

**EU STRATEGY**

**FOR THE BALTIC SEA REGION:**

**A YEAR AFTER AND BEYOND**



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## Preface

Several publications, articles and books devoted to the EU Strategy for the Baltic Sea Region contain a reference to 2005, the year the Strategy was born. On 15 November 2005 the European Parliament submitted to the president of the European Commission Jose Manuel Barroso a document entitled “Europe’s Strategy for the Baltic Sea Region”, drafted by the Baltic Europe Intergroup. In the process of drafting the document, MEP Ģirts Valdis Kristovskis invited a group of Latvian scholars to look into the prospects of the Baltic area. A year later the results of the study were published in the book “Baltic Sea Region after the Enlargement of the European Union: Future Prospects”. One of the aims of the study was to elaborate scenarios for regional development. The authors arrived at three possible models: fragmentation, integration within the EU framework and the Baltic Sea Region as an expander of EU policies to outer areas. The first scenario was excluded as the least possible prospect, but the two others are still valid.

Drafting of the EU Strategy for the Baltic Sea Region was of particular interest to the researchers who had taken part in the first project. Therefore, the idea of providing a study on the first year of implementation of the Strategy seemed a logical continuation, expanding knowledge of the region and testing the existing body of knowledge. The idea was enthusiastically welcomed and supported by the European Commission Representation in Latvia, the Latvian Ministry of Foreign Affairs and the Nordic Council of Ministers. The Latvian Political Science Association took on the initiative of involving scholars from different sectors and coordinating the project.

As a result, this book presents a wide spectrum of views and approaches. Toms Rostoks provides a comprehensive overview of how the Strategy has been elaborated, which have been the main players

in the regional game and what have been the contradictory aspects that could influence further developments in the area. Iveta Reinholde searches for new models of governance for macro regions. She presents a study of four models and assesses them in the context of the Baltic Sea Region. Žaneta Ozoliņa looks into the case of Latvia. She focuses on Latvia's response to the Strategy. On the basis of interviews with the members of the Working Group, she presents the achievements of the Latvian model, but also highlights some of the most important problem issues. In their papers, Valdis Krastiņš and Marika Laizāne-Jurkāne address the regional organizations and their attitude towards the Strategy. Both authors arrive at similar conclusions, namely that in reality the organizations claiming to have been assigned the coordination of regional activities have not put the Strategy at the core of their policies. Alf Vanags presents an analysis of the most important economic indicators and processes taking place in the Baltic Sea Region. His study warns that the present economic policies and regional undertakings do not indicate that divisions (economic, social, sub-regional, competitive) are diminishing. Edvīns Karnītis arrives at a similar conclusion. He states that the countries around the Baltic Sea have accumulated significant knowledge potential, which unfortunately is still compartmentalised and is not being applied to increase regional competitiveness. He suggests following the EU pattern, and as the EU has a European Research Area, which is based on the fifth freedom, namely free movement of knowledge, he urges the creation of a Baltic Knowledge Space. Inese Stepiņa and Kārlis Bukovskis consider the topic of energy. In their article, Madara Pelnēna and Gatis Pelnēns address the environmental policy agenda, while Elīna Egle presents the view of the Latvian Confederation of Employers on the Strategy. Daina Bāra, in her turn, seeks to discover how the government's present communication policy can assist in communicating the Strategy to the Latvian public. Daunis Auers places the Strategy in the wider context of the debate on the future of Europe. Since the project was implemented in different stages, including several round-table discussions and interviews with various stakeholders, the book contains also a report on a seminar that took place on 15 June 2010 with the participation of distinguished experts on regional cooperation, such as Pertti Joenniemi and Mindaugas Jurkynas, and policy makers dealing with the Strategy.

*Žaneta Ozoliņa  
Iveta Reinholde  
Toms Rostoks*



# **In Place of an Introduction: Why the Baltic Sea Strategy?**

TOMS ROSTOKS

The EU Strategy for the Baltic Sea Region (the Strategy), which has finally reached its implementation stage in 2010, is the latest of the regional initiatives aimed at contributing to a cleaner Baltic Sea and more dynamic economic development in the Baltic Sea Region (BSR). This is a macro-regional strategy – the first of its kind in the EU. It is a sign that the EU has accepted the uniqueness of its regions, recognising that the various regions of the EU may perform different functions and that each can excel in something different. The task of the EU would thus be to approach the uniqueness of its regions in a strategic manner, to accentuate their strengths and make them work for the benefit of the EU. The Strategy is also an acknowledgment that some of the problems cannot be solved on a national level and, thus, have to be addressed on a regional level with the help of supranational EU institutions. The results of implementation of the Strategy are important for the BSR countries, but will be closely observed by other EU Member States as well, because its success may pave the way to increasing regionalisation of the EU, and its failure would probably result in abandonment of regional strategies.

The Strategy has only recently reached its implementation phase, so one might ask whether it is worth devoting detailed analysis to a strategy whose results are yet to be seen. On the one hand, this is a valid objection, because it is too early to assess the results of the Strategy, but on the other hand it is an evolving

strategy with a rolling Action Plan, so it is important for the academic and research community to take a closer look at the principles on which it is based, the goals and priorities that it aims to achieve, the actions that have to be implemented, the stakeholders that are involved in its implementation, the structures and institutions that have been created to serve the needs of the Strategy, the external implications of the Strategy, etc. In sum, it is high time to look at the preconditions for success of the Strategy. The Strategy does indeed offer fascinating research opportunities, and, not surprisingly, researchers have accepted the challenge. A number of research papers have been written in 2009 and 2010 on the issue of the Strategy. The group of authors interested in the Strategy includes Carsten Schymik, Esko Antola, Marko Lehti, Pertti Joenniemi, Rikard Bengtsson, Mindaugas Jurkynas, Andrea Stocchiero, Marion Salines and others. One should not omit to mention the lengthy collection of articles published in 2008 by the Office of the Committee for European Integration (Poland). The debate on the Strategy has been facilitated by *Baltic Rim Economies*, which has provided a platform for decision-makers, experts and members of academia willing to voice their opinions on its virtual pages. This book aims at building on earlier scholarly efforts, and tries to fill existing gaps and assess the Strategy from a variety of perspectives.

This article, however, has more modest aims. Its first section looks at the origins of the Strategy, the process through which it was born, and the interests that facilitated its development. Problems relating to governance, implementation and funding are also discussed. It is argued that solving the region's problems will not be easy and that implementation of the Strategy may be hampered by the same factors that have prevented the development of an effective intergovernmental approach to the region's problems until recently. The involvement of the European Commission in the drafting and implementation of the Strategy is a fruitful approach, but is significantly limited by the perseverance of national interests and the European Commission's self-relegation to the status of a

‘facilitator’.<sup>1</sup> Such an approach gives considerable room for progress with regard to the regional priorities of the stakeholders, but it stops far short of being ‘an EU strategy for the Baltic Sea Region’ – a concept that points to a far more goal-oriented approach than the current one.

The second section of the article focuses on several challenges that are likely to have an impact on the implementation of the Strategy, the most important of these being tensions between regional priorities and the selfish interests of stakeholders (in particular the states). The external implications of the Strategy, such as the role of Russia and the impact of the Strategy on attempts to replicate regional cooperation efforts in other EU regions, are also discussed. It is argued that a mechanism to coordinate Strategy activities with Russia will have to be found and that the lessons from cooperation around the Baltic Sea cannot easily be repeated in other regions.

### **Development of the macro-regional strategy: timeline, priorities, governance, implementation and funding**

The Strategy may seem a major policy innovation, but its priorities are hardly novel. The European Commission did not aim at developing a completely new approach or coming up with a unique set of priorities for one of its regions. The aim was to adopt a pragmatic approach to the modalities of regional cooperation in order to achieve improvements in the effectiveness of the EU’s

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<sup>1</sup> Andrea Stocchiero notes that “the Commission exerts a ‘soft power’ in the role of ‘overall coordinator’, ‘external facilitator’, and ‘impartial honest broker’, while the strategy is drafted and implemented ‘from within’, meaning by the national and sub-national governments and different stakeholders.” Stocchiero A. *Macro-Regions of Europe: Old Wine in a New Bottle? CeSPI Working papers*. 65/2010, p. 8.

involvement in the BSR. In this respect, it is hardly a ‘game changer’, because the Strategy is confronted with the same barriers that have hindered regional cooperation for the past two decades. However, this does not mean that there is nothing new about the Strategy, so this section of the article looks at the timeline, motivation, consultation procedure, priorities, governance and implementation, as well as funding of the Strategy in order to outline both its original and customary aspects.

### *Timeline*

The foundations of the Strategy were laid in 2004, when, after the accession of Poland and the Baltic States to the EU, the Baltic Sea became virtually an inland sea of the EU. It was clear by then that enlargement would have important implications for networks of regional cooperation that existed in the BSR. Helmut Hubel argued in 2004 that the BSR was a subregion rather than a coherent region in itself.<sup>2</sup> Although it was weakly institutionalized,<sup>3</sup> the inclusion of the BSR in the EU nevertheless raised issues about inclusion and opting out. It was clear that the BSR cooperation networks would somehow have to be joined with the EU structures of governance. This issue now seems to be solved, and through the Strategy the EU has taken on more responsibility and supervision over regional cooperation. Opting out has not been a viable option, because regional cooperation structures have not been sufficiently developed to function as independent frameworks from European integration.

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<sup>2</sup> Hubel H. The Baltic Sea Subregion after the Dual Enlargement. *Cooperation and Conflict*. 2004, vol. 39, no. 3.

<sup>3</sup> This argument refers to the intergovernmental nature of regional organizations that were developed in the 1990s. In relation with this argument Rikard Bengtsson writes that “the Baltic Sea region thus seems to confirm the general picture in international relations that it is much easier to set up institutions than to get them working properly. In part, this problem has to do with the lack of political will.” Bengtsson R. An EU Strategy for the Baltic Sea Region: Good Intentions Meet Complex Challenges. *European Policy Analysis*, SIEPS. 2009, p. 6.

The origins of the Strategy date back to the Baltic Intergroup that was formed in the European Parliament (EP) and actively promoted the Baltic Sea vector of the Northern Dimension (ND). After unsuccessful attempts in 2005–2006 to return the ND to the BSR, the next step was to opt for a separate strategy for the BSR. Although it may seem that revitalizing cooperation in the BSR would require greater activity on the part of regional organizations and perhaps restructuring of regional institutions, these attempts in the EP were aimed at getting the EU more deeply involved in the BSR. The chair of the Baltic Intergroup Christopher Beazley put it best when he said that “the EU accession was not enough”.<sup>4</sup> A coherent strategy was required to offset the consequences caused by the many years of a divided Europe. *The Report on a Baltic Sea Strategy for the Northern Dimension* (the ‘Alexander Stubb Report’), which was prepared by the Committee on Foreign Affairs of the EP in October 2006, stressed three aims. First, the BSR should be defined as the priority area of ND policy, and deeper integration should be promoted in the BSR, with the aim of making this region “a viable part and a dynamic component of a wider European economic and political area”. Second, the report stressed that the competitiveness of the region should be increased and that systematic efforts should be carried out in order to create a brand for the BSR. Third, environment was a major concern in the report, and the aim was “to improve the ecological status of the Baltic Sea”.<sup>5</sup>

In addition, four priority areas for the strategy were outlined in the EP report: economy, environment, culture and education, and security.<sup>6</sup> These priorities clearly stated that greater EU involvement in the BSR was necessary in order to release the potential of the region. The report also called upon the European Commission to

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<sup>4</sup> Quoted from: *The Baltic Sea Strategy – how it started. From a Baltic Point of View*. SIDA, 2009, p. 2.

<sup>5</sup> Report on a Baltic Sea Region Strategy for the Northern Dimension. Committee on Foreign Affairs, European Parliament. 18 October 2006.

<sup>6</sup> Ibid.

create a proposal for the Baltic Sea Strategy. Several more specific proposals on reducing the region's energy dependence on supplies from Russia, creation of a separate budget line for the BSR, and protection of the marine environment were also included in the report.

The chances are high, however, that calls for a separate strategy for the BSR would have gone unnoticed, had they not been supported by several EU Member States from the BSR. After the report on the Baltic Sea Strategy was adopted by the European Parliament in November 2006, Sweden lobbied intensively during 2007 in order to create the necessary preconditions for the strategy to be adopted during its presidency in 2009.<sup>7</sup> Thus, in December 2007 the European Council invited the European Commission to present a strategy for the BSR in the first half of 2009. (The proposal for a strategy was made public in June 2009.) This was followed by a number of stakeholder events in the second half of 2008 and early 2009, aimed at involving a large number of stakeholders in the process of drafting the Strategy. After the proposal for the Strategy was made public in June 2009, it was adopted by the European Council during the Swedish presidency in October 2009. The year 2010 marks the beginning of the implementation phase of the Strategy, and at the time of writing (May 2010) there is little certainty about the results that can be expected to be delivered during the implementation phase

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<sup>7</sup> It has been noticed, however, by some researchers that Finland and Germany didn't make the Strategy as one of the priorities of their EU presidencies. See, for example, Carsten Schymik and Peer Krumrey who write that "...neither Finland nor Germany were willing to take up the initiative during their presidencies of the EU in 2006 and 2007, respectively." Schymik C., Krumrey P. *EU Strategy for the Baltic Sea Region. Core Europe in the Northern Periphery? SWP Working Paper*, April 2009, p. 5. Also, Pertti Joenniemi writes that "It is to be noted, however, that neither Finland nor Germany was willing to take the idea further during their presidencies of the EU in 2006 and 2007, respectively, perhaps, judging that the idea did not enjoy sufficiently broad support or even that it was explicitly being contested." Joenniemi P. *The EU Strategy for the Baltic Sea Region: A Catalyst for What? DIIS Brief*, August 2009, p. 2.

of the Strategy.<sup>8</sup> However, there are indications that the EP has the intention to follow closely the progress of the Strategy, despite the fact that most members of the Baltic Intergroup have either retired (Christopher Beazley) or gone on with their political careers in institutions other than the EP (Toomas Hendrik Ilves, Alexander Stubb, Ģirts Valdis Kristovskis).

### *Consultations*

Consultations with stakeholders have been an important part of the process that led to the Strategy, and the European Commission has indeed tried to collect inputs from a wide range of actors. A consultation process involving the largest possible number of stakeholders was necessary in order to foster democratic legitimacy of the Strategy. The issue of legitimacy was raised explicitly by Malgorzata Kaluzynska, who argued in 2008 that a poor consultation process could lead to problems during the implementation phase of the Strategy.<sup>9</sup> Although she called for increased efforts in order to inform the general public about the Strategy, the consultation process was aimed at getting major existing actors to become involved in the drafting process. This aim has been achieved, because the European Commission received written contributions from 109 authorities, institutions and individuals, which clearly indicated that there was a genuine willingness to contribute to the Strategy.<sup>10</sup> Also, the fact that contributions were received from

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<sup>8</sup> Implementation results are understood as having wider implications that would go beyond the results understood in terms of implementation of particular projects.

<sup>9</sup> Kaluzynska M. What Strategy is Needed for the Baltic Sea Region? The EU Strategy for the Baltic Sea Region. *UKIE Analytical Paper Series*. 2008, no. 19, p. 9.

<sup>10</sup> In total, 109 authorities, institutions or individuals responded to the consultation and presented their views. Out of these, eight were Member States (every Member State presented a position paper), three non-Member States (Russia, Belarus, Norway), 31 were regional and local authorities, 48 were inter-governmental and non-governmental bodies, 19 were representatives from the private sector out of which two were experts/researchers and three were individuals. *EU Strategy for the Baltic Sea Region. Report on the Public Consultation*. European Commission, 2009.

governments, non-governmental organizations and individuals indicates that the Strategy was welcomed and considered as worth contributing to by all segments of the BSR countries. The European Commission even went as far as to arrange the possibility of submitting written contributions online through its web page. The public consultation process was kept open to all stakeholders with an interest in the Strategy, and it seems that the European Commission was committed to avoiding any possible complaints about exclusion. It remains to be seen, however, if the principle of openness can be sustained over time and during the implementation stage.

Carsten Schymik and Peer Krumrey have made a detailed analysis of the 47 written contributions (out of a total of 109 written contributions) that were made public after the consultation process, and they have identified approximately 750 policy proposals covering a wide range of issues. Their conclusion is that the European Commission has “by and large been able to draft an action plan that captures the essence of public opinion in the region”.<sup>11</sup> The Commission has been quite successful in collecting ideas and proposals from the region and summarising them with the help of the Strategy. The benefits from such an approach are twofold. First, by engaging partners who are already active in the region, the Commission could gather a large number of policy proposals.<sup>12</sup> Second, the openness of the consultation process greatly contributed to the legitimacy of the Strategy. Moreover, the Commission is planning to organize annual stakeholder meetings, and at least partly the rationale behind these meetings is to ensure sustained legitimacy of the Strategy.

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<sup>11</sup> Schymik C., Krumrey P. (see note 7), p. 15.

<sup>12</sup> Public consultation also revealed that regional stakeholders were very much in favour of greater involvement by the Commission.



### *Motivation*

The EU's involvement in the BSR has steadily increased since the early 1990s, and public consultations during the drafting process of the Strategy have revealed that the major stakeholders are in favour of the European Commission adopting a more assertive role in the BSR.<sup>13</sup> The EU's involvement in the BSR has increased in three stages. First, there was German reunification. Second, the importance of the region increased due to the accession of Finland and Sweden to the EU, and this stage resulted in the Northern Dimension (ND), which was adopted in 1999. Third, the Baltic Sea became almost an inland sea of the EU due to the 2004 enlargement, and it can be argued that the Strategy is a natural outgrowth of the accession of Poland and the three Baltic States to the EU. Meanwhile, the character of the EU's participation in regionalisation processes in Northern Europe has also changed considerably. Marko Lehti writes that "the EU has been involved and present in regionalist processes in the BSA from the very beginning, but its position has been drastically changed during the past two decades".<sup>14</sup> He notes that the BSR could be seen as a counter-narration to the Western European integration process. It would be an exaggeration to argue that regionalisation in the BSR was a competing project

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<sup>13</sup> The messages were clear: "...European Commission involvement. This should go beyond monitoring the implementation of funding programmes and the transposition of Directives. The Commission could fulfil the need for an independent, multi-sector body that can guarantee the necessary co-ordination, monitoring and follow-up of the action plan, as well as a regular updating of the plan and the strategy as necessary." European Union Strategy for the Baltic Sea Region. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. 10 June 2009, p. 11.

<sup>14</sup> Lehti M. Baltic Region in Becoming: From the Council of the Baltic Sea States to the EU's Strategy for the Baltic Sea Area. *Lithuanian Foreign Policy Review*. 2009, p. 13.

to European integration, but its character (based on principles such as openness, transparency, a bottom-up approach to regional cooperation, and fuzziness of borders) was indeed different from the state-led and state-controlled integration that took place in Western Europe.

Starting from that of an observer of the regionalisation process in Northern Europe, the EU's role has steadily evolved, and the fact that the European Commission was invited to draft a strategy for the BSR is quite telling. It appears that regionalisation has been useful for taming tensions that still existed in the region in the aftermath of the Cold War and building networks of cooperation across national borders. Also, it was especially suited for laying the groundwork for EU enlargement, as the Baltic States and Poland had the possibility to practice openness and cross-border cooperation with other countries.

It seems, however, that a more structured approach is necessary if more ambitious goals are to be achieved, and regionalisation in the BSR has suffered from lack of coherence. Jari Luoto, Ambassador for Baltic Sea Issues at the Ministry of Foreign Affairs of Finland, writes: "... we have always been good in producing papers and organising ourselves in the BSR. A plenty of research material is available on key problems. What we lack is coordinated action with more ambitious goals than we have set so far in the region."<sup>15</sup> The idea of handing over writing of the strategy to the European Commission indicates that regionalisation has both succeeded and failed. Regionalisation has resulted in one of the most vibrant, dynamic and prosperous regions in the world, but regionalisation has failed to deliver tangible results in terms of a cleaner environment (most notably, the Baltic Sea itself) and economic cohesion. Thus, the Strategy is a functional strategy

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<sup>15</sup> Luoto J. EU Focuses on the Baltic Sea. *Baltic Rim Economies*. 2008, 5, p. 15.

born out of practical concerns about the problems and unrealized potential of the BSR.<sup>16</sup>

The appeal to the European Commission to become more deeply involved in the BSR can also be seen as a call not to treat all regions in a similar manner, because there are important differences among the EU's regions. Accordingly, some EU regulations may have to be applied differently, depending on the specific features of regions. The Strategy provides the EU with an opportunity to create its own vision of the BSR. In the beginning, the EU's interests in the BSR may hardly differ from interests of the states of this region, but the Strategy may evolve with time and result in a more top-down approach to the region. Although not necessarily a welcome trend, this would foster strategic thinking on the part of the European Commission about how to exploit the strengths of different EU regions.

### *Priorities*

The four main thematic areas of the Strategy that have been outlined in the timeline sub-section of this article have remained largely intact since 2006, when the call for a strategy for the BSR was first voiced in the EP. The European Commission has defined four main challenges in the BSR: to enable a sustainable environment (to make the BSR an environmentally sustainable place), to enhance the region's prosperity (to make the BSR a prosperous place), to increase accessibility and attractiveness (to make the BSR an

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<sup>16</sup> The concept of "functional macroregion" is looked at in more detail by Andrea Stocchiero who argues that functional approach makes defining which territories should be covered by the Strategy and which territories should be left outside the scope of the Strategy very difficult. Different functions have different delimitations, therefore, the Strategy with its 15 priorities makes it hard to perceive this region as a coherent functional space. It is particularly true in the case of Russia because, on the one hand, Russia is excluded, but on the other hand, Russia holds keys to successful implementation of some important priorities of the strategy. Stocchiero A. (see note1), p. 5.

accessible and attractive place), and to ensure safety and security in the region (to make the BSR a safe and secure place).<sup>17</sup> These areas have, however, evolved further into 15 priority areas (as defined in the Action Plan)<sup>18</sup>, and further into approximately 90 flagship projects and a number of horizontal actions.<sup>19</sup> Many of these projects have already been agreed upon and would have been implemented anyway, so it is hard to estimate the current added value of the Strategy. It should, however, be noted that such projects as, for example, the Baltic Energy Market Interconnection Plan (BEMIP), which initially were not related to the Strategy and were only included in it later, would greatly contribute to making the BSR a more accessible and attractive place.

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<sup>17</sup> European Union Strategy for the Baltic Sea Region. Communication ... (see note 13), p. 3.

<sup>18</sup> The 15 abovementioned priority areas are: to reduce nutrient inputs to the sea to acceptable levels; to preserve natural zones and biodiversity, including fisheries; to reduce the use and impact of hazardous substances; to become a model region for clean shipping; to mitigate and adapt to climate change; to remove hindrances to the internal market in the Baltic Sea Region including to improve cooperation in customs and tax area; to exploit the full potential of the region in research and innovation; Implementing the Small Business Act: to promote entrepreneurship, strengthen SMEs and increase the efficient use of human resources; to reinforce sustainability of agriculture, forestry and fisheries; to improve the access to, and the efficiency and security of the energy markets; to improve internal and external transport links; to maintain and reinforce attractiveness of the Baltic Sea Region in particular through education, tourism and health; to become a leading region in maritime safety and security; to reinforce protection from major emergencies at sea and on land; to decrease the volume, and harm done by, cross border crime. European Strategy for the Baltic Sea Region Action Plan. Communication .... (see note 13), p. 5. However, it has been admitted by the Commission that, in fact, there are 17 priorities because the priority area number twelve contains three separate priorities: education, tourism, and health.

<sup>19</sup> The number of flagship projects has increased over time with new projects constantly being added.

Although the list of priorities in the Action Plan<sup>20</sup> has been seen by some analysts as a 'Christmas Tree',<sup>21</sup> it provides a good starting point for the implementation process. On the one hand, having a large number of priorities probably means that progress during the implementation process will be uneven or may even lead to a loss of the Strategy's focus, but on the other hand the choice of including many priorities certainly has its merits. It ensures that the principle of democratic legitimacy is upheld and that none of the major stakeholders will be alienated from the Strategy due to the exclusion of particular interests. Also, it is possible that the drafters of the Strategy did not want to exclude success. Predicting the degree of success across a wide variety of priority areas is difficult, and it remains to be seen which priorities will be most successful. As the outcomes of the implementation process are uncertain, excluding some of the priorities is not productive, because it may turn out at a later stage that progress with regard to excluded priorities has been greater than in the case of those priorities that have been included in the Strategy.

### *Governance and implementation*

The governance section, arguably, has been singled out by a number of authors, i.e. Esko Antola, Andrea Stocchiero, Rikard Bengtsson, Marion Salines and others,<sup>22</sup> as being the crucial aspect of the Strategy's success during the implementation phase.

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<sup>20</sup> EU Strategy for the Baltic Sea Region. Action Plan. European Commission, 2009.

<sup>21</sup> Antola E. The Implementation Trap: The Challenge of the Baltic Sea Strategy. In: *Estonian Foreign Policy Yearbook 2009*. Ed. Kasekamp A. Tallinn: Estonian Foreign Policy Institute, p. 152.

<sup>22</sup> Marion Salines stresses the importance of governance issues in terms of 'co-operation method' which, according to her, is one of the four factors that are likely to determine the Strategy's success. The other three success factors are a 'common perception of interests', 'common identity', and 'EU involvement'. Salines M. Success Factors of Macro-Regional Cooperation: The Example of the Baltic Sea Region. *Bruges Political Research Papers*. 2010, no. 12, p. 5.

Governance and implementation of the Strategy are interrelated and contentious issues, because no new institutions have been created for coordinating implementation of the Strategy, while the existing coordination formats, according to Rikard Bengtsson, are ill-suited for governance purposes.<sup>23</sup> Governance, in contrast to policy content, is referred to by Schymik and Krumrey as the relatively uncertain part of the Strategy. They write that “... relatively little is known at this point about how the Baltic Sea Strategy shall be governed. So far, the only thing that seems to be clear is the Commission’s intention to implement the Strategy by means of a dynamic or ‘rolling’ action plan, i.e. an action plan of indefinite duration, which must be updated on a regular basis.”<sup>24</sup> In general, there is little reason to question the design and content of the Action Plan, and it makes sense that the plan should be regularly revised, updated and reviewed by the Commission, Member States and stakeholders. It is anticipated that the first review of the Action Plan will take place during the Polish EU presidency in the second half of 2011. Further reviews are expected during the Lithuanian and Latvian EU presidencies.

There is considerably less clarity, however, with regard to coordination of the implementation of the Strategy, and this is still work very much in progress. Thus far, institutional issues have mainly been analysed in general terms. Schymik and Krumrey have written that, although several actors have argued against creating new

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<sup>23</sup> Bengtsson argues that “for the task of aligning policies and funding at various levels of governance (EU, national, and sub-national) and promoting fair, transparent and operational implementation of EU rules, the Commission toolbox is worryingly empty – it remains a key challenge to make the visions of the strategy operational. In addition, questions remain as to how the Commission is to monitor implementation and assure the future direction of the strategy, for instance in a situation where the political priorities of the union’s agenda are different from today. For a number of reasons, then, governance of the strategy will be difficult in the format now chosen.” Bengtsson R. *An EU Strategy for the Baltic Sea Region: Good Intentions Meet Complex Challenges. European Policy Analysis* (SIEPS). 2009, No. 9, p. 7.

<sup>24</sup> Schymik C., Krumrey P. (see note 7), p. 9.

institutions, many stakeholders have spoken in favour of institutional innovation. They argue that stakeholders have pointed to three potential directions of institutional innovation. First, new institutions should be created to govern certain aspects of regional cooperation. Second, some sort of coordination structure should be created in order to provide a platform for consultations among the BSR countries, i.e. a Baltic Sea Summit, holding sessions before the summer European Council summit. Third, a new forum should be developed, with a mission confined to providing a platform for discussions and decision-making for the Strategy.<sup>25</sup> Institutionalization of the Strategy can be useful for purposes of consultation and decision-making, but such super-institutions would nevertheless be poor instruments for routine decision-making and coordination of implementation of the Strategy, which essentially adds a fourth governance layer to the already complicated governance structure of the EU.<sup>26</sup> This, however, does not necessarily lead to the conclusion that no new institutions should be developed to ensure smooth implementation and coordination of the Strategy.

Andrea Stocchiero suggests that the Strategy is supported by five closely interrelated governance layers,<sup>27</sup> with the Commission forming the first layer. The second layer is formed through the interaction between the Commission and the national contact points (normally under the Prime Minister's office or Ministry of Foreign Affairs). The third layer is formed by the priority area coordinators, which in most cases are central government agencies. The lead partners of the flagship projects form the fourth layer, while the fifth layer consists of a number of actors who are at the top of the EU policy-making process, i.e. the Commission, the European

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<sup>25</sup> Schymik C., Krumrey P. (see note 7), pp. 11–12.

<sup>26</sup> Marion Salines argues that the Strategy adds the fourth governance layer to the already three existing ones: sub-national, national, European. Macro-regions encompass several nation-states, but stop far short of involving all EU member states. Salines M. (see note 21), p. 28.

<sup>27</sup> In fact, this is more of a list of actors rather than an elaborate outline of governance layers.

Council and the High Level Working Group.<sup>28</sup> This is a rather complex structure, whose purpose is to make sure that responsibility for the whole Strategy remains in the hands of the Commission and national governments, that the Strategy's priority areas are mostly managed by the national governments, and that there is a particular government, non-governmental or regional organization responsible for each of the 90 flagship projects.

Esko Antola adopts a different perspective on the governance layers of the Strategy when he suggests that governance of the Strategy has three layers. First, key decisions are taken by the European Council and the European Commission. The Commission provides the Council with proposals, reports and recommendations, while the Council decides on key priorities and provides political impetus for further action. The Council also ensures continued interest on the part of Member States. Second, key actions during the implementation process are made through interaction between the Commission and various stakeholders. Here, the most important issues at stake are coordination, reporting, monitoring, and adaptation of the Strategy to unforeseen circumstances that may arise during the implementation process. Third, "implementation on the ground remains the responsibility of the partners already active in the region". And it is the third level of governance that Antola finds most challenging, because the Strategy cannot be implemented successfully "without a strong political commitment by the actors in the region".<sup>29</sup>

Antola proceeds by arguing that the BSR needs its own political space that would ensure the continued commitment of the various stakeholders who participate in implementation of the Strategy. Political space needs institutions (not necessarily formal organizations) that serve as social spaces wherein actors can "meet, apply, interpret and enforce rules", as well as action arenas where actors meet and "identify the specific structure of their interactions".<sup>30</sup> So,

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<sup>28</sup> Stocchiero A. (see note 1), p. 8.

<sup>29</sup> Antola E. (see note 20), pp. 150–152.

<sup>30</sup> *Ibid.*, p. 153.



even if formal political institutions are not created, it is still necessary to ensure a certain degree of institutional innovation. Functions such as monitoring, coordination, reporting and collective decision-making are indispensable during the implementation phase, and these functions cannot be performed without developing at least informal institutions.

Although the institutional framework of the Strategy is still in the making, a rather complicated coordination structure is gradually emerging. This structure includes several actors, such as lead partners who are directly involved in implementation of flagship projects, countries (and, in some cases, stakeholders), which are responsible for achieving progress in priority areas, and national contact points, which should oversee the participation of various government agencies and stakeholders in the implementation of the Strategy. These institutions also provide interlinkages among various levels of governance. Distribution of responsibilities is another important function of the institutional setup of the Strategy. Flagship projects are administered by a lead partner, and each flagship project may have several sub-projects. Lead partners should be in regular communication with the priority area coordinator (usually, but not always, one or two countries) which oversees flagship projects under its priority area. It is no coincidence that most priority areas are coordinated by state agencies. States have the authority and means to facilitate action and steer implementation. National contact points are responsible for coordinating actions by various actors on a national level. Thus far, some countries have developed elaborate systems of coordination on a national level, while others have approached implementation of the Strategy with relative ease, probably convinced that a comprehensive approach on a national level is not necessary. Various government agencies have different opinions about the Strategy. For example, some government ministries in Latvia are very enthusiastic about the Strategy while others are sceptical and do not have information about the possibilities of becoming involved in its implementation.

The institutional framework that has been created – flagship projects, priority area coordinators, national contact points, an annual stakeholder conference – are likely to stay, because these actors are crucial for coordinating and implementing the Strategy. Considerable uncertainties, however, have surfaced regarding the specific functions that each actor is entitled to perform. The Strategy has been launched with specific agreed-upon priorities and flagship projects that are to be implemented, but there is much less certainty about how the project list will be updated and new flagship projects added to the list. Although for now it is more important to focus on implementation of the already-agreed projects, it is likely that new projects will emerge and will have to be decided upon. However, there is little clarity as to how new flagship projects are going to be selected for implementation. Although it has occasionally been stated by representatives of the Commission that the role of priority area coordinators is very important, this has not resulted in further clarification of their specific tasks and functions.

In order to complicate the matter even further, there is no clearly defined linkage between the views of priority area coordinators about projects of regional importance and decisions regarding funding for such projects. As the Strategy does not have its own budget line, priority area coordinators cannot provide funding to those projects that they see as worth implementing (besides not having the capacity and authority to perform project evaluation). Some priority area coordinators are uncertain as to what their added value is, i.e., if they support a certain project that fits the Strategy priority list, is this support in any meaningful way helpful in the process of competition for funding? Does the label ‘endorsed by the Strategy priority area coordinator’ give a certain project an edge over other projects that do not contribute to implementation of priorities within the Strategy? These are questions that have not been answered in a satisfactory manner yet, and the Commission has also admitted that there is no clear role for the priority area coordinators. Their main task is

to contribute to implementation of the existing flagship projects, but it remains to be seen what role they will play with regard to new projects that will inevitably be put on the table during the implementation phase.

