteristics of Latvian legislative texts approached from the *law as literature* perspective in conjunction with other national narratives. It reveals genealogical and typological coherence between legislative texts and literary texts, noting that first Latvian legislative texts in 17th century emerged as a branch of secular literature and, likewise other texts of secular literature of that time, were in most cases translations done by priests of German nationality. Some examples of legislative texts illustrate how metaphors function in legal discourse and how legal narrative opens up and gains emotional connotation when viewed in conjunction with other cultural narratives. Also, an adverse tendency of the contemporary legislative texts is mentioned: encapsulation of law in its own isolated world. This article sees legal narratology as a challenging field of academic research, which might *humanise* the law and promote understanding of it in the light of morality and human values, as well as an effective tool to enhance teaching and training of future professionals in law and humanities.

Keywords: law as literature, legislative text, narrative

Introduction

Cross-disciplinary academic research of legislative texts is becoming more and more attractive, being particularly popular at the intersection of law and language, where the American lawyer David Mellinkoff's 'Language of the Law' (1963) could be mentioned as one of the milestones. It regards the language of the law as a linguistic phenomenon in its own right, tracing its evolution and noting its peculiarities that differ from 'ordinary language', and examines various linguistic phenomena (special terminology, archaic wordings, arcane jargon, complex syntactic

models, etc.) that very often make this linguistic register incomprehensible to a layperson.

As from 1980s, investigation into law and language is quite extensive, emanating not only from the field of linguistics, but also from other social sciences. Three principal strands of research have evolved:

“For some researchers, the primary concern centers on language, and the law provides relevant data for linguistic analysis and the testing of theories about language. For others, the law becomes the main ingredient, and language serves as a vehicle for understanding the legal process and the workings of that system. For still other researchers, the major interest resides in the disciplines of psychology, sociology, or anthropology, and language as it operates within the legal system functions as a means for investigating psychological processes, societal interactions, or cultural traits” (Schane, 2006: 4).

It is quite obvious, that legislative text is determined by linguistic phenomena employed in its drafting: it is impossible to reach legal precision without appropriate use of linguistic tools, in fact, legal precision is nothing else than the linguistic precision. As it was concisely defined by David Mellinkoff: “The law is a profession of words” (Mellinkoff, 1963: vi).

Although analyses of the linguistic constituents of law tell one much about what the law is they do not tell one all about the law. To understand the law as a sociocultural phenomenon and to be able to use the appropriate linguistic tools to create a meaningful and well targeted legal narrative, one should possess something else apart from linguistic and legal knowledge, since legislative text, as any written text, operates in accordance with certain rules. It becomes meaningful not (only) because of mere words, but because of the way they are interconnected and integrated into the whole body of the text, that has its beginning, middle and end and in a way is related to other texts of the same culture or the same domain of similar cultures.

This *something else* might be defined as narrative skills or *literary education*, as it was put by the Latvian lawyer, historian and writer Arveds Švābe. Švābe was convinced that translation of the law equals to drafting of the law and along with excellent knowledge of the source language and of the subject requires from a translator certain literary skills (Švābe, 1933b: 276).

Vijay Kumar Bhatia, analysing genres of professional discourses, calls it a *textual competence*. Bhatia points out three levels of discursive competence: textual competence, generic competence and social competence. By textual competence Bhatia means not only ability to master the linguistic code, but also the ability “to use textual, contextual and pragmatic knowledge to construct and interpret contextually appropriate texts ... textual competence is much more powerful what has been traditionally referred

to as linguistic competence in (applied) linguistic literature” (Bhatia, 2004: 144). And further the author argues: “In fact, for the development of adequate control over professional genres and practices, which include the ability to produce and use specific professional genres, linguistic ability is only one of the factors; perhaps far more important than that is the ability to understand the conventions and the constraints, the concerns and the practices, the values and the culture of specific professional communities” (Bhatia, 2004: 205).

Historical Context of Latvian Legislative Texts

Latvian legislative texts until now have not been examined as socio-cultural narratives, i.e., as a cross-disciplinary genre of secular literature requiring multiple skills and widescale knowledge. The research have been dominated by legal discourse: in most cases legislative texts have been studied in the framework of the history of law and legal terminology (Ābers, 1939; Birziņa, 1991; Ducmanis, 1936; Pleps, 2012; Švābe, 1933a). Legislative texts have also been looked at from perspective of the history of the development and standardisation of the Latvian language (Ozols, 1965; Rūķe-Draviņa, 1977); in the framework of the history of Latvian literature these texts have been viewed as a marginal phenomenon of secular literature (Frīde, 1998; Daija, 2013), which might be regarded as a kind of academic tradition of segregation among various disciplines presupposing that the law *belongs* to lawyers.

In fact, the origin of Latvian legislative texts in 17th-18th centuries was more attached to literature than to the domain of law, since there was a resemblance in terms of genealogy and typology between literary and legislative texts. Although having the effect of the *law*, first Latvian legislative texts were lacking the traditional attributes of the law: legal concepts were often expressed in a descriptive mode using everyday vocabulary; the Latvian versions were created by non-lawyers – priests of German nationality – by way of translation, which in many cases meant domestication of the text. Translations were rather an overview of the original, and a translator could omit paragraphs which he regarded redundant or freely add some comments when he regarded it useful.

Usefulness or the pragmatic purpose was the main driving force of Latvian literature at that time, and the same refers to the first Latvian legislative texts: they also were instructing and teaching rational methods of farming and *enlightened* behaviour, for example, not to try self-treatment or visit a witch-doctor in case of illness, but ask for professional help (Struteles valsts likumi, 2006: 287).

It was closely related to the ideas of the Enlightenment that were centred on reason as the primary source of authority and legitimacy. As

Pauls Daija notes, Latvian secular literature has developed as a specific regional transformation of the ideas of the European Enlightenment (Daija, 2013: 6), and for that reason all texts of Latvian literature of 18th century should be dealt with as a single body, as a unified system (Daija, 2013: 61). It is worth mentioning that the legal domain too has been influenced by the ideas of the Enlightenment: translation of laws into national languages and the ideal of *understandable* language of law to some extent stems from the idea of equality, rationality and universal principle of justice (Mattila, 206: 99).

Taking into account the history of Latvian legislative texts it would be appropriate and, possibly, very fruitful to move away from strictly legal discourse and to examine Latvian legislative texts as a literary phenomenon belonging to the vast domain of national narratives. In other words, the research of Latvian legislative texts might go in line with the trend known as *law and literature*. One of the first who introduced this approach was American lawyer, literary critic and philosopher James Boyd White with his book “The Legal Imagination” (1973), where White suggests that lawyer should be regarded as a writer and the law should be looked at from outside, “comparing it with other forms of literary and intellectual activity” (White, 1973: xx).

Therefore White has included excerpts of various literary works in his book, which are meant to be used for non-legal readings with the aim “to give us a common sense ... of what legal literature leaves out, of what others do that the law does not, and to define a context out of which judgments can begin to be drawn and against which they can be tested” (White, 1973: xx).

Theoretical Approaches

Law and literature theory has developed in two different branches, one of them being called *law in literature* and the other – *law as literature*.

The first one seeks to examine the representation of law in fiction, examining novels, stories, and other pieces of literature centred on a legal conflict; the proponents of the theory believe that literary works can offer lawyers insight into the *nature of the law* that would otherwise be missing in the traditional study of legal rhetoric.

The other perspective began to gain popularity in the late 1970s. It treats legislative texts as narratives and tends to examine them as a literary narratives using methods of literary criticism and literary theory and recognising that the substance of law can be revealed only by way of interpretation, as it is with all genres of literature. Both the law and literature “attempt to shape reality through language, use distinctive methods and forms to do so, and require interpretation – and therefore

there may be things to learn from seeing how analogous problems are treated in the two disciplines” (Gewirtz, 1996: 4).

One of the well-known proponents of legal narratology is Peter Brooks, professor of comparative literature of Yale University, who asserts the effectiveness of the narrative approach, because “narrativity belongs to our cognitive toolkit, it constitutes one of the large categories in which we understand and construct the world” (Brooks, 2008: 415). “Narrative plots appear to be a certain formal organization of temporality, and need to be seen in their structuring cognitive role: a way of making sense of time-bound experience ... Our very definition as human beings is very much bound up with the stories we tell about our own lives and the world in which we live. The imposition of narrative form on life is a necessary human activity; we could not make sense of the world without it” (Brooks, 2006: 32-35).

Moreover, narrative is a form which helps people to construct and memorise their self-image and therefore it is also “bound with the notion of large-scale identities such as nation” (Cobley, 2014: 36).

In other words, narrative and narrativity is a universal structure, immanent and “inescapable as language” and “it does not seem at all exaggerated to view humans as narrative animals, as *homo fabulans* – the tellers and interpreters of narrative” (Currie, 2011: 6).

The most explicit narrativity in legal discourse can be found in the courtroom, where competing narratives meet and the verdict depends very much on the ability of each party to present the most convincing story.

Some scholars hold a view that “not only do trials represent contests between narratives, but so do all legal texts as they are interpreted, re-interpreted, and applied over time. Arguments for a given interpretation then rest on founding myths about whence the law derives its authority to enact the state’s rule or violence ... Applying an abstract legal norm to a particular case in the civil law tradition requires that an interpretive process is undertaken that involves recourse to methods of narrative analysis such as differentiating between the frame of the telling, the telling, and the told, naming functions of narrative structures, and identifying types of tellers. Since the advent of “legal studies after the cultural turn” ... law has been regarded as narratively based and culturally embedded, suggesting the benefits of a narratologically literate approach to legal discourse” (Olson, 2014).

One might assume that the law is something objective standing on solid grounds of impartial judgement, approaching any event or person without any prejudice and emotion. But there is a paradox: legal narrative presupposes interpretation, which is a subjective activity by nature and, moreover, legal narrative is the only one which is ready and even *waiting* for interpretation being equipped with sophisticated methods of legal interpretation.

One of the methods employed by lawyers quite frequently is closely related to language: it is the so-called *literal interpretation*, which is based on the inquiring into the meaning of individual words. Yet, no matter how deep one would dig into the semantic roots of a word in the quest of the impartial truth, it is not possible to escape the interpreter's own subjectivity.

Alberto Vespaziani, associate professor of comparative public law at the University of Molise, argues:

“The myth or prejudice of literal interpretation is perhaps one of the most ideologically resistant metaphors: Its simple suggestion of an uncontaminated source of meaning in a distant act carried out by someone else, and its call to neutralize the subjectivity of decision-making, serve every jurist's latent desire to escape from freedom. Now, from the hermeneutic perspective, it is clear that there is literally no such thing as a literal interpretation. The sequence of l-e-t-t-e-r-s does not produce nor does it evoke meaning. Literal interpretation suggests that normative language is like a mosaic, while a hermeneutical approach sees it more like an organism” (Vespaziani, 2010: 129).

Morality Issue

Another field of interrelation of law and literature is morality, i.e., social approval or disapproval of human behaviour. “Laws may be regarded as a particular form of narrative representation of human behaviour, a form peculiar – above all – for the manner in which social approval or disapproval (which attaches to all narrative models of behaviour) is expressed, and by the institutionalized form in which the “sanction” ... is conveyed” (Jackson, 1991, 91).

Evaluation of human behaviour in legal discourse is implicitly expressed by sanctions imposed: the more severe the sanctions, the higher the degree of social disapproval.

Still, there are researchers who believe that the bonds between the law and morality are becoming more obsolete, where the law becomes more abstract. Law encapsulates and creates its own autonomous reality, where human misbehaviour is not treated as an issue of morality, but only as a bureaucratic issue: all that matters is whether it constitutes transgression of the law or not. As it is noted by Monika Fludernik, professor of English literature and culture at the University of Freiburg, “the definition of any type of transgression is that for which a punishment can be imposed” (Fludernik, 2014: 102). Fludernik illustrates it by an example from the New York Penal Law, which states:

“Offense” means conduct for which a sentence to a term of imprisonment or to a fine is provided by any law of this state or by any law, local law or ordinance of a political subdivision of this state, or by any order, rule or regulation of any governmental instrumentality authorized by law to adopt the same” (Fludernik, 2014: 61).

The same pattern can be found in Latvian legislation, for instance, the Criminal Law of the Republic of Latvia, Section 7 (Classification of Criminal Offences) states:

“...

(2) A criminal violation is an offence for which this Law provides for deprivation of liberty for a term exceeding fifteen days, but not exceeding three months (temporary deprivation of liberty), or a type of lesser punishment.

(3) A less serious crime is an intentional offence for which this Law provides for deprivation of liberty for a term exceeding three months, but not exceeding three years, as well as an offence, which has been committed through negligence and for which this Law provides for deprivation of liberty for a term up to eight years.

(4) A serious crime is an intentional offence for which this Law provides for deprivation of liberty for a term exceeding three years, but not exceeding eight years, as well as an offence, which has been committed through negligence and for which this Law provides for deprivation of liberty for a term exceeding eight years.

...”

The relationship between the law and morality is a very complicated issue falling into the domain of the philosophy of law and thus reaching far beyond the subject of this article. Still, it is worth mentioning that at the very dawn of Latvian legislative texts in 17th-18th centuries there was a very close relation between (Christian) morality and the behaviour prescribed by the law. The best example would be the laws issued by landlords to the peasants belonging to their estate.

One of the above mentioned was the Law of Strutele Estate (“Struteles valsts likumi”), issued in 1793 by Francis A. E. Frank, the landlord of Strutele.

The law is introduced by a preamble, directly addressing peasants as “friends” and “children” of the landlord and explaining the intent of the law to serve as a guidance, which would help the subjects to live in accordance with the God’s commandments and thus to gain happiness; otherwise their life will be miserable and painful, and they will be punished by the God (Struteles valsts likumi, 2006: 284).

The law commands peasants not to become heavy drinkers, prohibits theft and keeping or selling of stolen goods, teaches to live in peace with

neighbours, etc. It is quite obvious that the norms of the law display moral norms and convert abstract concepts of morality into narratives of the well-known everyday situations.

Legal Narrative and Metaphor

The narratives of ancient laws are witnesses of a lost reality and can serve as a valuable source of information on national history, revealing customs, lifestyle and possible faults of the time and the society. Peter Goodrich, professor of law at the Benjamin N. Cardozo School of Law, calls it the *national code*. Analysing English laws Goodrich reveals explicit narratives whereby real situations that existed in the past can be traced back. Thus, for example, Goodrich describes British national code hidden behind a legal norm:

“Sanctity of a place, the peace, the quiet, the tranquillity of a home, which is castle, fortress and refuge, a space both of repose and defence. The home is the safest of escapes, so safe indeed that even after a sheriff has made a lawful entry his right to break down “such inner doors as may happen to be shut” was still worth litigating” (Goodrich, 1990: 215). Ancient laws constitute collective legal memory, which is tacit knowledge, an “attribute of honour and criterion of manners” (Goodrich, 1990: 215).

There is a belief that the ancient laws were based on real situations or court proceedings (Jackson, 1991: 98; Blūzma, 2006: 121) that further resulted in a legal norm applicable to everybody, and therefore these laws are more concrete and allow restoring easily the narrative from which a legal norm has originated.

Goodrich and some other scholars use figurative language to describe and interpret provisions of the law. The law itself, as one has been used to think, is not using figurative language. Traditionally it is assumed that metaphors and other rhetoric figures belong to the domain of fiction and shall be avoided in law. “Use metaphors in technical or legal writing only as a last resort”, says a handbook on legal writing and drafting (Rylance, 1994: 43). But is it really the case?

Legal narratology argues that any language is metaphorical, and “a non-metaphorical language does not exist” (Vespaziani, 2010: 132). Besides, metaphors can help to ease communication, as well as to create a camouflage:

“Legal practitioners and scholars work with words to resolve disputes and pursue justice, but also to obscure, mislead and further unspoken interests. The inevitable, sometimes insidious, use of metaphor reflects the ambiguous nature of law and of language; metaphors can be used to further communication and clarification, but also to produce disinformation and confusion” (Vespaziani, 2010: 128).

In other words, metaphors are present in any text, although used for different purposes and in different scale. Metaphors used in legislative texts are often related to the discourse of power. “State power broadly speaking takes the form of word power” (Mattila, 2006: 41). There are well known legal terms based on a metaphor, such as

Head of state, two arms of legislator, burden of proof, etc.

Or, for example, the term *sources of law*:

“If we ask “why do we say “sources of law’? Why do we use this hydraulic metaphor?”, we will begin to analyse the presumed nature of the “product” of a legal norm; the norm originates somewhere underground, and then gushes out of a kind of mountain spring (a pristine place presumably, this site of political power condensation), ready to be bottled and delivered to judges, government lawyers and other faithful servants passively carrying out orders received from on high, without asking too many questions about their content or value. Notice how the hydraulic metaphor of the source gives rise to the imperative and anthropomorphic metaphor of the “law-maker”, which leads to the bureaucratic and military metaphor of the civil servant” (Vespaziani, 2010: 129).

One can also recall the preamble of the Law of Strutele Estate mentioned above where a metaphor of *father and children* is used to depict a delusion of patriarchal nature of the relations between the landlord and his subjects and to disguise power relations existing in reality. This metaphor was an essential concept widely employed in Latvian literary narratives of the time: it comprised the ideal relationship between an *enlightened* peasant who is loyal and obedient to his master, and the master who is kind and fair towards his subjects like a father towards his children (Daija, 2013: 114).

It is worth mentioning that some relics of the patriarchal concept can still be found in Latvian legislation; thus the Civil Law (adopted in 1937 and in force today) states that:

“Kinship between brothers and sisters may be either full or partial. Such kinship shall be considered full, when the brothers and sisters have descended from one and the same parents, and partial, when they have descended from the same father but different mothers or, vice versa, from the same mother but different fathers; in the first case brothers and sisters are called brothers of the whole blood and sisters of the whole blood, whereas in the second case they are called half-brothers and half-sisters” (Section 213).

The legal norm discloses a man’s authority and dominant position in family relations: all his offspring are ‘of the whole blood’, recognised as equals before the law, which is not the case for a woman’s children.

Coming back to metaphors, the reason why metaphors most often are not recognised in law might be the fact that they belong to “figures whose figurative nature has been forgotten” (Culler, 2000: 70). Frequently used, they have lost their stylistic expression and have become part of vocabulary. “When we talk of “grasping” a “hard problem”, for instance, these two expressions become literal through the forgetting of their possible figurality” (Culler, 2000: 71).

But the law not only uses (and creates) metaphors, it also transfers various cultural notions of the time. It being a branch of culture, the law can't escape connotations inherent to words used in other branches of culture. In many instances situations regulated by law are the same as are embedded in other narratives – literature, folklore or art –, and thus they are not *pure* facts anymore, they bear imprints of emotional or symbolic perception.

Thus, for example, The Civil Law of Latvia regulates property rights as regards bees and states:

“936.

The right of ownership of a colony of bees living in the wild belongs to the owner of the land on which the colony is found.

937.

The owner of the bees also has the right to follow his or her swarm on to the land of another person; moreover he or she shall compensate the owner of the land for any damage caused.

938.

If a swarm settles in another person's bee-hive in which there are bees, the owner of the swarm loses his or her rights to it.

939.

The right to bring an action regarding ownership rights to a flying swarm is extinguished through prescription after one month, calculated from the day of swarming.”

The word ‘bee’ is a neutral common name, and the four different situations are described there in plain and concise language. The text itself is neither symbolic nor emotional. But it gains symbolic and emotional connotation in conjunction with other national narratives. First of all, it is Latvian folklore where a bee is a very strong symbol with a positive emotional connotation. One can easily visualise as well a bright and warm summer day in the countryside, with a man looking around to find his *swarm* or following at a run the *flying swarm*. Allusion to the scene with *attacking bees* from the well-known comedy “Skroderdienas Silmačos” by Rūdolfs Blaumanis might arise too, and it might add some flavour of humour (bees can be dangerous creatures!). One might reminisce also the scene with the old man looking after his *kingdom* of bees from “Straumēni” by

Eduards Virza where the Latvian countryside is described in a very gentle and poetic manner arousing tender sadness about the “lost paradise”: the countryside as a cradle of national values has been dominant notion of a great number of Latvian literary narratives for centuries.

Thereby the strictly neutral narrative of the law opens up and expands; uncovering layers of much more colourful narratives behind.