Ensuring links between the national level and the Commission is also important. Priority area coordinators and national contact points have direct contacts with the European Commission, which oversees implementation of the Strategy, prepares annual reports and evaluates the Strategy and the Action Plan. However, quite intensive coordination is required within the Commission as well. Although the Strategy is steered by the Directorate-General for Regional Development (DG REGIO), its implementation would not be possible without close collaboration with other Directorates-General. Schymik and Krumrey write that during the preparation process of the Strategy the Directorate-General for Maritime Affairs and Fisheries headed a steering committee which also included the Directorates-General for the Environment and for External Relations. Altogether, 19 directorates have been involved in the drafting process.<sup>31</sup> Thus, coordination of implementation of the Strategy is complicated, not only because of the many governance layers, but also because of the necessity to ensure proper coordination with the Commission.

### *Funding*

Thus far, little has been written on the issue of funding, and most researchers have concentrated on the process of development of the Strategy, governance issues and policy content. Financial aspects of the Strategy have been discussed in less detail, and it has been accepted that at least until 2013 no additional funds will be available for the Strategy. There will be no separate budget line, and the communication from the Commission concerning the Strategy is quite explicit on this issue. It states that progress in the BSR is to be achieved through “better coordination and

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<sup>31</sup> Schymik C., Krumrey P. (see note 7), p. 6.

more strategic use of Community programmes” and “within the existing financial and legal framework”, because “the Commission is not proposing additional funding or other resources at this time”.<sup>32</sup> On the one hand, no specific financial instruments have been allocated for implementation of the Strategy, but, on the other hand, Thomas Johansson notes that “there is no lack of funding to realise the Action Plan. There are, for example, billions of Euros in the EU Structural Funds that can be combined with national resources.”<sup>33</sup>

The Commission is even more optimistic, because “many European Union policies and programmes are important in the region and we expect these to be key elements in the strategy. Among these is Cohesion Policy, which contributes over EUR 50 billion to the region in 2007–2013. The Common Fisheries Policy (CFP) directly contributes another 1.25 billion. The Commission plans to work with the managing authorities to help them ensure that allocations are aligned with the strategy.”<sup>34</sup> It is quite clear that the Strategy should be implemented with the help of existing EU funding, together with private and public contributions from the national level. It cannot be excluded altogether that new financial instruments will be developed for the next financial perspective, but it is highly unlikely that the Strategy will be allocated a separate budgetary line. What is needed, however, is better coordination between the actors and stakeholders responsible for implementation of the Strategy with the agencies that oversee EU financial instruments. Resources for regional projects aimed at achieving progress in the priority areas of the Strategy should be made available when necessary. However, this would require concerted action by actors on the sub-national, national, regional and European level. Also,

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<sup>32</sup> European Union Strategy for the Baltic Sea Region. Communication ... (see note 13), pp. 5 and 12.

<sup>33</sup> Johansson T. Time for the Next Level of Cooperation Around the Baltic Sea. *Baltic Rim Economies*. 2009, No. 4, p. 30.

<sup>34</sup> European Union Strategy for the Baltic Sea Region. Communication ... (see note 13), p. 6.

it is expected that national governments will use their share of EU funding in ways that contribute to achieving objectives defined by the Strategy.<sup>35</sup>

One problem relating to funding opportunities has surfaced during the early stage of implementation. The first part of 2010 has been marked by a number of priority area kick-off meetings. Also, it has been decided by the Commission that a number of consultations should be organized in BSR countries in order to inform priority area coordinators and stakeholders about funding possibilities. The Strategy can only proceed by improving coordination between the multiple levels of European, regional, national and sub-national governance, and, not surprisingly, it has turned out that coordination is rather expensive and that not all BSR countries can shoulder the additional financial burdens. As the implementation of the Strategy proceeds mostly as learning by doing, the Commission has been considering setting up a trust fund that would provide financial assistance to those partners whose contribution to implementation of the Strategy may be hindered by high coordination costs. This aspect is especially important for the three Baltic States, which have been hit harder by the economic downturn than other EU Member States in the BSR.

### Issues for further discussion

The progress of the Strategy thus far has been quite impressive, and the Strategy has indeed provided additional political impetus for regional cooperation. It is likely that we will not have to wait too long to witness the first success stories. Previous sections have outlined the most important aspects of the Strategy, such as its timeline, public consultations, the motivation behind the Strategy,

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<sup>35</sup> According to unofficial information provided by the Latvian Ministry of Foreign Affairs, more than 90% of the EU funding that Latvia receives is used in ways that contribute to achieving the goals of the Strategy.

priorities, governance and implementation issues, and funding. Some existing and potential tensions relating to the implementation of the Strategy have also been discussed. Nevertheless, there are issues that are likely to influence the Strategy in its implementation phase and under specific circumstances may hamper its implementation. This section outlines some of the potential caveats that the Strategy may face in the coming years.

### *Political friction*

Thus far, the Strategy has been developed without causing major political controversies. The timing for the launch of the Strategy was right, because it coincided with commencement of another ambitious project – the Mediterranean Union. The policy content of the Strategy is largely uncontroversial, because no major interests are excluded. Fifteen priority areas and approximately 90 flagship projects provide enough room for manoeuvre to keep everyone reasonably satisfied. For example, the support of Finland is ensured through the inclusion of the ND as an external arm of the Strategy. The health priority area is coordinated by the Northern Dimension Partnership in Public Health and Social Well-Being, which ensures that the ND has a solid representation in the Strategy. Latvia's support is ensured by focusing on energy as one of the Strategy's priorities and putting considerable effort into building electricity interconnections between the Baltic States and their Nordic partners.

One could expect political friction over the choice of coordinators for the priority areas of the Strategy, but there is little evidence that coordination of priority areas has been fiercely contested. This may, however, change over time if countries recognize the coordination of priority areas as a major source of influence over allocation of financial resources and choice of flagship projects. The Strategy is envisaged as facilitating regional cohesion and the pursuit of common goals, but it is very unlikely that national interests will be completely forgotten.

*Reconciling national and regional priorities*

The Strategy is about achieving common aims that are widely shared among the countries of the region. Nevertheless, one should ask whether the BSR countries really share common goals and aspirations regarding the region's future. Malgorzata Kaluzynska has argued that the interests of the BSR countries with regard to the Strategy are different. The Nordic Countries and Germany are more inclined to place the environment and the deteriorating state of the Baltic Sea at the top of their priority lists, while the Baltic States and Poland stress the importance of ensuring sustained efforts aimed at fostering economic cohesion, improving the region's competitiveness and promoting closer collaboration in research and development.<sup>36</sup> The results of a study into the workings of the Baltic Intergroup point in the same direction.<sup>37</sup>

Reconciling the priorities of stakeholders has been relatively easy during the process of drafting the Strategy, but bringing together various interests may turn out to be very difficult when the Strategy reaches the implementation stage. Stocchiero mentions "tensions among the various powers" as one of the potential pitfalls of the Strategy, and he argues that conflicts with regard to "tenure and command over the macro-regional strategy and regulatory, financial and communicative power" may arise as the result of interests of and interactions between institutions situated at various levels of governance.<sup>38</sup> Financial concerns can contribute to friction between national and regional aspirations. This is likely to be most clearly visible in the case of the Baltic States, which have been hit hard by the economic recession. Mindaugas Jurkynas mentions

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<sup>36</sup> Kaluzynska M. (see note 9), pp. 6–7.

<sup>37</sup> Rostoks T. Eiropas Parlaments un Baltijas jūras reģions: no Ziemeļu dimensijas līdz Baltijas jūras stratēģijai [European Parliament and the Baltic Sea region: From Northern Dimension to Baltic Sea strategy]. In: *Eiropas Parlamenta loma ES Kopējās ārējās un drošības politikas īstenošanā* [Role of the European Parliament in Implementing EU's Common Foreign and Security Policy]. Ed. Ozoliņa Ž. Rīga: Zinātne, 2008.

<sup>38</sup> Stocchiero A. (see note 1), p. 4.

the impact of the ongoing economic crisis as one of the pitfalls of the Strategy, because “co-financing of flagship projects will raise questions of political priorities, financing the strategy’s guidelines and management of economy in general.”<sup>39</sup> Besides, no new financial mechanisms have been developed for the Strategy, and thus, financing for projects of regional importance would have to be deflected from the national envelopes of the Structural Funds. The Baltic States and Poland may view regional projects as an attempt to divert scarce financial resources from clients on the national level. It may be the case that national priorities will coincide with regional aspirations, but conflicts between the two levels are likely to occur occasionally.

### *Russia*

The Strategy is an internal strategy of the EU, and this explains its ownership – DG REGIO is responsible for coordinating the Strategy. However, it has important external aspects, and many of its priorities cannot be achieved without getting Russia involved at least to some extent. Bengtsson mentions Russia as one of the key challenges for the Strategy. He argues that most of the Strategy’s priorities are of transnational character and that exclusion of this key country “jeopardizes many of the strong points and good intentions of the Strategy”.<sup>40</sup> Russia has not been involved in the preparatory phase of the Strategy, and so Russia has not formulated a particular set of priorities. Nevertheless, it is likely that Russia’s priorities will be confined to infrastructure projects of regional importance, ecology and energy. Konstantin Khudoley has argued that Russia was concerned that the Strategy would be used as an instrument to attack the Nord Stream project. When this turned out not to be the case, Russian views towards the Strategy

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<sup>39</sup> Jurkynas M. Back to the Baltic Sea Region? Lithuanian Political Science Yearbook 2009.

<sup>40</sup> Bengtsson R. (see note 22), p. 8.



softened.<sup>41</sup> Dmitri Lanko has argued that demographics should also be added to Russia's list of potential priorities because of the long distances and demographic trends in the BSR countries. Kaliningrad has not been mentioned in the Action Plan of the Strategy,<sup>42</sup> but it also has the potential to be included in the Strategy in its implementation phase, because each Baltic Sea state has an interest in Kaliningrad. It is also a symbol of all the problems that one can find in the BSR.<sup>43</sup>

The fact that the Strategy is an internal EU strategy with implications for external actors such as Russia creates difficulties on both sides. The decision-making mechanism of the Strategy is quite strictly confined to the EU institutions, thus making it difficult to give Russia at least partial ownership of the Strategy. And Russia would find it difficult to take part in the Strategy, both because it has often stated that the EU decision-making mechanism is difficult to understand and because Russia is very unlikely to accept ready-made regional projects without having a possibility to influence them during the planning stage. This is not to argue that Russian involvement is not possible or desirable, because getting Russia (and its sub-national entities) involved would be a great asset. It would, however, be problematic to get Russia involved on a piecemeal basis. Besides, the BSR hardly tops Russia's list of foreign policy priorities at the moment. There are no easy solutions for getting Russia involved, but it probably can be done through the already-existing cooperation frameworks, such as the ND. Rather than pressing a 'reset button' with regard to Russia, the EU should look into the possibilities of expanding ND cooperation and adjusting it to the needs of the Strategy.

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<sup>41</sup> Khudoley K. Speech at the Centrum Balticum seminar on the Baltic Sea Strategy implementation in Turku, Finland, 26 February 2010.

<sup>42</sup> Kaliningrad has been regarded by Carsten Schymik as one of the main losers from adoption of the Strategy because of its absence from the Strategy.

<sup>43</sup> Lanko D. Speech at the Seminar on the Baltic Sea Strategy in Berlin, Germany, 4 May 2010.

*Implications for existing networks  
of cooperation*

Implementation of the Strategy is both a crucial test for the existing regional cooperation networks and a second chance for them to demonstrate their usefulness. Some regional initiatives, such as HELCOM and the ND Partnership in Public Health and Social Well-Being, have been explicitly mentioned in the Action Plan of the Strategy, but other regional networks will have to define their affiliation with the Strategy. They may try to find their place among the Strategy's priority areas and flagship projects and aim for EU financing. They may look to other sources of funding, and the governments of the BSR countries will have to decide how much independent regional activism they are ready and willing to support in addition to the Strategy.

There is little indication that a revitalized Council of the Baltic Sea States (CBSS) will emerge with the help of the Strategy. This regional organization has served as a forum for intergovernmental discussions, and its main asset has been the participation of Russia. The CBSS has not become a major powerhouse of regional cooperation and project implementation during the past 18 years, which means that its role in implementing the Strategy is likely to be very limited. However, this does not mean that regional cooperation structures (both governmental and non-governmental) should be excluded from the Strategy altogether. The advent of the Strategy marks a turn towards more state- and EU-led regional cooperation, and this approach certainly has its merits in terms of clearer allocation of responsibilities and easier mobilization of financial and administrative resources, but the existence of regional networks has been one of the trademarks of the BSR after the dissolution of the Soviet Union. Reversal of this trend would run contrary to the very idea behind the Strategy, namely, that regional cooperation is important and that it can deliver tangible results. Thus, utilizing the plethora of regional cooperation networks is a challenge, but it

is also a necessary element, both in terms of fostering the ‘region-ness’ of the BSR and achieving priorities that have been identified in the Strategy.

*Will other EU regions follow?*

The Strategy has frequently been referred to as the first strategy for a European macro-region. Pertti Joenniemi stresses its experimental nature and potential to set an example for other regions.<sup>44</sup> There has been considerable interest in the Danube region in having a similar strategy, and it is very likely that the Danube region will get its own strategy. However, recent remarks by the regional policy commissioner Johannes Hahn suggest that other regions have not managed to articulate their common interest to the same extent that the BSR countries have. Hahn has said that “the Danube regions are developing many projects, but if you ask them how this will bring them closer to their neighbours, they don’t know it very well. They need to identify the important themes – for instance environment, safety or capacity building in their national administrations.”<sup>45</sup>

The case of the Danube macro-region and Hahn’s remarks are very informative and may have implications for the BSR as well. Five points should be mentioned in this respect. First, macro-regions should build upon the already existing successes of regional cooperation and focus on several important priorities, rather than adopting an across-the-board approach to defining priority areas. Second, the economic downturn has made several key EU Member States (the Netherlands being a case in point) less likely to support grand schemes of regional cooperation and development and more in favour of cutting their contributions to the EU budget. Third, if no other regions are capable of following

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<sup>44</sup> Joenniemi P. (see note 7).

<sup>45</sup> EUobserver. <http://euobserver.com/9/29852/?rk=1>. Last accessed on 21 April 2010.

the BSR, then it may indeed establish itself as a model region. On the positive side, this would reaffirm the BSR as the place in the EU with the most advanced regional cooperation. On the negative side, it may decrease the value of the Strategy as an 'experiment', because, most likely, it will not be replicated and applied in other regional settings. Fourth, strategies for macro-regions are being developed because of the recognition that the various EU regions have different problems and potential. This means that different regions require different approaches and strategies. The BSR experience cannot be simply replicated in other regions. There may indeed be similarities between regions, but these will be balanced by the unique characteristics of each region. Fifth, it is most interesting that other regions are ready follow suit and experiment with regional strategies, despite the fact that the Strategy is only in its initial stages of implementation and the full results are as yet unknown.

### **Becoming a region?**

The BSR has come a long way since the end of the Cold War. After a short period of 'mission accomplished' feeling immediately after the EU enlargement in 2004, the region regrouped and again embarked upon the process of becoming a region. However, the orientation of regionalisation after 2004 is different from that which existed in the 1990s. The 1990s were marked by a past-oriented approach of returning to normality. Various regional historical narratives, such as the old Hanseatic League, were revived in order to justify the region's existence and underpin its foundations. Looking for examples in history, however, is risky, because history provides examples of both cooperation and conflict. The same historical events are seen differently in various BSR countries. In Germany the old Hanseatic League is seen as a golden age of trade and commerce, while in other countries it is seen as a period of German economic dominance. The emergence of future-oriented perspectives

on regional cooperation is a sign that attempts to create the BSR with the help of history are a thing of the past. However, instead of seeing this as a failure, it should be seen as an opportunity to build the region with an eye on future.

The orientation of regionalisation has changed, and the BSR has become a future-oriented region, its existence justified more by its potential and problem areas than its past achievements. The EU's involvement in the BSR is widely seen as an asset and a precondition for success, because the EU may provide the right external incentives for furthering regional cooperation. Recent years have shown that internal factors have been insufficient in facilitating cooperation, and so the Strategy, which is a blend of internal and external pressures, may provide sufficient stimuli to release the potential of the region, where 'region-speak' had for a while overtaken 'region-do'.<sup>46</sup>

The implementation of the Strategy is a challenge, and requires policy coherence and coordination between a large number of: policies and priorities (at European, national and regional level), instruments and programmes, partners (public, NGO, private), countries and regions. This requires strong political commitment and preparedness to participate in complex settings of multilevel governance. Although the strong interest of actors from various levels of governance in the Strategy is in itself a positive sign, it is worth posing the question whether any particular actor is currently driving the Strategy. The EP initiated the debate on the necessity of the Strategy, Sweden pushed it onto the EU agenda, and Commission was asked to assume responsibility over drafting the Strategy and the Action Plan. But who is now in the driving seat? If no particular stakeholder assumes this responsibility, it is likely that the Strategy may lose focus.

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<sup>46</sup> 'Region-speak' refers to the tendency to stress the importance of regional identity, while 'region-do' denotes the functional approach to regional cooperation. Functional cooperation precedes development of regional identity.

Additionally, stakeholders should probably reconsider commitment to 15 (or even more) priority areas, because it may be more helpful to have a clear common vision of a limited number of key issues and priorities. The Strategy is a political contract between the EU and its Member States, and the Commission is not ready to go beyond the role of facilitator at this stage of European integration. As a consequence, maximum advantage can be derived from the EC programmes only if the stakeholders have a clear vision of regional priorities. However, if experience of regional cooperation is an essential precondition for making the Strategy a success, in this respect there is no other region in the EU better prepared to have its own strategy than the BSR.

Part I

**IN SEARCH OF NEW MODELS  
OF MACRO-REGIONAL  
GOVERNANCE**





# How to Govern the Strategy? Whether to Govern at all ...

IVETA REINHOLDE

## Where does the story start?

Almost a classic approach to designing any kind of new strategy is to provide specific administrative and implementation mechanisms. At the same time, there is an alternative to the classical approach – not to provide any administrative implementation mechanisms, in the hope that the existing structure will be keen and ready to take up the new assignments. The truth might be somewhere in between.

The Baltic Sea Region (BSR) is heterogeneous, not only in economic and cultural terms, but also in administrative terms and terms of administrative culture. In the countries around the Baltic Sea, there are ministries responsible for territorial development and cooperation between and among different border regions. Several Joint Technical Secretariats have been created for the coordination of cross-border cooperation programmes and programmes dealing with European Territorial Cooperation. National coordinators and priority area coordinators have been assigned within the framework of the Strategy. Finally, flagship projects have been approved. The role of policy coordination, and reporting and implementation of the Strategy<sup>1</sup> has been entrusted to the European Commission, and

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<sup>1</sup> Here and further on regarding the Strategy, please, refer to Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region. Brussels, 10 June 2009; COM (2009) 248 final.

thus the Commission becomes almost the key institution, whose behaviour, attitude and commitment can either facilitate cooperation in the region or hinder it.

At the same time, there is the challenge inherited by the Strategy. The Strategy provides a framework or general outline for the development of solutions for the problems existing in the region. The idea inherited by the Strategy allows the countries, by cooperating, to find the most appropriate and effective solutions for the problems in the region. In fact, the Strategy brings the EU closer to the people, since the countries around the Baltic Sea are enabled to react to problems based on their real needs. However, the challenging point is how solutions will be developed, discussed among stakeholders and finally implemented. Since the Strategy is to be implemented via several programmes and projects, the challenging question is – how will coordination of the actions, programmes and projects be ensured? Therefore, one can ask what kind of administrative coordination and implementation mechanisms are possible within the BSR?

So far, no particular administrative model for governing the BSR has been identified, created or implemented. The EU decided that no new administrative entities will be designed, since there are many administrative bodies in place already. This approach should be welcomed, since claims regarding bureaucratization of the EU and the management system of structural funding are quite common. However, the situation is not as bright as it looks. There is a need to create such an administrative mechanism (model, entity or structure) in order to coordinate the interests of the countries located around the Baltic Sea. Therefore, the aim of the article is to explore the possible administrative models for implementation of the Strategy. In this case, the author has decided to apply pure models, such as the traditional bureaucratic approach, the network approach, the multi-level governance approach and the project management approach, making assumptions about the kinds of implementation conditions that should be acknowledged if one or other model is to be applied. In some sense, this approach is close

to designing scenarios without the intent to implement them. However, at the same time such an approach provides a detailed insight into the strengths and weaknesses of each particular model.

### **What if ... the traditional bureaucratic approach were to dominate?**

The most obvious and easiest way to implement the Strategy would be to create a special agency responsible for it. This would be the easiest way from the bureaucratic and political point of view. In fact, it is not only bureaucrats who create administrative bodies as a reaction to new challenges. To be precise, politicians quite often justify policy failures by the lack of an implementing body. Once the general public requests accountable and efficient policy implementation, claims of over-bureaucratization are very common in political discourse. Essentially, politicians like to create specialized administrative units for particular policy problems or sectors. They also like to claim that there is a lack of administrative units if the general public requests justification for bad implementation or non-implementation of policy programmes. In some way, this 'double game' is quite convenient, since it offers the right justification for almost every uncomfortable policy situation.

Looking from the European perspective, the traditional bureaucratic approach offers simple solutions – to establish an EU agency located in one of the eight countries. The newly-created agency would be directly responsible for implementation of the Strategy and the Action Plan,<sup>2</sup> would coordinate territorial cooperation projects, and, finally, would ensuring monitoring of the Strategy.

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<sup>2</sup> Here and further on regarding the Strategy please refer to Commission staff working document accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region. Action Plan. Brussels, 10 June 2009. COM(2009) 248 final.

The policy coordination role would still be on the shoulders of the European Commission. This is a centralised type of arrangement. A single operating agency would ensure uniformity of actions, would be predictable in its actions and would treat all stakeholders equally.<sup>3</sup> However, once again the issue of how to balance and co-ordinate the interests of all eight<sup>4</sup> countries might become crucial for successful operation of the agency.

However, there is a problem, because the traditional administrative approach foresees that for each new problem or issue a special administrative unit, organization or entity shall be established. Since the Strategy includes nine states bordering the Baltic Sea, this would lead to at least eight coordinating and responsible institutions. Therefore, the issue of how to coordinate all nine institutions would still be open and challenging. If it is a decentralised model, then the European Commission would be forced to invest more effort in coordinating all eight organizations. The European Commission would become a coordinating, facilitating and monitoring body on a supranational level. Institutional commitment to implementing the Strategy would determine the failure or success of the Strategy in the long run. Also, ownership of and affiliation to the Strategy is required. None of the Member States would be able to become owners of the Strategy because it would be complicated, and indeed almost impossible, to force other Member States to contribute equally for implementation of the Strategy. Thus, no authority would be allocated to the Member States, and so the European Commission would have to take up ownership of the Strategy, establishing continuity of actions in the region.

The table below is designed to summarize the traditional bureaucratic approach, pointing out the strengths and weaknesses to be considered if the Strategy were to be implemented under this approach.

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<sup>3</sup> Peters G.B. *The Politics of Bureaucracy*. 4<sup>th</sup> edition. Longman Publishers, 1995, pp. 161–163.

<sup>4</sup> There are nine countries bordering the Baltic Sea. However, only eight are the EU Member States.

Table 1

**Strenghts and weakness of the traditional  
bureaucratic approach**

STRENGHTS	WEAKNESS
One organization is responsible for implementation of the Strategy, so there is the possibility of avoiding administrative fragmentation.	There are many institutions already in place in the region.
It is possible to ensure consistent implementation of the Strategy.	It might be complicated to balance the interests of all eight countries.
In a separate agency it is possible to ensure administrative capacity specially tailored to the needs of the Strategy.	There is a risk of over-bureaucratization of the implementation process. The public may claim that the administrative costs of the agency are high.
The agency would be responsible for coordination of programmes in the areas, as well as for integration of research results into other programmes.	The agency would not be able to ensure integration of the results into the policies of all the countries around the Baltic Sea.

In any case, a decision in favour of a separate agency might be in line with Weber's view that "the great modern state is absolutely dependent upon a bureaucratic basis".<sup>5</sup> Of course, the EU is not a state in the classical notion of the term, but effective operation of the EU and implementation of the Strategy might still depend upon effective operation of the administrative apparatus, whether it is located in Brussels or in the Member States.

<sup>5</sup> Weber M. Bureaucracy. In: *From Max Weber: Essays in Sociology*. Translated, edited and with an introduction by H.H. Gerth and C. Wright Mills. New York: Oxford University Press, 1958, p. 211.

## What if ... policy networks were to dominate?

The BSR can be perceived as a set of overlapping, interdependent and multi-dimensional networks of knowledge-based industries, innovation centres, research agencies, public administration institutions, NGOs and initiatives of local communities. It is already common for universities and research centres to create networks around topics acute for all involved stakeholders. In the light of cooperation, the potential of networks among public administration organizations should not be underestimated, even if it is not usual to discuss a network of public administration structures. Networking can offer some potential benefits if it is properly applied. From the perspective of networking, several levels can be identified: networks of local municipalities, networks of regional-level organizations within countries and networks of national-level organizations in the BSR.

Networks of local municipalities are instruments that have already been applied, since local municipalities are developing cooperation based on their historical cooperation experience, as well as on the economic or social ties among municipalities, in spite of administrative borders. This type of cooperation is also greatly promoted by the cross-border cooperation programmes, where local municipalities are active. At the same time, networks of regions (i.e., regions within a country) are an underdeveloped form. Although for the majority of the countries situated around the Baltic Sea, regions are an important element of the governance levels, in this context Latvia has still not decided which functions will be delegated to the regional level and which will henceforth be implemented at national and local levels.

Finally, there is great potential for networking at the national level. Cooperation among the ministries in the BSR countries should be accepted as a logical way to build policies in the globalised world. This would also be a way to ensure achievement of the objectives of the Strategy in a more coherent and sustainable manner.

From the perspective of networks, implementation of the Strategy would go through all stages of the life cycle so common for

policy networks. Hay and Richards, discussing networks in the British government, point out that networks may be elastic, flexible and dynamic, but at the same time, some networks can be fixed entities with a definite structure.<sup>6</sup> Thus, the operational capacity of networks depends on factors such as: the capacity of the organizations and individuals involved, the complexity of the topic at the heart of the network and the interests of stakeholders.

In exploring implementation of the Strategy in the light of the network approach, the main stages of networks defined by Hay and Richards will be applied. It is assumed that in the case of the Strategy, a wide network consisting of the existing networks and a large number of actors would be created. The first stage of the network is the pre-network stage.<sup>7</sup> At this stage, a wide consultation process with stakeholders is conducted in order to formulate the particular policy programme (i.e. the Strategy). In this stage, the European Commission drafted the first version of the Strategy and ensured consultations in the countries around the BSR.

The second stage is network formation or modification, in the course of which, as Hay and Richards argue, the current network may be realigned to the new conditions.<sup>8</sup> Coming back to the Strategy, the network was formed as a new network with a large number of involved stakeholders and a wide range of issues covered. The establishment of a new network has some positive aspects, such as the involvement of new actors, the introduction of new types of administrative approaches (e.g. flagship projects and round-table meetings). This allows some previously determined positions and interests to be overcome. However, some negative factors and unresolved questions can also be listed. Do the stakeholders really feel that they have an impact upon implementation of the Strategy? Are the stakeholders equally responsible and accountable for

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<sup>6</sup> Hay C., Richards D. The Tangled Web of Westminster and Whitehall: The Discourse, Strategy and Practice of Networking within the British Core Executive. *Public Administration*. 2000, vol. 78, issue 1, p. 3.

<sup>7</sup> Ibid., p. 6.

<sup>8</sup> Ibid.

implementation of the Strategy? Do all the stakeholders have enough resources to conduct the activities? If the first two questions relate more to the role of the stakeholders and their intercommunication, then the last question should really be investigated in the light of the current economic crisis.

Networking in practice is the third stage. As Hay and Richards note, networking is associated with the formulation of new policies and the review of existing ones.<sup>9</sup> Networking as a daily activity involves a large quantity of people brainstorming and sharing ideas for the common benefit. However, networking should also give tangible results. Since networks are flexible and dynamic, role positions are not predescribed to any great degree, which simply means floating decision-making authority. Even if decision-making authority is assigned, there are still difficulties compromising with all involved parties. For the Strategy, this is the most critical point – to find mechanisms to commit all the involved stakeholders to achieve the objectives of the Strategy despite administrative barriers and borders.

To ensure sustainable performance of the network, its members should have a commitment to follow the jointly defined objectives. Once this stage is achieved, then the approach within the Strategy really will be that of a region without borders. Partly, these are administrative borders; partly, they are borders of our previous experience, expectations, stereotypes and mentality. This is the mystical vision of the Strategy: to involve countries and to perceive them without borders. To be realistic, administrative borders exist and will continue to exist, even if the level of territorial cohesion is high because of the territorial cooperation programmes. Secondly, there are economic borders because differences in the conditions of economic development and the level achieved. Thirdly, these are mentally built borders in the consciousness of the people, because of the different past experience regarding EU membership and democracy.

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<sup>9</sup> Hay C., Richards D. (see note 6), p. 7.



Hay and Richards argue that the fourth stage of the life cycle of the network is transformation.<sup>10</sup> In this stage, as Hay and Richards point out, the network adopts and implements the particular policy identified in the previous stage, or else the stakeholders critically revise the objectives of the network in the light of their own interests, and the achieved outputs and outcomes.<sup>11</sup> In the case of the Strategy, it focuses on particular policy areas, such as environmental, maritime, energy or agricultural policy, since these are mentioned as the relevant policy areas. Other stakeholders will revise their goals and form other networks concentrated around specific topics.

The fifth stage is failure of the network. The network is not serving the interests its members and benefitting them; therefore its existence cannot not be justified.<sup>12</sup> The members are no longer committed to contributing their own resources to the activities of the network. To some extent, the stakeholders might feel disappointed in the idea as such, in the activities and the results of the network. The failure of the network is followed by network termination, at a point where the policies may or may not have been implemented, but where the network members are not ready to continue working together.<sup>13</sup> In case of the Strategy, one could hope that failure will never come. However, failure of the network might be connected with three main factors: weak communication of the Strategy and the Action Plan, lack of tangible results and low commitment. The commitment of the stakeholders is the crucial factor, since, if the stakeholders do not see the Strategy as offering added value, they will perceive it as just a piece of paper.

Finally, the last stage of the network is network alignment. Hay and Richards stress that the network is looking for a new track because of external factors (e.g. changes in the political priorities).<sup>14</sup>

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<sup>10</sup> Hay C., Richards D. (see note 6), p. 7.

<sup>11</sup> *Ibid.*, p. 8.

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

For the Strategy, this stage means that the network members, previously so committed and enthusiastic about the Strategy, become opposed to it. Therefore, the initial multi-dimensional network will split into pieces consisting of smaller networks. A scenario is possible where the new networks are based on common interest among countries or regions within the countries. This does not exclude forms of networking with all possible combinations of countries and stakeholders. One thing is clear at this stage: the Strategy is not an element uniting the region, but one that divides it.

*Table 2*

### Strenghts and weakness of the network approach

STRENGHTS	WEAKNESS
The networks are flexible, innovative, and dynamic. Due to their flexible nature, the networks are capable of adapting to challenging situations that might occur in the BSR in the future.	The capacity of the networks very much depends on the capacity of the organizations and individuals involved.
A large number of stakeholders are involved, so a large number of different opinions, visions and ideas can be acquired.	There are problems to compromise on particularly sensitive issues due to the large number of involved stakeholders.
	If decision-making authority is assigned, its power will not in all cases apply to all members of the network. Therefore, some of the decisions can be implemented based on commitment, not authority or 'the chain of command'.
	The lack of a unified approach to problems relevant for the network members and emphasis on some relevant policies may lead to disappointment and low commitment on the part of the network members.

### **What if ... multi-level governance were to be the main element?**

The most important characteristic of multi-level governance is negotiation among various administrative levels and stakeholders. In multi-level governance, all governance levels and all stakeholders are involved in a specific network with mutual cooperation and commitment to achieve certain goals.<sup>15</sup> The Strategy is actually built around a multi-level governance approach, since there are an immense number of stakeholders in the game. The EU and the national level, the regional and local level, non-governmental and intergovernmental organizations, private organizations and experts – all of these are to some extent involved in implementation of the Strategy. However, the main challenge here is: what is the 'glue' keeping all of them on the same track for implementation of the Strategy?

Hoodges and Marks offer two types of multi-level governance. The first type is the governance model of a limited number of stakeholders and exclusive authority for each stakeholder.<sup>16</sup> The second type of multi-level governance is characterized by a large number of stakeholders with different interests and abilities to influence policy.<sup>17</sup> Due to the unlimited number of stakeholders, a local problem can instantly turn into a trans-national problem. At its heart, the Strategy is built around the second type of multi-level governance, with an unlimited number of stakeholders. Therefore, there are possibilities for local community organizations and NGOs, as well as for national level organizations of the BSR countries to be very active and to promote their own interests in respect to the

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<sup>15</sup> Peters G.B. Globalization, Institutions and Governance. In: Peters G.B., Savoie D.J. (eds.) *Governance in the Twenty-first Century: Revitalizing the Public Service*. Montreal: McGill-Queens University Press, 2000, p. 38.

<sup>16</sup> Hoodges L., Marks G. Types of Multi-level Governance. *European Integration Online Papers*. 2001, vol. 5, no. 11; <http://eiop.or.at/eiop/texte/2001-011a.htm>.

<sup>17</sup> Ibid.

Strategy. Moreover, the Strategy specifically mentions an annual forum as an instrument to bring together stakeholders. This provides an excellent opportunity to express concerns, to review the progress of implementation, and to brainstorm new ideas. Still, there are two crucial conditions to be taken into account. First, there is the level of activity of local communities in the region, which in fact differs from country to country. Thus, the most active stakeholders would automatically get more. The second condition relates more to administrative implementation. It is not clear how the ideas of the annual forum will be incorporated into future action plans, and who will have the authority to separate ideas that are relevant from those that are not.

Table 3

### Strengths and weakness of the multi-level governance approach

STRENGTHS	WEAKNESS
A multi-level governance approach emphasises commitment, cooperation and coordination among all stakeholders and all levels of governance.	It may be problematic to compromise among a large number of stakeholders. The consultation and compromise process could be never-ending. The communication process may be hindered.
The increasing capacity of stakeholders at the local and regional level will positively influence the development of regional policies, both for particular countries and for the whole BSR.	The capacity of stakeholders cannot be utilised if the national governments prefer a 'linear' model of policy design and implementation.
The involvement of local and regional stakeholders, as well as local initiative groups will result in increasing abilities and capacities of these stakeholders to communicate with the upper level.	

## The project management approach

In order to analyse the goal of the Strategy, the SMART methodology widely used in project management will be applied. From the perspective of the project management approach, by analysing the goal, it may be possible to identify critical factors that could affect further implementation of the project (i.e. the Strategy). The acronym SMART has been interpreted in several different ways, but according to the most common interpretation 'S' stands for specific and significant, 'M' stands for measurable, 'A' stands for achievable, 'R' stands for realistic and relevant, and 'T' stands for time-based.<sup>18</sup>

For the SMART approach, the following objective of the Strategy is applied: **"The Strategy seeks to provide both a co-ordinated, inclusive framework in response to the key challenges facing the Baltic Sea Region and concrete solutions to these challenges"**.<sup>19</sup>

Analysing the objective from the perspective of 'S or specific', the objective is clear to anyone who reads it and specifies the intention to respond to the key challenges facing the BSR. One can question how the key and the non-key challenges are identified and defined. The Action Plan includes a wide range of activities. The 15 priority areas cover all possible policy fields. It is quite hard to find a priority that would fulfil at least one condition – that the priority is unique to the BSR. Therefore, the author of this article has a suspicion that the Action Plan was not elaborated as a separate document to achieve the goal stated in the Strategy. Furthermore, it is a document based on compromises, where everyone can find something relevant to themselves. At the same time, such a format of the Action Plan is comfortable for justification in case of non-implementation, especially if guidance is provided by the Directorate-General for

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<sup>18</sup> RapidBI Limited. *How to write SMART objectives and SMARTer objectives*. <http://www.rapidbi.com/created/WriteSMARTobjectives.html>. Last accessed on 1 June 2010.

<sup>19</sup> Communication from the Commission to the European Parliament.... (see note 1), p. 3.

Regional Policy, and if the national contact points in the respective countries are required to address these issues.

When it comes to 'M', the primary focus is on measuring progress in implementing the Strategy. In some respects, measurement of progress can be conducted if specific criteria and actions are listed. Also, the criterion 'M' foresees that the general public and stakeholders know what has been achieved already and how long the way to completion is. Evaluation of the Strategy in terms of achievability depends on the agreement of stakeholders on the objective of the Strategy. In this case, the European Commission had charge of the consultation process, where all stakeholders were informed on the ideas behind the Strategy, and could provide expertise for improving the Strategy. The criterion 'A' also involves assessment of whether the objectives set are achievable. This means, whether it is possible to make the BSR an environmentally sustainable, prosperous, accessible and attractive region, as stated in the Strategy. The two criteria 'M' and 'A' are analysed together, because the measurable objective can also be the achievable objective. The Action Plan 2009 of the Strategy lists ongoing and planned projects in the spheres covered by the Strategy. In order to identify the key actions for addressing the most acute topics in the BSR, it is necessary to consider the strategic and cooperative actions listed in the Action Plan. Thus, all completed projects and all started projects are indicators of the achievement of the Strategy. However, neither the Strategy nor the Action Plans provide a clear indication of what will be the future measurable conditions to be achieved. Thus, it seems very realistic to the author of this article that all of these actions could either be implemented separately or placed under another 'umbrella' strategy.

'R or realistic' is the criterion for evaluating whether it is possible to achieve the objective within the framework of the available resources, time and knowledge. Since the Strategy is to be implemented within the current financial framework, this simply means that all activities should be performed without additional budgetary allocations. In reality, the current economic situation and severe

budgetary cuts in the Baltic States would also result in a reduction of the resources available for the Strategy.

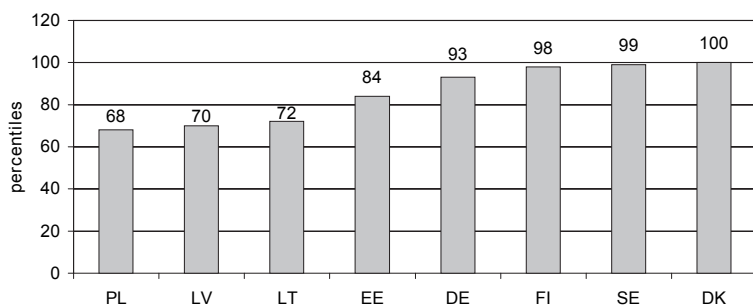
Finally, time limits have been set for ongoing and planned projects. However, it is not clearly stated when the majority of the actions foreseen should be accomplished and what state of affairs should be achieved by 2015, 2020 or maybe 2030. The lack of clear milestones could negatively affect the implementation process in a way that the starting point or completion of actions may be postponed because of internal or external factors and changing priorities.

### Facing the reality

There is a simple reason why the four models above were explored. In some context, each of them relates to the Strategy. The traditional bureaucratic model was explored because the implementation of policies in the EU and the Member States is still organized according to these principles. Networking allows all the levels – public and private actors, national and local levels – to work together and generate solutions targeted at resolving challenges. Networks bring together people, structures and ideas, which is difficult to achieve in the bureaucratic model, since structures sometimes dominate over people. Multi-level governance is an EU invention, bringing together all levels of governance in a network of commitment. All of these models relate to implementation of the Strategy. The fourth approach – the project management approach – was utilised to analyse the goal of the Strategy in order to find out how coherent, measurable and achievable it is.

Theoretically, it is possible to apply all of the governance mechanisms mentioned above in implementing the Strategy. However, implementation of the Strategy depends very much on the administrative capacity available in the country. Networks and stakeholders can implement actions within the defined frameworks, but only governments together with the European Commission can

provide a broader scope of direction.<sup>20</sup> Due to the fact that the larger proportion of activities relating to the Strategy are still on the 'shoulders' of the national governments, the capacity of the governments should be explored as well. As stated by Karnītis (this volume), the countries of the BSR have achieved a level of knowledge higher than the EU average level. Thus, the main challenge is to utilise this knowledge with maximum benefit for the region, the country and the local community. Therefore, we come to the question regarding policy implementation capacity in the region in general and in each particular country. Government effectiveness, as one of the six dimensions of the governance indicator, reflects the public perception of the quality of public services and civil service in the country.<sup>21</sup> It also gives an insight into the quality of policy formulation and policy implementation.



*Figure 1. The dimension of governance – government effectiveness, 2008.*<sup>22</sup>

<sup>20</sup> Peters G.B. (see note 15), p. 39.

<sup>21</sup> For more see: Kaufmann D., Kraay A., Mastruzzi M. Governance Matters VIII. Aggregate and Individual Governance Indicators 1996–2008. Policy Research Working Paper 4978, the World Bank Development Research Group Macroeconomics and Growth Team, June 2009.

<sup>22</sup> The Worldwide Governance Indicators (WGI) project <http://info.worldbank.org/governance/wgi/pdf/wgidataset.xls>. The whole scale is divided into the percentiles: 0–10th percentile, 10th–25th percentile, 25th–50th percentile, 50th–75th percentile, 75th–90th percentile and 90th–100th percentile.



Government effectiveness is measured on a scale of 1 to 100, where 100 actually indicates the best result or, in this case, the highest level of government effectiveness. In fact, the countries of the BSR can be divided into the three groups. Sweden, Finland, Denmark and Germany constitute a group with the highest capacity to implement policies. Estonia comes next, while Latvia, Lithuania and Poland are in the 50th–75th percentile. The figure clearly shows that capacity to implement policies differs very much. Based on this, we can draw some conclusions regarding the capacity to implement the Strategy as well. The capacity to implement the Strategy and the time devoted to implementation of the Strategy will most probably be on the same level as for national policies in the respective country. Taking into account the different capacity of governments around the Baltic Sea and their levels of commitment to implementing policies, there is great potential for networking and multi-level governance to ensure achievement of the goals of the Strategy.

### Final remarks

In spite of all the criticism, the Strategy is necessary due to several factors. Firstly, the Strategy has pushed the states to talk, to communicate their own interests and compromise. This is not an easy task to perform, since each country is unique and different, in terms of its political system, its administrative model and the ways of administrative communication. Secondly, the Strategy has pushed forward the issue of a vision of joint development – not clearly spelled out, but a vision nevertheless. The idea of uniting the states located around the Baltic Sea on the basis of a common care for the environment relates not only to healing of the sea and its ecosystem. It involves a new type of identity, to be defined politically, administratively and economically. Thirdly, the Strategy provides a contribution to building the commitment to regional cooperation.

In fact, it is possible to provide a whole list of all kinds of organizational entities which should be responsible for all the necessary

inputs to the BSR, so that all countries will benefit from it. However, practical implementation is a very different matter than well-defined organizational statutes and strict division of institutional responsibilities.

At the moment, the Strategy is at the crossroads, like Alice at the crossroads where she met the Cheshire Cat and asked the way. The actors involved in implementation of the Strategy may already ask where the Strategy is leading the region. Neither the Strategy, nor the Action Plan provides a clear picture of the future of the BSR in tangible and measurable units. There is the possibility of establishing a single implementing agency, even though there are already many institutions in place in the region. The policy-makers should answer the main question: is it better to create a supranational agency to ensure coherent implementation of the Strategy or to try to utilise existing institutions, taking into account diverse levels of administrative capacity.

There is the possibility of creating a network of at least eight stakeholders and a lot of sub-networks. This approach would make it possible to acquire a large number of opinions and ideas. However, implementation of decisions in the networks might be problematic, because not all decisions can be implemented based on commitment only.

There is the option of following the multi-level governance approach, where negotiations and commitment are the key concepts. Implementation of the Strategy depends very much on the commitment of stakeholders, which can lead either to success or to breakdown.

In order to make an administrative entity function, some kind of force is needed. But the spirit of the Strategy mostly facilitates, rather than imposing sanctions for non-implementation. This is a 'soft' strategy, based on goodwill, commitment and partnership. Goodwill and commitment may bring results in the long term. But in the short term, governance mechanisms are very important to ensure proper implementation of the Strategy.

# Designing National Governance for Macro-Regional Strategy<sup>1</sup>

ŽANETA OZOLIŅA

European politicians and experts have presented the European Union's Strategy for the Baltic Sea Region<sup>2</sup> (the Strategy) as a success story. Many authors of this book also refer to the enthusiasm behind the Strategy which was prevalent during the elaboration process. Indeed, the European Commission (EC), the European Parliament and EU Member States, particularly those from the Baltic Sea Region (BSR), demonstrated their ability to put forward innovative ideas and tools which correspond to the demands of the post-enlargement realities, increased European integration and globalization. However, the real success of the Strategy should be measured by its results, and its impact on further developments in the BSR and on Europe's ability to cope with increasing tendencies of regionalisation. Such an evaluation cannot be conducted only

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<sup>1</sup> I would like to express my sincerest gratitude to those civil servants from Latvian ministries who spared time and showed interest in sharing their knowledge and experience. Their responsiveness and openness helped to build the analysis presented in this article. Particularly I would like to thank Ilze Juhansone and Anda Catlaka from the Ministry of Foreign Affairs whose observations and thoughts were valuable for putting together different perspectives and helped not to lose the focus of the study. Only one senior civil servant did not respond to the interview request, whom I also thank for indicating how relevant the Strategy is for the respective Ministry.

<sup>2</sup> The European Strategy from the Baltic Sea Region. European Council, 29 October 2009. [http://eu.baltic.net/Baltic\\_Sea\\_Region\\_Strategy.7428.html](http://eu.baltic.net/Baltic_Sea_Region_Strategy.7428.html). Last accessed on 19 May 2010.

one year after the adoption of the strategic document. But analysis of the first steps of implementation and how it is being organized and executed by Member States and EU institutions can be monitored in order to introduce necessary corrections or improvements as needed.

The aim of the article is to investigate how the national, namely, Latvian public administration structure is responding to the Strategy at the initial stage of introduction and implementation. Analysis of the existing situation, even if it refers only to the first year of activity, will help to identify achievements and best practises, as well as problems in further execution of the Strategy. In addition to this, the Latvian case study will offer knowledge necessary to those interested in conducting comparative studies using the experience of other macro-regions. Unfortunately, in view of the aim of the article and editorial limitations, I cannot dwell upon the experiences and systems chosen by other countries. In the course of the research information was collected from other countries as well, proving that each case is individual. There is no single or unified pattern of national governance which could be announced as the most appropriate for management of the Strategy. The study of the Latvian approach to the Strategy will presumably provide knowledge on national response to macro-regional initiatives and will help to move the Strategy forward from papers to action, leading in the end to a more coherent region. The information gathered will hopefully be exploited by policy-makers in order to assess and improve governance of regional endeavours in which Latvia is involved.

The study is based mostly on interviews with civil servants involved in the Working Group (WG) responsible for the coordination and implementation of the Action Plan, established in August 2009 by an order of the Prime Minister.<sup>3</sup> In total, 12 civil servants from the most relevant ministries were interviewed. It is worth mentioning

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<sup>3</sup> Par darba grupas izveidošanu, 18 August 2009. <http://www.mk.gov.lv/lv/mk/tap/?pid=40140122&mode=mk&date=2009-08-18>. Last accessed on 25 March 2010.

that I have been studying and following regional cooperation tendencies in the Baltic Sea area since the early 1990s and this means that the accumulated knowledge will serve as background information and at the same time as a framework for situating the gathered information. The article is divided into four sections. The first is devoted to the state of affairs with respect to regionalism in Latvia, as a departure point for new initiatives. Since the country has been involved in regional cooperation activities from the very beginning of 1990s, it is worth singling out the most relevant tendencies and patterns of cooperation with relevance to the Strategy. The second section will focus on the system of coordination chosen by the Latvian government. The third section of the article will be devoted to an analysis of achievements and constraints that became visible in the first year of the implementation process of the Strategy. In the fourth section of the article the main areas for improvement are presented. The conclusions will be expressed in the form of recommendations and suggestions that could improve the overall implementation of the Strategy.

### **Does regional experience matter for the new Strategy?**

Latvia has accumulated significant experience in regional cooperation in the last two decades. Latvia, as well as its neighbours Lithuania and Estonia, benefited from participation in the economic, political, environmental and civil networks established in the BSR in the aftermath of the Cold War. From the very first years of independence, regional cooperation was a tool that fostered democratization, introduction of a free market economy, and the building of democratic institutions and public administration in these countries. The oft-used term ‘Baltic success story’ is a demonstration of the joint efforts of the Baltic nations and their neighbours in pooling resources in order to achieve strategic objectives, namely, EU and NATO membership status for these three post-communist countries. The essence of cooperation in the Baltic

Sea area since the beginning 1990s was concentrated on and around European and transatlantic integration endeavours, thus ensuring rapid transformation of the three countries and the region itself. One can argue that accession to the EU and NATO was sound and efficient because of the goal-oriented regional cooperation, with the direct involvement of all interested countries. The same holds true with respect to Denmark, Finland and Sweden, whose assistance to Estonia, Latvia and Lithuania was likewise driven by European integration. Most importantly, the regional cooperation taking place in the Baltic Sea area in last two decades has been present at the national, sub-regional, sectoral and societal levels. Thus, the Baltic Sea area became an asset for further cooperation, which was challenged by post-EU enlargement realities.

Although the experience of regional cooperation in general is there, it does not automatically guarantee the successful implementation of the Strategy now initiated and adopted. This cautious attitude derives from the fact that this time we are talking about a different model of regionalisation than was known before. The regions that were formed in the beginning of the 1990s were aimed at “helping to overcome the Cold War divisions in Europe, assisting states to integrate with the EU and NATO, softening the inevitable tensions generated by EU and NATO enlargement, encouraging reforms in post-communist Europe and addressing transnational policy challenges.”<sup>4</sup> Regionalism within the EU has a different logic – it is targeted at cohesion and deeper integration. The Strategy initiates a different type of regional framework, a so-called macro-regional approach, which aims at pooling available EU sources and raising regional competitiveness on a European and global scale. New regionalism consequently needs new governance models and structures.

The general positive experience accumulated during the last two decades does not appear to be a guarantee of successful cooperation

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<sup>4</sup> Cottey A. Sub-regional multilateralism in Europe: an assessment. EU4seas papers. 2009. <http://www.eu4seas.eu>. Last accessed 26 April 2010.

in all sectors. The ambitions, pace, and commitment to regional cooperation differs from ministry to ministry, depending on their prior involvement in regional matters. The material collected during the interviews permitted clear identification of three prevalent types of attitudes towards the new spin of regional cooperation. Previous experience has played a substantial role, but not a linear one. Thus, for instance, those ministries which were directly involved in promoting regional cooperation in the BSR and had kept up with the current pace and essence of cooperation were more positively predisposed to the Strategy than those which have had fragmentary or limited involvement. The first group consists of those ministries with long-lasting experience, whose daily performance is based on regular regional interconnectedness. One of the front runners in this group is the Ministry of Environment (MENV), which has been actively involved in HELCOM networks and programmes from the early 1990s. Therefore, regional cooperation under the new Strategy was supported from the very beginning. Environment is a sector with very intensive regional networking in policy planning, joint endeavours and policy coordination. The same applies to the Ministry of Regional Development and Local Government (MRDLG), where regionalisation habits have been inherited via the various EU-financed programmes, such as Interreg, Cross-Border Cooperation activities, and many others. Another obvious example is the Ministry of Interior, with well-developed collaboration projects in the fields of border control, drug trafficking, human trafficking, illegal immigration and organized crime. All these joint endeavours are driven not only by regional, but also by European interests.

However, the most experienced ministries expressed some doubts and criticism about the Strategy, thus demonstrating maturity instead of blank and emotional enthusiasm in support of the Strategy. The most often raised doubts related to the added value of the Strategy. If there is accumulated experience, if close ties with regional players already exist, if there are on-going collaborative projects, initiatives and programmes, then why is the Strategy needed?

The second group of ministries consists of those that have rich experience, but have had some periods of interruption for various reasons (priorities, finances, regional disparities, etc.). One very vivid example is the Ministry of Education and Science (MES). The reform of the Latvian education system after the end of the Cold War was carried out with the direct support and strong involvement of regional countries, mostly Denmark, Finland, Sweden and Norway. Even today, among the cooperation agreements signed by the universities and institutes, the largest number involve the countries of the BSR.<sup>5</sup> On the other hand, regional cooperation in the field of education and science was based on providing assistance to less developed countries and sectors, instead of building long-term sustainable cooperative networks contributing to this field, to the region and to the competitiveness of individual countries. Therefore, the closer the Baltic States approached the historic day when they become members of the EU, the less enthusiasm there was in the field of education and science. The Strategy puts an innovation-driven and knowledge-based economy in the front line of the region. This provides a background for the hope that cooperation networks once established, but forgotten for certain reasons, will be reanimated and brought into effect for common benefit.<sup>6</sup> The proposal to introduce a Baltic Knowledge Area (BKA), presented by Edvīns Karnītis in this book, is a demonstration of the return to accumulated experience and established networks that could serve for mutual benefit and result in a higher level of regional competitiveness on the global scale.

There are interesting cases from the ministries of the second group, which indicate the duality of the existing interconnectedness

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<sup>5</sup> According to the data of the Latvian Ministry of Education and Science, 977 out of 1591 foreign students in Latvia are from the countries of the Baltic Sea Region; 496 out of 1176 Latvian students obtaining their education abroad are studying in one of the region's universities. <http://izm.izm.gov.lv/registri-statistika/statistika-augstaka/parskats-2009.html>. Last accessed on 23 May 2010.

<sup>6</sup> See the article by Edvīns Karnītis in this book.



of several sectors. This group of observed policies also demonstrates the same pattern as in the first group: experience and knowledge of regional cooperation does not automatically guarantee the sound expansion of collaboration. Quite the opposite, this can cause hindering effects. For instance, the Ministry of Finance (MF) is involved in regional cooperation as a horizontal entity, ensuring coordination of the performance of all ministries regarding the absorption of financial resources. In that respect the MF is the most experienced in terms of policy planning and absorption capacity. During the interviews it became clear that a single country has to deal with overlapping regional structures, which are not always functioning in unison. For instance, the MF reports on the already-existing close ties with its Estonian and Lithuanian counterparts, and this can contribute to the Strategy in the long run. But at the same time, it was indicated that there are different types of regional cooperation patterns at the level of particular sectors, and these could contradict the position of the MF.<sup>7</sup> Another example of regional overlapping and possible confrontation is the fact that on the regional level cooperation with the Nordic Countries is not as strong as within the EU. One of the main obstacles to stronger cooperation is the existence of differences in taxation systems within the Baltic Sea area.<sup>8</sup>

The same paradox was mentioned in answers by the representative of the Ministry of Welfare (MW). On the one hand there are already-existing collaboration activities with regard to social policy-making, but the Laval case<sup>9</sup> has left a big imprint on further relations

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<sup>7</sup> Interview with Aleksandrs Antonovs, Ministry of Finance, 22 February 2010.

<sup>8</sup> Ibid.

<sup>9</sup> The Latvian company *Laval* was providing construction services in Sweden. Swedish trade unions invited the company to sign the collective agreement based on the Swedish regulations, which the company refused to follow. The contradicting positions led to political actions from the trade unions, and *Laval* was not able to accomplish their tasks. A long range of political and judiciary actions followed starting from 2004. According to Article 49 of the EU Treaty, the Swedish position contradicted the principle of free movement of services, as well as Directive 96/71/EC. As a result, the ECJ, in 2007, decided that Swedish trade unions violated the Community Law.

with the Scandinavian welfare countries. Free movement of labour as one of the freedoms of the EU, which became one of the tendencies prevalent in the region, has both positive and negative effects, raising concerns that Latvia is exporting its labour to the region, but is not seeing an immediate result at the national level. Therefore, the Strategy provides a wider framework for enduring cooperation than existed before. Priorities based on previous experience – employment, safety, the labour code, a network of social partners, free movement of labour (even if in the short-term perspective it is perceived as emigration) – could bring positive results, strengthening the region, ensuring its growth and providing opportunities for inter-regional movement of labour.

Even if criticism regarding the Strategy is present in the interviews, the overall attitude is based on a clear vision that the Strategy has potential in the long run and that the results will be dependent on the commitment of all involved parties, including the EC.

The third group of ministries consists of those institutions that have been more oriented towards project-based cooperation, but have sometimes lacked a wider regional context regarding the benefits for this particular sector. For instance, the Ministry of Health (MH) is focused more on projects which have already been implemented within the Northern Dimension (ND) framework with the participation of Russia and Canada.<sup>10</sup> A dual attitude is also present in the Ministry of Transport (MT). On the one hand, with regard to maritime issues, the ministry is very much integrated into regional networks, but on the other hand, in terms of transport and communication, the MT is more interested in the west-east dimension, instead of the BSR.<sup>11</sup> For this group a wider context – a real strategy – is needed, rather than a list of projects, in order to foster a comprehensive approach to regional networks and resources. A more forward-looking framework will boost sectoral and cross-sectoral collaboration.

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<sup>10</sup> Interview with Sanita Sivicka, Ministry of Health Care, 4 March 2010.

<sup>11</sup> Interview with Inta Rozenšteina, Ministry of Transport, 4 March 2010.

The diversity of attitudes within the ministries is a background that influences the models of national governance of the macro-regional initiative. Therefore, the next section of the article will focus on how Latvia is dealing with the above-mentioned diversity and how coherent management of the Strategy is ensured.

### **Building Latvia's management system for the challenges of macro-regional governance**

Latvia, as all the other countries of the region, has had to find its individual route to the new governance models of macro-regional realities that are needed in connection with the adopted Strategy. At the very beginning, the country had three scenarios or possible models of national coordination, which were discussed among policy-makers. The first option was based on the assumption that the Ministry of Foreign Affairs (MFA) should act as a contact point and main mediator of national policies on the EU level. The second proposal was based on the principle of rationality: a small, but focused working group would be established, including the leading ministries, in order to coordinate the overall process. The big three were named: the MFA, the MRDLG and the MF. The third option derived from the inclusive character of the Strategy itself, which demanded the inclusion of all ministries and social partners. Preference was given to the third option for the following reasons: 1) the WG, through its members, should ensure that the Strategy becomes an integral part of policy-making in all sectors of national policy; 2) the principle of involvement is the best practice for developing regional habits and instincts on the national level; 3) the elaboration and introduction of a nationwide networking scheme of regional activities can help sub-national actors to become more integrated in the already-existing Baltic Sea regional networks; 4) the inclusive character of the WG would increase the participation of different stakeholders in coordination and planning activities, thus creating

a sense of regional ownership; 5) the regular exchange of information among the WG members assists in sustaining a wider understanding of what the Strategy is about and what its goal is; 6) wide representation can raise regional components in national policies and have a bigger impact on the regional component in collaboration with partners.

The national response to governance of the Strategy started later than the public debate initiated by the EC on the draft of the document. When asked about ministries' involvement in drafting and discussing the Strategy, the most frequent answer was that it started when the ministries were requested to present the sector's input into the national position. This means that the ministries were not active participants in the wide consultation process defining the overall framework of the document, but joined later, responding to the already-existing position paper.

Only a few, like the MF, the MFA and the MRDLG, as the leading ministry in charge of development planning in Latvia, were more actively involved in the creative and innovative exercise. Late involvement and a sometimes hesitant attitude were the result of the lack of clear definition of the role and essence of the Strategy itself, which sometimes characterised its presentation by the EC. The not-very-long history of relations between Latvia and the EC has been based on well-defined policies and approved financial instruments, as well as elaborated programmes and action plans. The practice of drafting strategy jointly by all stakeholders, including the non-governmental sector and business community, was a new endeavour not only for the EC, but for the Member States of the region as well, requiring non-traditional methods and tools of policy planning. This uncertainty was mentioned as one of the arguments by the interviewed civil servants. Pēteris Vilks from the MRDLG clearly described the first reaction after the Strategy was presented. The main issue that bothered policy-makers was this: what can Latvia get from the Strategy? What makes the Strategy different from other inter-regional activates that have been put at place already? At the very beginning it was almost impossible to

receive well-elaborated answers to the question of what hindered more enthusiastic participation.<sup>12</sup>

After posing the initial question, regarding benefits from the national perspective, at a later stage some of the ministries applied the already-existing regional cooperation experience. An interesting case was presented by the MENV. The ministry, which is well-connected into regional affairs, joined the process on a national level when Latvia's position on the Strategy was discussed.<sup>13</sup> But what makes the MENV different from the others is that a wide consultation process took place within HELCOM. Environmental issues concerning NGOs and HELCOM were considered in all stakeholders' conferences. Thus, the ministry received input from social partners and international organizations even before it was requested from national players. The ministry's position was coordinated with the already-existing and adopted HELCOM Action Plan, thus, eliminating the overlapping of activities and initiatives that would have occurred, had the MENV acted in a narrow national framework.

The representative of the Ministry of Interior (MI) also considered that this kind of reaction had been present at the very beginning. As Jānis Bekmanis described, the first reaction had been that the Strategy is one of many already-existing papers produced by the EC, with limited impact on the state of the affairs.<sup>14</sup> But as they gradually became more involved in drafting the national position and in consultations with their counterparts, and after posing the rhetorical question of why the Strategy was needed and what the substance of it would be, it became obvious that the Strategy, rather than being a compilation of existing projects, has a greater element of long-term thinking.<sup>15</sup> The core of the document is a search for new forms of governance of the enlarged EU; it is a search for

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<sup>12</sup> Interview with Pēteris Vilks, Ministry of Regional Development and Local Government, 24 February 2010.

<sup>13</sup> Interview with Baiba Zasa, Ministry of Environment, 26 February 2010.

<sup>14</sup> Interview with Jānis Bekmanis, Ministry of Interior, 23 February 2010.

<sup>15</sup> Ibid.

a balance between the disproportionate impact of big countries and the necessity of giving a voice to smaller and less powerful countries; it is a search for more efficient and proper use of limited financial resources for regional development and increased cohesion;<sup>16</sup> it is a quest for political solutions that offer a balanced combination of common interests and those of individual countries; it is a search for new modes of coordinating regional priorities and making them work for the EU.<sup>17</sup>

One more reason why Latvian institutions reacted with a certain reluctance derived from the financial situation in the country, when many programmes and even policies had been cut or even stopped due to the budget cuts. The Strategy was proposed when Latvia was not facing the most dramatic phase of the crisis. But at the moment when the Strategy was adopted, it became obvious that the enthusiasm that had slowly, but inevitably built up would be replaced by radical budgetary implications. At that time, a survival regime came to dominate over initiatives for the future of the region.

### How does the coordination system in Latvia function?

During the interviews it became obvious that there is general agreement that the existing coordination mechanism is functioning well. The WG serves as a place for coordination and exchange of information with regard to the implementation of the Strategy. At the same time, some relevant conclusions for further considerations can be drawn. The problems that were identified by the members of the WG can be categorized into the following groups: financial, governance and ownership.

<sup>16</sup> Graudiņš R., Krūma K., Ozoliņa Ž., Pelnēns G., Rostoks T. *Baltic Sea Region after the Enlargement of the European Union: Future Prospects*. Rīga: Zinātne, 2006, p. 16.

<sup>17</sup> Interview with Jānis Bekmanis, Ministry of the Interior, 23 February 2010.

Almost all interviewed civil servants referred to the fact that the MF has become a focal point of the WG, because each meeting starts with financial issues – or, more precisely, with the lack of finances, which leads to more project-based discussion, instead of policy- and future-oriented debate. For the reasons already mentioned, it is understandable why financial issues dominate. On the other hand, the WG is a structure which has the capacity and intellectual potential allowing it to look ahead and forecast the situation beyond the limits set by the financial crisis. An exercise aimed at drafting a vision of what to expect from the Strategy would help to apply a more coherent, cross-cutting approach to the existing and foreseen activities, which in the end would help to find better ways of utilizing the existing EU financial resources. The dilemma of what comes first – the money or the idea/project – is not very fruitful if it is based on just one assumption, namely, money first. The history of the EU features numerous examples of how EU funds have been wasted because of a lack of strategies. Implementation of the Strategy is an excellent opportunity to exercise the other option of the dilemma – the idea/project first.

One of the questions raised during the interviews was targeted at finding ways of how to improve the governance of the Strategy. Almost all ministries referred to the lack of clarity as to how to measure which projects are relevant to the Strategy. Pēteris Vilks from the MRDLG praised an open approach to the Action Plan, but also underlined that national coordination is difficult, because there is no clear understanding of how to measure proposed projects and what other Member States are interested in.<sup>18</sup> The different states have different attitudes towards the Strategy and national coordination systems, which in the end has a negative impact on maximum use of the Strategy.

Taking into consideration the inclusive character of the Strategy, it was mentioned as a critical point that representation of the

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<sup>18</sup> Interview with Pēteris Vilks, Ministry of Regional Development and Local Government, 24 February 2010.

social partners in the WG is limited. Thus, the MENV was critical about the insufficient participation of NGOs in the work of the WG. The Strategy as such is very much about networking an expanded number of stakeholders. But at the same time, only one social partner has been included, namely, the Employers' Confederation of Latvia (ECL). Therefore, it is a legitimate question to ask: why this particular organization? In comparison, in the field of environmental protection there are more experienced NGOs, better rooted in regional matters, but they are not part of the WG.<sup>19</sup> The limited range of social partners undermines the inclusiveness of the WG. On the other hand, the argument that each body has its limits does hold true. But the privilege given to one organization, even if it is one of the most experienced, raises the question of why this one, but not the others. One solution would be the creation of an alliance or forum of NGOs, which would delegate this function to a leading institution. Otherwise, the mandate of the WG will be challenged. The view of the MES corresponds to that of the MENV, praising the performance of the WG. However, one of the criticisms relates to the limited knowledge of the MFA of different sectors and their specific needs and problems. More involvement of experts and social partners with niche knowledge would enhance the overall discussion and knowledge about the issues addressed.

One of significant issues for consideration is that at the very beginning it was not clear what the mandate of the WG would be and what kind of representation is needed for this body. For instance, the representative of the MI highlighted a very important issue that had an impact on the effectiveness of the WG. It was not clear how each ministry appointed their representatives and what their mandate was. In some cases they are representatives from the policy planning section, but with limited power to discuss and decide on policy-relevant matters, while in other cases they are specialists from the international cooperation units. The organizational culture of the individual ministries also matters. In some

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<sup>19</sup> Interview with Baiba Zasa, Ministry of Environment, 26 February 2010.



cases, networks are the most efficient tools for regional cooperation (MW), while in others formal regulations play a major role.<sup>20</sup> During the process it became obvious that regional policy in the BSR is coming to play a bigger role, and therefore the MH, which had initially placed in the WG a civil servant dealing with cooperation projects in the BSR, after being faced with more political issues, also involved a representative from the Department of International Cooperation in the affairs of the Strategy.

An argument raised by the MRDLG is worth mentioning, considering and taking seriously: the WG has to expand its functions and performance, increasing the proportion of discussion related to the future and policy-relevant topics, instead of the project-motivated agenda, which prevails at the moment. Otherwise, the WG can turn into a project management agency or a reporting unit, and the opportunity of becoming a shaper of the macro-regional agenda will be wasted.<sup>21</sup> A similar warning signal was raised by the Ministry of Agriculture (MA): although positive about the present performance of the WG in general, it sees a danger in the probability that the WG could become a reporting group on achieved results, and that policy-relevant issues will be transferred to the EC. Jānis Briedis suggests promoting more political discussion, otherwise a wider framework picture will be missing.<sup>22</sup> Reference to the very limited discussion on the future of the Strategy has been raised by almost all the civil servants. But in order to develop political discussion on the Strategy and its future, at least three preconditions should be met: a) nationwide agreement that the Strategy is one of the priorities; b) sectoral commitment to the Strategy, with clearly defined priority areas; c) a mandate that directs the WG to expand its functions from simply an entity coordinating projects to a policy-shaping unit.