Conclusion

“The idea of law as a compositional practice unfolding on the level of culture makes it possible to embrace a vision, broadly anthropological, in which law presents itself as one of several narrative resources used by culture in the process of enabling the mediations necessary for life in common” (Mittica, 2010: 82).

Looking at legal narratives in relation with other cultural narratives, placing them in a dialogue with others might *humanise* legal narratives and help to see how impartial and neutral legal norms can affect lives of real people and how complicated and even controversial the relationship between the *letter* of the law and the real life sometimes may be.

Although legal narratology is a very living and promising field of academic research, it would be fair to mention certain constraints and disagreements among the scholars, in particular, as regards universal nature of narrative mode.

Mark Currie, professor of literature at the Queen Mary University of London calls it a *cliché*, nevertheless acknowledging “a massive expansion in the narratological remit, in the scope of objects for narratological analysis” (Currie, 2011: 6).

There are even warnings about the dangers of narratology’s cannibalising other disciplines (Wolf, 2011). The increased interest in narrative in all intellectual disciplines by some scholars is explained as being a “clear offshoot of the further loss of faith in the idea of objective truth” (Gewirtz, 1996: 13).

At the same time legal narratology lacks a distinct methodology, which would be agreed upon between all researchers. Variable methods and non-consistent terminology used in the narrative analyses reflect the complicated, changing and subjective nature of narrative structures.

The awareness that it is impossible to define the one and only right method of analysis might be related to the plurality of narratives and refusal of the postmodern world to believe in the possibility to grasp the whole world in a single point of view and to express it using only one vocabulary (Vēvere, 2002).

Despite certain constraints and controversies, the narrative approach towards legislative texts in conjunction with other narratives of the culture,

and especially literary narratives, might be not only a very challenging field of academic research, it might reveal the law in the light of morality and human values, as well.

The prospects of legal narratology might also be seen in application of narrative analysis in teaching and training of future professionals in law and humanities. There are already examples of university curriculum where *law and literature* related cross-disciplinary subjects are included and the narrative approach applied: for example, Stanford Law School offers a course on Narrative Skills and the Law where students are taught how to compose an engaging story and how to apply those skills to a variety of legal situations; the University of Virginia School of Law offers a Program in Law and Humanities, exploring connections between law and such disciplines as philosophy, literature and politics.

It has been acknowledged that cross-disciplinary research and teaching in these fields both facilitates better understanding of the law and also points to ways in which the study of law may contribute to the realm of Humanities.

Perhaps this is a thought for consideration for Latvian Universities, as well.

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TOWARDS A REGIONAL GAS MARKET IN THE BALTIC STATES: POLITICAL, ECONOMIC AND LEGAL ASPECTS

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Abstract

Construction of a LNG terminal has been a critical element in the Baltic States' governments' strategy to diversify sources of natural gas and establish a single market through expansion of hub-based trading. Establishment of the gas trading mechanisms that lead towards integration of the gas markets is the next goal. It should be achieved by the joint efforts of all Baltic Sea Region states. However, it will not be an easy task: continuing decrease of gas consumption, different existing national legal and regulatory frameworks, large scale of ongoing gas diversification projects are just few of the more important barriers. On the other hand, the electricity sector demonstrates that the existence of a joint Baltic States' gas market is possible even in these complicated circumstances.

Trading natural gas at an exchange has already been launched in Lithuania. Gasum and Lietuvos Dujos regard this exchange as an instrument for implementing a long-term objective which is bringing Finland and the three Baltic States to trade gas within the joint exchange. This is relevant for the already commissioned LNG terminal in Klaipėda: an exchange platform enables purchases for the unforeseen needs of natural gas or to sell the surplus volume of natural gas, to balance the portfolio of suppliers or consumers natural gas flows. The "GET Baltic" exchange instrument now is mostly being used to trade gas on the national level, but has the potential to be enlarged to the regional scale.

There are at least few ways in which a joint venture can be structured if the gas exchange company "GET Baltic" is being transformed into an entity where transmission system operators of the three Baltic State and Finland have shares. Parties may set up corporation or contribute to it via arm's-length commercial agreements. In addition to establishing a corporation, the parties could consider a supply agreement for services or select any other form of co-operation. In any case, parties will have to decide on the form to regulate their relationship – this is usually determined by the respective goals and strategies of the parties.

Keywords: Regional gas market, joint gas exchange, joint venture

Introduction

With the opening of the Liquefied Natural Gas (LNG) terminal in Klaipėda in 2015 and enhancement of the Klaipėda-Kiemenai pipelines'

capacity (which is essential for trading gas between Lithuania and Latvia) the Russian gas monopoly in Lithuania and the whole Baltic region has been broken. In 2015 following a long term contract, the Norwegian “Statoil” company supplied Lithuania with 0.54 bcm of natural (re-gasified) gas. In 2016 amount of LNG supplied to Klaipeda terminal doubled as other customers purchased LNG on the spot market. As a consequence, pipeline gas delivered by Gazprom faced real competition which was tough. In March 2016 the Russian gas monopoly did not manage to sell all the gas offered to the Baltic States’ consumers through auction. Having information on the LNG prices in the region Gazprom had a possibility to offer gas cheaper. But consumers and traders of gas demonstrated that they prefer diversification and transparency instead of dependency and under the carpet games. The old times of unilateral rules of the game setting are gone.

LNG not only raised a feeling of the consumer’s self-confidence, but finally pushed Gazprom out of the market. Before even entering the market it triggered reforms: the Baltic States became pioneers in developing gas interconnections that eliminated bottlenecks and gas trade mechanisms that integrated energy systems. For instance, in 2016 Latvia (after Lithuania and Estonia doing this in 2011) finally adopted a law that implements the provisions of the 3rd EU energy package. Internal trade on the secondary market became possible even earlier through the “Get Baltic” exchange¹. In other words, the gas infrastructure was not only in place; it appeared to be accessible and flexible, enabling gas to move freely between market areas to the locations where it is most highly valued by gas market participants.

However, the LNG saga had a side effect as well; the burden of the infrastructure maintenance compromised the whole idea of the gas consumption. The problem is that despite of the huge investments in gas infrastructure, the consumption of natural gas was gradually falling (due to the comparatively high prices and increased consumption of biofuels in the heating sector). This has been a tendency for the last 3-5 years in the whole region. Then the price of natural gas dropped and consumption stabilised, the time has come to find a solution that enables the best possible employment of the created infrastructure.

It is clear that new gas pipelines and terminals, as well as old storages and other type of infrastructure will only be preserved in the long term if it is shared and jointly used. Sharing infrastructure and related benefits or burden could become acceptable for Lithuania, Latvia and Estonia only if

¹ Gasum owned 34% and Lietuvos Dujos 66% of the GET Baltic (after the unbundling, system operator “Amber Grid got 32% of shares, another 34% are about to be sold to the partners).

consumers accept related costs naturally. This would be possible if LNG terminal in Klaipėda, Inčukalns underground gas storage and other facilities offer services or commodity (natural gas) under acceptable conditions or there is an agreement to use and maintain infrastructure jointly. For a long period of time it wasn't a case: transit through Latvia was hardly possible due to the unimplemented 3rd EU energy package, Estonia was considering construction of the national LNG terminal, the price of Statoil's LNG for Lithuania was more expensive than the alternative from Gazprom. In other words, although the expansion of the natural gas trading market from Vilnius to Tallinn and further was possible in principle, vision, technical solutions and dedicated political decisions were missing.

The aim of this article is *to analyse ways of how the Baltic States (in cooperation with Finland) could overcome barrier of non-existing regional gas market*. The main objectives of the paper are the following:

- Examine the infrastructure development progress that encourage and the EU legal requirements that oblige the Baltic States to establish a well-functioning regional gas market;
- Present the elements of the functioning gas market, as well as market integration measures that are necessary in order to perform the functions of the regional gas market; and
- Introduce the organisational and legal aspects of potential joint venture that would at the certain level merge the Baltic States TSOs competence, ownership and activities.

Reports and other primary sources (official documents) serve as a background for the analysis of the common market assumptions, as well as infrastructure development progress. European gas models are analysed mainly using the insights of ACER (Agency for the Co-operation of Energy Regulators) as this organisation has the authority to propose or even impose decisions in the electricity and gas markets, and it continues working that direction. Unification of the markets in the Baltic Sea region is in principal decided, therefore the official agreements (MoU's) signed by the leaders of the Baltic States are also used in the article. As the process of the Baltic States' gas system operators' joint venture establishment is at a very early stage and many alternatives are being discussed, this aspect is presented more broadly: the works of B. Egan, R. Withley, Baker & McKenzie and other are used to present the company and joint venture. Legal aspects are discussed taking into account insights provided by R. van der Bergh, G. Dunn, PriceWaterhouseCoopers and many others.

The article consists of 3 major parts. Part 1 concentrates on the reasons and challenges, as well as legal commitments and so far unimplemented ambitions that trigger unification of the Baltic States' gas markets. Part 2 discusses available regional gas market integration models, as they are proposed by ACER. Part 3 focuses on legal aspects (form, type) of the joint

venture, as well as related challenges that will be important to overcome in a way towards creation of the fully integrated gas market.

Toward a Unified Market: from Idea to the Practical Results

The vision of an Energy Union, highlighted in the Framework Strategy document is an integrated continent-wide energy system where the resources can flow freely². Now they can't despite the infrastructure being in place: in case of the Baltic States difficulties of using Latvian gas infrastructure (system of pipelines and underground storage) prevent cross-border gas trade. Why do the Baltic States want to change this and how important is the 3rd EU energy package in this regard?

Striving for energy independence

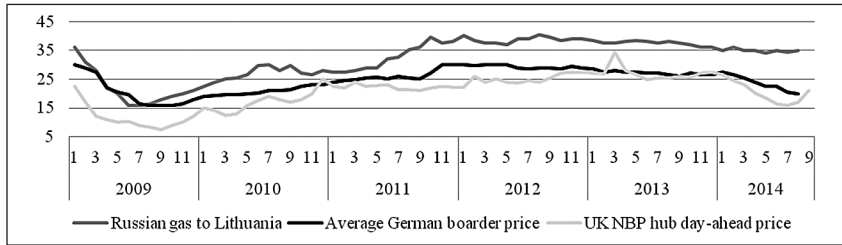
As in case of Lithuania, natural gas for a long period of time was the primary fuel for heat production in a centralised, well developed district heating system. It is also the primary fuel for domestic electricity production, especially after the Ignalina Nuclear Power Plant was closed in 2009. Additionally, the costs and supply of natural gas are extremely important to Lithuania's energy intense industries. A similar picture can be found in other two Baltic States where gas is also one of the key energy resources. It is worth noting in this regard, that the Baltic States' natural gas infrastructure was developed in the 1960s and 1980s with supply from Russia, without any connection to Western European gas networks³. Dependency on Russia's Gazprom Company (the one which supplied gas and controlled infrastructure in the Baltic States through subsidiary companies) is the reason of why *the price* of natural gas deliveries to the Baltic States has been rising for many years.

For instance, in Lithuania the increase of gas price started in 2002. Even Gazprom's 37.1% acquisition in 2004 of vertically integrated natural gas monopoly *Lietuvos Dujos* did not prevent this rise. In addition to that, from 2009 to 2014, Gazprom charged Lithuania 9.5% more for gas than it did Germany, which is several thousand kilometres farther from Russia. Lithuania's role as a reliable transit country (Gazprom's gas is delivered to

² European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, 25.2.2015, COM(2015) 80 final. <http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf> [accessed 03.03.2015].

³ Internally the Baltic States are connected and in case of emergency Lithuania and Estonia can be supplied from Latvia's Inčukalns underground gas storage facility.

Kaliningrad district through Lithuania) did not make a positive impact either (this can be well seen from Figure 1). Unfair pricing policy, unexpected cuts of energy supplies and blackmailing of domestic politicians (pressuring them to leave system as it is) called for immediate actions.



Source: Composed by author, based on European Commission, Directorate-General for Energy, Market Observatory for Energy. *Quarterly Report on European Gas Markets* (2014, Vol. 7, Issue 3). http://ec.europa.eu/energy/sites/ener/files/documents/quarterly-gas_q3_2014_final_0.pdf [accessed 27.03.2015].

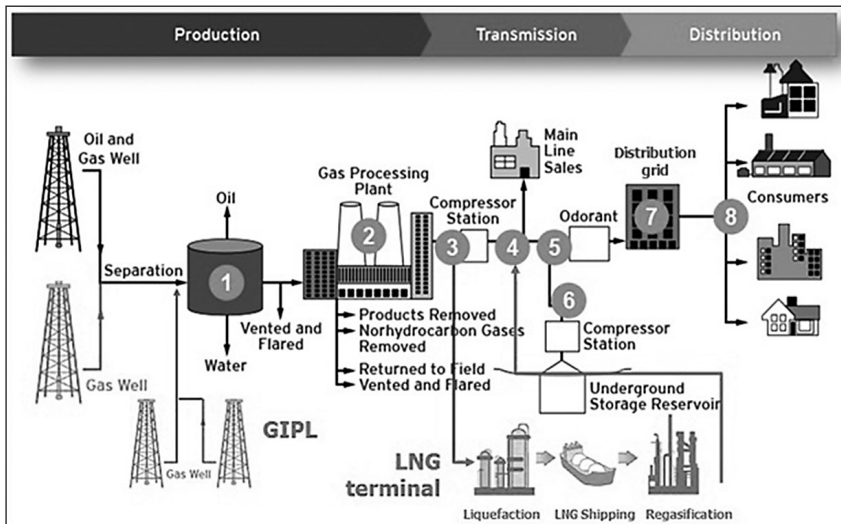
Figure 1 Comparison of EU Wholesale Gas price (EUR/MWh)

As “Gazprom” abused its dominant position in Latvia and Estonia in a similar way as in Lithuania, the Baltic States jointly began to investigate possibilities for constructing an LNG terminal. However, agreement wasn’t reached and in July 2010 the Lithuanian government decided that state-owned oil company *Klaipėdos Nafta* would implement the LNG terminal project alone. It was also decided that the LNG terminal would be a flexible floating storage regasification unit (FSRU). In June 2011, the FSRU was ordered from Hyundai Heavy Industries in South Korea and named “Independence”. In August 2014 Lithuania’s state gas company *LITGAS*, signed a five-year contract with Norway’s *Statoil* for a minimum volume of 0.54 bcm of natural gas annually. On October 27, 2014, the FSRU docked in Klaipėda port and since then supplies consumers with Norwegian gas. Since 2016 *LITGAS* is not the single consumer to buy it: a huge producer of fertilisers called “Achema”, as well as a distributor of natural gas for other industrial and private consumers “Lietuvos duju tiekimas” buy even larger volumes of LNG than *LITGAS*.

What was important in 2014 was that for the first time in the region’s history the gas price was linked not to the index of the oil price, but to the value of the National Balancing Point (NBP), Great Britain’s natural gas exchange index. Besides that, “Achema and “Lietuvos duju tiekimas” managed to purchase gas on the spot market, meaning better short-term price and flexibility in supply terms. In other words, the Baltic States diversified both: pricing formulas and the suppliers. Even the product is different (more flexible than pipeline gas): LNG has different characteristics

and can be transported in smaller quantities and to the consumers that don't have access to the gas system (pipelines). This opens possibilities for new type of business: the so called bunkering services (i.e. shipping LNG in small quantities to the industry sides, as well as supplying LNG to the ferry companies, operating in the Baltic Sea), the development of which would use the "know how" of the gas domestic gas companies, attract into the region new suppliers of LNG, and further expand consumption of gas in the region.

However, as it can be seen from Figure 2, the opening of a LNG terminal does not automatically mean functioning of the gas market: the process of practically reaching the consumer is rather complicated. Liquid trading of natural gas requires that such a terminal is integrated into a regional supply, storage, transportation, and trading network that allows gas to reach consumers according to price signals sent by the market.

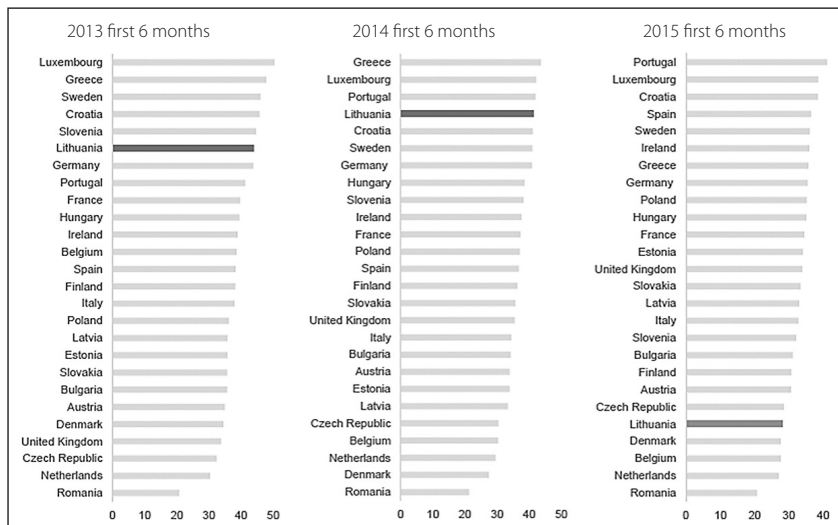


Source: Lithuania makes significant contribution to the value chain of natural gas industry of Baltic region. https://www.getbaltic.lt/en/news/news_1/lithuaniamakesignificantcontributiontothevaluechainofnaturalgasindustryofbalticregion [accessed 23.01.2015].

Figure 2 Value Chain of the Natural Gas Industry of the Baltic Region

From economic and political standpoints the LNG project in Klaipeda has been successful: prices of natural gas for industry consumers dropped in Lithuania much sharper than in other EU countries (see Figure 3) or even the global prices of oil (the price of Gazprom's gas is directly linked to the oil price). The unfairness of Gazprom's policy has been confirmed

by the EU Commissions' Statement of Objection (issued in April 2015) and even earlier decisions made by Gazprom changing clearly discriminative pricing policy. As for instance, the gas giant "surprisingly" agreed to cut its price by 20% immediately after it became clear that the LNG terminal project will be completed without delay.



Source: "Gas prices for industrial consumers"; <http://ec.europa.eu/eurostat/web/energy/data/database>.

Figure 3 Average natural gas price for industry consumers in the EU

Nevertheless, other circumstances complicate this ideal picture of the regional gas market that is supposed to be independent from the influence of Gazprom. As the consumption of gas was falling, Lithuania faced two paradoxical problems: 1) in 2015 the LNG appeared to be more expensive than the pipeline gas – as a consequence, pricing issues and obligations to use a certain share of LNG determined consumers' refusal to use of all kinds of natural gas; 2) covering the costs of gas infrastructure (including the LNG terminal) turned to be an unacceptable burden for large consumers of natural gas – they refused to cover the additional "security component" of infrastructure costs. As a consequence, the sector fell into the so called "death spiral": as part of the consumers refuse both LNG and even pipeline gas (replacing it with biomass where possible), the rest of them have to cover the increasing costs of infrastructure maintenance (which stimulates them to look for alternatives as well).

To be more precise, the problem for major Lithuanian consumers (such as heat producers) was that in 2015 they were obliged by the LNG Terminal law to consume a certain quantity of LNG from the terminal (with the new legislation introduced in 2016 this obligation is modified) as the contract between *LITGAS* and Statoil includes a “take or pay” condition. The good news is that solving an issue of temporary oversupply, there was a possibility to re-negotiate contract with Statoil (agreeing on smaller yearly quantities) and start bunkering activities in Klaipeda. A few *ad hoc* purchase agreements were concluded among the trader of LNG (Lithuanian company “Litgas”) and utility companies in Estonia⁴. However, in order to speed up the process of the common market creation, at least two conditions must be fulfilled in addition to the physical interconnections and other infrastructure being in place: 1) all infrastructure (terminal, pipelines, underground gas storage, etc.) must be accessible for all market participants in all three Baltic States; 2) there should be a mechanism (established and recognised by the participants rules) how to trade the gas on clear and fair conditions.

The presence of infrastructure is not anymore a problem: after the Baltic Energy Market Interconnection Plan (BEMIP, adopted by the EC in 2009) defined the key regional projects in 2009, that are either constructed or modernised by the end of 2015 (with the exception of few cross-border interconnections that integrate Baltic States into wider European markets). Implementations of the EU Third energy package, as well as the much needed Network codes followed by the creation of the common entities and rules that facilitate regional trade in gas are presented in the next sections.