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<sup>20</sup> Interview with Jānis Bekmanis, Ministry of the Interior, 23 February 2010.

<sup>21</sup> Interview with Pēteris Vilks, Ministry of Regional Development and Local Government, 24 February 2010.

<sup>22</sup> Interview with Jānis Briedis, Ministry of Agriculture, 8 March 2010.

One of the proposals put forward by the MES was targeted at the creation of a clear division of labour among the governing bodies. The proposal stated that the MRDLG should perform at the domestic level and act as a national coordinator, while the MFA would be in charge of national representation at the EU level.<sup>23</sup> Stronger and more active participation of the MRDLG, with greater responsibilities with regard to management of the Strategy, was mentioned by several ministries. This is a particularly interesting observation in the context of the ongoing 'structural' reforms in Latvia. One of the proposals for making the reform more effective involved dissolution of the MRDLG and redistribution of its functions among other ministries. Not going into the details of the domestic political discussion regarding this subject, it is nevertheless an obvious conclusion from the interviews that there is no other ministry in the Latvian public sector that would take on responsibility and also leadership in regional development issues at the sub-regional and macro-regional levels. Thus, a well-intended structural reform initiative could play a negative role with regard to implementation of the Strategy.

The MW argued that sound implementation of the Strategy would be ensured if there were a clearer understanding of what regional organizations are doing in terms of this new initiative.<sup>24</sup> Since the ministries are involved in national representation in these organizations, national coordination and or regionally-minded discussion within these organizations would help to improve the state of affairs. For instance, Latvia is holding the presidency of the Baltic Assembly and the Baltic Council of Ministers, but the public profile of the Strategy during this period has been low.<sup>25</sup>

Another critical issue relates to cross-ministerial cooperation. The only ministry which responded in a way that involves cooperation with all the other ministries with regard to the Strategy, for an

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<sup>23</sup> Interview with Dace Ratniece, Ministry of Education and Science, 18 February 2010.

<sup>24</sup> Interview with Ineta Tāre, Ministry of Welfare, 18 February 2010.

<sup>25</sup> See the article by Marika Laizāne-Jurkane in this book.

obvious reason, is the MF,<sup>26</sup> while the others have limited experience and practice in cooperating with each other. Even though all the interviewees mentioned several ministries which they cooperate with, the pattern was not reciprocal, which demonstrates that inter-ministerial cooperation as a cross-sectoral pre-requisite is not functioning in full capacity, to put it mildly. For instance, the MRDLG singles out the MT in particular, but does not mention the others.<sup>27</sup> However, other ministries pointed to the MRDLG as central for better implementation of the Strategy. Probably, the domestic political debates on the future of the ministry served as a demotivating factor with regard to taking more responsibility for macro-regional governance. The MI mentioned very specific forms of collaboration, such as with Customs, under the MF, and on safe tourism issues, under the Ministry of Economics (ME).<sup>28</sup> The MW indicates good cooperation with the MH in the fields of human trafficking, drugs and rehabilitation programs, whereas the ME is left out of the scene.<sup>29</sup> The Ministry of Defence (MD) has accumulated experience in collaborative actions with the MI with regard to border control, crisis management and civilian capabilities, and also with the MENV, but the MFA is left outside the picture.<sup>30</sup> The MES is putting emphasis on the elaboration of study programmes in cooperation with the MW and the MH, while the MI and ME are important in the field of innovation, and the MRDLG is a partner under the cross-border cooperation scheme.<sup>31</sup> The MENV underlined cooperation with the MT, the MA, the MRDLG, the MES and the MF;<sup>32</sup> the MH indicated the MRDLG, the MF and

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<sup>26</sup> Interview with Aleksandrs Antonovs, Ministry of Finance, 22 February 2010.

<sup>27</sup> Interview with Pēteris Vilks, Ministry of Regional Development and Local Government, 24 February 2010.

<sup>28</sup> Interview with Jānis Bekmanis, Ministry of the Interior, 23 February 2010.

<sup>29</sup> Interview with Ineta Tāre, Ministry of Welfare, 18 February 2010.

<sup>30</sup> Interview with Sarmīte Kovaļevska, Ministry of Defence, 8 March 2010.

<sup>31</sup> Interview with Dace Ratniece, Ministry of Education and Science, 18 February 2010.

<sup>32</sup> Interview with Baiba Zasa, Ministry of Environment, 26 February 2010.

the MFA;<sup>33</sup> the MA is collaborating with the MENV, is at the starting point of collaboration with the MRDLG, and is working with the MF as the horizontal ministry.<sup>34</sup> The MW has better links with the MES and the ME. The only ministry that stated that the priorities defined by the Strategy do not encourage inter-sectoral cooperation on the level of the BSR is the MT.<sup>35</sup>

The account presented above of the mutual perception of the ministries demonstrates that they each view the others from different perspectives and are not treating each other as an asset or partner for successful implementation of policies. Those cooperative ties that were mentioned during the interviews existed already, and are not Strategy-driven yet.

When asked about cooperation frameworks with the respective ministries in other countries relevant to the Strategy it became clear that they are either weak or non-existent. This is one of the most interesting discoveries during the study, especially taking into account that the overwhelming majority of ministries indicated that they already have ties with their partners in the regional setting. One can assume that one of the reasons why the EC was supportive of the initiated Strategy was based on the networks of collaboration existing already. The EC counted on regional logic, whereas the countries relied on mechanisms to be introduced by the Commission. In the end, regional cooperation as a philosophy is part of the Baltic Sea identity, but with regard to implementation of the Strategy both sides are waiting for an initiative: the countries expect leadership from the EC, while the EC considers the countries of the region the owners of the Strategy. With respect to this question the ministries can also be divided into three groups. The first group, containing the majority of ministries, pointed to involvement in regional projects, while deep collaboration with corresponding ministries is non-existent. A typical answer was offered by the MRDLG, which responded that on the level of the Strategy there has been

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<sup>33</sup> Interview with Sanita Sivicka, Ministry of Health Care, 4 March 2010.

<sup>34</sup> Interview with Jānis Briedis, Ministry of Agriculture, 8 March 2010.

<sup>35</sup> Interview with Inta Rozenšteina, Ministry of Transport, 4 March 2010.

no consultation with the ministry's counterparts, but that this is functioning well within the territorial cooperation programmes.<sup>36</sup> In conclusion, therefore, we must ask, on basis of the answers: how can the Strategy be implemented effectively, if it has not become a part of the policy-making process in the BSR countries?

The second group consists of those ministries that make use of existing relations and supplement them with the new Strategy perspective. Two ministries stand out as typical for this group – the MENV and the MH. Thus, in implementing the Strategy the MENV builds on its already-existing good cooperation in the environment sector. The same civil servants and politicians are serving on HELCOM and EU bodies. For instance, several HELCOM meetings include issues relevant to the Strategy, and informal meetings of national coordinators have been organised. The MH referred to efficient cooperation within the framework of the ND. The country representatives who are dealing with the ND project are also in charge of Strategy matters, which allows more efficient coordination of regional issues, with an exchange of views on current affairs and future relevant matters.<sup>37</sup> The conclusion from the second group is obvious as well: it is not individual countries that drive the Strategy, but regional initiatives that are rooted in the regional networks, and these can contribute to a better understanding of collaborative initiatives. However, the successful experience of cooperation so far can call into question the added value of the Strategy. The answer is rather trivial: the sooner the project-based interpretation of the Strategy is replaced by a conceptual and policy-minded approach, the better and more efficient will be the utilization of regional resources in the Baltic Sea area.

The third group of institutions were critical about the existing relations and pointed to the necessity of establishing Strategy-relevant working relations with their counterparts. For instance, the MI stressed the weak state of cooperative measures with the

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<sup>36</sup> Interview with Pēteris Vilks, Ministry of Regional Development and Local Government, 24 February 2010.

<sup>37</sup> Interview with Sanita Sivicka, Ministry of Health Care, 4 March, 2010.

ministries of the region in the sector of home affairs.<sup>38</sup> The MES, the MW and the MF are not fully satisfied with the current intensity and scope of regional coordination, stressing that only the initial elements are developing. The problem lies in the fact that cooperation is functioning at the ministerial level, but not with respect to the Strategy.<sup>39</sup>

Since the Strategy was initially envisaged as a multi-level, cross-sectoral and stakeholder-engaging exercise, it is important to follow to what extent the units involved in drafting and debating the strategy are committed to and involved in the implementation, coordination and development of regional cooperation within the BSR. In principle, it is a question of **ownership**. In order to draw some conclusions regarding this issue, I asked to what extent the ministries are collaborating with their social partners on BSR issues. From the answers it becomes clear that this is an area which can be improved in the coming months and years. Without participation of the general public, which is the main potential beneficiary of the Strategy, success cannot be ensured and the Strategy will not move beyond a list of projects. For instance, asked about its cooperation with social partners, the MRDLG admitted that with regard to the Strategy it is weak, but on the project level it is functioning well. Local municipalities are not very much involved in issues of the Strategy, which is probably a result of limited financial allocations. The MRDLG is considering an improvement in development planning, which will bring the BSR closer to municipalities and will help to decrease regional disparities. For instance, priority No. 12, which is aimed at sub-regional development, has not been appreciated so far.<sup>40</sup>

The MI also noted that relations with social partners vary and can be described as fragmented. In some areas they are working well, such as on human trafficking and violence. Cooperation with

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<sup>38</sup> Interview with Baiba Zasa, Ministry of Environment, 26 February 2010.

<sup>39</sup> Interview with Dace Ratniece, Ministry of Education and Science, 18 February 2010.

<sup>40</sup> Interview with Pēteris Vilks, Ministry of Regional Development and Local Government, 24 February, 2010.

NGOs such as *Marta* and *Drošas mājas* could serve as a role model to be followed. But in general too few NGOs are involved in the home affairs sector. However, the MI is looking for improvements, and so a Public Consultation Council has been established. There is an initiative to embrace new organizations in the council and to present the Strategy to the social partners in order to promote regionally relevant activities.<sup>41</sup> The MENV underlined that the network of social partners is well-developed and influential, but not involved in Strategy matters yet.<sup>42</sup> The MES stressed the weak character of cooperation with the Latvian Academy of Sciences, the Latvian Science Council, and the National Framework Programme coordinator, which derives from a history of weak contacts between the ministry and the institutions representing science.<sup>43</sup> A similar criticism was expressed by the MW, arguing that there are two aspects to the situation. On the one hand, the MFA has taken a leading role in coordinating relations with social partners. But on the other hand, each ministry has its own well-established networks of social partners, and knows better their experience and possible contribution. However, the main problem preventing the civil sector from becoming more involved in matters relating to the Strategy relates not to the governance structure but to financial limitations. As Ineta Tāre put it bluntly in an interview: “There are networks but there is no money. For financial reasons, there are no new initiatives.”<sup>44</sup> In more general terms there was a consensus among the interviewed civil servants that relations with industry and social partners are good, but mostly on the basis of projects, not with regard to the Strategy. This was underlined by the MT,<sup>45</sup> the MH<sup>46</sup> and the MA.<sup>47</sup>

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<sup>41</sup> Interview with Jānis Bekmanis, Ministry of the Interior, 23 February 2010.

<sup>42</sup> Interview with Baiba Zasa, Ministry of Environment, 26 February 2010.

<sup>43</sup> Interview with Dace Ratniece, Ministry of Education and Science, 18 February 2010.

<sup>44</sup> Interview with Ineta Tāre, Ministry of Welfare, 18 February 2010.

<sup>45</sup> Interview with Inta Rozenšteina, Ministry of Transport, 4 March 2010.

<sup>46</sup> Interview with Sanita Sivicka, Ministry of Health Care, 4 March, 2010.

<sup>47</sup> Interview with Jānis Briedis, Ministry of Agriculture, 8 March 2010.

## Is there room for improvement?

On the basis of the interviews it is possible to identify those areas of cooperation and governance that require more attention, consideration and improvement in order to ensure the success of the Strategy in the future. One of the most obvious conclusions deriving from the study is the following: after the first year of enthusiasm, which prevailed in numerous political forums, a more pragmatic approach is needed at the sub-regional, national and macro-regional level in order to put the necessary governance structures at place. During the process of drafting and adoption of the Strategy many expectations were raised. If they are not met, producing tangible results, interest and commitment to regional cooperation will diminish, which will have an unpredictable impact on other regional initiatives already in place and those that are in the political pipelines of the EC, such as the Danube, the Mediterranean, and others that are waiting in line. Just a few convincing deliverables with regional added value, which are not outcomes of previous exercises, but are unique, can have more impact on the future of the region than thousands of pages of well-intended political documents. The above argument is not brand new: the question of what one can expect from the Strategy that would not be taking place without it is still unanswered. This is not a purely rhetorical quest, but has very strong political potential that can bring benefits, but also failures. For instance, in the sector of the environment the countries have to follow EU directives and the HELCOM Action Plan in any case, even without the Strategy.

The Strategy has several important side effects on national and regional policies. The Strategy is needed in order to teach thinking in regional terms and combine it with a goal-oriented approach.<sup>48</sup> Thinking in regional terms applies not only to the new Member States: it is probably even more important as far as other Member States and EU institutions are concerned. Lessons must be learned

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<sup>48</sup> Interview with Jānis Bekmanis, 23 February 2010.



by the civil servants from the EU institutions in order to overcome the existing fragmentation and separation of the DGs, which leads to the fragmentation of policies. Probably, Bjorn Hettne's classification regarding new and old regionalism should be expanded with regard to new EU policies.<sup>49</sup>

One of the biggest challenges in the future relates to financial restraints, which have been mentioned by all respondents. But, as was noted during the study, money is not the only guarantee of the success of the Strategy. There are at least three preconditions relating to the financial aspects of the Strategy. First of all, good knowledge of the funds already existing is needed, since this could help to mainstream financial support to the defined goals. Secondly, allocations for the Strategy are required in national budgets, which can serve as a policy incentive and promoter of regional thinking. Thirdly, a clear vision of how to incorporate the financial needs of the Strategy into the next financial perspective of the EU (2014–2020) is decisive. Financial considerations on the national level are essential in order to diminish potential domination by affluent countries in the implementation of the Strategy. It is dangerous that the financial aspects can hijack the Strategy.

The involvement of social partners in the drafting of the Strategy was impressive. All the activities, such as consultations, discussions, conferences etc., contributed to an increased sense of ownership. But in the Latvian case the potential of social partners has not been fully utilized. As was mentioned by the respondents, there is only one partner present in the WG, namely the ECL, which does not have a mandate to act on behalf of a wider group of participants. This limits the opportunities for other social partners to become involved in implementing the Strategy and in discussions on the future of regional cooperation, and also their access to finances. The privilege given to one social partner, even if it is motivated and has the necessary capacity to participate in

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<sup>49</sup> See Hettne B., Inotai A., Sunkel O. (eds.). *Globalism and the New Regionalism*. New York: St. Martin's Press, 1999.

policy-making, monopolises and degrades the idea of wide representation and participation in the process of building a European macro-region.

The question of the ownership and inclusiveness of the Strategy brings us back to the issue of civil society. A weak civil society with low motivation and resistance on the part of the government to involving a wide spectrum of social partners into the implementation process has an impact not only on the quality of execution, but also on the policy-making process in the country on a more general level. The Strategy can act as an incentive for stakeholders to focus more on long-term, rather than short-term achievements, which is the case with NGOs. Civil society is more oriented towards domestic policy than regionally minded, and regional-mindedness has to be achieved via the Strategy. There is still a disparity between professionalized civil organizations and those which are issue- or sector-driven. Participation in the affairs of the Strategy would help to raise the capacity of more NGOs than would be possible on the national level, thus helping them to become involved in making EU policy.

One of the outcomes of the Strategy that was expected from the first days of its proposition was increased inter-sectoral cooperation. The emphasis on this policy-making aspect was due the fact that previous rounds of cooperation within the BSR did not have a substantial impact on cross-cutting activities. However, after the first year of its introduction, it is difficult to draw comprehensive conclusions in this regard, but what was obvious from the interviews is that on the national level there is a tendency for more intensive inter-ministerial cooperation, something determined by the structure of the WG, which is based on the principle of inclusion. Thus, discussion in the WG on issues relevant to the Strategy is gradually becoming more integrated into agendas of the ministries. However, relations with their counterparts in other countries of the BSR are lagging behind, which can lead to compartmentalization, nationalisation and privatization of some areas of cooperation.

The ownership issue, which has not been clearly answered in the initial stage, can cause problems in the future. Very often, the interviewees referred to the Strategy as a Swedish-driven initiative, thus underlining that Sweden was lobbying its national interests via the EU macro-regional initiative. Indeed, the Strategy was adopted during the Swedish presidency and got unprecedented attention at the regional and European level; this does not mean that the presidency will last forever. It is an erroneous perception, which can cause difficulties in the future. The document was drafted and debated among all the EU countries of the region, and Latvia had the same range of opportunities for putting forward its interests and arguing its position as Sweden or any other country. Had the homework with regard to regional cooperation and regional priorities been executed in good time, the outcome of the Strategy could presumably have been different. At the same time, the perceived Swedish dominance in matters of the Strategy is an alarming signal in the context of ownership, privatization and a possible increase of disparities between those countries of the region that are better off and those lagging behind.

Although almost all ministries have experience in regional cooperation, some differences could be identified during the study, with a possible negative effect on implementation. The problem derives from the existing division between more experienced and active ministries with regard to regional cooperation, and those that take more a reserved, wait-and-see approach. This means that if there is no shift from a project-based to a policy-based approach to the Strategy, and if there is no serious debate on the future of the Strategy, then this could lead to national fragmentation with regard to macro-regional trends. In addition to the other reasons for the current difference in attitudes towards the Strategy, civil servants mentioned the role of the individual commitment of ministers and the political leadership of the ministry. Whereas sectoral involvement is important as a driving force for cooperation in the long run, reliance on individual activities has a crucial role in dealing with the day-to-day issues and can influence the performance of the sector

on the regional scale in a positive or negative way. This means that a few individuals with limited interest in regional matters can hinder the country's involvement and competitiveness.

Several crucial issues for the successful development of the Strategy depend on the management of the crisis and the post-crisis policies. The structural reforms that were introduced in 2009 as a part of the anti-crisis measures, with the goal of transforming the existing public administration into a small and efficient body, cannot automatically be treated as beneficial without in-depth analysis. With regard to the Strategy it looks as if the structural reforms caused more confusion than improved efficiency. Decreasing the number of civil servants by 30% and reshuffling them, without defining clearly the functions they are to perform, along with many other aspects, including a wage cut, cannot be regarded as motivating measures for better performance and the introduction of innovative policies. Ministries with a wide area of responsibility are not capable of presenting a coherent picture and applying a comprehensive approach to macro-regional governance. The study indicated that majority of ministries are suffering from the impact of the structural reform on management of the Strategy. Probably, one of the most obvious examples can be found in the ME, where the largest numbers of Strategy-relevant sectors are represented, but each of them is acting on an individual basis, losing the wider picture of regional coherence and complementarity. As Anda Catlaka from the MFA put it, the way the Strategy was elaborated and adopted created confusion. At the same time, the Strategy, if treated seriously, respecting its new potential and new experience, could become a role model for dealing with the complexities of the political agenda.<sup>50</sup>

One of the most relevant conclusions relates to the question of how to reach a state where the Strategy moves away from a project-based exercise to an integrated policy for a more integrated BSR. The Commission's present approach is well received, because successfully implemented projects can bring almost immediate and

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<sup>50</sup> Interview with Anda Catlaka, Ministry of Foreign Affairs, 8 March, 2010.

visible results to report on. However, a project-based approach can lead to failure. If closer coordination and cooperation can be ensured by financial instruments, but not by region-building logic and political will, then the EC can fail even more than the countries. This is a decisive decision that has to be made: which way should be chosen? If preference is given to flagship projects then the positive potential of the Strategy will be wasted. If the Strategy is based on the philosophy of regionalism, which is supplemented by policy and backed up with projects, then a macro-regional Europe competitive on the global arena can become a reality. This is one more reason why the discussion on the future of the Strategy is so relevant. A focus on joint actions to be undertaken in order to promote greater regional integration will have more effect than calculating project budgets.

The first information obtained from different sources proves that the BSR countries are struggling with similar issues: how to combine strategy with other activities taking place in the region, how to make maximum use of the financial instruments put at the disposal of the Strategy, and how to identify relevant projects not only from the national perspective, but – more importantly – from the regional and European perspectives. These few crucial questions cannot be answered at the national level; therefore, the EC needs to have a more active and better-defined role. In this case the EC is acting as it does in other policy initiatives and programmes: assisting in drafting and serving as a place for consensus-building, and then passing it over to the Member States, remaining as a quiet observer and coordinator. The ministries indicated that they would like to see more active involvement of the EC in the Strategy, and for this purpose a mechanism of cooperation should be developed with more creativity. They underlined that, regarding their own sectors, the ties with the respective Directorate-General (DG) are good, but with regard to the Strategy they are not functioning well, to put it mildly. However, there is concern regarding over-bureaucratization of the Strategy. Already, there are such structures as the High Level Group, the National Coordination Group, the Laboratory Group

and others. However, if there is weak coordination at the highest level (commissioners, heads of state and ministers) then it is difficult to envisage increased cooperation at a lower level.<sup>51</sup>

Introduction of the Strategy into policy planning in Latvia will help to define priorities in sectors in a more effective way. On the one hand, one can only agree with the argument that “Discussion about the future can be based only on clarity in the present.”<sup>52</sup> But on the other hand, Europe is creative in proposing new initiatives and proposals. How are they interlinked, how do they complement each other, and where is the added value? There is a potential danger that the EU can lose its way in initiatives.

The success of the Strategy depends on coordination. Coordination is needed in the public sector. But it is even more important in building networks with the stakeholders involved. Coordination plays a crucial role in relations between countries within the BSR, as well as with the Commission. So far, the potential of coordination has been neglected with respect to the European Parliament and regional organizations, such as the Council of the Baltic Sea States, the Baltic Assembly and others. Coordination is needed in order to define priorities for the common regional good. Slow development of collaborative initiatives causes a problem when the EC is expecting more proactive performance and innovative approaches, while the countries blame the Commission for distancing itself from the Strategy after its adoption and losing its leadership role, which was accepted during the drafting process. I would like to argue that if the coordination puzzle is not solved on all levels in an innovative manner, then the Strategy is doomed to fail or remain as one of the numerous initiatives of the EC that passes into history.

The future of Europe is a future of macro-regions and macro-regional interconnectedness. This means more regional consolidation, regional cooperation and regional networking. The future of individual countries does not lie automatically with the future of

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<sup>51</sup> Interview with Aleksandrs Antonovs, Ministry of Finance, 22 February 2010.

<sup>52</sup> Interview with Inta Rozenšteina, Ministry of Transport, 4 March 2010.

Europe, but with the future of their role, place and activity within the macro-regional arrangements. The Strategy is a tool for preparing to function in a new framework, which is based on networks rather than national positions. So far, Latvia has not utilized networking as a principle for development. Concentration is another keyword. Concentration is a way towards efficiency and productivity. A macro-region presupposes not fragmentation, but concentration. The above-mentioned drivers of the Strategy – coordination, concentration and networking – are not given as by-products of EU enlargement. Quite the opposite: enlargement puts additional responsibilities on public administration to introduce a new collaborative culture. As Anda Catlaka rightly described it: “Ministries should serve as platforms for networks in their respective areas.”<sup>53</sup>

The interviews clearly proved that the majority of questions and uncertainties regarding the Strategy relate to the novel character of the exercise itself. The confusion appearing at the national, regional and European level is one of the characteristics of the implementation of the Strategy in its initial stage. The phrase that implementation of the Strategy is an exercise in learning by doing is very precise. One could assume that a better approach would be to do after passing the exams. However, participation in the learning process is a unique chance to apply political innovation skills in building the macro-region.

## Conclusions

The national response to governance of the new macro-regional initiative in the EU is picking up pace. Latvia, as a country which has accumulated extensive experience in BSR cooperation starting from the beginning of the 1990s, has treated the Strategy with enthusiasm and commitment. As the research has shown, the actions that the Latvian government took proved to be adequate to

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<sup>53</sup> Interview with Anda Catlaka, Ministry of Foreign Affairs, 8 March 2010.

manage the Strategy in its initial stage. The answers provided by the members of the WG also revealed that the governance mechanisms are not based only on politically and historically predetermined support, but also on well-considered criticism, which is targeted at the improvement of the implementation and performance of the Strategy for the BSR, especially in the long-term perspective.

The study permits the possible recommendations to be divided into three groups. Actually, the first one is not a group, but a survival recommendation in its own right, a precondition for the future of the Strategy: the involved parties have to agree upon what the Strategy is about. There is uncertainty as to whether it is a list of projects that provides a better understanding of what is happening in the region, with a more goal-oriented approach (more growth, more welfare, more compatibility), or whether it is a concept for new regional arrangements in the EU that helps to deal with European and global challenges. This is a dilemma between a vision and a list of projects. So far this issue, conceptually the most important, still remains unanswered, and this is causing various kinds of uncertainty and confusion.

The second group of recommendations addresses the national level. Firstly, the WG should introduce a series of brainstorming sessions with different groups of stakeholders (and not only with some privileged ones), on the topic: "What would you do with the Strategy if financing were not a problem? Ideas first!" Secondly, it is important to introduce macro-regional perspectives at the national policy-making level. Thinking in national and sub-regional terms will hinder participation in the Strategy. Thirdly, new ways of engaging NGOs in regional matters are needed. At the moment there is a continually widening gap between professionalized NGOs and the others. Professionalism is needed, but it is occurring at the expense of those social partners who do not have resources for rapid expansion. Thirdly, the components of the Strategy should be considered in the drafting of national budgets. Otherwise co-financing will become a permanent problem with a long-lasting effect, allowing countries with more regional thinking to take over many areas.



Fourthly, capacity building is needed for the management of the priority areas. Fifthly, more coordination at the national level is needed, not in terms of broadening, but in terms of deepening

The third group of recommendations is targeted at the regional and European level. The following should be considered as the most urgent: to foster cooperation among the national coordinators of the Strategy in the region, as well those who are in charge of sectoral coordination and the priorities of the Strategy. A network of coordinators would ensure a comprehensive approach to the Strategy and would permit compromise with national and sectoral interests. Debate should be initiated immediately on the future of the Strategy at a wider scale. The good practice obtained during the debating process must not be lost. It is necessary to organize working seminars on regional governance methods and tools. At some stage, the diversity of national models of macro-regional governance can become a hindering factor for managing increased forms of cooperation in the area. The role of the EC should be more active and engaging. On the one hand, it is clear why the EC distances itself from implementation of the Strategy, but as long as the national commitments are so diverse and there is a lack of understanding in the BSR of what the Strategy is about, the EC should play a more active role in the coordination process. The regional organizations should include the issues of the Strategy in their agendas. Without wide public support the implementation and expansion of the Strategy is hardly imaginable. Therefore, public awareness should be raised not only at the national, but also at the regional level. In the end, the Strategy is not about flagships, priorities or financial instruments, but about people living around the Baltic Sea.

# Communicating the EU Strategy for the Baltic Sea Region to Latvian Society

DAINA BĀRA

## Introduction

When the Strategy for the Baltic Sea Region (BSS) was adopted, it was difficult to predict what efforts would be needed to make the Strategy function at full capacity. In order to achieve the goals of the Strategy, these goals have to be widely known, and the public has to be informed, so that society's support may be obtained when the decisive decisions have to be taken and implemented. Without the support of all the citizens, or at least the majority, it is unclear how the Baltic Sea Region as a whole, and Latvia in particular, will become wealthy and developed.

Therefore, one of the tasks of this study is to explore whether communication has become an integral part of the Strategy and its implementation in Latvia. The reason for this is rather simple – unless the Strategy is properly communicated, we may say with certainty that it will remain as a list of projects without real benefits for society. The aim of the chapter is to draw attention to the role of the Latvian government in bringing interested stakeholders together and arming them with the knowledge of regional opportunities offered by the Strategy. The study is presented in three sections. The first part will focus on the government's engagement in communication with society during the drafting process of the document. The second will highlight some initiatives that have been taken by the Latvian government, as well as presenting a few problematic issues in this regard. The concluding chapter will single out some tendencies that should be considered at further stages of the implementation of the Strategy.

## How has the government communicated the drafting of the Strategy?

The founding principles of the Latvian government's communication policy are defined in the document *Government Communication Policy Guidelines 2008–2013*, adopted in 2008. The document presents the government's communication goals and underlines its tasks, such as “government's and public administration's dialogue with the public, promoting accordance of the decision-making to the needs of the community.”<sup>1</sup> On the basis of the above-mentioned policy document, followed by encouragement from the European Commission to start a process of consultation with the stakeholders, the government initiated a range of activities related to communication of the Strategy. This section looks at how Latvia participated in the preparation of the document and how it was communicated.

Before the Strategy was adopted, there was a wide discussion within the respective countries, including Latvia, on the content of the Strategy. In that respect it was unique, because it was not the Commission or a narrow circle of experts who proposed the first draft. Instead, the document was elaborated through and with the participation of the stakeholders, thus allowing representation of the views and positions of a wide spectrum of sectors and groups to be incorporated in the document or at least considered. In the end the stakeholders came to an agreement over the key areas for cooperation, namely, energy, competitiveness, environment and improvement of security, and Latvia emphasized several other issues, such as education, research and culture.<sup>2</sup>

At this point it is worth mentioning that there were several activities related to the Strategy in Latvia that could be considered communication activities. During this time Latvia's interests were

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<sup>1</sup> On the guidelines of the Government's communication policy for 2008–2013, Riga, 13 May 2008, p. 5.

<sup>2</sup> EU Strategy for BSR. <http://www.am.gov.lv/lv/eu/sadarbiba-baltijas-juras-regiona/bjs/>. Last accessed on 5 June 2010.

formulated and reported by the Head of the European Union Directorate at the Ministry of Foreign Affairs – Ms. Ilze Juhansone. She noted that Latvia is interested in the development of a single energy market; in the transport sphere, it is the development of a one-stop agency for logistics and development of the West-East transport direction; cooperation with Belarus on environmental issues in order to prevent pollution of the Daugava River basin; as well as participation in projects developed by other countries, e.g., on port dues and services.<sup>3</sup> These priority areas were defined not only by the government, but also by social partners from different sectors and representatives of civil society. Therefore, the government's proposed priorities were legitimised via communication by interested stakeholders.

It should be noted that the Latvian Ministry of Foreign Affairs (MFA) played an important role in organizing and coordinating communication policy. To illustrate this, the author would like to mention some of those activities that contributed the most. For instance, the discussion of the Baltic Sea Region employers' organizations on the vision of the Strategy in May 2008<sup>4</sup> ended with their vision of the Strategy, which was supplemented by concrete recommendations;<sup>5</sup> round-table discussions between the non-governmental sector representatives from the Baltic countries and the representatives of the European Commission's Regional Policy Directorate-General organised by the MFA and the EC Repre-

<sup>3</sup> Strazdiņa I. Baltijas astoņnieks veidos konkurētspējīgāko reģionu ES. Savas prezidentūras laikā Zviedrija sola apstiprināt Baltijas jūras valstu stratēģiju [The Baltic eight will develop the most competitive region within EU. Sweden promises to confirm the strategy for the Baltic Sea Region]. *Diena*, 30 May 2009.

<sup>4</sup> Baltijas Jūras valstu darba devēju organizācijas vienojas par kopīgām rekomendācijām Baltijas Jūras reģiona attīstībai [Baltic Sea Region employers' organizations agree on common recommendations for the development of the Baltic Sea Region]. <http://www.lddk.lv/index.php?group=archive&page=13&p=933>. Last accessed on 5 June 2010.

<sup>5</sup> See the article by Elīna Egle in this book.

sentation in Latvia; and consultation of the Latvian stakeholders (ministries of the industries, local governments, NGOs and social partners) with the MFA.<sup>6</sup>

These activities were MFA-proposed initiatives aimed at bringing together stakeholders and starting a dialogue, as Ms. Anda Catlaka, the MFA's advisor at the EU Directorate, emphasized during an interview.<sup>7</sup> She also underlined that drafting the Strategy on the basis of wide consultation was a new practice that required innovative administrative skills, network-building exercises and agenda-setting instruments. Overall, the communication experience accumulated during this short period of time must not be lost, and needs to be sustained in the later stages of implementation of the Strategy.<sup>8</sup> A by-product of the consultation and communication exercise was the lesson that engagement of stakeholders delivers results. Therefore, in 2009 the government opted to establish the working group assigned the task of coordinating implementation of the Strategy in accordance with the principle of inclusion, thus ensuring continuity of the existing network.<sup>9</sup>

In summer 2009 the first publicity campaign of the Strategy was organized, aimed at presenting the document with the participation of the representatives of the EC, stakeholders from Latvia and NGO representatives. After this, regular consultation was organised in different regions of the country. The main objective was to maintain the dialogue with different groups.<sup>10</sup> On the basis of this consultation, as well as consultation with the Latvian ministries, the Latvian Employers' Confederation (LEC) and other parties involved, National Position No. 2 and No. 3 of the

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<sup>6</sup> EU Strategy for BSR. On Latvia's national position No. 2: EU Strategy for the Baltic Sea region, [http://www.mk.gov.lv/doc/2005/AMzino\\_091208.3780.doc](http://www.mk.gov.lv/doc/2005/AMzino_091208.3780.doc). Last accessed on 10 June 2010.

<sup>7</sup> Interview with Counsellor Anda Catlaka from MFA on 12 May 2010.

<sup>8</sup> Ibid.

<sup>9</sup> See the article by Žaneta Ozoliņa in this book.

<sup>10</sup> Interview with Counsellor Anda Catlaka from MFA on 12 May 2010.

Strategy<sup>11</sup> were adopted and specified. From the above-mentioned activities the following conclusion can be drawn: the initial goal of the Strategy, which was to generate a sense of ownership among different stakeholders, was achieved, and a list of partners to be included in the networks of cooperation was launched. Proof of a heightened sense of ownership is the Baltic Sea NGO Forum, which was organised in 2009, with 128 participants from 16 European countries, along with participants from NGOs in Belarus and Ukraine, as well as regional organizations. Expanding the circle of participants of the forum revealed the complexity of communication that will have to be faced in future.