Market liberalisation and the role of the EU Third energy package

The first, second and third energy packages, adopted in 1998, 2003 and 2009, are at the core of the common gas market creation in the EU. Basically all of them were agreed with the intention to increase short-term transactions and gas-to-gas or electricity-to-electricity competition. With the adoption of 2 directives and 3 regulations the EC set a goal to finalise (with few exceptions) the internal energy market by 2014, notably, by enforcing the unbundling of networks away from the competitive parts of the electricity and gas business. TEP mandates the EU member states to unbundle natural gas and electricity distribution networks: transmission should be separated from supply and distribution. This would reduce the monopoly power of energy suppliers.

⁴ Litgas, “LITGAS will supply gas for the third Estonian company”, Vilnius <<http://www.litgas.lt/en/litgas-will-supply-gas-for-the-third-estonian-company/>> [accessed 15.10.2015].

The major idea behind the unbundling requirements is that the independent TSO should not be associated with the gas supply business and instead organises the best use of the infrastructure it operates. Earning from selling the capacity of pipelines and related services (but not the gas), the TSO would be interested in attracting new suppliers, this way diversifying gas supply, investing into new grids, expanding trading hubs and integrating gas storage facilities into liquid trading systems based on trading hubs. In order to achieve these goals, the EU Third energy package provided 3 models for unbundling: “*Ownership unbundling*, establishment of the *Independent System Operator* or creation of the *Independent Transmission System Operator*.”

Lithuania was among the first countries implementing TEP and adopting the strictest option – ownership unbundling⁵. As a consequence, a new Law on Natural Gas was passed in Lithuania on August 1, 2011, opening the way for the establishment of a gas exchange⁶. The factors affecting the price of gas are various (weather temperature, the maintenance works on the transmission system, changes of certain participants’ gas needs, etc.) but the gas exchange is the only and a very important place where the spot natural gas price is settled on the market. This mechanism proved to serve quite well not only in the UK or Netherlands, but also in Finland: in 2013 GPF (Finish gas exchange) trading accounted for 6.1% of the total volume of natural gas consumption, the value of trading was € 64 million. The year earlier the volume had accounted for 7.5% and the trading had totalled € 86 million⁷.

As the Finnish gas exchange continued to promote an idea of a joint gas exchange in the Baltic Sea region, Lithuanian government decided to follow that path. Natural gas licensing rules and the regulations of the natural gas exchange were submitted by “Baltpool” (another gas exchange platform in addition to “Get Baltic”) and approved by the National Control Commission for Prices and Energy. In October 2014 Lithuania completed the implementation of the EU TEP: the former Gazprom subsidiary company “Lietuvos dujos” was partitioned into the TSO “Amber Grid” (a company owned by the Ministry of Energy) managing the key pipelines independently from the gas supplier “Lietuvos duju tiekimas” and gas distribution company “Lietuvos dujos” (both owned by the Ministry of Finance).

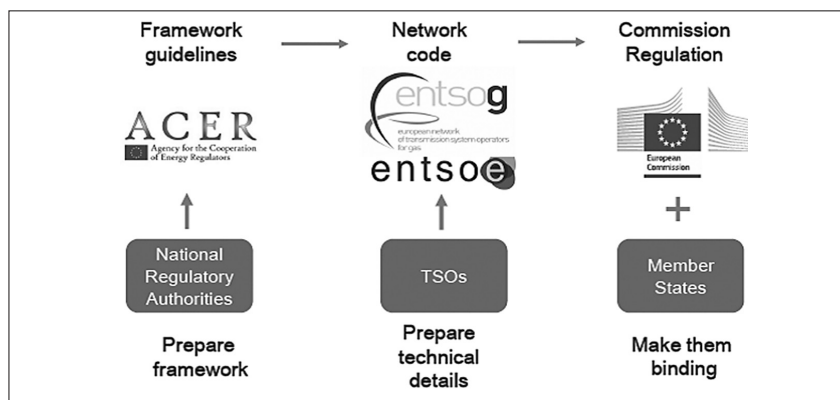
⁵ Estonia followed Lithuania with some delay; Latvia postponed the implementation until April 2017.

⁶ National Control Commission for Prices and Energy, *Annual Report on Electricity and Natural Gas Markets of the Republic of Lithuania to the European Commission*, Vilnius, 2011. <<http://www.regula.lt/en/SiteAssets/ncc-reports/NCC-report-2010.pdf>> [accessed 03.09.2015].

⁷ UAB GET Baltic, *Report of Trade on Natural Gas Exchange* (Newsletter, 3Q of 2014) <[https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/Q2%202014_Report%20of%20Trade%20on%20Natural%20Gas%20Exchange\(ENG\).pdf](https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/Q2%202014_Report%20of%20Trade%20on%20Natural%20Gas%20Exchange(ENG).pdf)> [accessed 02.12.2014].

In Estonia the TSO company (AS EG Vorguteenus) has been also formally separated from supplier (“Eesti Gaz”), but remained a private company, partially managed by Finish Fortum (owns 51% of shares in AS EG Vorguteenus) and Gazprombank (37% of shares). In Finland and Latvia TSO’s (respectively “Gasum” and “Latvijas Gaze”) remained vertically integrated companies, where the supplier (Gazprom) owns a significant part of the shares. Thus, use of the pipelines for transportation and Latvian UGS for balancing the gas volumes remains problematic until Latvia (in April 2017) opens up its gas sector (this will happen when the exclusive rights of “Latvijas Gaze”, 34% owned by Gazprom, to operate Inčukalns UGS are due to end). Until this is not the case, business activities of transporting “Lithuanian” gas to Estonia or selling it in Latvia remain risky and legally unsecured.

Implementation of the EU TEP is important, but, unfortunately, not enough for the successful development of the regional gas market. Arrangements for non-discriminatory access to gas infrastructure, i.e. the so called Framework guidelines and the Network Codes for cross-border and market integration issues can help in this regard. They are the products of co-operation between companies, national regulatory authorities, the EU Agency for the Cooperation of Energy Regulators (ACER), European network of transmission system operators (ENTSO) and the EU Commission, and thus contain the potential of the broad ownership and recognition that is so important for the successful implementation of the agreed rules.



Source: D. Preinstorfer, “The way forward to create liberalizes regional energy markets – The EU case as an example!” <<http://www.energyforum2015.com/download/Session3-1-present.pdf>> [accessed 02.12.2014].

Figure 4 Network Codes Development Process

Nevertheless, practice shows that in a number of markets even the full implementation of Europe-wide Network Codes did not have the desired effect of establishing a “well-functioning and transparent” wholesale (and retail) gas market⁸: neither the Capacity Allocation (CAM) Network Code, nor the Congestion Management Procedures (CMP) Guidelines are sufficient. What is needed are tactical and marketing decisions, such as establishment of the common (for the market participants) agents, where risks will be shared, actions will be co-ordinated, reports will be issued, interests will be represented and transparent deals will be concluded, as well as fair prices decided. In other words, setting a Joint venture that would perform all mentioned tasks and at the same time interpret the established rules equally for all participants of the market is crucial⁹. Perspectives and potential challenges of the Joint Venture are analysed in the third part of this article: the second part focuses on the duties and tasks of the potential Baltic States’ Joint Venture. As it will be seen from the options below, market integration is possible in a few scenarios which will differently determine functions and responsibilities of the Joint Venture.

Available Regional Gas Market Integration Models

For functioning gas markets to emerge it is crucial that the right structural framework exists. Network codes turn separate gas markets (i.e. trading areas) into one area of well interconnected entry-exit zones¹⁰ with virtual trading points (virtual hubs). Shippers then are able to trade gas freely within each entry-exit zone, with the size of each zone being as large as the existing infrastructure allows. The Gas Target Model (GTM), prepared by ACER, identified issues that make one step forward: gas market integration tools were proposed that are aimed at the creation of the liquid wholesale forward and/or futures market. Specifically the following gas market integration tools (or models) were presented 1) Market merger; 2) Trading region; 3) Satellite market; 4) Market coupling

⁸ “Wholesale gas market” is defined as the sum of gas trading activities (including spot, prompt and forward) with delivery agreed at one specific point and concluded using a transparent trading venue (i.e. exchange, broker platforms).

⁹ This has been also noticed in the joint declaration on establishing a regional gas market which has been signed by the Estonian, Latvian and Lithuanian ministers January 2015. The transmission system operators of all three states with the support of the Baltic Sea Regional Energy Cooperation (BASREC) forum have already begun preparations to the establishment of this kind of joint venture.

¹⁰ These are understood as zones where gas entry into the system and exit of the system services are provided.

(implicit allocation)¹¹. The following sub-sections will provide more details on these options.

The first market integration tool analysed by ACER was the so called **market merger** option. It is possible if: 1) two adjacent gas market areas are directly connected with each other (or plan on establishing such capacity); 2) both gas markets have at least one other relevant entry point from another gas market (source)¹². In this case two neighbouring gas market areas (A, B) fully merge their balancing zones into one unified cross-border balancing zone (underpinned by an integrated cross-border entry/exit-system) and consequently also merge their virtual points (since one balancing zone can have only one virtual point)¹³. The tariffs in the entry/exit zone are calculated according to the established agreements between TSOs and normally lead to cross-border inter-TSO compensation requiring alignment among affected regulators (potentially including alignment on the underlying national mechanisms of determining allowed revenue).

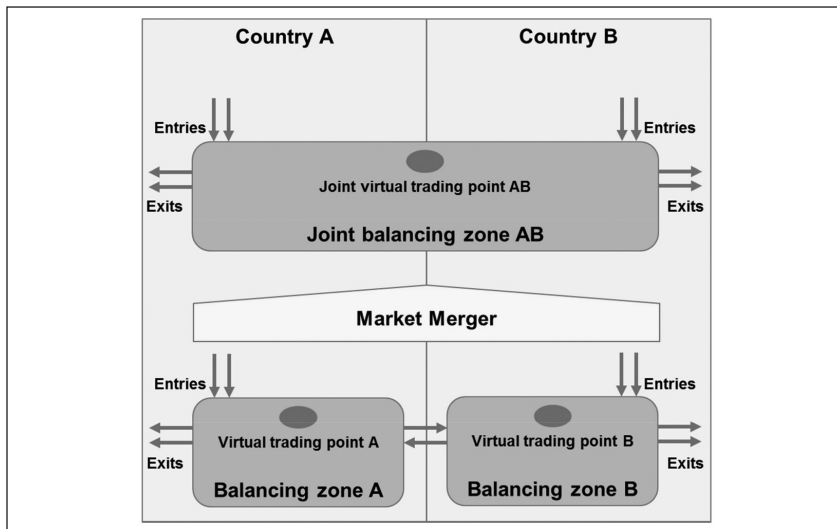
The market merger approach foresees the establishment of the cross-border balancing entity (“market area operator”) that is in charge of system management in collaboration with the merged markets’ TSOs. In this case regulatory oversight of the cross-border balancing entity has to be clarified among the regulators (and potentially also the legislators) of the merged markets. In addition to that, obligations of TSOs and the market area operator with regard to security of supply must be reviewed. Figure 5 represents the key characteristics and the needed changes that are associated with the “*market merger*” case.

The *market merger* model realises the largest possible synergy of all market integration concepts. What is also important is that wave of German market area mergers in recent years demonstrated that market areas and balancing zones including several TSOs can be formed without merging the TSOs themselves. Since all affected market areas were subject to the same jurisdiction, harmonisation was of course easier in these cases than in a cross-border context (as it would be in the Baltic States). Nevertheless, an upcoming example in a cross-border context (BeLux project) demonstrates that cross-border merge is also possible in practice.

¹¹ ACER, *European Gas Target Model – review and update. Annex 6 Tools for gas market integration and connection* (14 January 2015). <http://www.acer.europa.eu/Events/Presentation-of-ACER-Gas-Target-Model-/Documents/A14-AGTM-13-03d_GTM_Annex%206%20-%20Gas%20market%20integration%20and%20connection%20tools_final.pdf> [accessed 16.02.2015].

¹² *Ibid.*, p. 5.

¹³ *Ibid.*



Source: ACER, *European Gas Target Model – review and update. Annex 6 Tools for gas market integration and connection* (14 January 2015). <http://www.acer.europa.eu/Events/Presentation-of-ACER-Gas-Target-Model/Documents/A14-AGTM-13-03d_GTM_Annex%20%20-%20Gas%20market%20integration%20and%20connection%20tools_final.pdf> [accessed 16.02.2015].

Figure 5 Market merger model

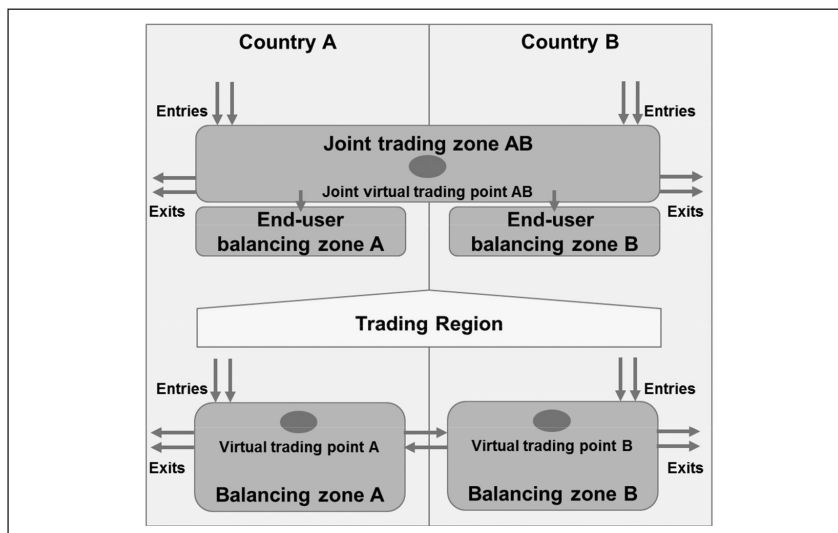
In case of *market merger*, allocation and balancing rules need to be fully harmonised cross-border. Therefore regulatory co-operation and joint legislative actions in countries that merge their markets are unavoidable. As achieving this might be a serious challenge, another option to consider for the Baltic States, wishing to integrate their gas markets could be creation of the **trading region** (see Figure 6). In this case two neighbouring gas market areas (A, B) merge only their virtual points, creating an integrated gas wholesale market, but refrain from fully merging their national end user (load) balancing systems¹⁴. One integrated cross-border balancing zone would be established including the integrated cross-border entry/exit-system. However, the balancing of end user loads in the two gas market areas would be kept separate in A and B¹⁵. This saves further harmonisation work on metering, allocation and balancing rules (which may be done at a later stage, paving the way for a full market merger)¹⁶.

¹⁴ ACER, *European Gas Target Model ...*, p. 8.

¹⁵ *Ibid.*, p. 9.

¹⁶ *Ibid.*, p. 10.

In this case the end user managers (or another assigned entity) are in charge of physically balancing the end user zones. It is important that *trading region* be structured so that the establishment of a single cross-border balancing entity for the trading zone can be avoided. This should be easier than in the case of a market merger, since the two national end user markets are still organised in separate balancing zones. This concept of market integration can be implemented fairly quickly because no cross-border alignment of end user balancing rules (and potentially also the underlying metering and allocation rules) is required. However, as the end user balancing systems are not merged between gas markets A and B, related synergies remain untapped (that could be tapped using the market merger concept)¹⁷. What is even more dangerous, cross-border inter-TSO compensation may be necessary which may require lengthy discussions.

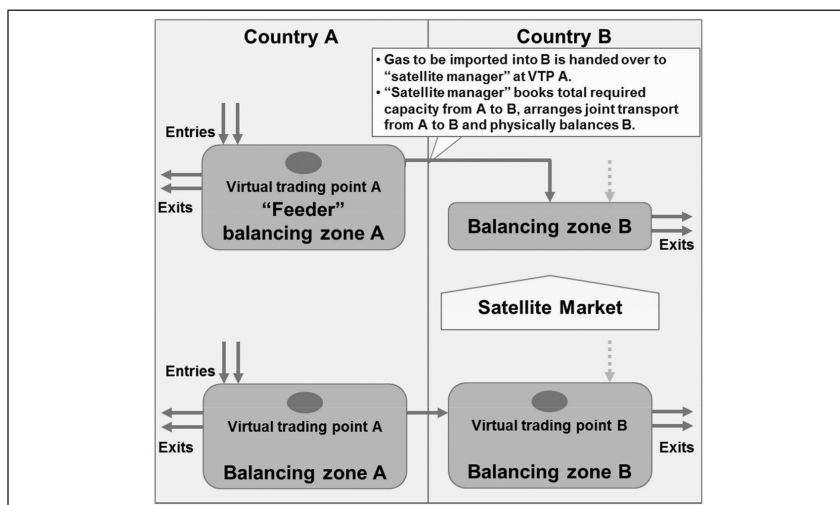


Source: ACER, *European Gas Target Model – review and update. Annex 6 Tools for gas market integration and connection* (14 January 2015). <http://www.acer.europa.eu/Events/Presentation-of-ACER-Gas-Target-Model/Documents/A14-AGTM-13-03d_GTM_Annex%20-%20Gas%20market%20integration%20and%20connection%20tools_final.pdf> [accessed 16.02.2015].

Figure 6 Trading region model

¹⁷ ACER, *European Gas Target Model ...*, p. 11.

The third option, which is the **satellite market** approach (see Figure 7), may be considered if one gas market area (the “satellite market area”), neighbours another gas market area (the “feeder market area” or ‘feeder’) with a better functioning gas market than the satellite. This is possible when the satellite does not have significant imports of gas from other markets, but from the feeder (so that in effect it receives (almost) all of its traded-market gas from the feeder). In this case the balancing systems of the satellite market area and the feeder market area remain separate. The interconnection capacity from the feeder market area into the satellite market area is booked by a designated entity of the satellite market area (the “satellite manager”). Supplier supplies gas into the satellite market by handing it over to the satellite manager at the virtual point of the feeder. From there on, transport to the satellite is managed by the satellite manager. The satellite manager is also in charge of physically balancing the satellite. There are no issues with clarifying regulatory responsibilities and oversight, therefore no cross-border institutions or balancing zones are established¹⁸.

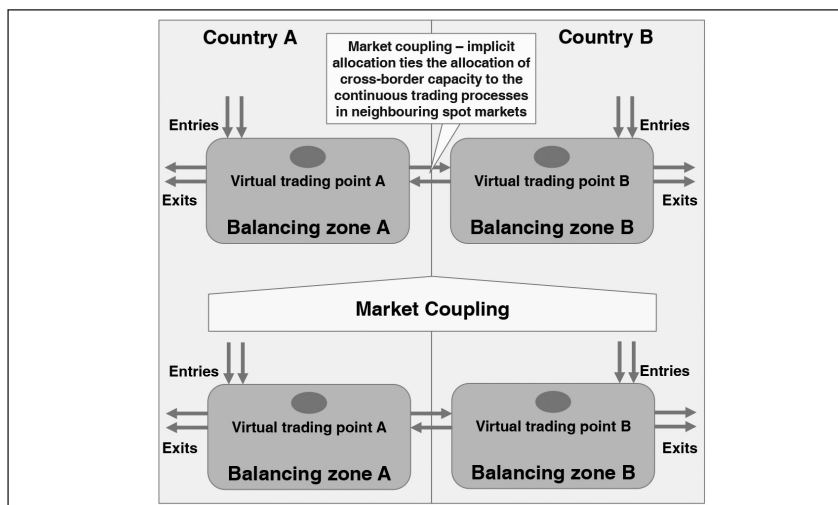


Source: ACER, *European Gas Target Model – review and update. Annex 6 Tools for gas market integration and connection* (14 January 2015). <http://www.acer.europa.eu/Events/Presentation-of-ACER-Gas-Target-Model/Documents/A14-AGTM-13-03d_GTM_Annex%20-%20Gas%20market%20integration%20and%20connection%20tools_final.pdf> [accessed 16.02.2015].

Figure 7 Satellite market model

¹⁸ ACER, *European Gas Target Model ...*, p. 8.