On the basis of an analysis of the documents produced by the forum and interviews with participants, it is possible to draw some conclusions about the initial stage of communication of the Strategy. Increased trust between politicians and people has been reached; grass-roots networking has intensified; people from remote areas and excluded groups have been actively engaged in the process of policy planning and implementation; funding for small-scale cross-border initiatives has been established; spaces for cooperation with the EU and Russia have been developed; people have been empowered to organize themselves. However, there is no mechanism that can help to implement the goals. This question relating to subnational activities has been left unanswered, which is likely to have an impact on Latvia's political activities. The views and positions presented at the forum needed to be passed over to a broader section of civil society, but this requires new models of communication. Thus, the foundations for communication have been launched via the consultation process, but the question of the existence of a communication policy of the Strategy targeted at Latvian society has still not been formulated clearly.

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<sup>11</sup> EU Strategy for BSR. On Latvia's national position No. 3: EU Strategy for the Baltic Sea region, [http://www.mk.gov.lv/doc/2005/AMZino\\_140809.2962.doc](http://www.mk.gov.lv/doc/2005/AMZino_140809.2962.doc). Last accessed on 5 June 2010.

## How is Latvia communicating implementation of the Strategy?

As noted in the previous section, the Latvian government expressed great interest in coordinating and communicating the Strategy during its preparation phase. What were the actions taken at the first implementation stage? We may look to the previously mentioned document, *Government Communication Policy Guidelines 2008–2013*.<sup>12</sup> This document provides a good basis for the implementation of communication during the implementation of the Strategy. The guidelines state that the task of the government is to listen to the views of the society and non-governmental sector and inform the public on policy planning documents, legislation and services in a timely manner, thus promoting a continuous, open, comprehensible and reliable dialogue.<sup>13</sup> In this respect, it is possible to conclude that, indeed, the government listened to and collected views from stakeholders, but the second part of the guidelines, referring to timely informing of the public, was missing. However, several important communication steps were taken. Courses of action were set, with special emphasis on coordination of communication and efficient flow of information,<sup>14</sup> as well as development of cooperation with NGOs, the academic community and experts.

The guidelines clearly set out the most appropriate types of communication, such as consultation, public opinion research, media analysis, meetings and seminars with the social partners, involved groups of citizens and NGOs, public consultation, media interviews with authorities, experts, and representatives of organizations.<sup>15</sup> Among the listed activities, only a few, such as consultations and seminars, were applied with regard to the Strategy.

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<sup>12</sup> On the guidelines of the Government's communication policy for 2008–2013, Riga, 13 May 2008, p. 5.

<sup>13</sup> Ibid., p. 7.

<sup>14</sup> Ibid., p. 23.

<sup>15</sup> Ibid., p. 29.

The most important issue is reliance on the existing guidelines and their adaptation to the Strategy's needs. With regard to communication of the Strategy the keyword is coordination. In Latvia, the MFA has been assigned the responsibility for communication, and so far has acted as the key actor coordinating these activities. Thus far, the Latvian MFA has performed remarkably in this respect. It was a serious test and a new challenge, because cooperation had to be organized at different levels, as mentioned above.

However, there are two crucial obstacles to successful communication of the Strategy. The first relates to the document already mentioned, the *Government Communication Policy Guidelines 2008–2013*. One can even speak of an irresponsible approach regarding the government's communication policy. By a decision of the Cabinet of Ministers, which was also signed by the Prime Minister V. Dombrovskis, this document has lost its validity. It is difficult to explain the government's position on these issues at a time when it would be extremely important to promote and develop communication, thus encouraging Latvia's involvement in the implementation of the Strategy, which in turn would contribute to the development of the country. One can argue that the document is a piece of paper and that activities can be performed without policy guidelines, but the Strategy needs a comprehensive, cross-sectoral and multi-level approach to communication, which cannot be achieved without a document that highlights basic principles.

The second set of problematic issues relates to the institutional arrangements, i.e. who does what? How to manage this work and to link stakeholder expectations and opportunities with practical actions? During the implementation of the Strategy the objectives and common interests set by the EU authorities and stakeholders have to be linked with the needs and interests of the region, as well as with national interests and those of sub-regional actors. Clearly, this is no simple task. In the case of Latvia, the MFA is at present responsible for EU communication affairs. But this raises several questions. Does the MFA possess enough expertise in all sectors? Is the MFA close to all stakeholders? Does the MFA have the necessary



toolbox of communication instruments? The MFA is supported by the EC Representation in Latvia. The State Agency 'European Union Information Agency' (EUIA), created in 2005 with the task of providing the Latvian public with complete, accurate, timely and easily accessible information about the EU and Latvia's participation,<sup>16</sup> was dissolved by a decision of the Cabinet of Ministers in May 2009. The State Chancellery was further instructed to coordinate the work of the communication departments of the public administration authorities, and to develop and implement the government's communication policy, as well as the strategy for informing the public about the European Union and Latvia's participation in the EU.<sup>17</sup> Subsequently, the State Chancellery passed over these functions, as well, to the MFA.

Communication with society about policy implementation is an important task relating to BSS communication activities. Communication consists of the following: completeness, timeliness, and accuracy. In Latvia, as was mentioned before, the government does not pay enough attention to communication issues, as the suspension of the Communication Strategy shows. The responsibility for implementing the BSS, as well as communication with the EU, has been handed over to the Latvian MFA from January 2010; before this it was the responsibility of the State Chancellery. The MFA informs the public and encourages discussion on the EU, coordinates the activities of ministries and involves other public actors in the information campaign on the EU and Latvia's participation.<sup>18</sup>

Thus, at the present stage, when implementation of the Strategy is proceeding most actively, Latvia does not have a firm institutional and policy foundation that would allow it to put forward ambitious communication initiatives, which are needed in order to ensure

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<sup>16</sup> Cabinet of Ministers Regulation No. 34, Riga, 11 January 2005 (prot. no. 344§). <http://www.mk.gov.lv/lv/mk/tap/>. Last accessed on 1 June 2010.

<sup>17</sup> Cabinet of Ministers Regulation No. 429, Riga, 12 May 2009 (prot. no. 31/ 39§). <http://www.mk.gov.lv/lv/mk/tap/>. Last accessed on 1 June 2010.

<sup>18</sup> See: Public information campaign. <http://www.mfa.gov.lv/lv/eu/vp/>. Last accessed on 10 October 2010.

that the Strategy has ownership and that commitment of involved parties is based on knowledge and understanding of macro-regional logic.

Once again the question arises – is the Latvian government committed to the communication policy as far as the Strategy is concerned?

### **Prospects on communication within the Baltic Sea Region**

In spite of the critical remarks expressed above, it has to be said that the Latvian government has taken the initiative in launching a Communication Plan for 2010, aimed at raising public awareness on EU matters, including the Strategy.<sup>19</sup> It must be pointed out that the plan was in line with the guidelines for implementation of communication policy by the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region.<sup>20</sup> As was stated by Counsellor Anda Catlaka<sup>21</sup> from the MFA, the BSS had been developed in accordance with a governance model that connects with regions and other partners. Substantial work has been invested in identifying possible partners and generating ideas for new projects, but the lack of financial support could cause a delay in implementation. This could create problems in achieving the goals of the Strategy and could become a

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<sup>19</sup> See: Communication Plan for 2010. [http://www.mfa.gov.lv/data/file/Arpolitika/ES/vadipas\\_partneribas-kp.doc](http://www.mfa.gov.lv/data/file/Arpolitika/ES/vadipas_partneribas-kp.doc). Last accessed on 10 June 2010.

<sup>20</sup> See: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region. Brussels, 10 June 2009, COM(2009) 248, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/com\\_baltic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/com_baltic_en.pdf). Last accessed on 1 June 2010.

<sup>21</sup> Interview with Counsellor Anda Catlaka, Ministry of Foreign Affairs, on 12 May 2010.

serious challenge in future. Because stakeholder activities in Latvia are not sufficient, the next step should be to provide the necessary information and knowledge on participation in future projects to all parties with an interest in the Strategy. Lack of knowledge and co-financing is the main reason why there are not many projects being carried out within the country. These aspects should be addressed as soon as possible. Together with partners, the experience of the neighbouring countries in obtaining financial assistance should be studied in greater detail.<sup>22</sup>

The same can be said concerning the national priorities, although it is the responsibility of the government and the political parties (which have not paid any attention to the subject) that the public should be involved in the recognition of priorities. In the course of discussions, consultations and meetings many useful proposals can be discovered, and therefore discussion about the Strategy should be intensified and more emphasis should be put on identifying potential areas where Latvia could increase its contribution to the Strategy. Finally, the Latvian government should consult with experts. With their help many questions could be answered and developed into functioning policies that deliver results relevant to society and the region at large. The Communication Plan for 2010 also entails long-term effects. Implementation of the plan will help to strengthen the capacity of the EU information mediators, to provide efficient cooperation among information mediators within Latvia, to use available resources efficiently and to include relevant groups in communication policy.<sup>23</sup>

This chapter has mostly focused on the Latvian government's 'communication capacity'. It has become clear that even outstanding communication performance at the national level is not a sufficient pre-requisite for regional success. Also, the communication

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<sup>22</sup> Interview with Counsellor Anda Catlaka, Ministry of Foreign Affairs, on 12 May 2010.

<sup>23</sup> See: Communication Plan for 2010: [http://www.mfa.gov.lv/data/file/Arpolitika/ES/vadipas\\_partneribas-kp.doc](http://www.mfa.gov.lv/data/file/Arpolitika/ES/vadipas_partneribas-kp.doc). Last accessed on 10 June 2010.

activities of the Latvian government should be improved considerably, if Latvia would like to become more actively engaged in implementation of the Strategy. Therefore, national communication capacity should be combined with and integrated into the regional setting, which has an EU-wide overarching framework. Efficient communication in one country does not enrich regional ownership of the Strategy. The Strategy itself is an EU innovation, which means that innovation is needed in regional communication of regional cooperation.

Preparation of the Strategy was a major challenge for the EU institutions and the Baltic Sea Region countries in particular. Cooperation on different levels had to be achieved between the EU institutions and countries, at the international and national level, where various actors and stakeholders were and will be involved during implementation of the Strategy. The results will largely depend on the involvement of stakeholders and cooperation among them, which can be ensured via comprehensive and innovative communication policies. Communication on an international regional level is also made more complicated by the fact that the Baltic Sea Region is not homogeneous. The region is clearly divided between a prosperous, highly innovative North and West, and a developing East and South. However, the differences between the most successful innovative regions in the EU, in the Nordic countries and Germany, and the sub-regions with well-educated young people and deficient infrastructure, in Poland and the three Baltic States, provide opportunities for complementary co-operation and developments of great benefit to all sides.<sup>24</sup>

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<sup>24</sup> Communication from the Commission ... (see note 20).

## Part II

# FROM STRATEGY TO ACTIONS



# Can the EU Strategy for the Baltic Sea Region Bridge the ‘Great Divide’?

ALF VANAGS

## Introduction

In the space of less than two decades the Baltic Sea has been transformed from being a segment of the ‘Iron Curtain’ into what is now virtually an inland sea of the European Union. This, of course, represents tremendous progress. Over the course of this period a bewildering variety of transnational institutions and initiatives, at governmental, intergovernmental and non-governmental levels, have emerged with large ambitions for the region.<sup>1</sup> The EU Strategy for the Baltic Sea Region (the Strategy), endorsed by the European Council in October 2009, is most recent regional ‘initiative’ to be adopted.

The aims of the Strategy are impressive and are summed up in four ‘cornerstones’. These are to make the Baltic Sea Region (BSR):

- 1) environmentally sustainable;
- 2) prosperous;
- 2) accessible and attractive;
- 3) safe and secure.

These are, of course, admirable aims. Indeed, who could argue with them? The initiative contained in the Strategy is also most certainly a ‘first’ in the EU. Not only is it the first such regional strategy,

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<sup>1</sup> The EU Strategy for the Baltic Sea Region website lists more than 30 Baltic Sea Region actors, excluding the national governments of the region. For the full list see [http://ec.europa.eu/regional\\_policy/cooperation/baltic/index\\_en.htm](http://ec.europa.eu/regional_policy/cooperation/baltic/index_en.htm).

it is already regarded also as a model for other macro-regions in the EU, e.g. the Danube basin.

Associated with the Strategy is the slogan ‘Many countries – one region’. But do the countries involved really represent one region, except in the sense of being linked by the Baltic Sea? Contemplating the plethora of institutions and earlier initiatives raises many potential questions: What has actually been achieved in terms of economic and social integration in the region? Is more integration achievable? Is more integration desirable? What would be a desirable level of integration? How effective are current governance structures? Are there too many institutions and organizations? How to deal with the big neighbour Russia? Is the Baltic Sea itself a barrier or a unifying force?

Official dialogue on these issues within the region tends to be very upbeat, with little questioning of the virtues of a vision with a strong regional dimension. By contrast, this contribution offers a more than usually critical (sceptical even) look at the region and its degree of integration. It will be argued that, far from being ‘one region’, there is a ‘great divide’ that separates the countries of the eastern and southern shore of the Baltic Sea from those to the north and west. There is a huge gulf in terms of prosperity – exacerbated by the recession – and there are enormous differences in economic and social systems, as well as in societal attitudes.

In this paper we seek to address just one fundamental question: can the Strategy really provide an effective bridge between the economies and societies from the opposite shores of the Baltic Sea? To pursue this question we first examine a variety of economic indicators of integration of the BSR and second, some evidence on identity and cultural differences. We conclude that the evidence suggests that in all dimensions there is much less in common across the Baltic Sea than the regional ‘integrationists’ would have us believe and that the recession has widened the gaps. Moreover, in the absence of new resources, which is a precondition of the Strategy, it has to be questioned whether the Strategy actually possesses the incentive mechanisms to implement its ambitious goals.



## How economically integrated is the BSR?

### *Trade flows and FDI*

A basic measure of economic integration can be captured by the trade flows between countries. Table 1 below shows the main export partners of the three Baltic States for the year 2008.

*Table 1*

**The Baltic States' top four export partners in 2008 (export share)**

LATVIA	Lithuania (17%)	Estonia (14%)	Russia (10%)	Germany (8%)
LITHUANIA	Russia (16%)	Latvia (12%)	Germany (7%)	Poland (6%)
ESTONIA	Finland (18%)	Sweden (14% )	Russia (10%)	Latvia (10%)

Sources: <http://www.stat.ee>, <http://www.stat.gov.lt>, <http://www.csb.gov.lv>

Of the three Baltic States only Estonia has one or more of the advanced countries of the BSR among their leading export partners. For Latvia and Lithuania, with the exception of Germany,<sup>2</sup> the richer countries do not appear in the top four. However, among the three Baltic States integration has proceeded very rapidly, so, for example, Latvia's top two export partners are now their Baltic neighbours Lithuania and Estonia, replacing Germany and the UK, which were in top place only three years earlier.

If we look at the trade partners of the advanced countries of the region then the connections with the Baltic States across the sea are even weaker. For Sweden the top four export partners in 2007 were Germany, Norway, UK and Denmark. Of the Baltic States, only Estonia, in 21st place with a share of 0.7%, appeared in the top 30 of Sweden's export partners.<sup>3</sup> For Finland the top four export partners

<sup>2</sup> Arguably Germany is only peripherally a Baltic Sea region country.

<sup>3</sup> See [http://www.scb.se/Statistik/HA/HA0201/2009M02D/HA0201\\_2009M02D\\_SM\\_HA22SM0901.pdf](http://www.scb.se/Statistik/HA/HA0201/2009M02D/HA0201_2009M02D_SM_HA22SM0901.pdf).

in 2009 were Germany, Sweden, Russia and the USA, while the top four supplying countries were Russia, Germany, Sweden and China, and none of the Baltic States appeared among Finland's top ten trade partners.<sup>4</sup> In short, in terms of trade links, two groups have emerged whose members trade amongst themselves, but not so much across groups. Estonia is the only country that to some degree spans the groups.

On the other hand, when it comes to foreign direct investment (FDI) the picture is very different, with the Scandinavian countries being the major investors in the Baltic States. Thus, according to Bank of Estonia data as of the end of 2009, for Estonia about 63% of the accumulated stock of FDI originates in just two countries: Sweden and Finland. For Latvia and Lithuania the origin of FDI is much less concentrated and at the end of 2009 the top two source countries for Latvia were Estonia and Sweden, with just 16.4% and 13.8% respectively, followed by Germany (6.9%) and Denmark (6.6%) (Bank of Latvia data). For Lithuania the biggest investors as of the end of 2009 were Sweden (11.8%) Poland (10.5%), Denmark (10.4%) and Germany (10.4%) (Bank of Lithuania data). So there is an asymmetry in terms of trade as compared with investment: the Scandinavian countries, and especially Sweden, are much more involved in the Baltic States as investors than they are as traders. The Swedish presence is especially strong in banking, telecoms and retailing.

### *The great income divide*

It is well known that the BSR contains both some of the EU's richest countries and also some of its poorest. At the time of EU accession the four new Member States from the Baltic region were in fact the four poorest countries in the EU, as measured by GDP per capita. With the accession of Romania and Bulgaria these two countries now occupy the last places. Strong economic growth in all three Baltic States pushed Poland below Lithuania and Latvia for a while, but with the impact of the recession in 2008 Latvia's GDP

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<sup>4</sup> See [http://www.stat.fi/tup/suoluk/suoluk\\_kotimaankauppa\\_en.html](http://www.stat.fi/tup/suoluk/suoluk_kotimaankauppa_en.html).

per capita has once again fallen below Poland's, and this is likely to be reinforced in 2009. Even at the height of the boom in 2007 the richest of the Baltic States, Estonia, was way behind the advanced countries of the region in terms of prosperity. The evolution of these developments is illustrated in Table 2.

Such large income differences have major implications for relations between the 'rich' and 'poor' countries of the region and also for the degree of integration that is possible, given the relative points of development. For example, income differences go hand in hand with differences in wages on the one hand and differences in capital stock on the other. This leads to flows of factors of production that that may be unwelcome in the respective host countries. An example of this is the 'notorious' Laval and Partners case, where a Latvian construction company won a contract to renovate a school at Vaxholm in Sweden. In order to implement the contract Laval and Partners brought in workers from Latvia, but their work at the site was blocked by Swedish trade unions (supported by the Swedish government), because the firm was paying less than Swedish union rates. This case illustrates a major barrier to real integration between the two shores of the Baltic Sea.

*Table 2*

**GDP per capita at purchasing power parity  
as % of EU-27 average**

	2004	2005	2006	2007	2008
Denmark	126	124	123	120	118
Germany	116	117	116	115	116
Finland	116	114	115	116	115
Sweden	125	120	121	122	121
Norway	164	176	184	179	190
Estonia	57	61	65	68	67
Latvia	46	49	53	58	56
Lithuania	51	53	56	60	61
Poland	51	51	52	54	58

Source: Extracted by the author from the Eurostat database.

Capital movements in the form of foreign direct investment have also been controversial. Thus, the banking system in all three Baltic countries is dominated by Swedish and other Nordic banks. Similarly, telecommunications is dominated by the Swedish *Telia-Sonera*, and retailing by the Swedish ICA (*Rimi* in the Baltic States). This foreign presence has given rise to a degree of xenophobia in the Baltic States. For example, in the spring of 2007 Latvia experienced a devaluation scare. In some quarters the blame was put on foreign (read Swedish) investors, and in many quarters the Swedish banks have been blamed for the over-lending frenzy that led to the property bubble.

### *Structural differences*

The income divide is just one of the ways in which the economy and society of the richer BSR differ from those of the Baltic States. There are enormous differences in many areas, such as taxation and the size of government, or the influence of trade unions and collective bargaining. Table 3 below compares the burden of taxation.

It is evident that the Baltic States and the Scandinavian countries are at opposite ends of the tax spectrum. Estonia and Latvia have a virtually a flat income tax,<sup>5</sup> with marginal rates of personal income tax of 21% in Estonia and 23% Latvia (increased to 26% again in 2010) and with no local income tax.<sup>6,7</sup> This contrasts with, say, Sweden, where one pays both local and national personal income tax with aggregate rates ranging from 46% to more than 60%, while in Denmark the income tax rate is 58.5% and in Finland ‘only’ 30.5%.

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<sup>5</sup> In both Estonia and Latvia there is a small untaxed income allowance.

<sup>6</sup> In the absence of local taxes a share of the income tax is in practice the major financing instrument of local authorities in the Baltic States.

<sup>7</sup> In Lithuania personal income tax has been subject to considerable changes, with the basic rate going down from 33% to 21% over several years. There has also been an attempt to simplify a rather opaque system of allowances and special rates. Nevertheless, the overall burden of personal income tax has been low.

Moreover, in Latvia until now<sup>8</sup> there have been effectively zero taxes on income from capital, i.e., dividends, interest and capital gains. These differences in tax rates give rise to a very different burden of income tax as a share of GDP, as can be seen in Table 3.

Table 3

**Tax comparisons in 2007**

	SHARE OF PERSONAL INCOME TAX AS % OF GDP (2006)	SHARE OF ALL TAXES AS % OF GDP	IMPLICIT TAX RATE OF CAPITAL*
Denmark	24.5%	48.7%	44.9%
Sweden	15.5%	48.3%	35.9%
Finland	13.2%	43.0%	26.7%
Estonia	5.6%	33.1%	10.3%
Latvia	6.0%	30.5%	14.6%
Lithuania	6.9%	29.9%	12.1%

Source: Extracted from the Eurostat database.

\* Revenue as a % of the potential tax base.

The vastly different role of trade unions and collective bargaining across the countries of the region is illustrated in Table 4. Again we see the same two groups: the highly unionized rich countries and the former communist states where trade unions represent only very small numbers of workers. In Sweden and Finland collective bargaining coverage is nearly universal, because the terms of collective agreements apply also to workers who are not union members. One consequence of this difference is that Denmark, Finland and Sweden do not have a statutory minimum wage, while in Poland and the Baltic States low-paid workers are protected by a statutory minimum. In the rich countries of the region a statutory minimum is unnecessary, because bargaining between social partners establishes

<sup>8</sup> A 10% tax on interest income and capital gains has been introduced in 2010 as part of the package agreed with the international lenders that have supported Latvia's stabilisation.

mutually acceptable wages. This represents very contrasting labour market models and has generated a potentially fatal barrier to the full implementation of the single market in the BSR or, if the barrier is relaxed, to the Swedish labour market model. One of the so-called 'four freedoms' of the European Union is the 'free movement of services', which, if realized, would integrate many EU services sectors. Of course, in practice this is far from the case for a variety of reasons. However, the Swedish system of wage determination and enforcement has made it virtually impossible for an outside enterprise to provide services on terms that are effectively different from those offered by local Swedish firms. As already noted, this was tested by the Latvian firm 'Laval and Partners'. The Swedish union action against Laval was backed by the Swedish government and the dispute was fought in a number of judicial arenas, culminating in a December 2007 judgment of the European Court of Justice, which ruled against the Swedish unions. In principle, the ambition of the Strategy to complete the internal market in the region should address this issue, but it remains to be seen how it will play out in the end, because it is up to the Swedish Labour Court to decide on how the ruling will be implemented in the national context. This has all the hallmarks of an instance of 'an irresistible force meeting an immovable object'.

*Table 4*

**Trade union density and collective bargaining coverage**

	COLLECTIVE BARGAINING COVERAGE	TRADE UNION DENSITY
Sweden	90%	78%
Finland	90%	74%
Denmark	80%	80%
Poland	35%	16%
Estonia	25%	11%
Latvia	20%	16%
Lithuania	10%	14%

Source: <http://www.worker-participation.eu/>

### *The social welfare system*

More generally, differences in history and in wealth have led to the emergence of very different social policy systems in the rich Nordic/Scandinavian countries and the poor former communist ones. In the Nordic/Scandinavian countries a combination of high taxes and a strong labour market role for the social partners has generated a social policy system which historically has been characterized by high social security in terms of the level of benefits, i.e., generous benefits and high replacement rates, and is also generous in terms of eligibility for payment, i.e., short non-eligibility periods, ability to receive benefits over a relatively long period and non-restrictive requirements for benefit award.<sup>9</sup>

By contrast, in Poland and the Baltic States the breakdown of the enterprise-based communist social safety mechanisms have left a void that has been difficult to fill. For example, the latest data on EU expenditures on labour market policies (LMP)<sup>10</sup> shows that in 2007 the EU-27 average expenditure on LMP was 2.11% of GDP. For all of the BSR rich countries the share was above this: Denmark spent 4.1% of GDP, Finland 2.75% and Sweden 2.48%. All the poor countries of the region had expenditures well below average – Latvia had 0.54% of GDP, Lithuania 0.34% and Estonia was bottom of the league with 0.19%. Poland performed a little better with 1.22%. Interestingly, the UK, with a share of LMP expenditures of just 0.67%, which, together with Greece, are the only EU 15 countries with a share below 1%, also has low collective bargaining coverage at 34% and low trade union density at 28%.<sup>11</sup> This supports the view expressed by Wiśniewski that “In practical terms, a natural ally for

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<sup>9</sup> According to Wiśniewski, “In recent years, however, the requirements for benefit award have become tighter. Extending the list of requirements for eligibility to social security benefits is partially an aftermath of the debate over benefit fraud committed by immigrants, sweeping through the majority of Scandinavian states in the 1990s.”

<sup>10</sup> See [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-DO-09-001/EN/KS-DO-09-001-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-DO-09-001/EN/KS-DO-09-001-EN.PDF).

<sup>11</sup> See <http://www.worker-participation.eu/>.

such states as Estonia, Lithuania or Poland among today's Member States, has proved to be the UK, which takes a rather reserved stance towards the option of further harmonization of social policy and delegation of competencies on social affairs from the level of the state to European institutions".<sup>12</sup>

Similarly, there are great differences in expenditure on social protection in general. The latest figures published by Eurostat<sup>13</sup> indicate that Denmark (social protection expenditures at 29% of GDP), Sweden (30.7%) and Finland (26.2%) have some of the most generous social protection systems in the EU, whereas Estonia (12.4%), Latvia (12.2%) and Lithuania (13.2%) are the least generous.

The 'natural alliance' with the UK (and Ireland) rather than the Scandinavian countries appears in other spheres too. For example, the Baltic countries have strongly opposed EU initiatives in the area of tax harmonization – especially in the taxation of corporate income.

In short, it has to be concluded that the economies of the Scandinavian countries and of the Baltic States (and Poland) are vastly different in almost all features: prosperity, taxation, role of the social partners, and social welfare systems. The Scandinavian countries are keen to send capital across the Baltic Sea (or at least they were before the crisis), but are much less willing to receive workers and services.

## Identity and societal perceptions

How much common identity is there in the region? Arguably, among the rich countries of the region there is probably quite a lot of shared identity – Denmark, Norway, Sweden and Finland have a very close common history and the first three almost a common language. They see themselves as culturally close, and as early as 1952, through the creation of the Nordic Council, introduced a common labour market and passport-free travel between themselves.

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<sup>12</sup> Wiśniewski J. Mobility of labour and services in the Baltic Sea Region. *UKIE Analytical Paper Series* No. 19, August 2008, p. 7.

<sup>13</sup> See Statistics in focus [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-02062009-BP/EN/3-02062009-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-02062009-BP/EN/3-02062009-BP-EN.PDF).



On the other hand for the Baltic States and Poland the situation is quite different. Firstly, there is no common language (except perhaps Russian!) – Latvian and Lithuanian have common roots, but the languages are not mutually intelligible in the way that Danish, Norwegian and Swedish are. Estonian is totally impenetrable to anyone from Latvia or Lithuania. Their common history is mainly one of subjugation to outside powers – in recent times principally Russia (including in its USSR guise). While outsiders tend to regard the Baltic States as a unit, and are often unable to distinguish one from another, the countries themselves are fiercely independent and nationalistic. Neither in the interwar period nor in the early post-Soviet area was it possible to achieve a common economic/political space in the manner of the Nordic countries. In fact a common economic space was only achieved through simultaneous accession to the EU in 2004, when it was realized automatically. For the region as a whole there are, of course, the economic differences already discussed, and these have had implications which themselves arguably have had a negative effect on societal perceptions. For example, differences in incomes and factor endowments have led to a flow of capital from the Scandinavian countries to the Baltic States. Thus, Baltic States banking is dominated by Swedish banks, similarly telecoms in the Baltics is dominated by the Swedish *TeliaSonera*, and in supermarkets *Rimi*, which is a subsidiary of ICA AB, is a major presence in the Baltic States. All of this is quite natural and desirable, but the very visible presence of some of these enterprises in the Baltic countries has sometimes brought a xenophobic reaction in the host countries. Thus, the Swedish banks are often regarded as acting in the interests of Swedish foreign investors. Foreign retailers have also been blamed for high food prices in Latvia.

Income differences typically lead to flows of migrant labour, however here the unionized labour markets of the Nordic countries do not make it especially attractive for employers to hire workers, except in some areas of shortage, e.g. medical workers. This has meant that Baltic and Polish economic migrants have headed for the much more flexible labour markets of the UK and Ireland.

The already-mentioned Laval and Partners episode illustrates how fiercely the Swedish unions can be expected to react when they are threatened with lower cost labour.

At a more subjective level opinions and attitudes confirm the perception of a divide. Thus, a study by Dahlander<sup>14</sup> which surveyed Swedish opinions about the BSR included the following questions and received the corresponding responses:

*Do you think the BSR is an area that one could say exists in the same way as the Nordic countries?*

Definitely yes or yes	43%
Definitely no or no	49%

*Which societal conditions do you primarily associate with Sweden/Denmark/Finland?*

Democracy	63%
Development	39%
Growth	30%
Pollution	17%
Crime	15%
Poverty	3%

*Which societal conditions do you primarily associate with the Baltic republics and Poland?*

Poverty	39%
Crime	38%
Pollution	35%
Development	24%
Growth	24%
Democracy	7%

Thus, while in the Baltic States there are negative views of the richer neighbours to do with economic exploitation, the view of the

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<sup>14</sup> Dahlander J. The Swedish public's view on integration in the Baltic Sea area – Democratic legitimacy for a Baltic Sea region? SIDA Baltic Sea Unit, March 2006, pp. 8–9.

Baltic States from Sweden (as compared with the Nordic countries) is not very flattering either.

Other differences in attitudes across the Baltic Sea include:

- attitudes to the US (the Baltic States are NATO members and strongly support the US on many issues);
- attitudes to Russia (the Baltic states are strongly suspicious of Russia).

Finally, a common currency is often a symbol of political and societal unity. However, the littoral BSR currently has nine countries and eight currencies. Among the EU Member States of the region the Baltic States are extremely keen to adopt the euro, indeed they are effectively engaged in a 'race to the euro'. By contrast, Sweden and Denmark are unlikely to adopt the single currency in the foreseeable future and may never adopt it.

### The impact of the crisis

All countries in the region have been affected by the crisis, but the impact has been much bigger in the three Baltic countries, with the result that disparities across the Baltic Sea have widened. The impacts on GDP, employment and unemployment are shown in Table 5.

*Table 5*

**Impact of the crisis, changes from 2008 Q1 to 2009 Q4**

	GDP (% CHANGE)	EMPLOYMENT (% CHANGE)	UNEMPLOYMENT (% POINTS INCREASE)
Estonia	-15.1	-11.6	11.1
Latvia	-24.3	-18	15.5
Lithuania	-14.2	-8.4	11.7
Denmark	-5.2	-3.4	4.3
Finland	-8.0	-2.7	2.5
Sweden	-7.2	-1.4	2.9

Source: Calculations by the author based on data extracted from the Eurostat database

Apart from smashing the optimistic convergence scenarios which prevailed, especially in the Baltic States, in the boom years, the crisis has left people looking for scapegoats, and here the Swedish banks have been an easy target. Not only were they implicated in fuelling what is now seen as an unsustainable boom, they are now seen as extremely unwilling to lend, but very willing to chase defaulting borrowers. So, sentiment towards integration has worsened.

There is little doubt that the crisis has had the effect of worsening the divide across the Baltic Sea and of worsening the prospects of joint action towards more regional integration. This is particularly true of the commitment of resources, where the fiscal austerity imposed by the recession implies a minimal willingness to spend on projects where benefits leak out across borders.

### **The impact of the Strategy?**

Although the rhetoric of the Strategy is much of the time notably upbeat, with a stress on coordination and joint action, there is one area where the stark reality is not hidden. This is the ‘no new money’ condition. It is quite clear that in the foreseeable future there will be no additional resources to ‘implement’ the Strategy. This is bound to severely limit its impact in terms of additionality. This can clearly be seen from the projects and programmes to be found on the website of the Strategy. Thus, typical national projects are environmental or have only a national payoff, e.g., management of major oil-spills (Finland); waste management (Estonia, Latvia, Lithuania and Poland); improving accessibility to the Baltic Sea islands (Estonia); the Rostock-Berlin railway (Germany). Similarly, seven of the 15 priority areas listed on the website are linked to the environment, mostly to the Baltic Sea itself.

Only two of the priority areas concern the economy, and neither of them addresses the disparities discussed earlier or the structural differences between countries. Thus, the most ‘economic’ of the priority areas is No. 6: “To remove hindrances to the internal market

in the BSR including to improve cooperation in the customs and tax area". Within this we have subheadings such as 6.1., "Remove remaining single market barriers", or 6.6., "Encourage sharing of competences between accreditation bodies". The first is clearly very important, and if it can be achieved, the 'if' being crucial here, it would facilitate the economic integration of the region to the benefit of the poorer countries of the region in particular. The second (and several of the sub-priorities are similar) is hardly earth-shattering.

In truth, without funds that are dedicated to the Strategy there is very little incentive for individual countries to use national resources on projects 'for the common good', except in the area of the environment, where there is truly a common interest. Even here, there can be much wrangling over how burdens are shared.