The last option proposed by ACER was realisation of the **market coupling (implicit allocation)** model (Figure 8). It may be considered if two gas markets are physically connected, but maintain two separate spot markets¹⁹. In this case the balancing systems and the virtual points of market areas A and B remain separate. In both markets A and B a spot market is operated on the basis of continuous trading, organised in a form of auctions at distinct points in time and the capacity is allocated in the course of the auction²⁰. The model does not require cross-border inter- TSO-compensation²¹. On the other hand, implicit allocation does not integrate the forward markets, but only furthers alignment of market prices. The end user balancing systems are not merged between the markets, competing market platforms (various brokers and exchanges) and several market operators make a negative impact on efficiency. Consequently, implementation of this model does not lead to a unified spot price for both markets even if there is ample capacity available²².



Source: ACER, *European Gas Target Model – review and update. Annex 6 Tools for gas market integration and connection* (14 January 2015). <http://www.acer.europa.eu/Events/Presentation-of-ACER-Gas-Target-Model-/Documents/A14-AGTM-13-03d_GTM_Annex%20-%20Gas%20market%20integration%20and%20connection%20tools_final.pdf> [accessed 16.02.2015].

Figure 8 Market coupling model

¹⁹ ACER, *European Gas Target Model ...*, p. 14.

²⁰ *Ibid.*, p. 17.

²¹ *Ibid.*, p. 18.

²² *Ibid.*

Taking into account the success of the EU TEP implementation, diversification of supplies and progress made in infrastructure development, there is almost no doubt that the Baltic States in the process of gas market integration will choose one of the ACER's advised options. Optimal decision must be found in the circumstances when large scale gas diversification projects allow high degree of access to various sources of gas, but the limited national demand gives little basis for building liquid and competitive gas markets and attracting large market players. The regional gas market will of course be developed by concluding agreements between TSOs on operation and integration, as well as harmonisation of national legislation²³.

In this context the most probable choice could be either to merge the markets (first option discussed in this sub-section) or to create a trading region. This conclusion can be made looking at the decisions made by the Prime Ministers of the Baltic States in Tallinn, in January 2015; the then Ministers responsible for Energy Policy in Estonia, Latvia, and Lithuania have signed the Declaration on Energy Security of Supply of the Baltic States. By this they agreed to establish a Regional Gas Market Coordination Group (RGMC Group), also inviting the representatives from Finland's respective stakeholders to join this group²⁴. Amongst other objectives, the group will facilitate creation of the effectively functioning common regional gas market with one key element among others: a joint entity that will perform the functions of gas exchange and balancing of the system. Thus, despite which of the two options will be chosen, a decision on the creation of certain common entities for performance of joint trading zone or/and joint balancing zone functions (one joint business organization could perform both functions, if decided so) will have to be taken. The next parts of this article will analyse organisational and legal aspects of the joint Baltic States' entity that is meant to be created.

Joint Venture in the Gas Sector: Key Issues to Decide Upon

Creation of the common "market area operator" (as described above) that would operate in all three Baltic States' natural gas market should not come as a big surprise: today's companies are losing their national identities as business becomes global. Multinational companies are registered in places different from where they operate, personnel are international, jurisdiction can be chosen, etc. As it is noticed by D. Campbell, joint venture (JV) "is one of the most frequent means of conducting this type of international business". He continues by saying that "*by its nature JV requires two or more parties or*

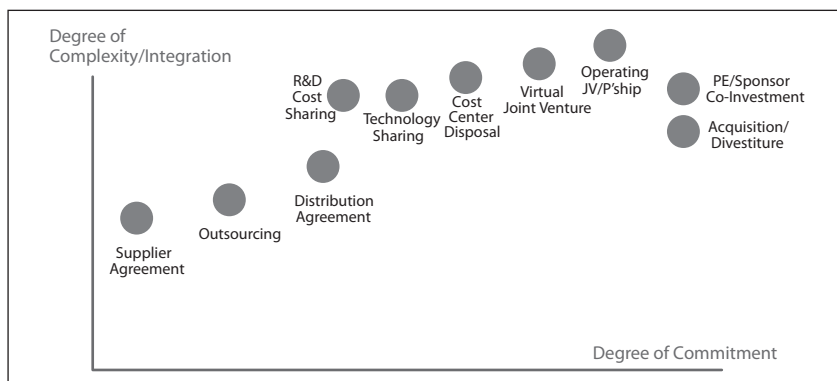
²³ ACER, *European Gas Target Model ...*, p. 19.

²⁴ *Energy Security of Supply declaration*, 2015. <http://www.enmin.lt/Energy_Security_of_Supply_declaration_20150114.pdf> [accessed 16.01.2015].

groups to integrate their skills, attitudes, biases, experiences of the organizations of each of the partners. This form is popular because it may be used as a way to share the risks associated with a new enterprise and take advantage of the relative skills or assets of the venture partners”²⁵. The following sections will concentrate on the organisational and legal aspects of joint ventures.

Joint venture: general observations

N. Smith and other experts from PwC stress that “the more parties understand the respective strategic rationale and objectives motivating the alliance, the larger is the likelihood that the participants will be able to build a sense of mutual trust”²⁶. They add: “this then facilitates the negotiation of the transaction and means there is a greater likelihood the participants will be able to establish a framework for the ongoing monitoring and management of the alliance, benefiting everyone involved”²⁷. It is also noticed, that establishment and operation of JV demonstrate almost the highest level of trust between partners (see Figure 9).



Source: PwC, *Navigating Joint Ventures and Business Alliances. Success factors in executing complex arrangements that are challenging to negotiate, operate, monitor and exit*, <<https://www.pwc.com/us/en/transaction-services/publications/assets/pwc-navigating-joint-ventures-and-business-alliances.pdf>>, 2012 [accessed 28.10.2015].

Figure 9 Level of integration and commitment of business alliances

²⁵ Dennis Campbell, *International Joint Ventures – 2nd Edition* (New York: Juris Publishing, 2013), p. US/3

²⁶ PwC, *Navigating Joint Ventures and Business Alliances. Success factors in executing complex arrangements that are challenging to negotiate, operate, monitor and exit*, <<https://www.pwc.com/us/en/transaction-services/publications/assets/pwc-navigating-joint-ventures-and-business-alliances.pdf>>, 2012 [accessed 28.10.2015].

²⁷ *Ibid.*, p. 10.

A JV might reflect a high level of trust, but it can also take many forms. For instance, the idea of the joint natural gas exchange and system balancing company in the Baltic States could be implemented by establishing a corporate alliance (common business organisation or other type of joint venture), which would manage the transmission infrastructure and guarantee easy access to it for all market participants. As the Baker & McKenzie study rightly notices, “a corporate alliance may take many forms, from a purely contractual relationship to a jointly owned entity. It may involve transferring an existing business to the joint control of the parties or indirectly acquiring an existing business from another party, in which case organizing the venture will involve elements of a disposition or acquisition, or both. Alternatively, an alliance may only involve contracts: license agreements, joint marketing agreements, affiliate revenue sharing agreements or other types of agreements in which the parties agree to pursue a set of common goals”²⁸.

As L. DiMatteo points out, a JV carries a number of **advantages**, but also **disadvantages**. According to him a, “JV can provide a party with access to resources and skills that are unavailable to it at any reasonable cost”²⁹. A. G. Sharp adds to this list an access to the foreign market: this can be even more important than primary object of the JV. Another important factor according to him is that the JV provides smaller companies an opportunity to work with larger, more experienced entities and to develop, and enhance capabilities through the “know-how” of the stronger partner. Others point out that a JV leads to a spillover effect into the host country’s business environment. Further development of the domestic entrepreneurial skills and managerial capabilities are also mentioned among the advantages of the JV.

Nevertheless, as it is observed by L. DiMatteo, a “JV also can be risky because of the reliance that must be placed on the ability and willingness of the other party to perform its obligations during the term of the joint venture agreement.” A.G. Sharp observes that one of the causes leading to the failure of the JV is absence of a jointly agreed **vision and purpose** of the JV. Partners should agree on this very fairly and much before the common business is launched: if some participants don’t reveal their true intentions, it usually becomes a problem later. If partners have unequal experience and one side decides to take a lead in the JV it must be done very carefully: misbalanced dynamics, as well as jumping into partnerships without testing each other

²⁸ Baker & McKenzie, *International Joint Ventures Handbook. Consultation on the future of European Company Law* (2006), <http://www.law.northwestern.edu/academics/professionaled/documents/archive/International%20Joint%20Ventures%20Handbook_Roeder.pdf> [accessed 15.10.2014].

²⁹ Dennis Campbell, *International Joint Ventures – 2nd Edition* (New York: Juris Publishing, 2013), p. US/3

in smaller projects may lead to the mistakes, wrong expectations and failure as a consequence. This is especially true when partnering sides come to the JV with different structures, corporate cultures and strategic plans³⁰. Although the latter is not an issue in the Baltic States, the purposes of the common gas market, as well as a vision of how to achieve it through the common decisions and the creation of the Joint Venture in particular are crucially needed.

Some of the reasons of JV failure are difficult to forecast, as for instance disappearing markets, geopolitical and macro-economic factors that de-stabilise a country or the region. But others are evident and might be mitigated: if for instance one of the Baltic States starts to dictate the rules of the game to others just because it unbundled gas sector earlier or established institutions and maintains infrastructure which others lack, development of the joint activities or common structures will be endangered. Nevertheless, careful planning, paying attention to national peculiarities and specific circumstances can help to eliminate or mitigate the discussed risks.

Important legal aspects of the Baltic joint venture in the gas sector

Creation of the new or “refurbishing” of existing?

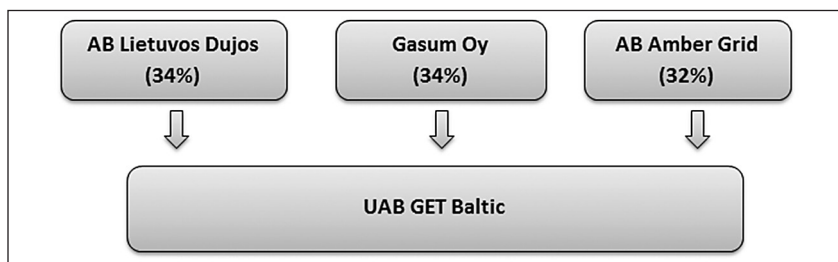
As it has been stressed by Aalto, institutions are the ones who shape the market: they organise the rules and norms and determine concrete practice³¹. This is exactly what happens in the Baltic States: state owned companies supervised by the government negotiate the possibility to have a joint entity which would serve as an instrument of market integration. Establishment of a completely new body is one possibility, but Lithuanian and Finnish gas traders “Lietuvos dujos” and “Gasum” already co-operate in a joint venture for gas exchange called UAB “Get Baltic”. It contributes to market integration by organising trade in natural gas which covers Lithuania and Estonia since 2013.

“Get Baltic” is based on the successful operating model and trading system, developed for the Finnish gas market by the Gasum subsidiary “Gas Exchange Ltd”. This corresponds to the insight of J. M. de Caldas Lima,

³⁰ A. G. Sharp, *Joint ventures* <<http://www.referenceforbusiness.com/encyclopedia/Int-Jun/Joint-Ventures.html>> [accessed 22.10.2015].

³¹ K. Westphal, *Institutional change in European natural gas markets and implications for energy security: lessons from German case*. <http://ac.els-cdn.com/S0301421514004856/1-s2.0-S0301421514004856-main.pdf?_tid=c3ed9c48-96d2-11e5-8fa8-0000aacb360&acdnat=1448826948_5b0014b3ac22cd5fb53ef01672d043c6> [accessed 22.06.2015].

who thinks that the success of an international business entity depends on a convergence of interests involving three sides: the foreign investor, the domestic company and the host government³². As an endorsement of this statement, since the very creation of “Get Baltic” Finish “Gasum” owned 34% of the shares, Lithuanian TSO “Ambergrid” and DSO “Lietuvos dujos” (state owned enterprises) have 32% and 34% of shares accordingly (see Figure 10). As DSOs are intended not to participate in these kinds of activities, the shares now owned by “Lietuvos dujos” are being sold to Latvian and Estonian TSOs; this way further strengthening co-operation between countries and public enterprises.



Source: UAB Get Baltic, *Structure of the shareholders*. <https://www.getbaltic.lt/en/about_us/structureofshareholders> [accessed 22.08.2015].

Figure 10 Structure of the UAB “Get Baltic” shareholders

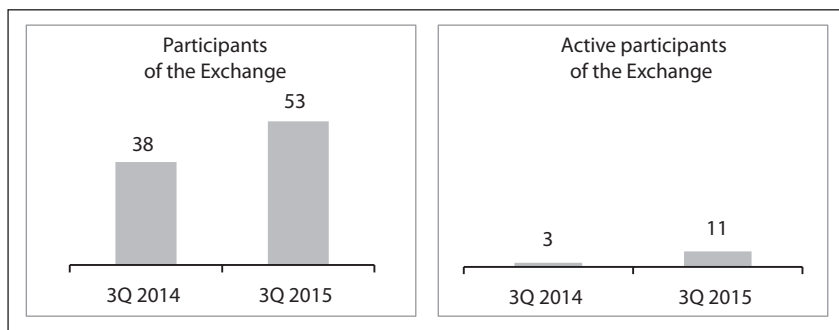
In Lithuania “Get Baltic” under this composition of the shareholders has worked quite effectively so far: trading takes place as anonymous continuous transactions in physical natural gas deliveries in periods of one day to a maximum of 60 days before the delivery³³. Annual volume of trading during the “GET Baltic’s” first operating year ended up close to the target set for the year: since the beginning of the activity, the total traded volume is 113.21 million m³ (roughly 57.59 million m³ in 2013 and 55.62 million m³ during 8 month of 2014)³⁴.

³² United Nations Industrial Development Organization, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. Prepared for UNIDO by J. M. de Caldas Lima. Vienna, 2008.

³³ *UAB GET Baltic Report of Trade on Natural Gas Exchange* (Newsletter, 3Q of 2014) <[https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/Q2%202014_Report%20of%20Trade%20on%20Natural%20Gas%20Exchange\(ENG\).pdf](https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/Q2%202014_Report%20of%20Trade%20on%20Natural%20Gas%20Exchange(ENG).pdf)> [accessed 02.12.2014].

³⁴ Totaling 536 GWh, the annual volume corresponds to around 2% of the total consumption of gas in Lithuania. More than 20 traders had joined the GET Baltic Natural Gas Exchange by the end of the year, with almost all of the most potential players already involved. Today, there are 38 exchange participants registered on the gas exchange of GET Baltic.

The main positive effect of the exchange is that products traded on the gas exchange create equal rights to operate on the market for both small and large market participants, and minimises the barriers to enter the market for new market participants. All in all it creates favourable conditions for the development of competition. Not only Lithuanian, but Latvian and Estonian natural gas exchange participants can register on the exchange of GET Baltic and purchase gas delivered to Lithuania (both by via LNG terminal or via pipeline from Russia). The number of Get Baltic exchange participants is constantly rising:



Source: UAB Get Baltic, *Report of Trade on Natural gas exchange*, <https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/GETBaltic%20report%20IIIQ%202015_ENG%20FINAL.pdf> 2015 [accessed 22.11.2015].

Figure 11 Number of participant at the Gas Exchange “Get Baltic”

However, this gas trading scheme is not mirrored in Latvian and Estonian markets yet: Lithuanian consumers can't buy natural gas in neighbouring countries (i.e. from Latvian or Estonian providers), because the needed instruments are not in place. And even the Lithuanian exchange is limited: it can offer gas, but not ensure that this gas will reach consumers in another country. This is determined by the fact, that “Get Baltic” doesn't work neither as a regional capacity distribution platform (primary and secondary capacity market organiser is the national TSO) nor as an entity responsible for balancing the gas flows in the region (also a national responsibility). Although there are objective reasons (falling general consumption of gas, no need to use gas for electricity production), as proof of the insufficient powers of the UAB “Get Baltic”, trading volumes of natural gas in the first quarters of 2015 significantly decreased in comparison to the same quarters of 2014.

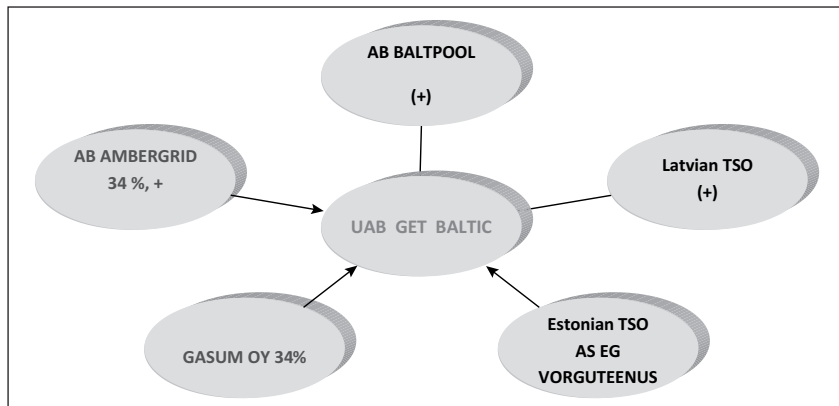
Table 1 Trading Volumes on the GET Baltic Exchange (by trading contracts)

	3Q 2014	2015 July	2015 August	2015 September	3Q 2015	3Q 2015 compared with 3Q 2014
Turnover (MWh)	201,277	7,433	11,292	7,619	26,344	-174,933
Number of transactions	29	97	141	126	364	335
Highest volume of fulfilled transactions (MWh)	14,626	260	450	250	450	-14,176
Lowest volume of fulfilled transactions (MWh)	1	2	1	4	1	-0.04
Average volume of fulfilled transactions (MWh)	6,940.56	76.63	80.09	60.47	72.37	-6,868.19

Source: UAB Get Baltic, *Report of Trade on Natural gas exchange*, <https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/GETBaltic%20report%20IIIQ%202015_EN%20FINAL.pdf> 2015 [accessed 22.11.2015].

Classical understanding is that “in a joint venture the foreign investor and a local partner establish a JV to conduct the intended operations in the host country”³⁵. The beauty of the “Get Baltic” becoming an international natural gas trading platform would be that it would right away start operating (providing services) in all three Baltic States and maybe even Finland. However, in order to achieve this, there is a need to make some improvements: Baltic States and Finland should agree on natural gas trading principles and solve the issue of natural gas transportation. After this is decided in principle, implementation could be supervised by the joint business entity, that is owned by all states TSO’s and AB BaltPool, the last bringing the experience of trading biofuels on the spot market of Lithuania (Figure 12). The joint business entity would make natural gas markets in the Baltic States more transparent in terms price formation and benefit both consumers and suppliers that would get new opportunities to trade, prevent “death circle” and increase overall security of energy resources supply.

³⁵ United Nations Industrial Development Organization, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. Prepared for UNIDO by J. M. de Caldas Lima. Vienna, 2008.



Source: author's own scheme.

Figure 12 Possible shareholders' structure of the UAB "Get Baltic"

There could be a discussion if it is worthwhile to avoid direct involvement for the TSO' and to invest into the JV not directly, but through the specifically for that purpose established "daughter" companies (that would remove direct responsibility of TSO's in case of unexpected failure, but allow them to maintain control over the JV – "market area operator"). If the idea is implemented from scratch, splitting business responsibility could be an option. But in this particular case it seems there is no need for partners in the Baltics to establish a new company or companies in order to structure market relations in the gas sector: reduction of costs, sharing the risks, limiting ownership and achieving the goals are possible under the existing "Get Baltic" with direct participation of DSOs in it.

On 2 October 2015, trust has been confirmed by the EU ACER which granted "Get Baltic" status as a "Registered Reporting Mechanism for reporting records of transactions, including orders to trade on the Get Baltic's gas exchange to the ACER on behalf of market participants"³⁶. Already before that (on 20 March 2015), one of the Estonia's largest natural gas players Eesti Energia AS has been registered on the "GET Baltic" – a natural gas exchange practically trading the gas in whole region. In other words, the Lithuanian "Get Baltic" gas exchange proved being able successfully to serve the need in one country and therefore could be awarded with new

³⁶ UAB Get Baltic, *Report of Trade on Natural gas exchange*, <https://www.getbaltic.lt/uploads/documents/Ataskaitos%20EN/GETBaltic%20report%20IIIQ%202015_ENG%20FINAL.pdf> 2015 [accessed 22.11.2015].

tasks (the ones, related to organisation of smooth transportation of gas³⁷) and the new structure of management.

This would be a quite natural decision: Lithuania (as the place where “Get Baltic” is and would remain registered) was the first and by far the only state in the region which already has experience in trading gas through the exchange. Besides that, Lithuanian is the only country where the foundation of the gas market system, which is system of the entry-exit places is in place (it replaced traditional, but ineffective gas transit system since January 2015). However, the contribution of Latvia and Estonia to the “Get Baltic” gas exchange will definitely require changes of the company. Market expansion, added profits, access to the additional amounts of natural gas, sharing the risks are expectations from Latvian and Estonian TSOs (and governments) that will have to be taken into account. If not, choice over the type of entity, relations between partners, jurisdiction and many other aspects may spark disagreements which are analysed in the next sub-sections.

Choice of entity

Every process of the JV creation “starts with a decision on the strategy and objectives that call for the new project and may lead to the joint venture”³⁸. Then principal agreement is reached, the JV “can be created by conduct, verbally, or in any number of documents, but the key terms and conditions of the joint venture relationship should be set out in a written agreement”³⁹. International experience demonstrates that theoretically two types (structures) of the joint ventures are possible: *corporate joint venture* and *contractual joint venture*.

In the case of a *corporate* joint venture, parties allocate share of their capital for joint activities, a new company with separate management is created. C. Carter says that “joint activity organised in corporate form appear more professional in comparison to other forms of business”. According to him, “a business that takes the effort and money to organise a corporation sends a signal that the company is around to stay”. In addition, to that, “when a business incorporates, its owners have limited liability protection against the company’s debts and obligations. This means creditors of an incorporated business may not

³⁷ As for instance, administration of regional transmission capacity allocation or organization of secondary capacity market, settlement of balancing positions, etc.

³⁸ United Nations Industrial Development Organization, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. Prepared for UNIDO by J. M. de Caldas Lima. Vienna, 2008

³⁹ LexisNexis, “Overview of the Joint Ventures”, <<http://www.lexisnexis.com.au/pdf/joint%20ventures.pdf>> 2011 [accessed 04.10.2015].

pursue the business owner's personal assets in an attempt to recover business liabilities and obligations"⁴⁰.

A Contractual joint venture means that joint activities are held by concluding the agreements (collaboration agreements, consortium agreements, strategic alliance) on co-ordination of actions and further co-operation. B. F. Egan notices that joint venturers may operate under a relationship not constituting any recognised or defined entity. Nevertheless, as it is stressed by B. F. Egan, courts in case of a dispute would "impose general partnership duties or liabilities on the venturers if their relationship is found to constitute "an association of two or more persons to operate a business as co-owners for a profit" (the traditional definition of a partnership) regardless of how the venturers characterize and document their relationship"⁴¹.

Assessment of corporate joint venture and contractual joint venture leads to the conclusion that corporate form has more advantages for the business that is comparatively new in the region, but has a potential to expand. If decided so, a corporate joint venture could be based on the Lithuanian and Finish joint venture for gas exchange "Get Baltic" that would incorporate Latvia and Estonia by proposing them the shares currently owned by Lithuanian DSO "Lietuvos dujos". Although the company would most probably stay registered in Lithuania, it could be asked to change the legal type: from the private limited liability company to the public limited liability company in which securities are traded on a stock exchange and which is more strictly regulated, i.e. includes supervisory board, etc.

Management issues

As B. F. Egan observes and practice confirms, business is usually led by a "Board" which includes persons operating on behalf of the company. In this context it is very important that stakeholders agree on who has the authority to obligate the company contractually and how Board members will run company's business and other affairs. A very important aspect in establishing an effective board with the established "balance of power" is the appointment of the independent member of the Board. He or she is typically appointed by the agreement of the participants, in order to protect against Board deadlock over operational issues. Additionally, B. F. Egan stresses the need to agree that the key decisions will be made only with the unanimous, or a supermajority of votes. Such decisions

⁴⁰ Carter, Ch., *The Advantages of the Corporate Form of Business Organization* <<http://smallbusiness.chron.com/advantages-corporate-form-business-organization-370.html>> [accessed 04.10.2015].

⁴¹ Egan B. F., *Joint venture critical issues: formation, governance, competition and exits* (Dallas: The University of Texas school of law, 10th annual mergers and acquisitions institute, 2014).

usually include matters “*related to capital expenditures, incurring indebtedness, initiating or settling litigation, entering into contracts involving more than an agreed sum or entering into contracts with a joint venture participant or any of its affiliates*”⁴².

And still, as it is noted by B. F. Egan and few others, in a joint venture the duty of a director (manager) to all members may become an issue. This happens because directors are selected to represent the interests of one party in the joint venture. Problem could be solved by structuring the company to be managed by appointed representatives who act for directors on the specific committee which would lead the business in the name of directors. If so, committee members would have fiduciary duties analogous to partners in the JV. Similar problem could arise if director decides not to pursue a particular project. In this case the issue is usually solved by not the requiring the participants of JV to vote in favour of the decision: “*only those participants which voted in favour of pursuing the opportunity may pursue it if the venture does not*”⁴³.

A more delicate solution is needed in the case of the potential competition between parent company of a participant and the JV. As it is observed by J. M. de Caldas Lima, “*it may happen that, in addition to sharing ownership and interests in the joint venture, the parent companies become rivals and compete with each other in other markets and eventually with the joint venture itself. This may naturally lead to a situation of conflict, which could result in the dissolution of the joint venture or its acquisition by one of the parties*”⁴⁴. In order to avoid misunderstandings an agreement of non-competition should be concluded. This aspect is important for the potential partners “Get Baltic”, but it should be solvable: all DSO’s in the gas sector should remain responsible for gas distribution in their home countries (and take appropriate decisions without obstacles) or one joint DSO should replace national DSO’s and solve the issue this way.

Mechanisms should be also established for funding the JV’s activities: both for initial start and consecutive operation of the JV. Typically partners either directly or through their representatives agree on an annual budget. The contribution to the JV may not only be in cash: it may include contributions in services, products, technology or other assets. In any case an appropriate procedure of this kind of contribution must be established.

⁴² Egan B. F., Joint venture critical issues: formation, governance, competition and exits (Dallas: The University of Texas school of law, 10th annual mergers and acquisitions institute, 2014).

⁴³ *Ibid.*, p. 41.

⁴⁴ United Nations Industrial Development Organization, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. Prepared for UNIDO by J. M. de Caldas Lima. Vienna, 2008.

According to B. F. Egan, “participants of the JV must also agree upon allocation and *distribution of profits, losses and other items*. For example, where the JV is expected to have substantial operating losses in its early years, the partners may allocate share of the losses to the party who have income”⁴⁵.

Asset transfer and termination of the JV

As it was stressed in the first part of this article, one of the key factors that determined the Baltic States’ determination to develop an effective regional gas market was to quit with any kind of negative political influence at the time when natural gas supply agreements are negotiated and deals broken. Structures that are created to reach this goal are meant to remain stable and independent from unwelcome third parties’ influence for a long period of time. For this purpose shares of the “Get Baltic” would be distributed among the state controlled entities. But in general terms J. M. de Caldas Lima rightly observes that creation of the JV is based on trust between the partners, therefore it is crucial “to secure continuity of contractual relations through the inclusion in the joint venture contract of special provisions for the transfer of the joint venture’s shares from one partner to the other or to third parties”⁴⁶.

Despite the existing level of trust, the strategic importance of the national gas distribution network to each of the market participants, *asset purchase agreements* between the shareholders of the future “Get Baltic” will have to be signed. **Asset purchase agreements** between the buyer and the selling entity (one of the joint venture parties or any other party) usually include unique drafting and negotiating issues. As B. F. Egan stresses that, “specification of which assets and liabilities are transferred to the buyer, could become essential in this regard. This can go so far, that transfer or purchase of an asset can make the other parties wish to dissolve the venture or at least have the right to approve their new partner. Sometimes such transfers are entirely prohibited, although such a provision may make it necessary for the participants to have the right to unwind the venture unilaterally. Alternatively, transfers to third parties may be permitted only where the other participants have a right of first refusal to buy the interest to be transferred”⁴⁷.

⁴⁵ Egan B. F., *Joint venture critical issues: formation, governance, competition and exits* (Dallas: The University of Texas school of law, 10th annual mergers and acquisitions institute, 2014), p. 33.

⁴⁶ United Nations Industrial Development Organization, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. Prepared for UNIDO by J. M. de Caldas Lima. Vienna, 2008.

⁴⁷ Egan B. F., *Joint venture critical issues: formation, governance, competition and exits* (Dallas: The University of Texas school of law, 10th annual mergers and acquisitions institute, 2014), p. 42.

This issue is usually solved by establishing certain criteria in the agreement, which have to be satisfied in order to transfer shares of the JV. Different authors for instance stress a condition that transferee should not be owned or controlled by a foreign actor (the more so if JV has government contracts). Other important conditions can be set as well: minimum net worth for a transferee or the requirement that the transferee is not becoming competitor can be just few examples⁴⁸. The possibility of indirect transfers (qualified as change of control) is also considered and therefore clearly defined as: “(i) a transfer of stock in a venturer by its ultimate parent entity (ii) a change in management in the venturer in which specified individuals cease to be in control or (iii) a change in control of an ultimate parent entity”⁴⁹.

The joint venture agreement should also provide *dispute resolution mechanisms*. Litigation, arbitration or other alternative forms of dispute resolution may be activated in case of major disagreements. On the other hand, it is usually agreed that before any of this mechanisms is activated, disputes will be examined first of all by specified senior level officers or managers. It is only important in this regard that there are clauses of the treaty that foresee possibility not to paralyse the operations of the JV during the pendency of any dispute⁵⁰. On the other hand, as some major disputes could remain unsolved, the JV governing document must foresee cases, which could cause a *termination* of the joint venture. This may include a “termination for convenience” provision (i.e. possibility to initiate termination of the JV after a set period).

Although B. F Egan observes that usually the JV agreements include “an affirmative obligation for each participant not to take any actions that would terminate the joint venture in violation of the other provisions of the joint venture agreement”⁵¹, J. M. de Caldas Lima specifies the reasons of why the JV of indefinite duration might be terminated. These are more often the cases when a) one of the parties wishes to transfer shares to another party or an outsider or 2) the contract has achieved its purpose, or 3) parties are in deadlock and further collaboration is impossible. Breach of the JV contract or failure to fulfil it as well as inability to continue operations due to heavy losses, inability to achieve the established objectives or insolvency of one

⁴⁸ Egan B. F., *Joint venture critical issues: formation, governance, competition and exits* (Dallas: The University of Texas school of law, 10th annual mergers and acquisitions institute, 2014), p. 43.

⁴⁹ *Ibid.*, p. 44.

⁵⁰ *Ibid.*, p. 47.

⁵¹ *Ibid.*, p. 48.

party may lead to the earlier mentioned consequences⁵². Although this is highly undesirable, the Baltic States' DSOs in their JV must be ready for this kind of development as well.

Conclusions

From 2015 commercial cargos started arriving to LNG terminal in Klaipeda and since then non-discriminatory third party access allows the import of gas from the global LNG market and transport through the interconnected gas systems of Baltic States. At the end of 2015 the capacity of the internal pipeline system in Lithuania has been enhanced providing the capacity needed to supply more than 80% of the current yearly demand of the Baltic States from the LNG terminal in Klaipeda. Complementary to the pipeline system of the Baltic States, the Inčukalns UGS located in Latvia sooner or later will become a part of the integrated gas network. It is expected that in 2019 the gas interconnection between Poland – Lithuania (GIPL) will be completed, and there are plans to construct a mid-to-large scale one or two LNG terminals in Gulf of Finland on the coasts of Finland and Estonia and the interconnector between Estonia and Finland (Balticconnector). Gas bunkering infrastructure should also be in place very soon.

However, infrastructure expansion is not enough and the platform for wholesale market services covering three Baltic States and Finland requires agreement between governments on the establishment of the joint venture that can be one of many available forms. The first dilemma is regarding the ambition – what will be the tasks of the joint venture. In other words, will it only be one more regional gas exchange platform or provide many more services (propose joint entry-exit zone, take care about of the system balancing, provide possibility to solve or prevent disputes between national TSOs). Next, the joint venture can be corporate of limited liability, but also contractual based on partnership agreements between national TSOs. It can be newly established or based on the “Get Baltic” gas exchange successfully operating on the national level. Many technical issues need to be solved: starting from the choice of law and forum and finishing with agreement on management, representation, shares, etc. Analysis of the circumstances and available options has demonstrated that:

1. With adoption of the Third energy package and Network Codes the non-discriminatory access to gas infrastructure is (in other countries – will be) finally granted. This type of regulatory policies

⁵² United Nations Industrial Development Organization, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. Prepared for UNIDO by J. M. de Caldas Lima. Vienna, 2008.

- is a key pre-condition for the market integration and optimisation of the gas trade in the region;
2. The right structural framework for the functioning gas market includes first of all a single entry-exit zone (i.e. one system to sell and buy the gas), as well as one or several trading points (i.e. gas exchange) and either one TSO or synergy between several independent TSO's that are responsible for balancing the system;
 3. The functioning wholesale market requires a liquid spot market, but also, crucially, a liquid wholesale forward and/or futures market. To perform this and other functions on the regional level market integration measures should be implemented. Out of four gas market integration tools (or models, specifically (1) market merger; (2) trading region; (3) satellite market; (4) market coupling) the Baltic States should chose the one which foresees the deepest possible integration (thus, market merger or trading region);
 4. While merging the markets or the trading zones, the Baltic States should merge their balancing zones into one unified cross-border balancing zone (underpinned by an integrated cross-border entry/exit-system), and also merge their virtual points (since one balancing zone can have only one virtual point) and maybe even establish a cross-border balancing entity. Creation of the joint venture in this context (as advanced in ACER's methodology) is unavoidable;
 5. The idea of the joint natural gas exchange and platform for wholesale market services in the Baltic States' gas sector could be implemented by establishing a corporate alliance: with the jurisdiction in Lithuania (as the country, which possess the largest experience in trading gas on the market) the joint venture could be based on the Lithuanian and Finish joint venture for gas exchange "GET Baltic" that would incorporate Latvian and Estonia n TSOs by proposing them the shares currently owned by Lithuanian DSO "Lietuvos dujos". In addition to the expansion of the shareholders, the type of legal entity should be changed – from previously a private limited liability company into a public limited liability company with transparent management and clear process of decision making; and
 6. Despite of the great potential to reach a principal agreement on the key issue (i.e. creation of the joint venture), the Baltic States (on the TSO's or governmental level) will have to overcome a huge amount of organisational challenges: development of management structures, agreement on restrictions regarding transfer of joint venture's shares, as well as dispute resolution and joint venture termination will require time and effort. Therefore, there is a huge pressure to start the process as soon as possible.

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DISHONESTY IN THE CONTEXT OF BEHAVIOURAL ECONOMICS: EMPIRICAL EVIDENCE FROM THE LATVIAN RETAIL SECTOR¹

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Abstract

Honesty in a relationship is perceived as one of the basic factors for successful co-operation in business. However, dishonest behaviour in an organisation is not a recent issue. Growing competition, work load and financial aims encourage and sometimes even force dishonest behaviour among employees and even among companies more and more often. To be more specific, dishonest behaviour can be observed by both individuals and physical entities, by organisations, by officials and leaders representing institutions or organisations, and by employees of certain organisations. Although in the public arena there are mostly scandals and discussions about financial machinations, in this article the authors concentrate on employee dishonest behaviour in the retail industry. Thus, the aim of the research is to identify the reasons why retail chain employees act dishonestly at their workplace. To reach this aim, in the first section there is a discussion provided of the theoretical aspects of dishonesty and precise definitions of various forms of dishonesty are elaborated. Those are later operationalised in the empirical part of the article. The next section gives an overview of the factors influencing dishonest behaviour available in the literature and then a theoretical model of individual decision making is proposed within the framework of behavioural economics. The last section, the empirical part of the article, illustrates the theoretical propositions implicated in a conducted research in the retail industry in Latvia. As a result, the research lets the authors come to conclusions – the more an individual values honesty as a virtue, the more honest in his behaviour he tends to be. Also, the results show that the most influencing factor of dishonest behaviour in this research is an offended sense of justice.

Keywords: business ethics, retail chains, behavioural economics

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Introduction

An honest relationship plays an important and often an obvious role in the economics of many countries. Usually it is assumed that people will exhibit honest conduct and will not violate unwritten ethical standards, e.g. when dining in a restaurant, filling a car with petrol or carrying out daily tasks. Many authors have demonstrated that mutual trust and confidence in formal state institutions are key determinants of sustainable economic development (e.g. Fukuyama 1995; Knack and Keefer 1997; Putnam 2001; Guiso, Sapienza, Zingales, 2004; Zak & Knack, 2001, and others). One can claim that trust lubricates economics and allows economic transactions to happen in a quicker and less costly mode. Trust is ensured by an assumption that the partner (an individual or an institution) will demonstrate honest behaviour and will not pursue an opportunity to benefit at another's expense.

From time to time, people break the adopted ethical standards and behave dishonestly. Corporate heads tend to produce schemes of an ambiguous legal interpretation, to gain a personal benefit; companies and individuals avoid tax payments; insurance companies consciously evade insurance claim settlements in the event of an accident, while their customers lie about accident circumstances to receive a larger compensation; parliamentary candidates pay for votes; ministers forge academic degrees; manufacturers mislead consumers on product quality; employees provide false facts on their former salaries to employers, etc. There are plenty examples of dishonest behaviour, and under different circumstances, individuals regard a specific dishonest behaviour as acceptable or unacceptable. For example, it has been proven that individuals are more tolerant towards a situation when an employee lies to an employer and not the other way round. An American-Israeli economist Uri Gneezy (2005) carried out a number of experiments in the US and Israel: employees tolerated a situation where an employer was deceived resulting in a loss of 1000 US Dollars whereas the majority condemned a situation where an employee was deceived resulting in a loss of 100 US Dollars. Similar conclusions were made in other studies, e.g. Gino & Pierce (2009) described the so-called Robin Hood effect with people behaving unfairly to achieve an equal resource distribution; similarly, Wiltermuth (2011) clearly proved through his experiments that people behaved less fairly if they could share gains from their unfair behaviour with others.

Each year, dishonest behaviour by employees causes huge losses to employers. Usually, the mass media speak only about huge financial machinations resulting in international scandals. For example, the damage caused to Swiss USB Bank as a result of unfair behaviour by Kweku Adoboli, its employee, has been estimated at 2 billion US Dollars (Sibun &

Ruselli, 2011). At the same time routinized acts of employee dishonesty (including counterproductive work behaviour) are causing major harm and are complicated to evaluate in monetary form.

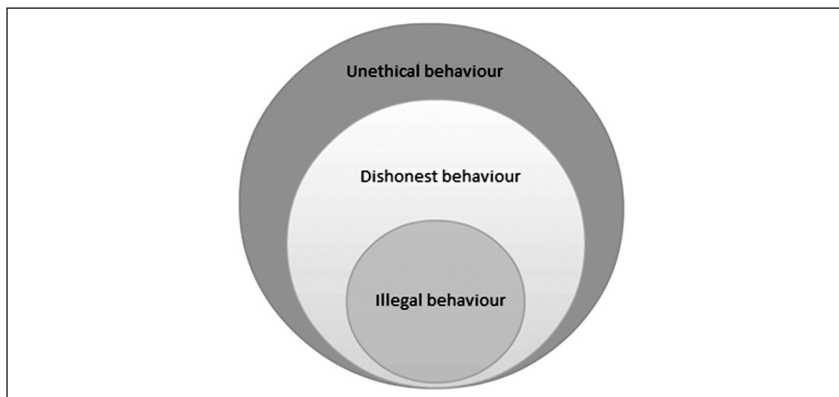
The previous examples demonstrate very different kinds and expressions of dishonest behaviour. It can be engaged by both individuals and physical entities (e.g., through the non-payment of taxes and downloads of pirate files), by organisations (similar to individuals, through tax payment evasion or misleading claims aimed at consumers), by officials and leaders representing institutions or organisations, and by employees of certain organisations.