Interestingly, the one programme that fits the model of the Strategy is the BSR Programme 2007–2013, an explicitly cross-border programme aimed at "the development towards a sustainable, competitive and territorially integrated Baltic Sea Region (BSR) by connecting potentials across borders". But this is not new money and has in effect been co-opted by the Strategy, and in any case is not all that much money. The programme has a total budget of 293 million euro, which is tiny as compared with national cohesion policy resources.

A further potential psychological shortcoming of the Strategy is that it has developed into something that appears driven by the richer countries of the region. A pattern emerged in the years following the breakup of the Soviet Union in which typically Sweden, Finland and Denmark took the lead in regional projects and initiatives, with the Baltic States as followers. Perhaps early on, it was natural that the new nation states of Estonia, Latvia and Lithuania should look across the Baltic Sea to their richer Scandinavian and Nordic neighbours for example and inspiration. It was natural, given that the three Baltic States were new to international statecraft, that the established nations should take the lead in regional initiatives. This order of things was reinforced by the fact that the richer countries were typically also the 'payers'. Arguably, this has led to

a political environment where the richer countries have set the agenda of regional action. EU accession in 2004 has in part levelled the playing field, but even now there remains an imbalance. Thus, the outlines of what is now the Strategy were originally written and proposed by the Baltic Strategy Working Group of MEPs, including members for Latvia and Estonia, and none from Sweden. However, since then it has been 'adopted' by Sweden for its EU presidency in 2009. Of course, it has been important for the Strategy that it should have executive support, but arguably there is an image issue. The Strategy has become a Swedish initiative, just as the Northern Dimension became a Finnish policy.

### Concluding remarks

This has been an attempt at a 'realistic' review of the extent and degree of integration and disparities within the BSR, and an assessment of what the Strategy can contribute. Where do we really stand? The facts are hard to dispute and may be summarized as follows:

- the Cold War absolute division of the region has been removed;
- however, the former communist countries remain much poorer;
- a major societal/cultural divide remains;
- there is no common vision on how to deal with Russia;
- regional institutions are notably weak in implementation.

Thus, there is much asymmetry and, arguably, limited common interest apart from the Baltic Sea. The Baltic Sea itself represents one clear potentially unifying factor. The ecological status of the sea, which defines the region, concerns the collective interest of all Baltic Sea states, and this common interest clearly has potential for promoting cooperation and integration. This has been recognized in the creation of the Helsinki Convention, governed by HELCOM, which has as one of its concrete results the Baltic Sea Action Plan, aimed at restoring a 'good ecological status' to the Baltic marine

environment by 2021. Implementation, however, remains the problem, and how to share the resource burden remains the key stumbling block.

In a sense, the Strategy is an attempt to extend the common interest of the countries making up the BSR beyond the common environmental concerns. However, right now, with most of the region in recession and with no new funding on the table, this may not be the most propitious time to have launched such an initiative. But there remains hope: even now an opportunity is emerging that may offer a relatively painless way of shifting resources towards the objectives of the Strategy. This lies in the fact that discussions are beginning on the new post-2013 structural funds programming period. It is very likely that the funding model will be much changed from what has prevailed before, with a switch away from national funding and with cross-border funding playing a much larger role. This will give the Strategy a chance. As a model, the region does in practice have many examples of successful cross-border cooperation at the municipal level and has a very good example of a successful and integration-boosting cross-border infrastructure project – namely, the Oresund Bridge between Malmö and Copenhagen, opened in 2000 and linking the Swedish motorways with the European route E20 in Denmark, and physically connecting the railway systems of the two countries. The bridge, which was regarded by many with scepticism, has dramatically changed the economy and society of that region. In short, there is hope that the BSR can emerge as more truly integrated, but probably not for some time.

# **Free Movement of Knowledge in the Unified Baltic Knowledge Area – the Cornerstone for Implementation of the Strategy**

EDVĪNS KARNĪTIS

When analysing the EU Strategy for the Baltic Sea Region and the accompanying Action Plan, everyone identifies four pillars – environment, economy, energy and transport, as well safety and security. But substantial questions also appear at the same time. Is it a unified programme, rather than simply an arrangement of several different priorities or plans? Does something unite these priorities? What ensures the cohesion of resources, goals and actions necessary to achieve the set goals of any strategic document? How to ensure implementation of the Strategy?

## **The Strategy – a unified knowledge-based development model**

More careful study of the Strategy and even reading between the lines (which is necessary in the case of strategic political documents) leads to the discovery of a conjunctive aspect, which is not directly defined either among the pillars or in horizontal section: the creation of new knowledge, exploitation of the accumulated high knowledge potential of the population, with the wisdom and capability to convert this potential into practical benefits. The priority lines (e.g., to exploit the full potential of the region in research and innovation, and to maintain and reinforce the attractiveness of the Baltic Sea Region (BSR) through education in particular), the flag-



ship projects (e.g., to fund innovation and research, and to establish joint curricula in universities), and the strategic and cooperative actions perfectly identify a common trend of knowledge-based development and the well-known dependent keywords: education, R&D, innovation.

It is easily understandable that economic prosperity, reliable energy supply and an advanced multimodal transport system are not possible without development and implementation of knowledge-capacious products (innovative goods, services and processes). Also, an innovative approach, advanced methods and knowledgeable people represent the cornerstone for achieving goals related to the Baltic Sea environment and ecosystem, ensuring safe maritime traffic and reducing the volume of crime.

Knowledge in particular is the driving force of the Strategy. Complex knowledge management, with coordinated and targeted creation, accumulation, sharing and exploitation of knowledge as an integrated process, determines the potential effectiveness of projects, actions and the Strategy as a whole.

This does not mean only inventions or discoveries. Much more typical will be regular gradual improvements of existing products. Knowledge has to become a component of daily processes, with knowledge-based activities in every field. All this offers promising possibilities to small countries, and to small and medium enterprises.

Much more than this: even the development of macro-regional strategy as such is a political innovation on the EU scale. It represents a growing comprehension of the true size of the EU at the present day, of growing differences in the enlarged community (big and small, Northern and Southern countries, high but quite varying levels of human development,<sup>1</sup> etc.), and of the present contradictory half-way EU organizational model – somewhere between a network of countries and a federal state. Therefore, successful implementation of the Strategy is important not only for the BSR

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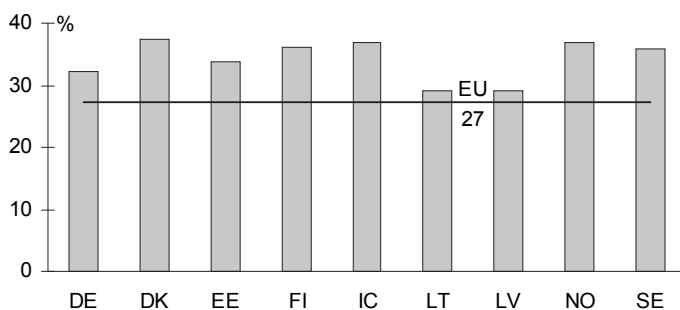
<sup>1</sup> Human Development Report. <http://www.undp.org/hdro>.

countries. It will show how effective this approach could be in other EU regions and in EU as a whole, too.

To be sure of success, let us evaluate briefly our strengths and opportunities in relation to a substantially knowledge-based development model, and analyze existing weaknesses and threats in order to mitigate them.

### The BSR knowledge resource: high and perceived

The BSR countries have defined the knowledge and wisdom of the population, and their efficient and purposeful use, as the basic strategic resource for development. The common vision is this: in the 21st century progress will be decided by education, investments made in human capital and public motivation to acquire knowledge. Top qualification specialists have already become the strategic intellectual potential of any country of the region.



*Figure 1. Human resources in science and technology as a percentage of the population aged 15–74 (2008)*

The region has always respected knowledge – let us mention the science centres of Northern Germany, the universities in Vilnius, Tartu and St Petersburg, the world's most prestigious prize, established by Swedish inventor and manufacturer Alfred Nobel, etc.

As a logical continuation of these intellectual traditions, the countries of the region have currently accumulated a **critical mass** of knowledge that is necessary to implement a knowledge-based course of development.

Human resources in science and technology in the majority of countries nowadays exceed the EU27 average level (Figure 1).<sup>2</sup> Also, the proportion of R&D personnel in leading countries is high, although the gap among countries is wider.<sup>3</sup>

There are promising perspectives. The number of innovation-related graduates regularly exceeds the EU27 average level.<sup>4</sup> Society has understood the necessity of life-long education, and people willingly participate in various training activities.<sup>5</sup> Budget appropriation shows the political attitude: public expenditure on education in the majority of BSR countries regularly exceeds the EU27 average (Figure 2). Several BSR States have reached (or are very near) the main targets of the Lisbon Strategy with regard to R&D financing: 3% of GDP spent on R&D, including 2% business financing.<sup>6</sup>

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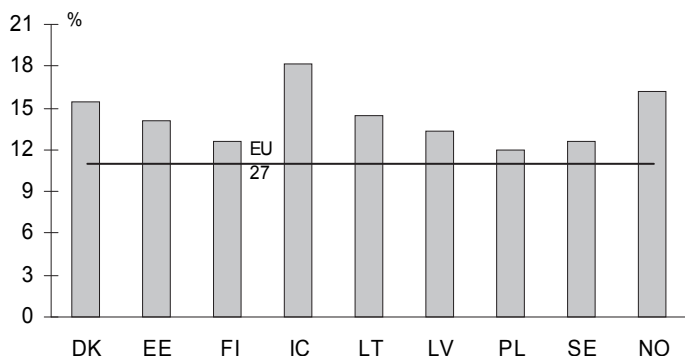
<sup>2</sup> Here and further statistical data from Eurostat.

<sup>3</sup> Total R&D personnel as % of total labour force (2007): IC – 3.06%, FI – 2.97%, SE – 2.42%, NO – 2.39%, DK – 2.35%, DE – 1.73%, while PL only 0.72%, LV – 0.93%, EU27 – 1.46% in 2008.

<sup>4</sup> Number of graduates (ISCED 5–6) in mathematics, science and technology per 1 000 of population aged 20–29: FI – 18.8, LT – 18.1, DK – 16.4, PL – 13.9, SE – 13.6, EE – 13.3 graduates in comparison with EU27 – 12.6 graduates (2007).

<sup>5</sup> 79.7% of total population participate in any learning activities in DK, FI – 77.3%, SE – 71%, LV – 46.2%, DE – 41.9% in comparison with EU27 – 42%.

<sup>6</sup> Gross R&D expenditure (2008): SE – 3.75% of GDP, FI – 3.7%, DK – 2.75%, IC – 2.65%, DE – 2.65%, EU27 – 1.9%, although LV, PL, LT have not achieved the level of 1% yet; business R&D expenditure: SE – 2.78%, FI – 2.76%, DK – 1.91%, DE – 1.84%, EU27 – 1.21%.



*Figure 2. Public expenditure on education as a percentage of total public expenditure (2006)*

These figures show that every BSR country exceeds the EU27 average level in a number of knowledge-related aspects, although some indicators also expose a significant gap among them. This also applies to the partner countries (Norway and Iceland), along with the region of St. Petersburg, which is considered to be one of the main knowledge centres of Russia.

### **The goal of development – improving the quality of life**

If knowledge is accepted as the decisive resource, then it follows that human beings, as the creators and carriers of knowledge, are and will increasingly be the most important developmental factor. General participation and involvement of all members of society becomes necessary in order to utilize the knowledge resource efficiently. To achieve this, the goals of development have to be interesting for humans. Each person must have the motivation to utilize his or her knowledge resource, to share his or her intellectual property with other people in order to achieve certain benefits. Development that is based on human capacity should be targeted to human-

centred goals that are understandable for everyone and correspond to the interests of humans.

The wording used in the development strategies of the BSR countries varies, but the essence is the same: quality of life (a higher level of welfare, security for everyone, a better future for the children and grandchildren) is defined as the highest strategic goal of development; it has become the top priority for all BSR countries. Seeing the quality of life as a multi-dimensional concept, a number of closely interlinked aspects (including economic development, environmental issues, internal and external security, etc.) are and will be enhanced in a coordinated and balanced way to achieve a synergy effect.

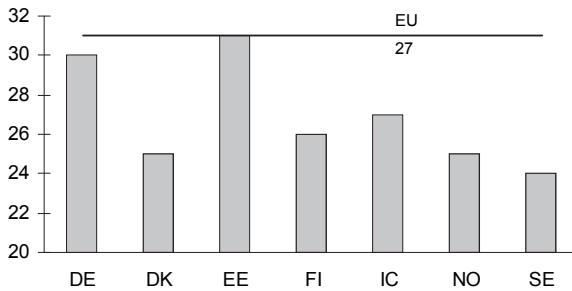


Figure 3. The Gini Coefficient (2008)

Individual interests, of course, are diverse, subjective and deeply personal. People in different BSR countries have a different ranking of values (although in the current situation employment has become the most important issue).<sup>7</sup> The long-established cultural traditions of the EU are to be implemented in the globally most humane manner that is oriented towards social cohesion, secure for the society and the individual, and friendly to the environment. There is a more

<sup>7</sup> Standard Eurobarometer 72. [http://ec.europa.eu/public\\_opinion/standard\\_en.htm](http://ec.europa.eu/public_opinion/standard_en.htm).

balanced distribution of income in the BSR countries in comparison with the EU27 average level (Figure 3), although social problems in the Baltic States are still waiting to be solved. The emphasis on environmental and security issues in the Strategy is a strong confirmation of a human-centred policy, of a common trend towards improving the quality of life.

In addition, analysis shows that the scale of fundamental ethical values of people in the BSR includes similar priorities.<sup>8</sup> Greater significance is attributed to secular-rational values (motivation for work, studies and career, trusting people, etc.) in comparison with traditional and even irrational values (good and evil, faith, a nationalistic outlook, etc.). Consensus in qualitative terms at the level of fundamental values can be considered a stable consolidating factor of BSR society.

We may conclude that the BSR countries have the same goals, although there are different starting points and hence also different time-scales for reaching the goals. The similarity of growth resources and strategic goals can serve as a stable basis for a new, higher-level integration model for the region, and for concerted action by all BSR countries.

### **Exploitation of the knowledge resource – the weakness**

If the knowledge potential of the BSR countries is capable of serving as the resource for growth, the natural question is: what is the current return of this resource?

In various rankings of the countries of the world, the BSR countries are always placed in the group of leaders. The majority of BSR countries are classified as innovation-driven economies, only Latvia, Lithuania and Poland being in transition from an efficiency-driven

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<sup>8</sup> World Values Survey. <http://www.worldvaluessurvey.org/>.

economy to an innovation-driven economy.<sup>9</sup> Sweden, Finland, Germany and Denmark are ranked as innovation leaders, Estonia as a moderate innovator, and Latvia and Poland as countries catching up, where innovation performance is increasing towards the EU average.<sup>10</sup>

The situation is not nearly as hopeful if we analyse various components. The knowledge resource (including human resources, and expenditure on R&D and innovation), which can be classified as the enabler of innovation, really is a very strong base. Much worse is the real tangible (innovative companies and products) and intangible (patents and trademarks) return of the resource, which contrasts with the high evaluation of the capacity of the BSR. The proportion of high-tech products (e.g., telecommunication equipment, medical and analytical apparatus, automated machines and electric technologies, pharmacology) in exports is low (Figure 4), only Finland and Iceland exceeding the EU average level.

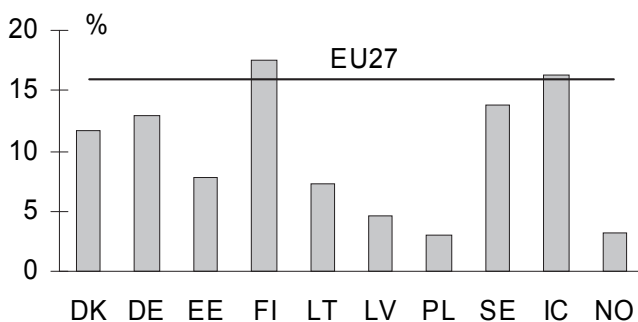


Figure 4. Exports of high-tech products as a percentage of total exports (2007)

<sup>9</sup> Global Competitiveness Report 2009–2010. <http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>.

<sup>10</sup> European Innovation Scoreboard 2008. <http://www.proinno-europe.eu/node/19270>.

The number of patent applications to the European Patent Office is significantly lower than the EU average figure (Figure 5). Also, growth performance in the majority of BSR countries, i.e., the dynamics of development, is lower than the EU27 average level (which also seems non-competitive: the increase of outputs is four times lower than the growth of enablers) (Figure 6).

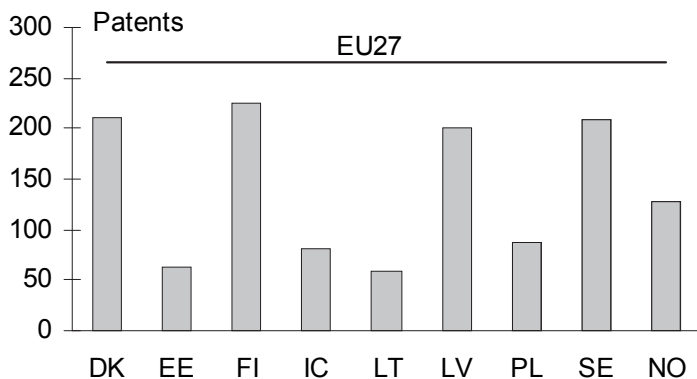


Figure 5. The number of patent applications to the European Patent Office by billions of EUR of total R&D expenditure (2006)

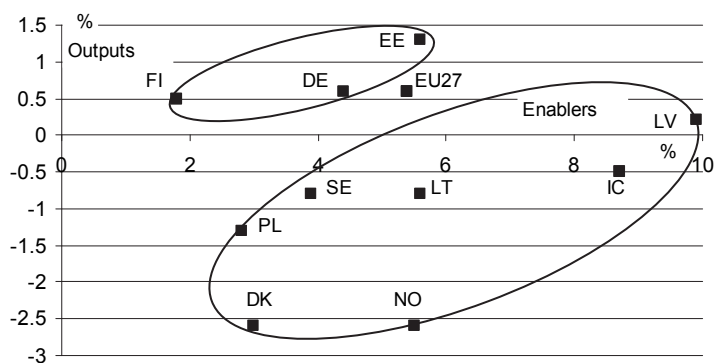


Figure 6. Innovation growth performance, average annual growth (%)



There is an objective reason for the above-described weakness.

The highest value added (i.e., input into GDP) could be produced if a country implements a full creative process: *education – research – innovation – development of products – production – market*. It needs to be understood clearly that, although the quality of knowledge potential of the population in the BSR countries can ensure implementation of the full knowledge-based process, the resource is very fragmented. There are quantitative factors that seriously inconvenience realization of a full innovation cycle in eight of the eleven Member States and partner countries: limited human resources and the small size of the national economy (Figure 7).

The domestic market is too small to support technical progress in knowledge-capacious industries (e.g., pharmacology, aerospace, new materials, etc.) and occupy a market niche. The innovative capacity of countries is low due to lack of long-term investments for realizing the complete innovation process.

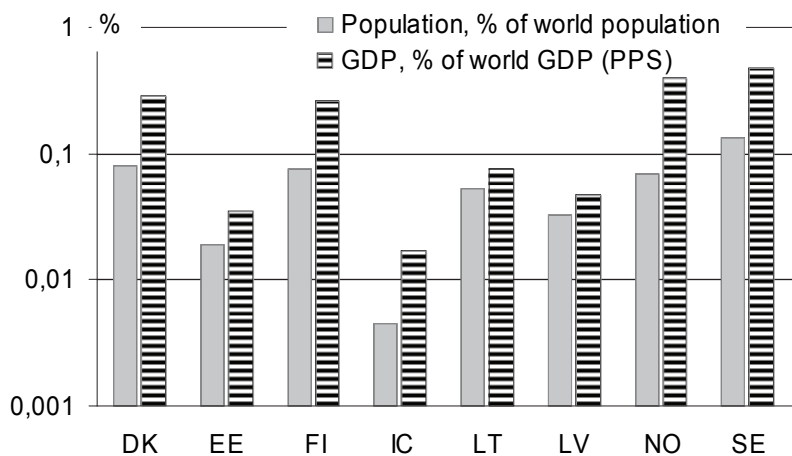


Figure 7. The Baltic Sea Region countries: human resources and economy (2009, est.)

Only three of the BSR states (Russia, Germany and partly Poland) can be classified as big or medium-sized countries; besides regions bordering with the Baltic Sea, they include other territories, which can be involved in implementation of the full cycle. However, Russia and Germany are federal states, which also creates some barriers for internal cooperation.

At the same time additional subjective factors exist. The academic community is not sufficiently motivated to engage in applied research and innovation, whereas business is not oriented towards knowledge-intensive products and technologies. Both factors mean weak exploitation of our knowledge potential, and motivation has to be improved so as to solve the above-described objective problem.

### **A unified Baltic Knowledge Area – the free movement of knowledge**

Nowadays the mutual interconnection of globalization and localization processes ('glocalisation') promotes restructuring of the world economic system. The rapidly expanding international work division is based on the comparative advantages of individual countries and regions, as well as on their mutual cooperation.

The larger partners in a networked world have much greater opportunities. If the BSR countries taken separately have too limited resources for long-term competition with the global powers, the solution is natural: consolidation of resources and activities, strong and equal international collaboration (even integration), including ramified transnational knowledge flows, sharing knowledge and activities, mutual supplement and matching investments. Countries have to participate in these processes as full-fledged partners; they are becoming competitors and cooperation partners simultaneously. This also applies to innovative processes.

Stronger partnership and unity is the chance for all countries of the region. Even the collective capacity of the eight small Baltic and Nordic countries both at the EU and global scale should be taken

into account (0.47% of world population and as much as 1.59% of world GDP in 2009). Together with the potential of big countries, it forms a globally competitive resource, which will increase the competitiveness of the countries and the region as a whole, and will strengthen common priorities and the relevance of the BSR in international organizations.

The present conformity of growth resources and strategic goals of the BSR countries is a substantial precondition for the creation of a deeply integrated network of partners; the level already achieved ensures a high probability that it will function successfully.

A knowledge-based partnership model really means that in addition to the four EU fundamental freedoms (free movement of goods, capital, services and persons), the fifth freedom has to be established on the BSR scale – free movement of knowledge. This will enable ramified knowledge flows, including (but not only):

- flows between universities and enterprises (i.e., between public and private sectors) – common R&D, patenting, publications;
- flows between enterprises – technological cooperation, development of products, marketing; this is especially important in industries where R&D is very expensive (e.g., pharmacology, biotechnology, aerospace, ICT);
- knowledge transfer and adaptation in enterprises from any source;
- direct contacts (e.g., conferences, informal contacts) and mobility of personnel, including mobility between the public and private (academic and business) sectors.

Implementation of the free transnational movement of knowledge actually means creation of a unified Baltic Knowledge Area (BKA) in the whole BSR, which is based on political consensus and a harmonized legal environment; which includes the full knowledge-intensive process *education – research – innovation – development of products – knowledge-capacious industry*; and in which each state applies its competitive knowledge potential. As the environment for ever-closer cooperation, the BKA has to:

- integrate the strengths and exploit the comparative advantages of the countries;
- consolidate the knowledge potential and minimize fragmentation;
- provide unified knowledge management.

Only in this case will the BKA ensure the necessary synergy by increasing the innovative capacity of all partners and stimulating the efficiency of innovation. Integration will become beneficial for all partners.

Knowledge-based partnership is fundamentally a more sensitive issue in comparison with tangible processes, and at the transnational scale this is felt even more acutely. Therefore, to achieve sustainable free movement of knowledge and functionality of the BKA:

- the Strategy should be strengthened by transnational political agreement that will provide confidence in long-term stability of the common trend and partnership; this also applies to expansion of the Strategy to partnership with countries that are part of the European Neighbourhood Policy – Norway, Iceland and the Northwest region of Russia;
- additional legal documents have to ensure the development of a harmonized (even unified) normative environment in the BSR, accenting the particularity of knowledge-based processes – the migration of basic competition from industry to development of products.

The existing regional organizations of the BSR (at both parliamentary and executive levels) have to be, and could be, exploited to this end.

### **Implementation of the BKA: based on cities**

There is a well-known tendency of knowledge concentration: pre-existing knowledge attracts more, enabling and supporting new ideas, discoveries, approaches, publications, patents, etc. However, only knowledge created in cooperation with manufacturing industries can be commercialised by turning it into new products (goods, services, processes or technologies).

Therefore, innovative enterprises, educational, R&D and support institutions, which are active in some sector, have historically concentrated in limited territories (usually cities), forming regional clusters,<sup>11</sup> e.g., the Tuttlingen medical technology cluster; the West Holland (Aalsmeer) flora cluster; and Grasse, known as the ‘perfume capital of the world’. The concentration of innovators within a small physical distance creates the necessary critical mass and capacity of knowledge that results in collaboration and synergy. In the BSR countries, too, cities are the most realistic knowledge centres, e.g. the Helsinki-Espoo high-tech clusters, and the medical engineering expertise of Lübeck.

If cities are the real knowledge hubs, then the practical realization of the BKA has to be, and could be, based on a transnational network of cities of the BSR. Collaboration is not a novel issue for BSR cities – there are age-old traditions.

The Hanseatic League, an economic and even political alliance of Baltic and North Sea region cities (in the 14th–17th century), actually implemented many of today’s EU principles: harmonized legal systems, mutual aid and advantages in trade and transportation, coordinated monetary systems, customs facilitation, resolution of mutual disputes. Knowledge, too, was always valued in the cities of the League (e.g., the universities of Kraków, Münster, Gröningen and Tartu). This attitude has been retained at the present day (e.g., three Nobel Prize winners from middle-sized city of Lübeck). The Copenhagen-Malmö *Medicon Valley*, containing biotechnology and pharmacology clusters, is a vivid example of today’s transnational partnership.

Nowadays the networking of cities/clusters (the renaissance of Hanseatic League – a model for the 21st century!) will once more ensure win-win results for them. To create such a knowledge network, the governance of the every city should be possessed of:

- high capacity, with regard to both decision-making and executive functions;

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<sup>11</sup> The “European Cluster Observatory” has identified more than 2000 regional clusters. <http://www.clusterobservatory.eu>.

- rights to initiate and implement any activity (which is not directly prohibited by law);
- rights to define its own management structure and processes.

To provide full compatibility between national and local interests (which, of course, is one of the principal necessary preconditions for the development of a well-balanced BSR), cities as knowledge hubs of national significance have to become a driving force for the development of the whole hinterland, transforming their benefits, achieving the needed synergy and promoting development of the hinterland, as well as the whole country.

Today's advanced information and communications technologies provide an immense opportunity to bridge the geographical remoteness of potential partners, to create active remote partnership.

Advanced ICT (broadband Internet connections and business data processing systems) are strong enablers for an innovative economy, including dispersed and virtual clustering in a networked environment. The level of infrastructure and electronic communications services provided (access, quality, penetration, etc.) in BSR countries is generally in accord with the demands of innovators.

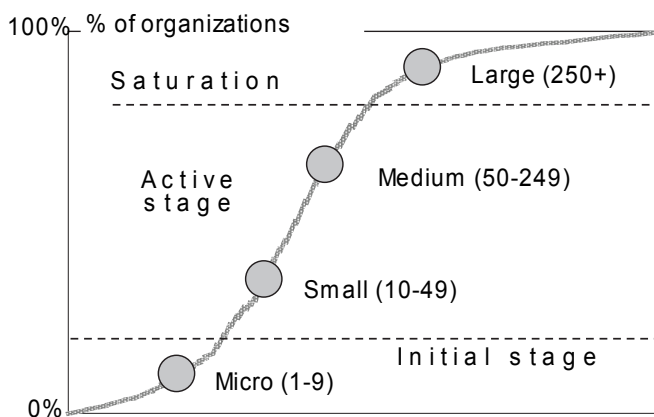


Figure 8. The introduction of ICT tools and services at organizations

Nevertheless, major differences persist among enterprises/institutions: small and even medium-sized organizations lag far behind large organizations (Figure 8). This really is a risky situation: micro and small organizations may find themselves entirely excluded from the networks of partners. This is why micro and small enterprises require specific support for the introduction of ICT tools.

### **Action lines to implement the Baltic Knowledge Area**

Setting up the BKA politically and legally (i.e., minimization of existing normative differences and limitations) first of all means integration of the BSR countries for acquisition of the existing knowledge resources (education, research) and creation of new resources. To network BSR countries and to motivate education and research institutions and people towards innovation, a number of lines of action have to be performed (but not only these):

- to form a transnationally harmonized and purposeful intervention policy and activities in the education and research system, further stimulating the participation of business in research, involving enterprises in the activities of transnational science/excellence centres, promoting the participation of business in international research and technological development projects and knowledge/technology transfer;
- to form a transnationally harmonized normative environment for intellectual property protection;
- to promote international association and cooperation of universities (higher education institutions) and research institutions in developing joint study programs and research projects;
- to perform common activities for attracting knowledge and talent to the region, focussing on the quality of the BSR higher education system; at the same time to minimize the brain drain from the countries of the region;

- to promote the training/practising of high-level specialists at universities/research institutions of other BSR countries; to promote the mobility of researchers, professors and students;
- to initiate and promote NATO research and technology development programmes in a regional context and the active involvement of researchers in the programmes, working groups and activities;
- to identify the core technologies of the next global technological wave and to prepare for the coming wave.

Innovation is coming from business and is for business. Selective business support must be strengthened, so as to ensure that innovative businesses are the most profitable ones. Government support for network-based business is important, and this is particularly true when it comes to international cooperation. Here are a few issues that have to be considered (but not only these):

- to promote transnational knowledge transfer and partnership networks on a basis of equal rights: cooperation between universities and enterprises, as well as among enterprises, diffusion and adaptation of knowledge and advanced technologies in enterprises from any source/donor, direct contacts between personnel and mobility of employees;
- to form an internationally harmonized business environment in the BSR countries, coordinating fiscal, legislative and administrative rules, updating the existing normative acts on BSR, national and local levels, and elaborating new ones, estimating and strengthening their positive influence on innovation processes, further minimizing barriers for innovative business;
- to promote the development of transnational clusters (including dispersed and virtual clusters) for cooperation during the whole process *R&D – manufacturing – sales*; to emphasize knowledge-capacious sectors and products;
- to support the development of international networking of clusters for widespread interdisciplinary research, product development and manufacturing;



- to promote transnational seed, risk and start-up capital funding in various areas, thus providing these on a regional scale, which is necessary for their effective application;
- to form an image of the BSR, and its countries and cities (including aggressive marketing) that associates them with creativity and innovative products.

Only motivated people can be successful in knowledge-based activities. To achieve the inclusion of all persons who live and work here, coordinated and balanced development of each aspect of their quality life has to be achieved. Lines of action include (but not only):

- to build a society open to any form of innovation (including political leaders, businessmen and the upcoming generation), to scale up comprehension in society of the significance of knowledge and innovation for an improvement in the quality of life, to awaken motivation and to create possibilities for everyone to obtain education and to become involved in creativity;
- to continue strengthening the sound social model traditional for the BSR (including prevention of possible conflicts among various strata of society, cooperation with trade unions, support of local communities, etc.);
- to share provision of highly specialized knowledge-capacious services (education, health care, etc.) among the BSR countries, providing free and equal availability of services for the whole population of the BSR (including remote access);
- to strengthen activities that are directed to environmental protection: Baltic Sea problems (coastal erosion, pollution, etc.), climate changes, air pollution, drinking water, eutrophication;
- to strengthen transnational cooperation for an increase of internal security, including cooperation in civil protection and rescue.

## Conclusions

We can conclude that the countries of the Baltic Sea Region have currently accumulated a **critical mass** of knowledge that is higher than the EU average level and that in general is adequate to serve as a basis for further growth; all countries of the region will be capable of participating in activities as fully-fledged participants. But current exploitation of this resource remains weak and potential benefits have not been achieved.

The countries of the region are aware of the need to function jointly; it is the right time to raise cooperation of countries to a higher level. The creation of a unified Baltic Knowledge Area, ensuring free movement of knowledge, is an optimal decision for all countries of the region. No country and no individual can exist in isolation. Only a common policy and cooperation among all partners will give all the BSR countries opportunities to find the best ways of using their advantages and potentials, and to minimise the influence of weak points.

Diplomats and governments have to act now, forming the necessary political and normative basis for the creation of the BKA and collaboration of incorporated countries.

The Baltic Sea Region is today a very smart and dynamic region. But the location of a country within this region does not only mean benefits and opportunities. It automatically presents higher demands, if the region is to maintain its leading position in the future. The creation of the BKA, ensuring free movement of knowledge, would become a serious pilot project for whole EU. Global processes do not give us a long time to prepare. It can be estimated that in the next 5–7 years strategic decisions should be approved and implemented. And therefore, purposeful and prompt creation of the BKA in the BSR is in interests of the whole EU.

# **Environmental Interactions: Humans, Nature and Politics**

MADARA PELNĒNA and GATIS PELNĒNS

## **Nearly forty years of successful cooperation! Still insufficient results?**

Environmental problems and concerns regarding the state of the Baltic Sea are not new, and neither is cooperation to tackle these problems. Nearly forty years ago the countries around the Baltic Sea agreed on action “... to prevent and abate pollution and to protect and enhance the marine environment of the Baltic Sea Area”,<sup>1</sup> within the framework of the Convention on the Protection of the Marine Environment of the Baltic Sea Area (Helsinki Convention). The sensitivity of the Baltic Sea was emphasized, as well as the increasing pollution from various sources. Intensive agriculture and forestry, and increasing human activities were recognized as damaging the marine environment of the Baltic Sea. Eventually, it was also recognized that actions for protection of the Baltic Sea “... cannot effectively be accomplished by national efforts only”<sup>2</sup> and that close regional cooperation on an intergovernmental level is required.

Today, the EU Strategy for the Baltic Sea Region is set to meet the challenges of environmental problems once more. Just like the Helsinki Convention, the Strategy proposes action in specific

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<sup>1</sup> Article 3, Convention on the Protection of the Marine Environment of the Baltic Sea Area (Helsinki Convention). Signed on 1974, entered into force on 3 May 1980.