This article concentrates on employee dishonest behaviour in the retail industry. It gives a holistic perspective of the terms, definitions and forms of dishonesty and proposes a new theoretical framework using concepts from behavioural economics in attempting to explain individual decisions of involvement in dishonest acts among employees. It is structured as follows: the first section provides a discussion of the theoretical aspects of dishonesty, precise definitions of various forms of dishonesty are elaborated which are operationalised in the empirical part of the article. The next section gives an overview of the factors influencing dishonest behaviour available in the literature and then a theoretical model of individual decision making is proposed within the framework of behavioural economics. The last section, empirical part of the article, illustrates the theoretical propositions implicated in a conducted research in the retail industry in Latvia.

Concepts of dishonesty defined

The study of dishonest behaviour, its economic consequences and motives behind the conduct is challenging in the sense that individuals hold a very different view on what is honest and dishonest behaviour. Researchers hold different views on this matter as well. More often, studies describe unethical behaviour that is a broader notion compared to dishonest behaviour. It can be claimed that the concept of unethical behaviour comprises also dishonest behaviour. Most theoretical sources regard unethical behaviour as any conduct that violates general (social) moral standards. It is important to note a difference between dishonest and illegal behaviour. Similar to unethical behaviour being a broader term and comprising dishonest behaviour, the latter is broader than illegal behaviour, although many expressions of dishonest behaviour are punishable offenses (such as theft and damage intentionally caused to the property). In most cases, any illegal behaviour can be also claimed as unethical; although in certain cases, legal norms may not coincide with the accepted social

norms. For example, tax evasions in certain societies or acceptance of a bribe are punishable offenses, yet socially acceptable norms. Similarly, in the Soviet Union, foreign currency exchange or trade between individuals was prohibited by law, but accepted in society. The relationship between illegal, dishonest and unethical behaviour is presented in Figure 1 below.



Source: Authors' own, on the basis of a theoretical analysis.

Figure 1 Relation and overlap between unethical, dishonest and illegal behaviour

Unethical and dishonest behaviour can be researched on at least three different analytical levels. The analytical level determines both the phenomenon's definition and the object of study. First, the analysis of unethical and dishonest behaviour within the society shows that the reigning social norms and values, and history and collective memory play a significant role. One can claim that the study of the aforementioned phenomena on this analytical level aggregates individual values and views that form social perceptions about existing moral standards. Here an important role is played by the context and historical events that form and steer social beliefs (Vadi, Vissak, 2013; Kaasa, Parts, 2013; Henrich et al., 2001).

Second, unethical and dishonest behaviour is analysed on an organisational level. Here the organisation plays the key role, with employees acting in its interests. In addition, employee conduct may not match their beliefs, values and free will. Such behaviour acquired through employee socialisation is perceived as a group pressure promoted by corporate culture that may cause alienation among employees should there be a strong mismatch with their individual values (Jaakson et al., 2013). Dishonesty by organisations is defined as "regularly teaching, encouraging, condoning or allowing the use of dishonest tactics in external dealings". (Cialdini et al., 2004, p. 67)

Mostly, unethical and dishonest behaviour is analysed on an individual level that study both motives behind individual conduct and factors of influence/compliance with basic assumptions of classical economics regarding human nature (Wiltermuth, 2011; Gino, Margolis, 2011; Mazar, Ariely, 2006; Mazar et al., 2008; Innes, Mitra, 2013; Gill et al., 2013; Bazerman, Gino, 2012). On this analytical level, the terms “unethical” and “dishonest” usually are used as synonyms without any distinction between the two of them.

For example, Linda Trevino – well-known for her studies regarding unethical conduct over more than thirty years – in a study made in collaboration with other colleagues that reviews evolution of ethical behaviour within organisations, has incorporated expressions of dishonest behaviour in the definition of behavioural ethics:

“Behavioural ethics refers to individual behaviour that is subject to or judged according to generally accepted moral norms of behaviour Within this body of work ... researchers have focused specifically on unethical behaviours, such as lying, cheating and stealing” (Trevino et al., 2006: 952).

Under the given definition, unethical behaviour is referred to such expressions of employee behaviour as theft, sabotage, lying to customers and false interpretation of financial reports – all of them attributed to dishonest behaviour if executed deliberately and with an aim to make a personal benefit.

Nevertheless, as discussed earlier, unethical behaviour is much broader than dishonest behaviour. Unethical behaviour comprises such offenses as discrimination, sexual harassment, interest conflicts, disclosure of the client data, misleading communication, corporate resource employment for private needs etc. (Trevino, Nelson, 1995).

The key words in the given definition are “accepted moral norms”. Thus, any offense of these norms is regarded as unethical. The authors of this definition stress that unethical behaviour is not synonymous to offenses of employment regulations or counterproductive behaviour at work as such employment conditions may possibly not coincide with the accepted moral norms. For example, such expressions as a slow work pace or disclosure of any information – that may be negatively perceived by an employer – can evade the category of unethical behaviour if they do not break the accepted moral norms. In the meantime, misleading information provided by a company to its clients can be regarded as unethical behaviour also disregarding its compliance with the company’s strategy. Yet, this viewpoint is not shared by other authors who regard offenses of employment regulations (including delays, being late or having too long breaks at work) as a type of theft. They call it a production

theft and pay an increased attention to it due to the high costs of such behaviour to an organisation (Hollinger, Clark, 1983; Robinson, Bennett, 1995; Scott, Jehn, 1999; Kulas et al., 2007; Sharma et al., 2013). One can conclude that dishonest behaviour fits closer to workplace deviance and counterproductive work behaviour as it does not break the accepted moral norms or the mutual agreement, but rather offends the accepted norms or an agreement of a certain social group or an organisation (that can either match or not match with standard social norms).

Therefore, the authors can conclude that unethical behaviour is a broader phenomenon than dishonest behaviour. The authors can also state that dishonest behaviour is always directed against somebody. Thus, dishonest behaviour is always associated with an object (although we can be unfair also to ourselves, it is more a question to be addressed in philosophy or psychology). Economics usually regards such dishonest behaviour that is deliberate and directed against the external world, with an aim to make a personal benefit (Anderoni, 2002; Gneezy, 2005; Kahneman et al., 1986; Rabin, 1993). Though, it is important to note that over the last decades, it has been proven that the benefit as a result of dishonest behaviour can possess not only a material, but also a psychological nature. For example, sabotage at work and slandering an employer do not provide a monetary benefit to an employee; however, they can increase self-esteem and prestige among other employees or simply divert attention from own personal problems (Harris & Ogbonna, 2006, 2012).

To be able to analyse further factors impacting dishonest behaviour, a precise definition needs to be provided. Many researchers admit that dishonest behaviour is a complicated and multifaceted phenomenon causing difficulties in providing a coherent and relevant definition (Scott, Jehn, 1999; Vadi, Vissak, 2013). Possibly for this reason, both empirical and theoretical studies apply terms *unethical* and *dishonest* behaviour as synonyms and focus on their concrete expression forms, the most common of which are deception or lies, cheating and stealing.

One of the most complete definitions of dishonest behaviour has been proposed by the US researchers Elizabeth D. Scott and Karen A. Jehn. They have defined dishonest behaviour as a conduct where “dishonesty occurs when a responsible actor voluntarily and intentionally violates some convention of the transfer of property or information and, in so doing, potentially harms a valued being” (Scott, Jehn, 1999: 311).

A relatively less complex and precise, and a more general definition has been put forward by Shu and co-authors who have defined dishonest behaviour (including deception that has been researched in their article) as “behaviour accruing benefits to the self that violates accepted standards or rules” (Shu, Gino, Bazerman, 2011: 330).

Factors influencing dishonest behaviour

A broad theoretical analysis of previous studies on dishonest behaviour allows a classification of four key groups of factors influencing dishonest behaviour. They are demographic, individual, organisational and situational factors. In this article the authors restrict their analysis to the three of the aforementioned groups – demographic, individual and situational.

Demographic factors have been looked at in many studies; yet the results coming out of these studies are not unambiguous. Different studies with different samples present contradictory results. For example, studies on the respondent gender as a decisive factor behind unfair behaviour present different results. Some explicitly have concluded that women take more ethical decisions than men (Glover et al., 2002; Kamat, Kanekar, 2001). Similar results have been presented in the studies on women's integrity – when completing tests in a workplace; women presented more honest ratings than men (Ones, Viswesvaran, 1998). In an earlier study conducted by KMPG (KPMG, Who is the typical fraudster?, 2011), a typical mainstream fraudster was presented as a 36-45 year old male who deceived his employer, occupied a top management position exposed to financial dealings and had been with the same company for more than 10 years. Furthermore, some studies on unethical behaviour, similar to the aforementioned ones, presented a trend with females acting more honestly than males (Borkowski, Ugras, 1998); however, analogue studies did not reveal significant changes between the female and male behaviour (Thoma, Rest, 1986). By summarising studies from the last 30 years on making unethical decisions in organisations, Jennifer J. Kish-Gephart, David A. Harrison, Linda Klebe Trevino carried out a thorough meta-analysis – they compiled databases of 136 studies with investigations on determinants of unfair and unethical behaviour. The variables were analysed with the help of structural equation modelling method. As a result, researchers discovered no relation of the given demographic factors (gender, age and educational level) to unfair behaviour (Kish-Gephart et al., 2010).

Individual factors comprise the moral developmental level of the individual, his or her personal traits, values and norms that influence his or her behaviour. For example, a number of widely spread interpretations of dishonest behaviour are based on the studies by Lawrence Kohlberg about the ethical decision making process. Kohlberg carried out a number of studies where he had been observing children and adolescents making decisions on ethically challenging topics. He had concluded that over the years **cognitive moral development levels** influencing ethical decision making had changed. As a result of these studies, Kohlberg distinguished 3 levels with each divided in two sub-levels. On the first level, there are usually children who make decisions on the basis of such considerations

as a probability to receive a physical punishment, as well as selfish interests. On the second level, there are mostly adults who make decisions on the basis of stereotypes on the accepted and desired social behaviour. On the third level, however, there are relatively few people who take decisions independently on the basis of universal values, irrespective of the majority's viewpoint (Kohlberg, 1976).

One of the most popular personal traits that has been examined in studies and that impacts decisions on ethical and dishonest behaviour, is *locus of control*. It is a dimension that reflects an individual's assumptions that the outcome of his or her behaviour is either dependent on the applied effort and exertion or external circumstances beyond his or her control. Internals evaluate their achievements and failures as a result of their behaviour, but externals believe that everything happening in their lives is related to the destiny, luck or other people with more power. Linda Trevino has put forward a theory that externals are more likely to engage in dishonest and unethical behaviour for it is easier for them to blame others and find an excuse for their conduct (Trevino, 1986). The given theory was later supported by a number of empirical studies (Trevino, Youngblood, 1990; Jones, 1992; Kish-Gephart et al., 2010).

Another important factor belonging to the group of individual factors, yet not covered widely in studies on unfair behaviour factors, are individual values. Milton Rokeach, the founder of Value theory, was the first to link unfair behaviour to individual values. He observed that upon test completion, only 39% of all respondents returned pens that had been handed out to them and he related this finding to the ranking number that respondents had assigned to such value as *honesty*. Those respondents who had returned pens after the test, had ranked this value in the top two places whilst those who had kept pens had ranked *honesty* lower compared to other values stated (Rokeach, 1973).

It should be stated that the impact of individual values on the ethical decision making, similar to demographic factors, has been confirmed in a number of studies (Finegan, 1994; Mudrack, 1994), but has been challenged in some others (Shafer et al., 2001). In the recently conducted Tartu University study on dishonest behaviour in the retail industry, the value *honesty* was proven to correlate with expressions of dishonest behaviour (Jackson et al., 2013).

Situational factors of influence have recently become the most examined factors related to dishonest and unethical behaviour. Whereas before the most important determinants of dishonest behaviour were believed to be those characteristics that were stable and invariable, recent studies have elected situational factors as more prominent (Bazerman, Gino, 2012; Shu, Gino, Bazerman, 2011). They are broadly studied in behavioural economics assuming that the situation or, more precisely, its interpretation

by the engaged individual *ceteris paribus* influence one's decision to get involved or not in dishonest behaviour. Thus, a small situational change may impact human behaviour (Thaler, Sunstein, 2009; Ariely, 2008).

One of the most popular situational factors of influence behind unfair behaviour is *injustice*. Under circumstances that are interpreted as dishonest by individuals, they tend to act dishonestly towards norm breakers disregarding such rational considerations as self-benefit gained from dishonest behaviour, probability to be caught and level of punishment – all those being independent variables influencing dishonest conduct and examined in classical economics models. It can be stated that as long as an individual interprets the situation as unfair, he or she justifies his or her conduct and does not experience any moral discomfort related to it (Mars, 1974; Klotz, Buckley, 2013; Ayal, Gino, 2012). The impact of injustice upon employee theft has been well presented in the study carried out by Greenberg that had applied a quasi-experimental methodology where the information on a salary decrease was conveyed in different ways to two different departments of a manufacturing company. The first department received a very sufficient explanation on the reasons behind the salary decrease and they were also informed that the top management had been affected in the same way; as a result, the main message conveyed to employees was “We are all in the same boat under these unfavourable circumstances”. However, the second department did not receive any explanation of reasons and the main message conveyed was “Such salary decreases belong to the dark side of a manufacturing company and they just need to be accepted”. As expected, the second department saw a much higher number of thefts than the first one following the salary decrease (Greenberg, 1990). A number of further studies have proven the transformation of the sense of injustice into dishonest behaviour by employees. For example, in their substantial multidimensional study on thefts in a fast food restaurant chain that had introduced an antitheft policy, Debra L. Shapiro with co-authors demonstrated a relation between the number of thefts and the perception by employees on how fairly that policy had been followed (Shapiro et al., 1995). Similar results have been indisputably proven across a number of studies, all confirming injustice as a situational factor of influence behind dishonest behaviour (Aquino et al., 2004; Jones, 2009). On the other hand, *revenge* is a separate theme of studies that is related to injustice and that is being executed by employees as an answer to apparent injustice and with an aim to penalise an organisation and its representatives (Skarlicki, Folger, 1997; Barbaro, 2005; Klotz, Buckley, 2013). Revenge towards an organisation can be expressed through sabotage (deliberate destruction of the organisation's

property or reputation) and waste of work time, idleness and pretence of work duties being carried out (Klotz, Buckley, 2013).

Another important situational factor of influence behind dishonest behaviour is a negative **social impact**. Already, in 1930s, it was proven by the Hawthorne experiment involving observation of a group of workers that the behaviour of other employees influenced an individual's disposition to engage in dishonest behaviour. In the course of the observation, a number of unwritten codes were discovered to be followed by the group that implied adherence to a fixed production output. Those group members who started to work "too fast" received an informal punishment from other group members. However, similar punishment was applied also towards those who worked too slowly and delayed the total production output (Mudlon, 2012). Since that time, social impact upon dishonest behaviour has been proven across a number of other studies. For example, the extravagant researcher Donald Roy worked for 11 months as an unskilled worker in an iron mine in the Chicago area, without disclosing his identity to other peers. Thus, he could experience a severe social pressure that was applied by some employees on others by making them stick to a fixed production output, although some employees could have worked by at least thirty percent more efficiently (Roy, 1952). Also, several modern studies have proven dishonest behaviour to be contagious. For example, Linda K. Trevino and Katherine A. Nelson have related the employee disposition towards peer and bosses' influence to the aforementioned Kohlberg's Cognitive moral development level model (Kohlberg, 1976) according to which most people are on the second developmental level where moral decision making is based on others' views and behaviour (Trevino, Nelson, 1995). Similar conclusions were reached also by Robert Innes and Arnab Mitra who researched the contagious nature of dishonest behaviour on a macro level by comparing India and the US (Innes, Mitra, 2013). On an individual level, however, the contagious nature of dishonest behaviour was proven by a number of other recent studies (Wiltermuth, 2015; Kindsiko et al., 2013; Gino et al., 2009).

Another important situational factor of influence behind dishonest behaviour that has been examined in numerous studies is **boredom** (Ackroyd, Thompson, 1999; Bruusema et al., 2011; Harris, Ogbonna, 2012). Here the motive behind dishonest behaviour is the willingness to overcome routine and create a certain entertainment. Boredom usually promotes slight offenses such as unsanctioned exploitation of corporate resources, dishonest execution of work responsibilities and inferior client services (Harris, Ogbonna, 2012; Seabright et al., 2010; Spector et al., 2006).

Dishonesty in the context of behavioural economics: conceptualising individual decision making

The next important question when examining dishonest behaviour is to understand how one decides whether to engage or not in it. Namely, what significant individual behaviour conceptual models have been developed so far in order to explain the economic motives of such conduct?

Taking into account the axioms of classical economics that a human is a rational being that acts with an aim to maximise his or her income and minimise losses, the following variables are supposed to be assessed when deciding on honest vs. dishonest behaviour under specific circumstances (Becker, 1974; Allingham, Sandmo, 1972):

- Probability of being caught;
- Level of punishment;
- Gain from dishonesty.

Thus, if an individual behaves dishonestly under any circumstances, the total gain from dishonest behaviour will be bigger than the probability of being caught and the level of punishment. The given assumption lies at the basis of the current legal system and penalties (Mazar, Ariely, 2006).

Such an assumption foresees that the human behaviour is driven solely by external factors of influence and external gain from dishonest behaviour. Only material gains from dishonest behaviour are considered. This is classical rational choice theory that is based on the assumption that people are driven by the desire to maximise their material gain from their actions. It is assumed that the human being is the so-called *homo economicus* – a being that always reckons its material gain from the specific situation and does not take into consideration the impact of the dishonest choice brought to others. This theory assumes that dishonest behaviour does not have any considerable negative outcome that the individual would consider in combination with material gain and probability of punishment. This assumption allows simplifying economic models. For example, the well-known economist Akerlof's (1970) work on the decision making under circumstances of asymmetrical information explains the low cost of second-hand cars – since resellers of second-hand cars always cheat about the vehicle's conditions, prices in this market are low by nature. Similarly, the theoretical literature on the tax evasion takes into account solely the material gain arising from the tax evasion; however, it disregards the probability of punishment and potential psychological costs related to dishonest behaviour (Allingham, Sandmo, 1972).

If the second-hand car market genuinely mostly follows classical economic principles, then more factors than just material consequences are present in other environments (including the working environment).

A human being is a much more complex being and psychological motives play a big role in his or her decision making process.

Nowadays these psychological behavioural motives are considered also by economists when forming models of dishonest behaviour. Many economists believe that altruism and honesty are part of rational behaviour. For example, the well-known economist Andreoni who follows the *Weak-form rational model*² believes that *the individual care of others is not an anomaly, but another variable of the utility function*. The prisoners' dilemma and many other experiments where participants behave apparently altruistically prove that one's decision curve is impacted not only by monetary remuneration, but also by psychological gratification from fair behaviour (Andreoni et al., 2003; Andreoni and Miller, 2005).

This can be presented in the form of the formula where U_i is the total *utility function* (or the total benefit gained by an individual gains out of his conduct):

π_s – Outcome for oneself

π_c – Outcome for others

Hence, $U_i = u_i(\pi_s, \pi_c)$

A similar conclusion was reached by Gneezy (2005) whose experiments proved that dishonest behaviour depended on both the total monetary benefit gained by an individual as a result of his or her dishonest behaviour and the size of the subjective wrongdoing caused to the other party by his or her unfair conduct. Thus, one's rational considerations are influenced not only by the benefit that one gains, but also by the negative consequences of the behaviour. A question arises how rational are those considerations since the wrongdoing to the other party is perceived very subjectively i.e., it is done in relation to the perceived income by the other party. For example, an individual is more likely to engage in dishonest behaviour if its consequences are to impact someone who is perceived to be more affluent than the individual himself or herself. Consequently, dishonest behaviour by employees towards an organisation is a more widespread phenomenon than a street burglary (Gino, Pierce, 2009).

Nina Mazar and colleagues (2008) proposed, what has become a widespread theory – Self-Concept Maintenance Theory – that unites economical and psychological motives and factors of influence behind

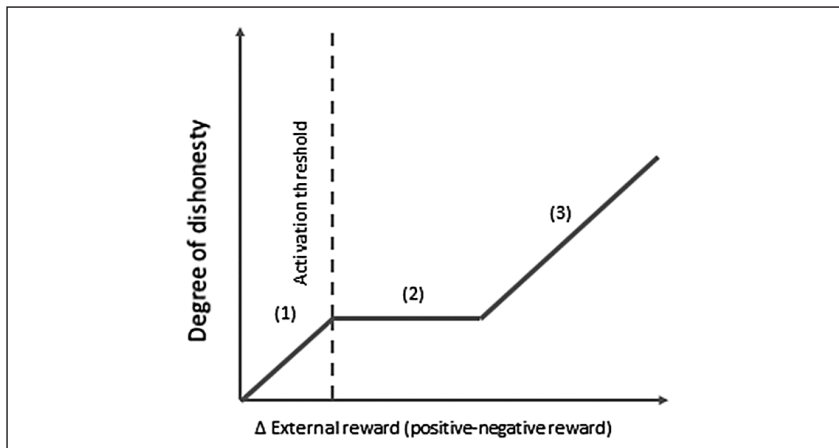
² Assumptions of Weak-form rationality conceal individual preferences that drive the individual's choice in its attempt to maximise *utility function*. They can be either selfish interests, altruism or even masochism. This form of rationality was followed by such economists as Andreoni and Gneezy (Andreoni et al., 2003; Andreoni and Miller, 2005; Gneezy, 2005).

dishonest behaviour. This theory stresses that next to economic factors considered prior to engaging in dishonest behaviour and such variables as the financial gain from dishonesty, a probability that the crime will be exposed and severeness of penalty, psychological factors are also considered by an individual. Such factors are called also internal rewards in contrast to classical economic factors that are called external rewards.

Yet, economic factors are not the only ones to play a role in the decision making process regarding the engagement or disengagement in dishonest behaviour. Nina Mazar and her co-authors have named the human inclination to retain the perception of an honest person as the key psychological factor. Each person on the basis of his or her own personal values and the adopted social behavioural norms holds a different perception of honest behaviour and by violating it is forced to change his or her self-perception on a conscious or subconscious level. Thus, by acting in discordance with one's own honesty standards, the individual faces a negative change of his or her own perception (Benabou, Tirole, 2006). This theory foresees that humans may engage in slight offenses or act "slightly dishonestly" following the variables of economic behaviour (self-benefit, probability to be caught and the size of punishment) if this behaviour fits with their individual honesty; yet, if it results in an altered perception of their own personality, the majority will opt out from engaging in such conduct even if the gain is going to outweigh potential losses. Thus, the psychological factor (detainment of self-awareness) serves as a buffer in decisions regarding dishonest behaviour.

In accordance with *Self-Concept Maintenance Theory*, a schematic representation of relation between the intensity of dishonest behaviour and the gain from it is shown in Figure 2.

The displayed graph in Figure 2 shows the following: as long as dishonest behaviour does not make an individual to review self-perception, it is dependent on external factors examined in classical economics – an evaluation of positive gain over negative gain (the probability of being caught and the size of punishment). Such a case would be present in the area (1) of Figure 2. If, as a result of dishonest behaviour an individual has to overstep a certain inner borderline and consequently change his or her self-perception, economic incentives of dishonest behaviour are not valid anymore (the area related to number (2)). In the meantime, when the gain from dishonest behaviour increases, classical economic incentives again come into play and individuals are ready to overstep their internal fairness standards (area related to number (3)).



Source: Mazar, N., Ariely, D. (2006) "Dishonesty in everyday life and its policy applications", Working paper series // Federal Reserve Bank of Boston, No. 06-3.

Figure 2 Relation between dishonest behaviour and the difference of external gains as a result unfair behaviour according to *Self-Concept Maintenance Theory*

A similar theory to *Self-Concept Maintenance Theory* was put forward by Laszlo Zsolnai (2012) who claimed that economic utility depended on both utility calculations and moral considerations. However, this theory has not been verified empirically yet. According to Zsolnai, the key factors allowing the forecasting of human behaviour in terms of honesty are:

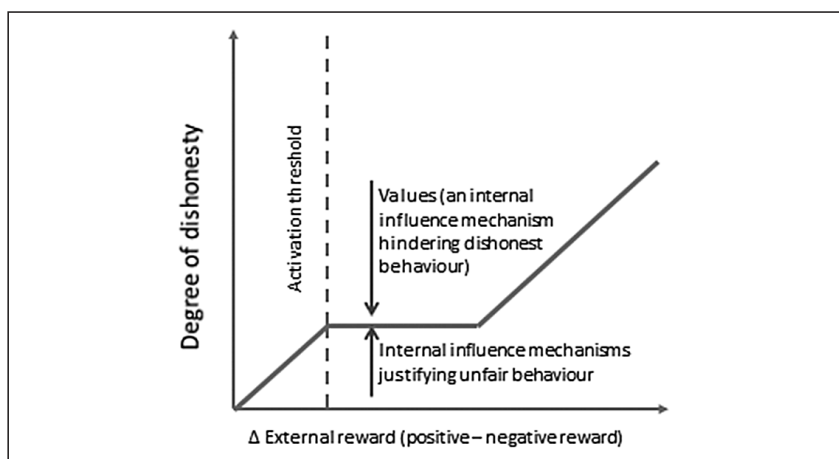
- 1) Moral character of individuals;
- 2) Relative costs of honest behaviour.

The moral character refers to an individual's moral assumptions and commitment. Relative costs of ethical behaviour in specific circumstances determine the costs that arise of choosing to engage in ethical behaviour over unethical one in the form of transactional costs and an alternative price.

Thus, it can be concluded that the honesty of economic behaviour matches the combination of the relative costs of the individual's moral character and honest behaviour. If the individual's moral character is strong and relative costs of dishonest behaviour are low, one can expect honest behaviour. If the individual's moral character is weak and relative costs of dishonest behaviour are high, a high probability of dishonest behaviour is present.

On the basis of the above described factors of influence behind dishonest behaviour, the authors of this article have proposed an innovative conceptual model of the individual's dishonest behaviour

that combines both classical, the so-called external factors of influence belonging to economic rationalism (such as probability to be caught, the size of punishment and gain from dishonest behaviour) and internal factors of influence. In contrast to the above described models (e.g., Mazar et al., 2008, Zsolnai, 2012) that solely regard remuneration mechanisms of honest behaviour (such as self-concept maintenance, individual moral character and values) as internal mechanisms that act as hindering factors of dishonest behaviour, the authors' model includes also those internal reward mechanisms that allow one to justify dishonest conduct and therefore increase its intensity (such as the feeling of inequality, boring job content and sharing benefits of dishonest behaviour with others). Similar to many other authors (Mazar, 2008, Gneezy 2005, Wiltermuth, 2011; Ariely, 2008; Kahneman, Knetsch, Thaler, 1986; Thaler, Sunstein, 2009), the authors of this article do not deny or accept as self-evident external factors of economic rationalism influencing decisions whether to engage or not in dishonest behaviour; however, the authors consider a similar interaction of the so-called internal mechanisms of impact – situational factors of influence both hindering negative behaviour (such as honesty rank in the individual scale of values) and promoting it (such as the sense of inequality and boring job content). The conceptual model of the individual's behaviour has been presented in Figure 3.



Source: Authors' own, based on the earlier conceptual models of dishonest behaviour.

Figure 3 Conceptual model of an individual's dishonest behaviour taking into account both the rationality factors of classical economics and internal motives that are divided into hindering and promoting motives of dishonest behaviour

Empirical part of the study

In the empirical part of the study, the authors took the example of three retail chains in Latvia – the study was conducted by using lower class workers in retail chains as respondents. This type of respondents is an expedient choice because of the homogeneity and accessibility of a great number of workers of this selection. The study took place in the autumn of 2014 and lasted until spring 2015 – since the logistics of actual paper based surveys to more than 50 destinations was complicated, it took more time than authors had expected.

Regarding the chosen retail chains

Retail chain A, which bases its values on traditions, responsibility, competences and modernity, was founded in 1914. Although in the Soviet time the enterprise was nationalised, in the time of since the regaining of Latvia's independence it gained back its initial status and currently operates as one of the largest book and stationery item selling retail chains in Latvia. Currently they have approximately 40 stores based in the territory of Latvia.

Retail chain B, is the only international retail chain included in the survey. It entered the Latvian market in 2006 and meanwhile operates also in countries like Finland, Russia, Estonia and Lithuania. They have a wide spectrum of products lines – household appliances, food, drinks, clothes and many more. This retail chain shapes its image as a family and wallet-friendly supermarket, where it is possible to buy everything for everyday living. Currently there are 5 of these supermarkets and all of them are based in Riga.

Retail Chain C was founded in 1992 and is a local enterprise. It is one of the leading distributors of household appliances in Latvia. It is the official distributor of many well-known brands in Europe, for example, Wenger, Swissgear, Manhattan and many more. There are currently 11 specialised stores based in the territory of Latvia.

There were altogether 573 workers in all three retail chains, thus there were 573 surveys distributed. The surveys, as already mentioned, are paper based and each survey consisted of 2 parts – survey questions and an envelope consisting of 18 Milton Rokeach instrumental values. In the pilot survey, the values were just listed and respondents were asked to prioritise the values starting from 1 to 18. After the pilot survey, the authors were told that this approach was too difficult, because of the reason that suddenly all values seemed to be important. Thus, the authors decided to make an envelope in which there are 18 small pieces of paper, which had

to be prioritised starting with the most important value and finishing with the least important value.

In the end, the authors received 250 filled out questionnaires (43.6%), from which a part was still empty and some were filled out incorrectly. After excluding the invalid questionnaires, there were 243 valid questionnaires left. To process the data, MS Excel and SPSS were used. To check the hypotheses, ANOVA, Mann-Whitney tests and also multiple regression analysis were used.

The survey consisted of 3 stages. In the first stage the respondent was asked to introduce him or herself with 2 situations (the base and test scenario). He or she was asked to imagine him or herself in the role of a manager of a small team and was given a problematic situation. In both of these situations he or she was asked to measure, in his or her opinion, the probability of dishonest behaviour. Dishonest behaviour was divided into 9 possible means of dishonest behaviour, for example, the authors parted out lying to customers, lying to his or her boss, stealing goods, using time ineffectively and others. To measure the probability, it was given the Likert scale, where an assessment of 1 meant impossible and an assessment of 7 meant very possible. Every respondent had the same base scenario, but the test scenarios were divided in 3 parts – first test scenario measured the influence of boredom as a driver for dishonest behaviour, the second test scenario measured the influence of financial drivers and the third one tested the influence of injustice drivers. Afterwards respondents were asked to answer about their age, tenure, education level and gender, language, they had to open the envelope and sort the 18 Rokeach values starting from the most important one. To find out if the respondent has really done the exercise correctly and if he or she has read the instructions, the authors added one red control piece of paper, which according to instructions had to be placed at the end of the pile of values.

Basic indicators

Before looking deeper in examining dishonesty, there are some interesting facts about the respondents and the responsiveness of the workers in all three retail chains.

First of all, interestingly, the smaller the retail chain (according to the number of employees), the greatest responsiveness was achieved. For example, retail chain C, which had only 33 employees achieved the responsiveness rate of 87.87% (29 respondents), while the retail chain B, which had the greatest number of employees (375) had a responsiveness rate of 24.8% (93) respondents only.

Looking deeper in the structure of workers, it is possible to conclude that there are more female (76.85%) workers in the industry than men. The average age of respondents was 36.4 ($n = 231$, 11 had not indicated their age). The youngest employee was 18 years old, while the oldest was 64. Analysing the education level of the respondents, it is possible to conclude that 43.4% ($n = 102$) have or are currently obtaining higher education, while the greatest part of the respondents (54.9%) have obtained secondary education. Only 1.7% of respondents had indicated that they haven't obtained secondary education.

Importance of honesty as a value among the workers in retail chains

The authors decided to look deeper into if and how the demographic factors influence the overall placement of honesty as a value in the Milton Rokeach value test. To test the influence a multiple regression analysis method was conducted.

As a result, the following equation was acquired, where x_1 -age, x_2 -tenure, x_3 -education level, x_4 -gender, and x_5 -language.

$$Y = 5,155 - 0,038x_1 - 0,160x_2 - 0,223x_3 - 0,690x_4 + 2,648x_5$$

The determination coefficient was 0.123, which means that 12.3% of the variability observed in the honesty ranking in the Rokeach value test, can be explained by the assessed values of age, tenure, education level, gender and language ($F = 4.034$, $\text{Sig} = 0.002$). According to the regression analysis, it is possible to conclude that, for example, that male (encoded as 1) respondents tend to rank honesty lower than female (encoded as 2) respondents. Also, similarly with tenure – if the tenure increases for 1 year, the placement of honesty as a value will increase in the rank for 0.174 (the absolute value will decrease).

In this case it is possible to conclude that the unexplained part – 87.7% is most probably not connected with demographic indicators. Thus, in this research the authors will try to find out whether financial, boredom and injustice drivers are important drivers of acting dishonestly.

Interestingly, the highest rank of dishonesty was in the retail chain A, where “honesty” as a value was ranked in the first place in 35% cases, the average rank of honesty in this enterprise was 3.23 ($n = 117$). The second place was taken by retail chain C, where the average honesty rank was 4.39 and the third place was taken by retail chain B, where the average result was 5.05 (only 29.4% of respondents ranked it in the first place).

Results of the study on dishonest behaviour

In Figure 4 below it is possible to see the average proclivity of acting dishonestly in retail chains in Latvia. It is possible to make certain conclusions:

- 1) The greatest influential driver on dishonest behaviour is injustice. With a probability of 95% (Sig.0.00-0.008), it is possible to conclude that the injustice driver is an important influential factor to act dishonestly in retail chains in Latvia.
- 2) With the probability of 95% (Sig.0.164-0.931) it is possible to conclude that financial drivers are not an important influential factor to act dishonestly in retail chains in Latvia.
- 3) With the probability of 95% the third factor can be divided into two parts. In one part of the questions examining boredom as an important influential factor, it showed a significant difference from the base scenario (Sig.0.01-0.05), in the other part it didn't show a significant difference from the base scenario (Sig.0.71-0.924).

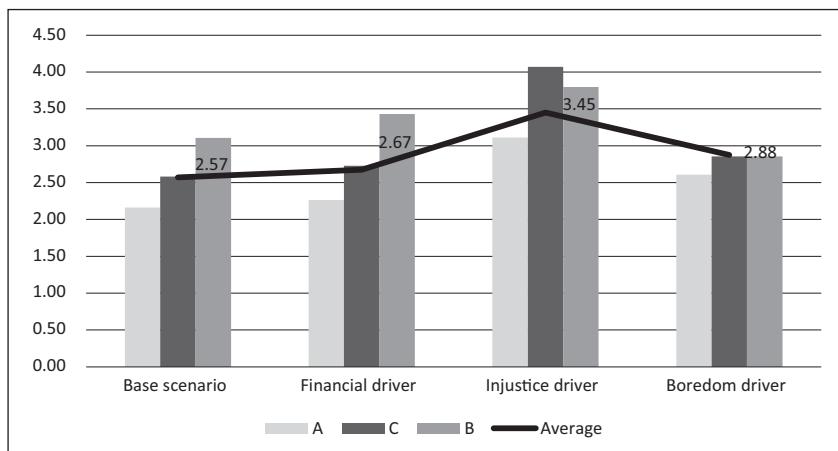


Figure 4 Average proclivity to act dishonestly (min-1, max-7)

Interestingly, in the retail chain B, the average result of boredom as the influential factor, the results were lower comparing with the base scenario, which means that workers are not only not motivated to act dishonestly in the case of boredom, but they are actually feeling better

when they are bored. This can be partly explained by the fact that in the retail chain B, the workload is comparatively more intensive than in the other retail chains, thus they see boredom as something good. Also, another factor is that the average education level in retail chain B is noticeably lower than in the other retail chains. A low education level often explains low motivation to work, low level of initiative etc.

The summary coefficient of the proclivity of acting dishonestly (Figure 5) gives an opportunity to indicate statistically the most possible ways, how employees can show their dishonesty in their workplace. Very likely that employees could be caught in shirking – using time inefficiently by performing work unrelated activities, the second place is taken by misuse of facilities, which include the usage of stationery, printers, cleaning products etc. The least possible way of acting dishonestly might be intentionally damaging property, stealing from the customer and stealing employer's property.

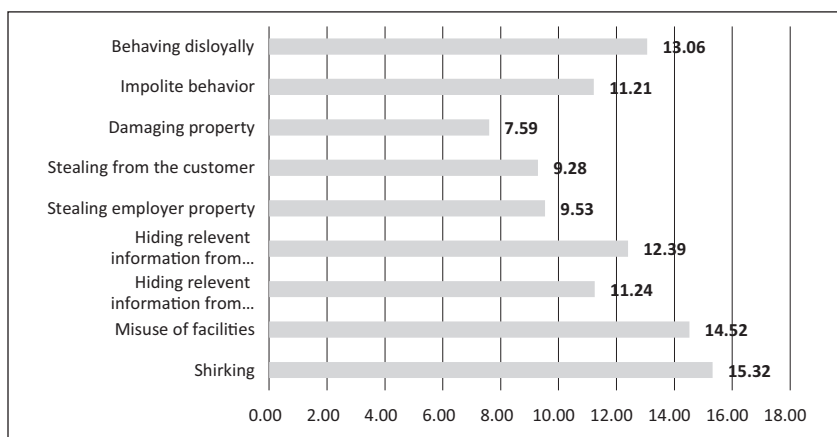


Figure 5 Proclivity of acting dishonestly (summary coefficient)

As it is possible to see in Figure 6 below, in each and every dishonest action, the most influential factor that may lead to a dishonest behaviour is the injustice driver. The other factors may have a various impact on acting dishonestly in a particular situation.

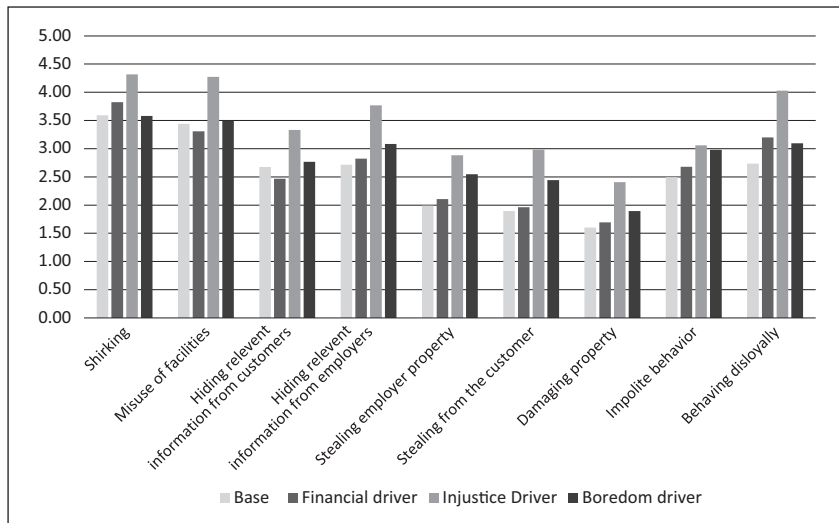


Figure 6 Ways of acting dishonestly and their influential factors

When analysing the proclivity of acting dishonestly according to the rank position of honesty (Figure 7), it is possible to conclude that those respondents who believe honesty as a value is important for them, tend to act in a more honest way than those who rank honesty in 7-18th position. This leads to a conclusion that people, when they are asked to mark the possibility of someone acting dishonestly, are giving their answers through their own prism, experience and point of view.