<sup>2</sup> Ibid.

areas to improve the marine environment of the Baltic Sea and emphasizes need for regional cooperation, arguing that “responses at national or local level may be inadequate”.<sup>3</sup> On the one hand, the Strategy can be regarded as a sign that the EU is willing to use its capacities for tackling the environmental concerns of the Baltic Sea. On the other hand, the Strategy seems to propose a rather ambitious step by the EU – to take over the environmental concerns of the region. This is grounded in the opinion that “... despite years of collaborative action to improve the condition of the sea, it continues to deteriorate.”<sup>4</sup> From this perspective, an important question is whether the EU Strategy can achieve the goal of a cleaner Baltic Sea (the outcome of the policy) or whether it is just another attempt, which will result in closer cooperation and building common commitments towards action (outputs). To answer this question, it is important to understand what results have been achieved in the framework of already-existing cooperation concerning improvement of the maritime environment of the Baltic Sea. In this way it may be possible to distinguish the role of the Strategy in the field of the environment of the Baltic Sea. Another issue relates to sustainable development as a primary motive of the Strategy. The Strategy proposes not only protecting the maritime environment, but also promoting sustainable development of the Baltic Sea region (BSR). Therefore, it is also important to explore whether the actions offered by the Strategy are appropriate when sustainable development is intended as the ultimate goal (outcome).

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<sup>3</sup> Commission (2009) European Union Strategy for the Baltic Sea Region. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 10 June 2009, COM(2009) 248 final. [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/com\\_baltic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/com_baltic_en.pdf).

<sup>4</sup> The EU strategy for the Baltic Sea Region. Many countries, One region. Panorama Info regio, summer, 2009, p. 4; available online in 21 languages at [http://ec.europa.eu/regional\\_policy/sources/docgener/panora\\_en.htm](http://ec.europa.eu/regional_policy/sources/docgener/panora_en.htm)

The aim of this article is to explore whether the Strategy can achieve the goal of a cleaner Baltic Sea or reach a certain level of sustainable development. Three major aspects have been chosen as the basis for the study:

- the state of the maritime environment of the Baltic Sea and the prospects for improving it in accordance with the Strategy;
- governance of environmental issues in the BSR and the role of the Strategy as a tool of governance;
- sustainable development and the proposal of the Strategy.

The article is divided into five main sections. The first section will explain the approach to analysis in this article, where questions of the governance of environmental issues in the region, the desired results of the policy and sustainable development are of great importance. The second section will focus on governance and consider the already-existing cooperation aimed at improving the maritime environment of the Baltic Sea. The third section will give a brief overview of the Strategy in relation to environmental issues in the BSR and elaborate on the state of the maritime environment and the preconditions for improving it. This will provide the basis for the argument on the necessity of a strategy and highlight the most urgent problems to be tackled. The fourth section will focus on sustainable development – its substance at the conceptual and practical level, as well as actions proposed by the Strategy. The fifth section will focus on Latvia's position regarding the Strategy.

### **The approach of the article: 'better governance', the 'success' of action and sustainable development**

Three issues regarding environmental concerns are of great importance when analysing the introduction or implementation of a particular initiative in environmental policy.

The first issue relates to the governance of environmental protection, namely, its dynamics. Initially, environmental problems (water, soil or air pollution, waste management, etc.) were regarded mainly as problems of local communities or countries, and pollution was not clearly recognized as an international concern. The shift started as an answer to the complex nature of environmental degradation and its causes. Environmental issues no longer applied to local communities or individual states, because cross-border causes and manifestations of various kinds of pollution were recognized. The internationalization of environmental concerns became a driving force for the development of various cross-border cooperation frameworks, which later developed into international or regional environmental regimes. Cooperation produces not only immediate or long-term outcomes to the problems addressed, but also creates and maintains the commitment towards further cooperation. Therefore, an overview of existing frameworks of cooperation is essential when analyzing a new initiative.

The second issue relates to the prospects that an initiative or policy will produce the desired results – the ‘success’ of the action. It is not only the substance of a particular initiative or the capabilities of the various stakeholders that affect the attainment of the desired outcomes. The scope and specific nature of the problems to be tackled can also influence the course of action and its results. Therefore, preconditions and background factors should be taken into account, if the policy is to achieve the desired outcomes.

The third issue relates to the shift in terms of how the environment is perceived. In this context sustainable development has been recognized as a better solution to environmental problems than protection/ conservation of the environment. Actions for protection of the environment represented the most common approach when addressing environmental problems, but were frequently hard to implement, because they came into conflict with economic

development. The shift towards sustainable development introduced a more comprehensive approach towards the environment, by including economic development as an important dimension for conservation of the environment. Later developments in the concept of sustainable development even broadened this approach by also recognizing the social and cultural dimensions of sustainability.

The Strategy implies all of these issues when proposing practical solutions and emphasizing cooperation to ensure a cleaner Baltic Sea environment. Therefore governance, the specific nature of the problems faced and the preconditions for the desired outcomes, as well as a balance between different aspects of sustainable development, provide the basis for the approach taken in this article.

### **Just one among others – the Strategy as a framework for cooperation**

The Strategy, first and foremost, should be viewed in the context of previous and ongoing initiatives and policies on environment in the region. Various frameworks of cooperation have been established and actors on different levels are involved in formulating and implementing appropriate policy actions concerning the maritime environment of the Baltic Sea. The Strategy proposes coordination of all these efforts to improve the maritime environment of the sea, meaning an integrated approach towards various frameworks of regional cooperation. When considering these frameworks, we can distinguish organizations and institutional forms of cooperation ranging from intergovernmental cooperation frameworks through sub-regional cooperation frameworks to non-governmental networks (Table 1).

Table 1

**Regional frameworks of cooperation in the BSR concerning  
environmental issues**

INSTITUTIONAL FORM	ORGANIZATION
Intergovernmental organizations for environmental cooperation	EU [policies] <sup>5</sup>
	HELCOM
	Baltic 21
	VASAB 2010
Networks of non- governmental organizations and interest associations	Coalition Clean Baltic
	Baltic Environmental Forum
	Baltic Ports Organization
	Baltic and International Maritime Council
	Baltic Operational Oceanographic System
Sub-regional cooperation networks	Union of Baltic Cities
	Baltic Sea States Sub-Regional Co-operation
	Euroregion Baltic
	Baltic Sea Seven Islands Cooperation Network

With respect to cooperation and the actors involved, the BSR can be regarded as a forerunner in the field of environmental protection for many reasons: the EU is a global leader in pursuing sustainable environmental conditions; such countries as Sweden and Finland are some of the most active promoters of policies on sustainable development and protection of the environment within the EU; the first international agreement that proposed **comprehensive**

<sup>5</sup> A whole range of EU's policies can be named as related to the environmental issues, Baltic Sea region or strategy in particular. There are references on Cohesion Policy as a main financing instrument for the strategy as well as the framework of Northern Dimension for the purpose of relating non-EU members to the goals of strategy. Also, EU's policies on environment, agriculture, industry, market, fisheries and forestry, and maritime are named as relevant in relation to the implementation of the Strategy.



measures to tackle marine pollution<sup>6</sup> was signed in the BSR;<sup>7</sup> the network of non-governmental and sub-national organizations is rather active in raising public awareness and shaping policies on protection of the Baltic Sea environment. An overlap between various frameworks of cooperation and the proposals of the Strategy has been excluded by simply defining the Strategy as coordinating actions, rather than setting out new ones.<sup>8</sup> Also, the involvement of the EU in the region has increased, both through its policy frameworks and through its more direct presence in the region.<sup>9</sup> From such a perspective, the Strategy seems to have a distinct role among other frameworks of cooperation. Through its role in coordinating EU policies and actions proposed through other frameworks of cooperation, the EU Strategy is positioned as an instrument and 'watchdog' of the environment in the region.

At the same time, the Strategy has been criticized for insufficient inclusion of non-EU members and Russia in particular.<sup>10</sup> Practical implementation of the Strategy through particular projects indicates rather broad involvement of Belarus and Norway, but little

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<sup>6</sup> Boczek B. International Protection of the Baltic Sea Environment Against Pollution: A Study in Marine Regionalism. *The American Journal of International Law*. 1978 (October), vol. 72, no. 4, p. 804.

<sup>7</sup> Convention on the Protection of the Marine Environment of the Baltic Sea Area, adopted at 1974.

<sup>8</sup> The most common example presented in relation to such overlap is HELCOM's Baltic Sea Action Plan – EU strategy refers particularly to an action within HELCOM's Plan when naming priority areas and particular projects.

<sup>9</sup> This is evident when referring to the fact that the EU adopted bilateral fisheries agreement with Russia for the Baltic Sea, therefore, replacing both, the International Baltic Sea Fishery Commission and elements of the existing bilateral agreements. See: Commission proposes adoption of bilateral fisheries agreement with Russia for the Baltic Sea. Press Release (No. IP/06/1897). Brussels, 22 December 2006. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1897&format=HTML&aged=1&language=EN&guiLanguage=en>.

<sup>10</sup> Bengtsson argues that Russia "...holds the key to long-term success" for meeting environmental challenges in the region. See Bengtsson R. An EU Strategy for the Baltic Sea Region: Good Intentions Meet Complex Challenges. *European Policy Analysis*. 2009 (September), issue 9, p. 8.

involvement of Russia. Even referring to the Northern Dimension as a component serving to relate Russia to the goals and activities of Strategy does not seem to provide the fully integrated approach towards cooperation that has been achieved in already ongoing cooperation. At this point one can propose that building commitments on environmental problems (outputs) by the Strategy can only be achieved with respect to EU Members, but not the whole region.<sup>11</sup> Despite the fact that ongoing frameworks of cooperation have created an important basis for the improvement of conditions in the Baltic Sea, the ultimate goal of a cleaner Baltic Sea has not yet been reached. From this perspective, aiming only at EU members allows the EU to take more decisive steps towards improvement of the environment.

It is in fact an approach of 'better governance' of environmental policies for the Baltic Sea that is being proposed by the Strategy. In this case, improving governance should also result in more than just successful cooperation among various actors: it should also lead to a real improvement of the maritime environment of the sea. However, such a goal cannot be achieved without giving proper attention to problems and preconditions for environmental policies in the Baltic Sea, because these also place some limitations on the implementation of particular initiatives.

### **The Baltic Sea – problems and preconditions for environmental policies**

The BSR has a population of more than 80 million, and is home to many economically powerful developed countries. Also, its marine fairways are among the busiest in the world. Unfortunately, economic progress is going hand in hand with environ-

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<sup>11</sup> Bengtsson notes that some countries in the region still become more centrally involved in the strategy than others, therefore, arguing also on building commitment within the EU. See Bengtsson R. (see note 10), p. 7.

mental pollution and habitat degradation: for several decades the natural ecosystems of the Baltic Sea have been threatened by significant environmental problems. Therefore, one of the goals of the Strategy is “to restore the good ecological status of the Baltic marine environment by 2021.”<sup>12</sup> The Environmental pillar “to make the BSR an environmentally sustainable place” covers five priority areas:

- 1) to reduce nutrient inputs to the sea to acceptable levels;
- 2) to preserve natural zones and biodiversity, including fisheries;
- 3) to reduce the use and impact of hazardous substances;
- 4) to become a model region for clean shipping;
- 5) to mitigate and adapt to climate change.

As previously stated, the Strategy is not the first international effort to address the region’s pressing environmental problems. Therefore, previous experience and practice, as well as the current ecological situation of the Baltic Sea, raise a number of significant conditions for successful implementation of the Strategy’s aims.

The first condition for solving the environmental problems of the Baltic Sea is the necessity of an **integrated approach to environmental problems**. The Baltic Sea covers an area of 377 000 km<sup>2</sup>, while the rivers drain an area forming a single ecosystem of the Baltic Sea, which is four times larger. The idea that living organisms interact with every other element in their local environment is central to the ecosystem concept.<sup>13</sup> Also, in the case of the Baltic Sea we can assume that the causes, consequences, and geographic scope of the environmental problems do not respect national boundaries, and pollution released into the air, soil or water spreads easily to other countries.<sup>14</sup> Therefore, in the interests of nature conservation,

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<sup>12</sup> Action Plan. Commission staff working document. Brussels, 10 June 2009, SEC(2009) 712. [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/action2009.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/action2009.pdf), p. 6.

<sup>13</sup> Odum E.P. *Fundamentals of Ecology*. Third edition. New York: Saunders, 1971.

<sup>14</sup> Chasek P.S., Downie D.L., Brown J.W. *Global Environmental Politics*. Fifth edition. Boulder, CO: Westview Press, 2010, p. 473.

the environmental challenges have to be addressed in an integrated manner. Thus, **policy extending to cover a single ecosystem is the most suitable way to meet the environmental challenges of the region.**

The second condition is the necessity of **immediate action**. It must be kept in mind when developing particular environmental policies that sustainable development involves a time dimension,<sup>15</sup> i.e., falling behind in time can result in 'no time left' for sustainable development in the future. The BSR is characterized by serious environmental problems, which are already facing the countries of the region. Since 2005 the International Maritime Organization has recognized the Baltic Sea as a Particularly Sensitive Sea Area – a sea area which needs special protection on environmental grounds. Such problems as eutrophication, loss of biological diversity, the invasion of non-native species, depletion of fish stocks, pollution from oil ship accidents, water pollution and other problems are only increasing the seriousness of the problem.<sup>16</sup> Consequently, the serious threats to the natural ecosystem of the Baltic Sea call for **immediate action to avoid overstepping the limits of biological capacity.**

The third and perhaps the most difficult condition is the development of environmental protection and sustainable development in the region. The pressing environmental problems and increasingly negative impact on the environment suggest that previous efforts for environmental protection and sustainable development have been ineffective, incomplete or not suitable for solving such problems. (See Table 2 on the progress of environmental policy efforts to solve environmental issues in framework of the five priority areas of the Strategy.)

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<sup>15</sup> Bossel H. Indicators for Sustainable Development: Theory, Method, Applications. A Report to the Balaton Group. International Institute for Sustainable Development, 1999. <http://www.adb.org/documents/periodicals/ADR/pdf/ADR-Vol24-1-Dasgupta.pdf>. Last accessed on 8 April 2010.

<sup>16</sup> Elmgren R. Understanding Human Impact on the Baltic Ecosystem: Changing Views in Recent Decades. *AMBIO: A Journal of the Human Environment*. 2001, vol. 30, Issue 4, pp. 222–231.

Table 2

**The state of the Baltic Sea in chronological comparison, 1978–2008**  
**(Based on HELCOM reports<sup>17</sup>)**

	STATE OF THE BALTIC SEA						
	1978	1985	1988	1993	1998	2004	2008
Oxygen concentration	-	-	-	-	-	-	-
Nutrient pollution	-	-	-	+	+	+	+
Eutrophication	-	-	-	-	-	-	-
Blue algae	-	-	-	-	-	-/+	-/+
Hazardous substances:		-					
<i>DDT, PCH</i>	-	+	+	+	+	+	+
<i>Heavy metals</i>	-	+/-	+/-	+/-	+	+	+
<i>New pollutants</i>	-	-	-	-	-	-/+	-/+
Oil pollution and shipping	-	-/+	-/+	-	-	-	-/+
Fish stocks			-	-	-	-	-
Invasive species				-	-	-	-
Nature conservation and biodiversity		-	-	-	-/+	-/+	+

<sup>17</sup> First Periodic Assessment of the State of the Marine Environment of the Baltic Sea Area 1980–1985; General conclusions, HELCOM, 1986, <http://www.helcom.fi/stc/files/Publications/Proceedings/bsep17a.pdf>. Last accessed on 15 March 2010.

Second Periodic Assessment of the State of the Marine Environment of the Baltic Sea, 1984–1988; General conclusions, HELCOM, 1990, <http://www.helcom.fi/stc/files/Publications/Proceedings/bsep35a.pdf>. Last accessed on 15 March 2010.

Third Periodic Assessment of the State of the Marine Environment of the Baltic Sea, 1989–1993; Executive Summary, HELCOM, 1996, <http://www.helcom.fi/stc/files/Publications/Proceedings/bsep64a.pdf>. Last accessed on 15 March 2010.

Fourth Periodic Assessment of the State of the Marine Environment of the Baltic Sea, 1994–1998; Executive Summary, HELCOM, 2001, <http://www.helcom.fi/stc/files/Publications/Proceedings/bsep82a.pdf>. Last accessed on 15 March 2010.

HELCOM Baltic data and mapping services, 2010, HELCOM, [http://www.helcom.fi/GIS/en\\_GB/HelcomGIS/](http://www.helcom.fi/GIS/en_GB/HelcomGIS/). Last accessed on 15 March 2010.

HELCOM produces reports on the state of Baltic Sea environment every five years, and these reports also reflect whether the environmental objectives are being met and whether the chosen methods to achieve these objectives have been effective. The effectiveness of previous environmental policy can be assessed by progress in solving environmental problems. Unfortunately, the largest proportion of all concerns are regarded as partially resolved environmental problems. Problems which still remain a great risk, in relation to which attempts to find a successful solution having failed, include eutrophication, oxygen deficiency, blue-algae blooming, fish stock depletion and invasive species. There are environmental problems which are partially resolved or have changed their nature. For example, nutrient flow to the Baltic Sea has significantly decreased since the early 1990s, but at the same time concentrations of phosphorus and nitrogen in the sea are still very high and continue to cause adverse effects. The inflow of nitrates from rivers has decreased, while the concentration of nitrates in air (which comes from increasing shipping activity and enters the sea through rain) has increased. The inflow of heavy metals, DDT, PCHs into the sea has been reduced rather successfully, however a new environmental risk is posed by the so-called 'new chemical substances' (dioxins, furans, perfluorooctane sulphonate, endosulphan, mercury, cadmium, etc.). Some of these substances can remain in the sea for long periods, accumulating in marine food chains to levels that may be toxic to marine organisms – and eventually also to humans.<sup>18</sup> It is often the case with these new chemical substances that we lack information regarding their impacts on the environment and human health.

The situation with oil pollution has improved in terms of the introduction of additional security measures. However, because of the growing intensity of sea traffic the risk of environmental accidents

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<sup>18</sup> Control of hazardous substances in the Baltic Sea region (COHIBA). [http://www.cohiba-project.net/publications/en\\_GB/publications/\\_files/82275245929988470/default/Cohiba1-09.pdf](http://www.cohiba-project.net/publications/en_GB/publications/_files/82275245929988470/default/Cohiba1-09.pdf). Last accessed on 31 May 2010.

still remains rather high. For example, between the years 1989 and 1999, 251 ship accidents occurred in the Baltic Sea;<sup>19</sup> however, in the period from 2000 to 2008 there were 910 ship accidents, and an average of 5% of all the reported accidents resulted in some kind of pollution.<sup>20</sup> There are about 2000 ships in the Baltic marine area at any given moment and maritime traffic has continued to increase considerably in recent years (an increase of 17% between 2006 and 2008).<sup>21</sup> Despite the high security measures and environmental improvements, the environmental risk has remained very high – one large-scale accident would be enough to seriously threaten the marine environment of the Baltic Sea.

Some success has been attained in the conservation of biodiversity: the number of populations of several species has increased and many specially protected nature areas have been created. However, significant numbers of living organisms are being adversely affected by problems caused by environmental pollution.

To a greater or lesser extent, the Strategy covers all of these conditions, and therefore has great potential to fulfil its goal of making the BSR an environmentally sustainable place. It is designed as “an integrated framework to address the challenges and opportunities of the Baltic Sea Region”<sup>22</sup> and “every pillar relates to a wide range of policies

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<sup>19</sup> LR Ministry of Environment Protection and Regional Development, Marine Environment Board, 2001, *Compilation on Ship Accidents in the Baltic Sea area 1989–1999. Final Report*. <http://www.helcom.fi/stc/files/Maps/accidents/accidents1989to1999.pdf>. Last accessed on 31 May 2010.

<sup>20</sup> HELCOM. *Ensuring safe shipping in the Baltic Sea*. 2009. [http://www.helcom.fi/stc/files/Publications/OtherPublications/Ensuring\\_safe\\_shipping.pdf](http://www.helcom.fi/stc/files/Publications/OtherPublications/Ensuring_safe_shipping.pdf). Last accessed on 31 May 2010.

<sup>21</sup> HELCOM. *Report on shipping accidents in the Baltic Sea area for the year 2008*. 2008. [http://www.helcom.fi/stc/files/shipping/shipping\\_accidents\\_2008.pdf](http://www.helcom.fi/stc/files/shipping/shipping_accidents_2008.pdf). Last accessed on 31 May 2010.

<sup>22</sup> European Union Strategy for the Baltic Sea Region. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 10 June 2009, COM(2009) 248 final. [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/com\\_baltic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/com_baltic_en.pdf).

and will have impacts on the other pillars: they are interlinked and interdependent.”<sup>23</sup> It is hoped that the Strategy will encourage co-operation, and permit faster and more efficient use of funds, thus opening up the prospect of an immediate response in order to avoid overstepping the limit of biological capacity. Whether the Strategy is also a shift from environmental protection to sustainable development is analyzed in detail in the next section of this article.

### **The Strategy as a tool for sustainable development**

An integrated approach to sustainable development is a core proposal of the Strategy in the field of environment. Emphasis on sustainable development on the basis of multi-sectoral and regional response, instead of policies clearly aimed at **protection of the environment**, is a strength of the Strategy, because most of the already-existing frameworks of cooperation mainly focus on the latter. Therefore, an integrated approach of multi-sectoral and regional response allows us to characterize the Strategy as ‘one of a kind’. By putting forward a strategy for sustainable development in the BSR, the EU is proposing an ambitious ‘new way’ to deal with the problems of the maritime environment of the Baltic Sea. At the same time the Strategy mainly focuses on various institutional mechanisms and infrastructure projects to implement the process of sustainable development, although sustainable development means not only the integration of economic, social and environmental demands on a government level: the ‘greening’ of consumption, waste disposal, manufacturing etc. are also of great importance. From this point of view, it is important to explore whether the actions proposed by the Strategy are indeed aimed at sustainable development of the region.

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<sup>23</sup> Action Plan. Commission staff working document (see note 12).



The first 46 projects have been started along with launch of the Strategy in October 2009. Twenty-eight of these projects are closely linked with ideas of sustainability in various ways.<sup>24</sup> Along with many significant environmental projects, there are projects which indicate that many principles of sustainable development are being incorporated into various economic sectors – manufacturing, regional development, transport systems, construction, resource use, tourism, energy use, health care, etc. If we view the environment as a ‘filter’, which reflects the consequences of economic and social processes, then we cannot achieve sustainable development by focusing only on environmental protection. The action proposed within the previously-used common approach focused more on protection and less on development in a sustainable way. To give an example, a factory (source of pollution) may operate as usual, while the changes mainly focus on improving the treatment of waste and investing in restoration of the natural environment that has been damaged. At the same time, a change in the way the factory operates could be more productive in terms of reducing the negative effects on the environment. The Strategy grasps the idea of moving away from ‘more and better’ protection of the environment to implementation of an approach focused more on ‘sustainable development’. However, there remains the question as to what share of the development actions these projects occupy overall, and what share of the region’s ‘hotspots’ they cover. It is still too early to draw conclusions on this question for the simple reason that implementation of the projects has begun quite recently.

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<sup>24</sup> Eco-innovations, higher standards for sustainable and energy-efficient residential buildings, introducing plasma-based technologies for a cleaner environment, improving regional capacities in the field of waste-to-energy utilization, improving biogas use in the public transportation, increasing efficiency and sustainability of the transport systems, deploying a green corridor concept in the East-West transport corridor, new technologies for gathering environmental information, eco-efficient and sustainable practises, innovative methods of controlling hazardous substances, adaptation measures abating effects of climate change.

The Strategy involves various community groups and stakeholders: public authorities, business associations, academic and research institutions, universities, local and regional municipalities, authorities, agricultural research centres, advisory services, NGOs, ports, railways, transport authorities, development agencies, technology centers, institutions supporting small and medium enterprises etc.<sup>25</sup> But it seems that the call ‘Welcome aboard!’ to the newly formed ‘ship of development’ has not been received by the wider public and each individual resident of the BSR. Environmental issues differ from development issues in their impact upon individuals’ lives.<sup>26</sup> The primary sources of ecological problems are socio-cultural factors: “... anthropocentrism, selfishness, and ideologically induced attitudes towards the desirability of economic growth, efficiency and property rights.”<sup>27</sup> Therefore, the human is a key element in the concept of sustainability. The clear goal of economic development policy is to raise living standards throughout the world, providing steadily more goods and services to an expanding population, and sustainability, within the economic realm, can be defined in terms of the maximization of welfare over time. From perspective of the environment, sustainability should be defined in terms of the maintenance of ecosystem resilience. But there is no close relationship between economic efficiency and ecological sustainability. Clearly, an integration of economics and ecology is required, and this can only be achieved with the assistance of the third element of the sustainability triad – the social perspective. It is in the social

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<sup>25</sup> Baltic Sea Region Programme 2007–2013. Cooperation continues 22 new transnational projects ... contributing to the EU Strategy for the Baltic Sea Region, 2010. <http://eu.baltic.net/Publications.191.html>? Last accessed on 25 March 2010.

<sup>26</sup> Prins G. Politics and the Environment. *International Affairs* (Royal Institute of International Affairs 1944–). 1990, vol. 66, no. 4, pp. 711–730.

<sup>27</sup> Maunders and Burritt (1991, p. 10) in Shafer W.E. Social Paradigms and Attitudes toward Environmental Accountability. *Journal of Business Ethics*. 2006, vol. 65, no. 2, pp. 121–147.

area were the key to the formulation of policies for sustainable development lies.<sup>28</sup>

Another concern regarding the element of sustainable development relates to the issue of inclusion. Thus, insufficient attention has been given to the potential of the approximately 100 million people living in the region. If sustainability starts from a shift in thinking from protection to sustainability of the environment, then people ought to be the first to make such shift. Many of the environmental problems of the region relate directly to individual households and actions by individuals. (For example, the concentration of phosphates greatly depends on general trends in the use of chemical substances in households; and when phosphates are drained to the sea they can greatly increase the level of eutrophication.) In other words, there are people in Denmark, Poland or Latvia behind the data on the flow of nitrates from agriculture or households. Therefore, the Strategy urgently needs the involvement of a wider range of people and an increased public awareness of the environment, through education, and sharing knowledge and skills. As noted by Krumrey and Schymik, some of the proposals put forward by stakeholders at the phase of consultations on the Action Plan of the Strategy have been ignored. Among these are: "Education activities to promote environmental awareness ... [have] ... not become part of Commission's Action Plan."<sup>29</sup> From this perspective, the Strategy does not propose enough involvement of society, and therefore operates on two of the three pillars of sustainable development.

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<sup>28</sup> Harris J.M. Basic Principles of Sustainable Development. Tufts University, 2000. [http://ase.tufts.edu/gdae/publications/Working\\_Papers/Sustainable%20Development.PDF](http://ase.tufts.edu/gdae/publications/Working_Papers/Sustainable%20Development.PDF). Last accessed on 12 May 2010.

<sup>29</sup> Schymik C., Krumrey P. EU Strategy for the Baltic Sea Region. Core Europe in the Northern Periphery? *Working Paper FG 1*, 2009 (April), SWP Berlin, p. 7.

## Latvia's perspective

Latvia's perspective on the environmental side of the Strategy involves both opportunities and concerns. The EU Strategy for the BSR is a great opportunity to strengthen and develop the national environmental regime. In the field of environmental protection and sustainable development, Latvia is benefitting from regional political activities for a second time. For the first time, on joining the EU, Latvia had to absorb many of the EU's higher environmental standards and had to put in order many of the environmental areas that contribute to habitat preservation and to the reduction of the potential of negative impacts on the environment in the various sectors. At that time, Latvia had the chance to take over good practices from other Member States of the EU, as well as obtaining financial support for real action. This time, the Strategy provides an opportunity to go one step further and launch a number of projects important for sustainable development and innovation. Compared to other Baltic Sea countries, Latvia's contribution to common environmental problems is relatively small. Since the 90s the sources of ecological concerns – the Soviet Union's legacy of various 'hot spots' – has been removed. There have also been many improvements and investments in water supply systems and sewage treatment plants. Consequently, the Strategy is welcomed as an additional opportunity for Latvia to develop innovation and knowledge and to implement sustainable economic projects, ensuring a good quality environment. Latvia is a partner in 36 out of 46 ongoing projects: 11 in the priority 'Fostering innovations', four in the priority 'Internal and external accessibility', eight in the priority 'Baltic Sea as a common resource' and 13 in the priority 'Attractive & competitive cities and regions'.<sup>30</sup>

In the case of governance of environmental issues, it is in Latvia's interests to promote a regional approach. The attention drawn to

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<sup>30</sup> Baltic Sea Region Programme 2007–2013, Project Database. [http://eu.baltic.net/Project\\_Database.5308.html](http://eu.baltic.net/Project_Database.5308.html)? Last accessed on 29 May 2010.

the BSR within the EU allows Latvia to be positioned among the priority areas of the EU. It is also an opportunity to gain from close cooperation with leading promoters of environmental protection and sustainable development (namely, the Nordic Countries), which definitely has a positive effect on the country's image. On the other hand, a regional approach to issues of the environment within the EU also involves a risk of setting environmental standards too high.

Another element of the issue of governance relates to the involvement of Russia. When looking back at the history of environmental cooperation, one can see that it has not been exclusively a practical cooperation for environmental concerns – there is also a political context to cooperation for the environment. Environmental issues also brought together the countries of Western Europe and Russia during the Cold war, and throughout this time discussion on the environment in the joint region has been a chance for a dialogue with Russia that was little influenced by the political tensions or relations between countries. Therefore, closer cooperation with Russia along the lines of the Strategy could only contribute to the common commitment and better relations with Russia.

# **The EU Strategy for the Baltic Sea Region and Promises for Latvia's Energy Market**

KĀRLIS BUKOVSKIS

## **Introduction**

The new European Union Strategy for the Baltic Sea Region (BSS) has an emerging vital importance for both the whole Baltic Sea region and Latvia in particular. The BSS involves many increasingly difficult and urgent issues that cannot be postponed – environment, maritime security and economic growth, as well as accessibility and well-developed infrastructure within the region. The BSS also involves energy issues, which are becoming increasingly crucial for the Baltic countries. Energy issues have been defined by Latvia as a priority within the BSS and, together with Denmark, Latvia has become a project coordinator for the particular field.

One of the reasons for this relatively sudden and enthusiastic approach towards the BSS and the energy issues it involves is the lengthy process of breaking up with the legacy of the Soviet Union in the energy sector and the changing, volatile relations with the main energy source – the Russian Federation. Moreover, the BSS is seen by Latvia as an opportunity of obtaining financial and technical help and political support to diversify the country's energy interconnections away from the CIS countries. Thus, the energy supply system and infrastructure existing in the Baltic States was built for a single country – the Soviet Union. Those interconnections (IPS/UPS) are still present in the modern Baltic States, even after these countries joined the European Union (EU) in 2004, therefore making Estonia, Latvia and Lithuania 'energy islands' within the EU.

Evidently, energy security issues are becoming urgent for Latvia, and the country is eager to look to the BSS for a chance to act upon its power problems. In order to reduce dependence on Russia and energy vulnerability, the Baltic States should be and are aiming at joining both *Nordel* (the North European/ Scandinavian energy interconnection system) and UCTE (the system for the continental European countries). Logically, the BSS is seen as one of the opportunities to solve the problems, via the implementation of the Baltic Energy Market Interconnection Plan (BEMIP) and the other flagship project of the Strategy – extension of the Nordic electricity model to the Baltic States.

Therefore, the provisions on energy issues included in the Strategy will be addressed in this paper as ‘promises’ of the BSS, which have the potential of generating expectations for Latvia on the solution of the country’s energy (electricity and gas) issues. Within this paper, the ‘promises’ will be extracted from the main documents accompanying the Strategy. The importance of these promises will be also identified in the positions approved by the Cabinet of Ministers of the Republic of Latvia, as well as in a non-paper of 14 July 2008, containing Latvia’s vision on the BSS. The promises will be ‘extracted’ by applying a content analysis of the discourse in the documents. Namely, the documents will be screened for the term ‘energy’ and the related contextual statements on this issue. After the promises have been identified, their relevance and their capacity to be fulfilled will be evaluated with the help of expert interviews. The promises and problems regarding the fulfilment of these promises will be classified into three main groups: economic, political and technical (infrastructure) obstacles.

Consequently, the research question one would like to address is – what political, economic and technical problems does Latvia have to face in order to meet the energy security promises it envisages within the European Union Strategy for the Baltic Sea Region?

## The promises of the BSS

Latvia, as a small and relatively poor country, needs multilateral frameworks like the BSS to address many issues it is not capable of dealing with alone. Energy security is evidently becoming one of them. Successful implementation of the Strategy could allow the Baltic States (and Latvia in particular) to overcome their electricity and gas market legacies. Therefore it is important to assess the promises of the BSS – the hopes Latvia pins on the Strategy in relation to energy market issues, and the problems Latvia has to solve.

Even though the Strategy is only gradually taking shape, several authors emphasize the importance of the Strategy not only for the region, but also for potential similar projects in the future. For example, Pertti Joenniemi states that “... formulating and applying an EU Strategy for the Baltic Sea Region stands for something groundbreaking; ... the exercise is clearly experimental in nature and may over time turn into a blueprint for strategies to be developed and pursued in relation to certain other EU regions.”<sup>1</sup> Similarly, European Commissioner Danuta Hübner has stated that “If this approach works in the Baltic, we see its potential for other sea areas, and also for mountain areas like the Alps or river basins like the Danube.”<sup>2</sup> Carsten Schymik writes that “The EU Strategy for the Baltic Sea ... is associated with great hopes. It shall not only address the most imminent problems of the region concerning the environment, economy, infrastructure and security, but also gain relevance for the EU as a whole, as it is seen as a model test for a new level of

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<sup>1</sup> Joenniemi P. The EU Strategy for the Baltic Sea Region: A Catalyst for What? In: *DIIS Brief*. Copenhagen: Danish Institute for International Studies, 2009, p. 2. [http://129.132.36.140/serviceengine/Files/ISN/105107/ipublicationdocument\\_singledocument/3ddb42c8-b892-4d13-9cd5-bd9f1ee6eb47/en/pjo\\_eu\\_strategy\\_balticsearegion.pdf](http://129.132.36.140/serviceengine/Files/ISN/105107/ipublicationdocument_singledocument/3ddb42c8-b892-4d13-9cd5-bd9f1ee6eb47/en/pjo_eu_strategy_balticsearegion.pdf).