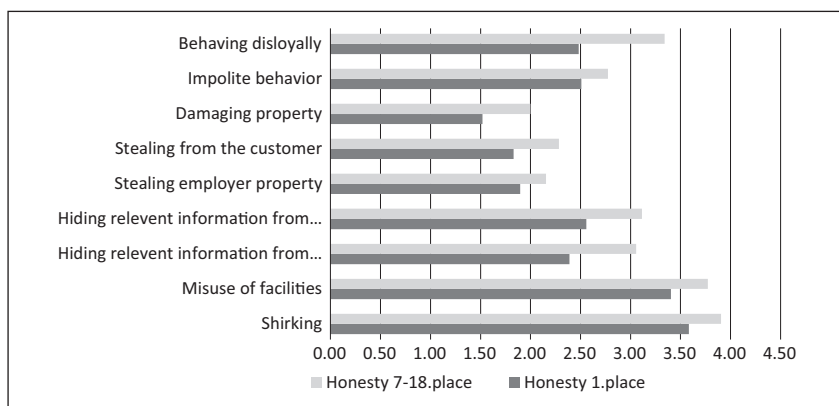


Figure 7 Proclivity of acting dishonestly according to “honesty” ranking

The authors also looked deeper into the influence of demographic factors. For example, the authors analysed the differences in answers between those who live in the capital city (Riga) and those who live outside the capital. In Figure 8 it is possible to see that the difference has a wider gap in the base scenario than in the test scenario. However, in both scenarios the proclivity of acting dishonestly is higher among employees in Riga. This may be explained by the fact that the competition in the capital city is higher and also, those who are motivated, after secondary school, tend to move to Riga to find a better job and to get a higher education, which may be explained in other words as well – people in the city tend to have higher ambitions. Ambitions, however, can more often lead to dishonest behaviour. Another interesting fact was that there are statistically significant difference among females and males – it was found out that females tend to be more honest than males. When analysing the influence of tenure in acting dishonestly, it was found out that people who have worked in the organisation longer, tend to be more honest than those who have worked there for a year or less.

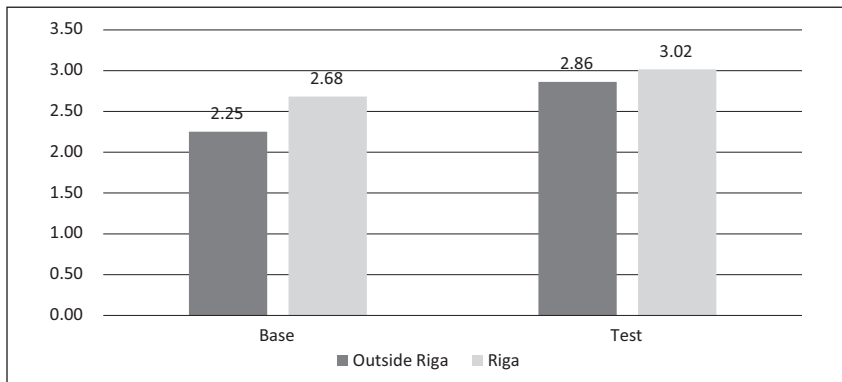


Figure 8 Proclivity of acting dishonestly according to location

It can be concluded that the results of the research have clearly reached the goal of this article. There has been data obtained, which evidently demonstrates the significance of the examined factors. The authors find that the overall level of honesty was comparatively high, however, there may have been factors influencing the level of honesty in the answers of respondents. For instance, they may have filled the questionnaires cautiously in case their identity was somehow detected. In this case they would have liked to display themselves as honest and excellent workers. The authors believe that this may be the reason why some questionnaires

were missing the demographical data – age and tenure, which are most probably the factors by which it is simple to reveal one's identity. For further research the authors believe there should be additional factors examined and to identify the importance of culture as an influencing factor, other research should be conducted to compare, for example, the workers of the Mediterranean region with the Baltic Sea Region.

Conclusions

It is fair to say that dishonest behaviour is a topic still to be examined and researched for the reason that drawing strict lines in this topic is still not possible due to sometimes contradictory opinions and research results. However, there can be several inferences made, which are consistent in both – theory and practice. First of all, each and every individual's behaviour is influenced by personal, organisational and contextual factors, which results in real life circumstances.

The most influential personal factors, which affect the level of ethics of an individual, are age, gender and tenure, while the most influential organisational factors are existence of a code of ethics at a workplace and existence of organisational culture. Another conclusion which can be taken into account is that conducting research with low qualified workers can be challenging because of the reason that the questionnaires must be made as simple as possible to lower the risk of incorrect filling out. Also, demographic factors must be considered as 12% of the variability observed in honesty ranking in the Rokeach value test, can be explained by the assessed values of age, tenure, education level, gender and language. According to this conclusion, a higher tendency to act dishonestly can be observed among young, inexperienced, educated males, which corresponds to most of the previously examined researches on demographic factors as a behaviour influencing force.

It is possible to conclude that the most influential driver out of boredom, finances and injustice, is injustice in the conducted research. Boredom was recognised as the least influential driver. It must be remembered that the results are applicable particularly to retail chains and to low qualified workers, thus further research should be made to examine the drivers to act dishonestly of highly qualified workers.

In authors' opinion an interesting conclusion can be made based on the test of Rokeach values – the correlation between the place of honesty as a value in the rank and the tendency to act dishonestly can be noticed. It is thus possible to conclude that if an employee believes that honesty is a virtue, he or she will most probably tend to act less dishonestly than those who believe that honesty is not a highly appreciable value.

For employers it can be useful to note that the main means of acting dishonestly in retail chains according to employees are shirking, misuse of facilities and behaving disloyally, thus a further strategy to prevent these actions can be developed.

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SMART SPECIALISATION STRATEGY: REALISATION OPPORTUNITIES AND PROBLEMS IN LATVIA

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Abstract

Due to consequences of the global financial crisis it was clear, that in Latvia there can no longer exist an economic model in which thanks to inflow of the foreign capital, and domestic demand increased and ensured economic growth till 2007. There has to be a sustainable economic model, in which a high role would be on enterprises to restructure manufactures and produce products with higher added value, which would allow receiving higher incomes. To be able to ensure it, enterprises have to evaluate existing competitive advantage, look for new scope based on principles of “smart specialisation”. Unlike traditional approaches of regional development and industrial policies, the approach of “smart specialisation” is based on a discovery and development of new comparative advantages. The aim of this article is to clarify the principles of “smart specialisation” and its disposal options in Latvia. In the analysis were used a variety of qualitative and quantitative methods, such as: scientific literature and empirical research, sheets, diagrams and charts, calculation of the average and the relative values, grouping, comparison, etc. The results of the research highlighted the possible directions of economic policies for transforming the national economy in order to promote competitiveness and sustainable development, as well as identified possible obstacles in executing “smart specialisation”.

Keywords: industrial structures, specialisation, diversification, competitive advantage

Introduction

After the global financial crisis, the model of economic growth in Latvia changed; the economy has become more stable and balanced as a result of macroeconomic adjustments and decreasing internal and external proportions. However, it is important to provide a balanced and rapid economic growth and sustainable against external shocks in future. In order to accomplish this, it is necessary to change the economic structure

in favour of producing products and providing services with higher added value, including increasing the role of manufacturing, modernisation of industry and services and the development of export complexity. This is an essential prerequisite for Latvian economic convergence with the developed EU countries and the welfare of the population; growth that can be achieved by increasing the competitiveness of Latvian economy based on innovation. In the rankings of competitiveness which are regularly published by the World Economic Forum (WEF), Latvia significantly lags behind other recent EU countries (the Czech Republic, Poland, Slovenia, Slovakia and the other Baltic States), and particularly in indicators related to the development of innovation systems. This is mostly because manufacturing is a small proportion of Latvian GDP and because of the industrial sub-sector's technological structure, where low technology industries are dominating (they amount to 55% of total manufacturing added value), altogether this is why there is such low level of productivity in manufacturing and in whole national economy.

Smart Specialisation Concept and its Suitability for Latvia

In order to ensure economic restructuring and an appropriate research and innovation focus on scientific specialisation fields in 2013, under the guidance of the Latvian Ministry of Education, was developed a Latvian Smart Specialization Strategy (SSS). Its aim is to increase capacity, and build an innovation system that promotes and supports technological progress in the economy.¹ The SSS includes finding a competitive advantage, determining strategic priorities and choosing policy focused on knowledge based development potential, to ensure a more rapid increase in productivity and economic growth.

Based on the long experience of the OECD, the European Commission recommends that Member States choose one of following strategies in developing “smart specialisation” strategies for innovation²:

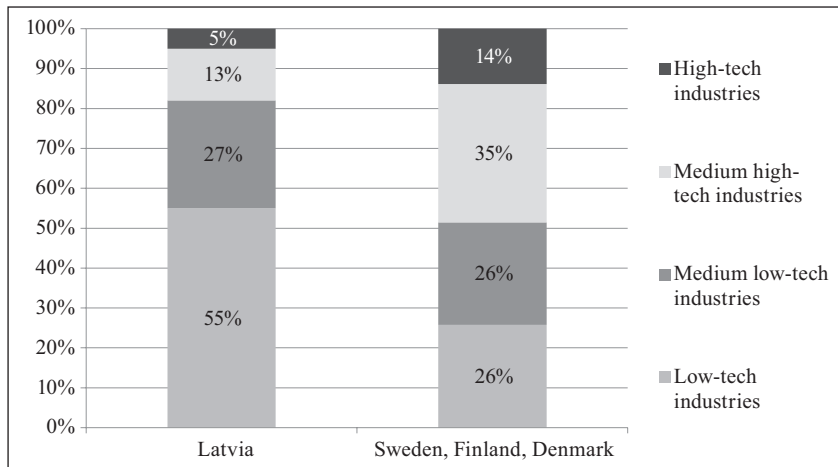
- Growth, based on existing advantages (regarding science and technologies based growth);
- Support for economic transformation (a new growth field for the identification and development);
- Catching up, or moving towards a knowledge-based capacity development.

¹ Science, Technology Development and Innovation Guidelines 2014-2020, Ministry of Science and Education Republics of Latvia, Riga, 2013.

² Regions and Innovation policy, OECD, 2011, http://www.keepeek.com/Digital-Asset-Management/oecd/urban-rural-and-regional-development/regions-and-innovation-policy_9789264097803-en#page16

In order to assess which strategy is suitable for Latvia, the authors will use The Global Competitiveness Report results and Global Competitiveness Index (GCI) methodology, in which a country's competitive advantage are those factors, which assessment (place) in GCI ranking is higher than assessment of the country itself.³ According to GCI 2015-2016 results Latvia was in 44th place among 140 countries and has been allocated to countries, which are in transition period from the second (investment-driven) to the third (innovation-driven) economy development stage. In calculations of the GDI there are analysed more than 90 different indicators, which are summarised in 12 pillars and relatively divided in three groups: Basic factors, efficiency increasing factors and innovation factors. Latvia is in 37th place (5.1 points of 7 in total) in the group of basic factors and in 39th place (4.4 points of 7 in total) in the group of efficiency increasing factors, while in the group innovation factors Latvia is only in 58th place. Whereas in Latvia the innovation and sophistication factor has increased since 2006 by 0.1 points in whole, but the place in the GDI ranking has not significantly changed, even becoming a little worse (from 57th place in 2006-2007 to 58th place in 2015-2016). Currently in Latvia the most important competitive advantage is labour efficiency. According to this index Latvia is ranked in 25th place (previous year it was 17th place), while competitiveness in Latvia is significantly weakened by institutional imperfections, lack of quality infrastructure, low levels of innovation performance, as well as insufficient level of business development. The low evaluation of innovation and sophistication factors in GDI rankings shows that in this field there are significant weaknesses and this means that in the development of the "smart specialisation strategy" first strategy (on science and technology based growth) cannot be used as a basis. It also means that innovation factors are not Latvia's strength, but in order to ensure further convergence with more advanced countries, one must be aware that this is the challenge for growth. Now, regarding science and technology based growth is not possible, and it is affirmed by analysis of manufacturing industry, where there is a strong specialisation in in low-tech industries (see Figure 1).

³ The Global Competitiveness Report 2015-2016, the World Economic Forum, Geneva, 2015.



Source: the authors own based on data from Eurostat databases.

Figure 1 Structure of manufacturing industries (in percent) by technological intensity in Latvia and Northern Europe countries in 2014

The results of the analysis shows, that in the past ten years' in the technological structure of manufacturing industries there are persistence trends in increasing shares of medium-high technology industries and decreasing shares of low-tech industries, but high-tech industries development dynamics is quite unstable and observed changes do not indicate their strengthening of the competitive position. This is why "smart specialisation strategy" must be concentrated on transformation of the economy, on identification of new growth fields and on development of high-tech industries. At the same time with the development of specialisation, diversification has to be done, because it reduces economy's dependence on external environment conditions (different shocks), increases the potential of economic growth, and promotes productivity and competitiveness.⁴ It was confirmed also by recent events, when after the financial crisis in the USA (summer 2007) the global financial crisis followed, which almost no country was able to avoid and strong consequences were felt especially in small and open economies, including Latvia. Also in 2014 the imposed sanctions against Russia significantly influenced Latvian manufacturers, especially in the food industry, which

⁴ Juvenal L., Monteio P., Export Market Diversification and Productivity Improvements: Theory and Evidence From Argentinean Firms, Federal Reserve Bank of St. Louis, Working Paper 2013-015A, April 2013.

suffered losses due to a Russian food import embargo. Calculations of the manufacturing specialisation index show its low diversification⁵.

In Latvia the leading manufacture field is the woodworking industry. Similar results are in Estonia, while Lithuania the dominant manufacturing field is light industry. This kind of situation is usually common in small countries, where available resources must be concentrated in a specific field, so it is hard to diversify manufacturing. In large countries it is not characteristic to have pronounced specialisation in one sub-field, because it is easier to develop field clusters in order to make a better use of comparative advantage in different fields, and so manufacturing in large countries is more diversified, especially in Germany, where the manufacturing specialisation index is the lowest in all region (according to the specialisation index calculation methodology, the higher the index value, the less diversified is the industrial sector in the country). In Latvia two sub-fields (woodworking industry and food industry) make up almost half of the total process manufacturing amount and more than 1/3 of total export of goods.⁶ This is because of the relatively low labour costs, and the availability of natural resources and other local raw materials. Both the woodworking and food industries by their technological intensity are among the low-tech and medium low-tech industries and their productivity is far below the high-tech industries. Consequently, with increases in labour costs and economic growth, and the open labour market in Latvia, in the near future there is a risk of losing competitiveness in low cost segments faster than getting the advantages by producing goods with higher added value. Therefore, to avoid the “middle income trap”, there is a necessity for further reforms to facilitate the transition from low-tech to medium-tech to high-tech industries.

The “Smart specialisation strategy” in Latvia forecasts⁷:

- Structural changes in manufacturing export of traditional economy fields;
- Development of sectors with a significant horizontal impact and investments in economic transformation;
- Discovery of future growth fields, in which exist or may arise goods and services with higher added value.

According to the authors, assessment of key issues related to the implementation of the SSS includes determining how (by what criteria) to identify new growth industries and to develop (create) a new

⁵ Jekabsone S., Skribāne I., Structural weaknesses and challenges of economics growth of Latvia, Social Research Nr. 1, 2014.

⁶ CSB database, <http://www.csb.gov.lv/>

⁷ Science, Technology Development and Innovation Guidelines 2014-2020, Ministry of Science and Education Republics of Latvia, Riga, 2013.

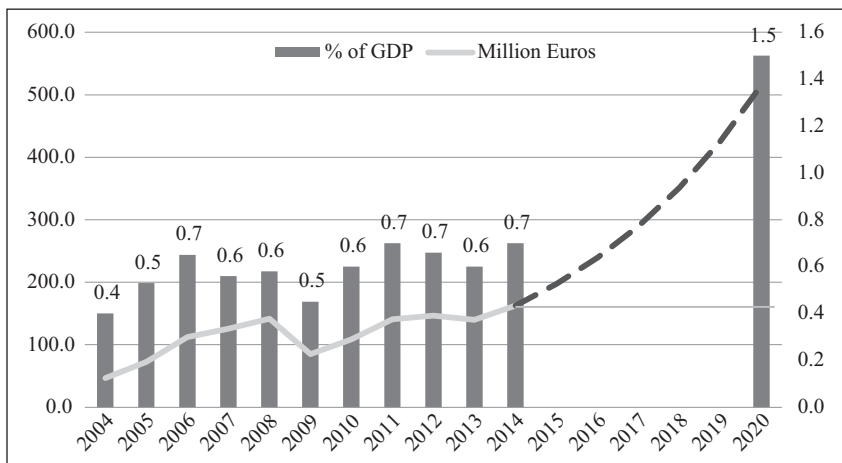
comparative advantage. Global economic trends, economic strengths and weaknesses have to be specified so that specialisation is effective. It should be noted, that in Latvia it is hard to estimate which industries are the most competitive and prospective in growth, because there are a small number of tradeable sectors in economy, so one should support all industries that may produce something for export. Another argument, which makes it difficult to determine one or few specific fields with horizontal impact, is that in the economy of Latvia there is underdeveloped communication between fields, which increases the risk that support for some particular industries might be too short and it will not be an effective channel for growth. The authors wish to emphasise that the choice of specific sectors must be prudent and be based on thorough research on the microeconomic level. It is necessary to examine which industries are making a greater contribution to the technological base for development and improvement and which sectors have the greatest potential for export. There also should be special attention regarding questions, such as: what is the consumption of energy resources and raw materials (especially non-renewable) in a specific field, their impact on the environment, how large is the institutional and human resources base and is the development of that particular field sustainable.

In development of SSS in Latvia, there were highlighted a number of possible fields of specialisation, such as: knowledge-based bio-economy, biomedicine, medical technology, bio pharmacy and biotechnology, intelligent materials, technology and engineering, smart energy, information and communication technologies⁸, but their development now is significantly limited by low production capacity (the low share of manufacturing in the economy as a whole and dominance of non-tradable sectors, the low number of innovative companies, the low level of investment in science and research development, small number of employees in science and lack of renewal, emigration and the brain “drain”), and of course weak co-operation between entrepreneurs and scientists, and also the limited knowledge of entrepreneurs themselves (for example, in the cluster development field).

In Latvia there are the lowest expenditures of funding in research and development from entrepreneurs (according to GCI rankings, Latvia is in 81st place). In the EU on average entrepreneurs (business sector) fund research and development in the amount of 64% (in Germany and Finland 67%), but in Latvia only 33% (and amount of funds has decreased within two past years). Also the total amount of costs for research and development

⁸ Science, Technology Development and Innovation Guidelines 2014-2020, Ministry of Science and Education Republics of Latvia, Riga, 2013.

in Latvia is one of the lowest in EU (in 2014 R&D costs were 0.7% of GDP – 162.8 million Euros and 2013 they were 0.6% of GDP – 139,8 million Euros)⁹. If one assesses the current trend, it is important to emphasise that in the National Reform Programme of Latvia for the Implementation of the “Europe 2020” Strategy it is stated that in 2015 the R&D cost ratio will increased up to 1% of GDP and in 2020 up to 1.5% of GDP¹⁰, which is a huge challenge to achieve. Calculations made by authors show that in order to accomplish the goal of increasing the R&D cost ratio in the future five years in Latvia there will be necessary investments in the amount of 1000 up to 2000 million Euros, which is 1.5 times more than was done in the previous 10 years (see Figure 2).



Source: the authors own based on data from CSB databases.

Figure 2 Investments in R&D in Latvia (% of GDP)

Thus, it can be concluded that sufficient scientific and research capacity is an important prerequisite for a knowledge and innovation based transformation of the economy of Latvia, and in order to develop this transformation it will require serious investments from both public and EU funds and also from entrepreneurs. The state can create the general conditions (base), but entrepreneurs must determine the direction (there has to be a demand from both consumers and entrepreneurs for new,

⁹ CSB database, <http://www.csb.gov.lv/>

¹⁰ National Reform Programme of Latvia” for the Implementation of the “Europe 2020” Strategy, Riga, April 2011.

innovative solutions). The “Smart specialisation strategy” is driven by a business desire to seek new competitive advantages, creating demand for innovation support.

Conclusions

1. For rapid growth rates in Latvia an economic model is necessary, in which a high role would be on enterprises to restructure manufactures and produce products with higher added value. To be able to ensure this, enterprises have to evaluate existing competitive advantage, look for new scope based on the principles of “smart specialisation”.
2. Currently science and technology based growth in Latvia is not possible, and it is affirmed by analysis of the manufacturing industry, where there is a strong specialisation in low-tech industries. This is why the “smart specialisation strategy” must be concentrated on transformation of the economy, on identification of new growth fields and on the development of high-tech industries.
3. Consequently, as a result of increases in labour costs and economic growth, and by the open labour market in Latvia, in the near future there is a risk of losing competitiveness in low cost segments faster than getting the advantages of producing goods with higher added value. Therefore, to avoid the “middle income trap”, it is needed for structural reforms to facilitate the transition from low-tech to medium-tech to high-tech industries.
4. The “Smart specialisation strategy” is driven by the business desire to seek new competitive advantages, and creating demand for innovation support. The state can create the general conditions (base), but entrepreneurs must determine the direction.

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