<sup>2</sup> Hübner D. The Sea of Opportunity. Speech at the 2nd Stakeholder Conference on Baltic Sea Region. Rostock, 5 February 2009. <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/37&format=HTML&aged=0&language=EN&guiLanguage=en>.



governance – the macro-region.”<sup>3</sup> Moreover, the author concludes that “The Baltic Sea Strategy largely has what it takes to become a success. Its policy priorities ... are reasonably well chosen and largely in line with the issue agenda as it is perceived by regional stakeholders”,<sup>4</sup> therefore placing even higher expectations on the BSS.

At the same time, analysts like Rikard Bengtsson are careful not to set expectations too high: “Despite the obvious desirability of improved cooperation in the Baltic Sea, and the promising logic of EU strategic action at the macro-regional level, the strategy nonetheless faces a number of challenges or policy dilemmas that have to be dealt with in the years to come for the strategy to prove fruitful.”<sup>5</sup>

Taking this setting into account, this research addresses a seemingly narrow branch of the Strategy’s Third Pillar – priority area No. 10, *To improve the access to, and efficiency of and security of the energy markets*, which implies three actions: establishment of a list of priority projects in the frame of BEMIP; demonstration of coordinated offshore wind farm connection solutions; and extension of the Nordic electricity market model (*Nordel*).

At the same time, some analysts emphasize the importance of energy issues within the Strategy. For instance, Michal Pelka states that “Without an idea which would help to overcome the difficulties and create an energy market for the Baltic Region it is impossible to create a cohesive regional strategy, since it will be missing on the element which is crucial for the economy – the energy ...”<sup>6</sup>

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<sup>3</sup> Schymik C. Blueprint for a Macro-Region. The EU Strategy for the Baltic Sea. In: *SWP Research Paper*. Berlin: Stiftung, Wissenschaft und Politik, 2009, p. 1. [http://www.se2009.eu/polopoly\\_fs/1.14005!menu/standard/file/SWP%20Research%20Paper%20September%202009.pdf](http://www.se2009.eu/polopoly_fs/1.14005!menu/standard/file/SWP%20Research%20Paper%20September%202009.pdf).

<sup>4</sup> Ibid., p. 2.

<sup>5</sup> Bengtsson R. An EU Strategy for the Baltic Sea Region: Good Intentions Meet Complex Challenges. In: *European Policy Analysis*. No. 9. Stockholm: Swedish Institute for European Policy Studies, 2009, p. 6. [http://www.sieps.se/files/download-document/562-2009\\_9epa.html](http://www.sieps.se/files/download-document/562-2009_9epa.html).

<sup>6</sup> Pelka M. The EU Strategy for the Baltic Sea Region – Energy Security against the Free Market and Competitiveness. *The EU Strategy for the Baltic Sea Region*. UKIE Analytical Paper Series. No. 19. Warsaw: Office of the Committee for European Integration, 2008, p. 1.

Similar views are expressed by the Director of the Latvian Institute of International Affairs Atis Lejiņš, who states that in the BSS energy is mentioned only minimally, but in reality it tends to penetrate all the spheres.<sup>7</sup> As claimed in this paper, even if the energy issue within the BSS is not of crucial importance for the Strategy and the region as a whole, it certainly is for Latvia.

*The provisions of the Strategy  
and affiliated documents*

Before engaging in a more detailed analysis of the problems and obstacles Latvia faces in efficiently implementing the BSS, we should identify the main ‘promises’ in the major official documents on the BSS.<sup>8</sup> As already mentioned, energy is only one of the 15 priority areas listed in the strategy and is not defined as the central object within the documents.

Thus, in the *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region* (10.06.2009, COM(2009) 248) the term ‘energy’ itself and its derivatives are mentioned only 12 times within the whole document. The main promises within the document relate to “ending the energy isolation of parts of the region”,<sup>9</sup> as well as the promise of financial help through the European Economic Recovery Plan for infrastructure-related projects.

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<sup>7</sup> Lejiņš A. At International Discussion “Cooperation in the Baltic Sea Region – An Example for Closer EU–Russia Relations?” Lithuania, September 10–11. Organized by Eastern European Studies Centre, EU–Russia Centre, Ministry of Foreign Affairs of the Republic of Lithuania. <http://www.eesc.lt/en/news/new?id=265>.

<sup>8</sup> List of documents derived on the basis of the importance of particular documents in relation with the European Union Strategy for the Baltic Sea Region and its adoption.

<sup>9</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region. COM(2009) 248. Brussels, 10 June 2009, p. 3.

Other promises relate to a list of problems: balancing energy supply between countries with substantial indigenous sources and those relying on imported energy, with subsequent reduction of possible interruptions and shocks; improving infrastructures by linking them across the region; reduction of energy prices; as well as creation of an internal energy market which would include the Baltic States in wider energy networks of the European Union.

The communication accompanying document is the Action Plan (10.06.2009., SEC(2009) 712), in which the term 'energy' and its derivatives are mentioned 61 times. Twenty-nine of these, though, are in a different context than infrastructure, energy security and supply. Energy is mentioned in relation to energy efficiency in housing, renewable energy issues, eco-energy, maritime transport energy efficiency etc. Therefore, only 32 times is the term 'energy' used within the Action Plan in the context of energy infrastructure and security issues. Also, these mentions occur only within the description of Priority Area No. 10 and problems in the field.

Some additional 'promises' (not mentioned in the communication itself) within the description of this priority area relate to openness and competitiveness. The general energy market fragmentation in the region leads to a situation where "(a) access to the power generation capacities in the region is difficult (insufficient cable linking producers and consumers, different electricity standards, etc.); (b) higher prices in the absence of economies of scales and competitors; and (c) few incentives or opportunities for infrastructure investment especially in renewable energies."<sup>10</sup>

The description of the priority area also demonstrates the concern about natural gas issues – lack of interconnections within the region, lack of cross-border trade, market liquidity and diversification of energy resources. Less competition and movement of energy

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<sup>10</sup> Commission Staff Working Document Accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Concerning the European Union Strategy for the Baltic Sea Region. Action Plan. SEC(2009) 712. Brussels, 10 June 2009, p. 46.

goods in the region also increases prices, and sustains dependence on Russia as the sole supplier. Electricity concerns include the physical integration of the grids, diversification of renewable energy sources, energy efficiency and supply security, as well as regional solidarity mechanisms.

The central promise included in the Action Plan (a strategic action), again, is to “Establish an integrated and well functioning market for energy by implementing the Baltic Energy Market Interconnection Plan (BEMIP) ...”.<sup>11</sup> BEMIP itself, at the same time, is one of the reference points both for the tasks that should be fulfilled and problems that should be solved in order to implement the Strategy and fulfil the ‘promises’. Cooperative actions of the Action Plan involve increased use of renewable energies and increased cross-border cooperation in experience sharing, coordination of regulatory practices, etc.

*The General Affairs and External Relations Council Conclusions* of 27 October 2009 (15018/09) on the European Union Strategy for the Baltic Sea Region mention the term ‘energy’ only three times without, of course, any additional promises. The conclusions include only endorsement of the Strategy, as well as emphasis on the speeding up of integration of infrastructures and markets and implementation of BEMIP. Also, the results of the public consultation on the BSS, carried out in November-December 2008,<sup>12</sup> demonstrate that energy issues are not the dominating ones and include the same expectations that are ‘promised’ in the Strategy itself – ending the energy isolation of the Baltic States and improving the functioning of energy markets.

### *Latvia's position*

Even though the BSS and its affiliated documents do not demonstrate the prevalence of energy issues within the Strategy, since the initial stages of the BSS, Latvia has tended to prioritize energy

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<sup>11</sup> Commission Staff Working Document... (see note 10), p. 47.

<sup>12</sup> Consultation on the EU Strategy for the Baltic Sea Region. Brussels: European Commission, 2008. [http://ec.europa.eu/regional\\_policy/consultation/baltic/doc/summary\\_baltic\\_consultation.pdf](http://ec.europa.eu/regional_policy/consultation/baltic/doc/summary_baltic_consultation.pdf).

security and market integration issues. The Latvian non-paper of 14 July 2008 on the BSS includes the term 'energy' and its derivatives 14 times and clearly sets out the 'energy issue' as a priority area (within the section 'Priorities of action'): "Development of the common EU energy policy and support for regional energy projects are vital for the Baltic Sea Region. Increased energy safety and sustainable economic growth are key factors in this regard."<sup>13</sup> The hopes that Latvia defines within the non-paper mostly match the 'big promises' of the BSS. These include building up energy interconnections and infrastructure, advancement of production of renewable energy, and increased energy efficiency within housing.

Similarly as in the non-paper, Latvia's national position on the BSS has tended to support energy issues as the first priority.<sup>14</sup> The development of BEMIP was also the central priority project that Latvia promoted within the Action Plan.<sup>15</sup> As a result, Latvia's position as a co-coordinator of the Action Plan's priority area No. 10 could be considered a diplomatic success for this Baltic country. Latvia's own unsolved energy issues, together with its strategic location in the middle of the Baltic States, facilitate the country's interest and activity in the energy provisions of the BSS. At the same time, as next chapter will demonstrate, there are several problems Latvia has to deal with while fulfilling the requirements for the full implementation of BEMIP. The 'promises' of the BSS (see Table 1 for a full list) have evidently been important enough for Latvia to prioritize energy issues, but the country faces several fundamental challenges with regard to its own capacity for meeting the standards.

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<sup>13</sup> The EU Strategy for the Baltic Sea Region. A Latvian vision. Non-Paper. 14 July 2008. [http://www.strategia-baltyk.ukie.gov.pl/WWW/baltyk.nsf/9F38FD3464F8B19FC12574BA003E1CE7/\\$FILE/non-paper\\_LV.pdf?open](http://www.strategia-baltyk.ukie.gov.pl/WWW/baltyk.nsf/9F38FD3464F8B19FC12574BA003E1CE7/$FILE/non-paper_LV.pdf?open).

<sup>14</sup> National position No. 1 "On the EU Strategy for the Baltic Sea Region". Riga: Cabinet of Ministers, 15 July 2008. [www.mk.gov.lv/doc/2005/AMProt\\_100708.doc](http://www.mk.gov.lv/doc/2005/AMProt_100708.doc).

<sup>15</sup> National position No. 2 "On the EU Strategy for the Baltic Sea Region". Riga: Cabinet of Ministers, 9 December 2008. [www.mk.gov.lv/doc/2005/AMprot\\_091208.3780.doc](http://www.mk.gov.lv/doc/2005/AMprot_091208.3780.doc).

Table 1

## The promises of the BSS

<b>Electricity market</b>
<u>Ending the energy isolation of parts of the region:</u> creation of an internal energy market including the Baltic States in wider energy networks of the European Union ending energy market fragmentation
<u>Improving infrastructures:</u> sufficient cable linking producers and consumers, unification of electricity standards access to the power generation capacities in the region physical integration of the electricity grids financial help through the European Economic Recovery Plan for infrastructure-related projects
<u>Balancing the supply of energy between countries:</u> reducing possible interruptions and shocks solidarity mechanisms
reduction of energy prices (improvable through economies of scale and competitors) energy market openness and competitiveness
diversification of renewable energies energy efficiency (including housing)
implementation of the Baltic Energy Market Interconnection Plan (BEMIP)
cross-border cooperation in experience sharing and coordination of regulatory practices, etc.
<b>Natural gas market</b>
improving and building additional interconnections within the region
improved cross border trade
market liquidity and diversification of energy resources
competition and movement of energy goods in the region
reduction of prices
reduction of dependence on Russia as the sole supplier

The *Memorandum of Understanding on the Baltic Energy Market Interconnection Plan* signed by Denmark, Germany, Estonia, Latvia, Lithuania, Poland, Finland, Sweden and the European Commission on 17 June 2009 does not include additional provisions or ‘promises’ other than the ones listed in the BSS and its affiliated documents. However, some more precise nuances are included among aspects of Electricity Market Design. These are: the principle of reciprocity with third non-European Economic Area countries (meaning the Russian Federation in particular), emphasis on free market principles in energy supply and consumption (through elimination of the privileged status of some companies) and efficient market monitoring. These are some more exact principles the Baltic States (including Latvia) should comply with in order to be eligible for full participation in *Nordel*.

Similar requirements are also listed as the basic conditions for Power Market Design within the report by the Working Group Baltic Electricity Market – “unbundling of the TSO [Transmission System Operator] and the DSOs [Distribution System Operators] from generation and supply; creation of market rules that don’t discriminate any parties of the electricity sector, neither national or international actors; setting up market structures that promote competition on equal terms, including gradually phasing out subsidies along all the relevant parts of the value chain.”<sup>16</sup> Therefore, it is evident that most of the potential problems in the field relate to energy (electricity in this case) market liberalization, not only in legal terms, but also in practice. At the same time, these requirements mostly deal with the legal-economic solutions, whereas in the Latvian case problems exist not only in the economic, but also the technical and political aspects.

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<sup>16</sup> Working Group Baltic Electricity Market. Market Design, Present Regulatory and Legal Framework, Existing Barriers in the Baltic Member States of Estonia, Latvia and Lithuania – Roadmap towards an integrated power market between the Baltic Member States and the Nordic Countries. A Report. Brussels: European Commission, 2009, p. 6. [http://ec.europa.eu/energy/infrastructure/doc/2009\\_bemip\\_a9012549-market-design-final\\_-\\_8\\_may\\_2009.pdf](http://ec.europa.eu/energy/infrastructure/doc/2009_bemip_a9012549-market-design-final_-_8_may_2009.pdf).

## Obstacles to overcome

Before engaging in an analysis of the political, economic and technical problems Latvia has to solve in order to be ready to meet the 'promises' of the BSS, we should take a short look at the central problems identified in case of Latvia (although most of these also apply to the other Baltic States) within the reports on the integration of the Baltic energy markets with the Nordic markets.

The obstacles or problems for the integration of the Baltic Energy Market with Nordic Electricity Markets (Nord Pool) identified in the reports by the Working Group Baltic Energy Market<sup>17</sup> in the Latvian case constitute following: economic issues are high concentration and low liquidity in every single Baltic country (presence and influence of dominant players), lack of agreed methods for cross-border capacity allocation and congestion management (requiring a common Baltic approach towards Russian and Belarusian transmission system operators); lack of a common position towards trade with third countries (again with non-European Economic area countries); insufficient implementation of transparency standards and establishment of information exchange. The political problems therefore relate to the external dimension of Latvia's politics, as well as to internal domestic issues, as in the case of market monitoring and transparency standards.

Consequently, in order to obtain a more complete image of Latvia's problems with meeting the defined promises of the BSS, we need to take a profound look into the issues and the reasons why Latvia has not followed the integration track or failed to fulfil the requirements until recently. Accordingly, the following analysis is devoted to identification of the main political problems (including the role of Russia), and the economic and technical (infrastructural) problems within the Latvian energy markets, which will also partially explain the previously mentioned issues (in the reports) that Latvia should be addressing.

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<sup>17</sup> Working Group Baltic Electricity Market... (see note 16), pp. 25–26.



The general interrelated tendencies that can be identified within Latvia's current energy concerns relate to a gradual embracement of liberal market principles and values, as well as market liberalization and the two central, seemingly antagonistic viewpoints within discussions on Latvia's future energy security. Namely, one of the tendencies is gradual compliance with the requirements of BEMIP and introduction of market liberalization principles within the country's energy policy. The other tendency is the struggle between two energy discourses – the one attempting to preserve the traditional, monopolistic market structures and influences, the other willing to liberalize the market fully by changing its structure to independence and self-sufficiency based on renewable resources.

The discussion in Latvia generally concerns electricity production and natural gas consumption. Even though the share of electricity in the country's overall energy mix constitutes about 10%,<sup>18</sup> the recent and dynamic activities surrounding the BSS and BEMIP have accelerated the discussion on the overall dependency on energy imports (65–70% of the country's energy resources are imported), especially gas imports from Russia. Closure of the Ignalina nuclear power plant in Lithuania has also rapidly increased electricity imports from Russia, from 4% in 2009 to 24% in 2010 (a loss of 1300 MW for Latvian imports).<sup>19</sup>

Even though the electricity sector, which is mainly addressed by BEMIP, is slightly less sensitive in Latvia than the natural gas sector, it still has somewhat similar problems, originating from monopolistic enterprises. For reasons of clarity, in this subchapter the technical, economic and political problems of each electricity and natural gas sector will be addressed separately, even though they

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<sup>18</sup> Sprūds A. Latvian Energy Strategy; Between Structural Entrapments and Policy Choices. In: *Energy. Pulling the Baltic Sea Region Together or Apart*. Ed. A. Sprūds, T. Rostoks. Riga: Latvian Institute of International Affairs, 2009, p. 224.

<sup>19</sup> Aigars Meļko, Latvenergo, Board member, at the conference Energy Policy in Latvia and the European Union (Enerģētikas politika Latvijā un Eiropas Savienībā). Riga, 7 May 2010.

both form part of the BSS. This analysis will also try to represent both antagonistic logics of energy issues in Latvia.

First, **technical** or infrastructural issues of electricity market liberalization and interconnection are gradually being addressed by the state monopoly *Latvenergo*, together with the public institutions and international partners. The preparative work for the *NordBalt* connection (including the *Kurzemes loks*) is underway. The co-financing from the European Economic Recovery Fund (50% of a 44-million-EUR project) has played a role of a catalyst for Latvia's active engagement in the projects (which constitute the central infrastructure concern of Latvia at the moment). As energy expert Andris Sprūds has stated, when the allocated funding is compared with the 'carrot' facilitating Latvia's energy market liberalization, "It is not beneficial to stay outside. If we stay outside we will have to modernize using our own resources",<sup>20</sup> which the country lacks, especially since the start of the economic recession.

The current situation in the technical field demonstrates fence-sitting on the part of the partners, even though the official stakeholders, such as the Ministry of Economics (ME), as well as the Ministry of Foreign Affairs (MFA) do not identify any problems or obstacles for the actual building of the infrastructure by 2016 (building *NordBalt*, including the strengthening of *Kurzemes loks* with two 330 KV cables from the second Riga thermoelectric central (TEC-2) to substation Imanta and the Grobiņa–Ventspils–Dundaga connection in western Latvia, and other BEMIP projects in which Latvia is participating). This is understandable, as the BEMIP and BSS projects have started relatively recently and no actual infrastructure has been built yet, pending legal and structural changes in the Baltic energy market.

At present, therefore, the specific technical problems are complicated to assess. Another aspect is the major technical issue of actually building the interconnections. It is essential to tackle these before full liberalization and connection of the Baltic energy

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<sup>20</sup> Author's interview with Andris Sprūds in Riga, May 2010.

market and *Nordel* can take place. Building the infrastructure itself, according to energy expert Juris Ozoliņš, can be identified as one of the major promises of the European Commission: "... if reforms are introduced we will connect you to these [Nordic liberal energy] markets. ... Of course, the end-consumer becomes more important in this case. ... And this would allow a lessening of the political influence on energy issues."<sup>21</sup> At the moment, though, the Lithuanian side has to choose the priority projects (electricity and gas interconnections between Lithuania and Poland, *NordBalt*, a liquefied natural gas (LNG) station etc.) and take the first steps towards the construction of actual infrastructure.<sup>22</sup>

The other technical issue that should be solved is that of the existing interconnections between the Latvian energy system and the Russian electricity system. For instance, "*Estlink* functions as an import and export cable, rather than as a systemic component. At some point the systemic jump will have to be performed."<sup>23</sup> Being part of the Russian electricity system and making a sudden jump from one system to another is again seen as problematic by the ME. Issues relating to the somewhat complicated disconnection from the Russian grid involve the non-synchronised connections between the Baltics and the Nordic electricity generation and supply system, as well as that of being a constitutive systemic part of the Russian grid. (For instance, Latvian hydro-electro stations are essential for the smooth operation of the Russian nuclear power plants.)<sup>24</sup>

Integration of Russia into the European electricity grids is at the same time a politically and economically sensitive issue, because of the high competitiveness of Russian electricity, as well as the additional presence and influence of Russian energy resources on European energy issues. On the other hand, the experts do not

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<sup>21</sup> Author's interview with Juris Ozoliņš in Riga, April 2010.

<sup>22</sup> Author's interview with the officials of the Ministry of Economics of the Republic of Latvia in Riga, May 2010.

<sup>23</sup> Author's interview with Andris Sprūds in Riga, May 2010.

<sup>24</sup> Author's interview with the officials of the Ministry of Economics in Riga, May 2010.

identify essential technical problems for potential interconnections, as the electricity standards Latvia and the Nordic countries operate are compatible with the present standards in the Baltics.

Infrastructure issues lead to the other pending matters – economic and political, which for the contemporary Latvian energy market means integration into the Baltic market and further into the Nordic market. Economic issues both in the electricity and natural gas market relate to the monopolistic enterprises: *Latvenergo* (state-owned) and *Latvijas Gāze* (shared ownership by *E.ON Ruhrgas International AG*, *Gazprom* and *Itera Latvia*). The electricity market, unlike the natural gas market, is experiencing restructuring and a gradual influx of new players. *Latvenergo* tends to preserve its dominating position in Latvia's energy market and increase its competitiveness within the liberalized energy market of the other Baltic countries.

*Latvenergo* is actively engaged in competition for the Baltic market share, and claimed a 3% share of the Estonian energy market and 7% of the Lithuanian energy market already in May 2010.<sup>25</sup> The company expects to modernize (rebuilding the Riga TEC-2) in order to increase output by 180 MW. This extra amount could be used not only for local consumption, but also for exports to Lithuania and even the Nordic countries in future. *Latvenergo* also claims to be ready for the liberalized market and in particular the company is awaiting the lessening of the regulation of the market for households by the national regulator.<sup>26</sup> This position has to do with the compulsory purchases of renewable resources by *Latvenergo*, as well as political instead of free market regulation of the prices for households (by the Public Utilities Commission), which does not allow *Latvenergo* to increase prices.

In addition to this, most of the experts and officials tend to believe that liberalization of the electricity market for Latvian

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<sup>25</sup> Aigars Melko, *Latvenergo*, Board member, at the conference Energy Policy... (see note 19).

<sup>26</sup> Ibid.

consumers will not reduce the energy prices, but quite the opposite, will increase them. The "... market price is 20–30% higher than the regulated price ...".<sup>27</sup> Therefore, this 'promise' of the BSS may actually apply to the Nordic, rather than Latvian, energy markets and consumers. The officials of the ME have also expressed concerns that the energy prices for Latvian consumers could actually increase after the electricity market is fully liberalised and operational within *Nordel*.<sup>28</sup> The Nord Pool prices are defined by the market situation, and subsidising or tariff regulation by state institutions will no longer be possible.

"No one can guess the market price in five years ...; a feature of monopolies is that they allowed a softening of the price fluctuations; ... markets demonstrate the problematic issues at once ...".<sup>29</sup> At the same time, experts and officials support liberalization of electricity markets in Latvia, with the introduction of competition among the Baltic and Nordic producers and suppliers. This again leads to the cautious conclusion that "One cannot start competition with a weakened company."<sup>30</sup> Therefore the contemporary multi-vector business activities of *Latvenergo* follow the logic of a monopolistic company losing its status and trying to preserve its dominance in the domestic market, as well as expanding its market to neighbouring countries.

The presence of financial loans from the Bank for Reconstruction and Development and European Investment Bank and political support for the reconstruction of Riga TEC-2, as well as the investment, albeit minor, that has been made in renewable energy supply sources and the available co-financing of the European Economic Recovery Fund for *Kurzemes loks*, leads to the conclusion that efficiency is being increased and preparations are being made by

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<sup>27</sup> Bariss, U. Godātais Lasītāj! *Energoforums* (Riga). April 2010, No. 2, p. 1.

<sup>28</sup> Author's interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>29</sup> Author's interview with Juris Ozoliņš in Riga, April 2010.

<sup>30</sup> Author's interview with Andris Sprūds in Riga, May 2010.

*Latvenergo* for a liberalized market. *Latvenergo* has also shown itself prepared and active in the early stages of the discussions on the BSS and BEMIP,<sup>31</sup> according to the officials of the MFA.

In addition to this, it should be mentioned that, because of the current normative regulations, *Latvenergo* has not been investing in *NordBalt* and is not planning to. The reason for this is the inability of the company to increase its tariffs in Latvia in accordance with infrastructure investments, because the project is not being realised on Latvian soil.<sup>32</sup> At the same time, a liberalized electricity market is seen as essential for increasing the security of energy supply to the Latvian consumers.<sup>33</sup> Diversification of supplies and a lessening of the presence of Russian energy (especially after the closure of Ignalina) are seen as possibilities advanced by the liberalized market.

Moreover, the liberalized electricity market could provide a first demonstration of the potential benefits from the liberalization of one energy sector. This understanding could gradually ‘spill over’ into other energy spheres. Secondly, this liberalization could start more active detachment from Russian energy supplies, at least by demonstrating its technical capabilities and advantages. This assumption leads to a recent conclusion by Heinz Hilbrecht, Director General of DG Energy of the European Commission, that the gas sector lags behind, while implementation of changes in the electricity sector is proceeding very well.<sup>34</sup>

The ME, too, considers the activities in BEMIP a success story. The whole plan suits Latvia’s overall plans in the electricity market, which presumes hundred-percent electricity self-sufficiency by 2016 (compared with 30–40% imports in 2010) and elimination of

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<sup>31</sup> Author’s interview with the officials of the Ministry of Foreign Affairs in Riga, April 2010.

<sup>32</sup> Author’s interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>33</sup> Ibid.

<sup>34</sup> Heinz Hilbrecht at the conference Energy Policy in Latvia and the European Union. Riga, 7 May 2010.

electricity market isolation.<sup>35</sup> At the same time, 58% (2733 GWh) of Latvia's electricity production comes from hydro energy, while 41% (1924 GWh) is produced using natural gas.<sup>36</sup> This substantial amount of electricity production from natural gas has become an apple of discord among the representatives of *Latvenergo*, *Latvijas Gāze*, their supporters among the political elite, state institutions and those supporting a lessening of energy dependence on Russian gas supplies.

It is evident that the planned 100% electricity market self-sufficiency is aimed only at increasing the country's own production capacities to cover domestic consumption, mostly because Riga TEC-2 will operate on natural gas. Energy dependency on Russian gas imports is still preserved. This can also be illustrated by the conclusion drawn by a group of authors led by Andris Sprūds: "... such long-term goals as diversification of primary energy resources and reduction of supply risks are sacrificed to short term benefits and project favourable only to a narrow group of entrepreneurs. This does not facilitate the economic activity and development of infrastructure ... for the use of other in Latvia available resources."<sup>37</sup> This situation will persist at least until the envisaged new cogeneration station based on coal or biomass, with a capacity of more than 400 MW,<sup>38</sup> is constructed (planned up to 2020).

Yet another positive example of an active adjustment to the Nordic energy market is the planned opening of an operational Baltic Energy market starting already in January 2011,<sup>39</sup> instead of 2013

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<sup>35</sup> Author's interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>36</sup> Krišjānis Kariņš, Member of the European Parliament, at the conference Energy Policy in Latvia and the European Union. Riga, 7 May 2010.

<sup>37</sup> Sprūds A. *Latvijas enerģētikas politika: ceļā uz ilgtspējīgu un caurspīdīgu enerģētikas sektoru* [Latvia's Energy Policy: On the Way towards Sustainable and Transparent Energy Sector]. Riga: Soros Foundation–Latvia, 2010, p. 7.

<sup>38</sup> Author's interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>39</sup> Baltijas valstu energotirgus tiks apvienots 2011. gadā. LETA, 22 April 2010. <http://www.leta.lv/lat/news/>.

as previously planned. This could also accelerate the infrastructure projects and therefore strongly facilitate the overall implementation of BEMIP and fulfilling the promises of the BSS in the energy sector in general. Prime Minister Valdis Dombrovskis is among the official figures to express optimism with regard to the BEMIP, stating that “BEMIP is a successful project between the businesses and the public sector.”<sup>40</sup> The introduction of BEMIP provides clear principles to follow, and the Baltic States, including Latvia, have implemented them step by step (mostly in electricity sector though). At the same time, this success, as mentioned before, has also been highly dependent on the position of *Latvenergo* (as well as similar enterprises in Estonia and Lithuania) and the company’s willingness to engage in market liberalization. This, again, leads to internal and external political aspects of the problems Latvia faces in implementing the BSS.

Before continuing with the political aspects, we still need to look at two broader economic (legal-technical) problems (not mentioning several relatively minor issues) with the implementation of BEMIP, which still persist in April 2010. One of the central issues is the persisting connection between *Latvenergo* and *Augstsprieguma tīkls* (as well as *Sadales tīkls*), where *Latvenergo*, as supplier, and the transmission system operators still do not demonstrate full separation. “Once the right of ownership between the operators and producers is separated, then it will be similar to the Nordic countries”,<sup>41</sup> concludes J. Ozoliņš. Therefore, the actual separation between the suppliers and producers in the Latvian electricity market could become the turning point in the implementation of the BEMIP requirements.

The other economic aspect *Latvenergo* has to reckon with is the activity of *RusAtom* in Kaliningrad, as well as the plans to build a new nuclear reactor in the western Belarus which could outpace

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<sup>40</sup> Valdis Dombrovskis, Prime Minister of the Republic of Latvia, at the conference Energy Policy in Latvia and the European Union. Riga, 7 May 2010.

<sup>41</sup> Author’s interview with Juris Ozoliņš in Riga, April 2010.



the construction of the new Lithuanian power plant in Visaginas.<sup>42</sup> Construction of the nuclear power plant in Kaliningrad with a production capacity of 2400 MW, in addition to a potentially envisaged natural gas thermal power station, could restructure the regional electricity market and production balance towards greater support for Russian electricity. This could potentially lessen the need for an autonomous nuclear reactor in Lithuania, especially when the interconnection *NordBalt* is built and provides an additional capacity of 700MW. As a result, this could also be damaging to the competitiveness of the Latvian company, as well as lessening the attempts by the Latvian state to build infrastructure and power-generating capacities to achieve self-sufficiency in the electricity market.

Both domestic and external political issues can be identified in relation to the restructuring of the Latvian electricity market. Domestic political issues relate mostly to the traditional energy monopolies and emergence of 'national champions'. This, again, is not a tendency unique to Latvia, but has until recently been seen in other European states as well. This is "the traditional paradigm – we are supplied by monopolies. ... But governments are not eager to restructure their businesses. They like national champions. They like to be around big enterprises."<sup>43</sup> Even though Latvia was the first Baltic country to open its electricity market already in January 2007, the actual liberalization and introduction of serious competition to *Latvenergo* has not taken place.

At this moment, when the BSS and BEMIP requirements are being implemented, legal and real market liberalization, as well as integration among the Baltic States, is gradually being introduced. The current discussions on energy efficiency and alternative energy resources will progressively change the face of the Latvian electricity market. As Andris Sprūds concludes "Local small enterprises are starting to emerge. ... Businesses will emerge which will be ready

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<sup>42</sup> Author's interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>43</sup> Author's interview with Juris Ozoliņš in Riga, April 2010.

to generate electricity here [in Latvia]. ... The electricity market is becoming wider. Small enterprises are entering the scene; co-generation is entering the scene, therefore creating external pressures in the electricity market.”<sup>44</sup> “Electricity from wood is competitive already at this point, but it needs capital investment [in Latvia]. Accordingly, there is bitterness that the first step is being taken by those who have increased dependence on natural gas.”<sup>45</sup> This move by state-owned *Latvenergo* again resembles the traditional approach of using available and relatively cheap Russian gas as the central energy resource, instead of more actively looking forward to invest in renewable resources, for instance. “The technocrats have lived for so long in their environment that they are not bothered by political issues. They do not admit the existence of dependence. ... This can be changed only through political decisions”,<sup>46</sup> states one of the supporters of lessening dependence on Russian gas resources in Latvia’s energy mix.

Finally, we need to look at the external political issues relating to the Latvian electricity market. Besides the above-mentioned Russian economic attempts to build new power-generating capacities that could again change the political power structures within the region, the Russian Federation is also an important player in the Council of the Baltic Sea States and the discussions within the EU’s Northern Dimension (energy issues excluded). The officials of the MFA admit that the European Union level is currently the main instrument for major consultations and energy deal bargaining with Russia, even though, of course, the national level also persists. As an official from the Investment and Development Agency of Latvia rhetorically stated: “Is an energy system in this region possible at all without the participation of Russia?”<sup>47</sup>

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<sup>44</sup> Author’s interview with Andris Sprūds in Riga, May 2010.

<sup>45</sup> Author’s interview with Juris Ozoliņš in Riga, April 2010.

<sup>46</sup> Ibid.

<sup>47</sup> Author’s interview with the official from the Investment and Development Agency of Latvia in Riga, April 2010.

thus highlighting the impossibility of avoiding Russian energy in the current regional energy talks.

This again leads to the situation that the Baltic States should have a common position towards Russia on electricity supply issues, which has so far been problematic. A common position on energy issues is complicated to reach for countries with very diverse situations at the domestic energy level. At the same time, a common Baltic position towards non-European Economic Zone electricity suppliers is a part of the third BEMIP step and will have to be addressed in the near future.

Similar concerns are also being expressed regarding the ‘energy-solidarity’ principle mentioned in the BSS documents. Namely, integrated markets are seen by most of the experts and officials as important from the perspective of energy security and solidarity. But they are also cautious about this principle, as it could only be tested in practice when such a situation emerges. J. Ozoliņš even concludes that energy solidarity is a relatively unnecessary term in a situation where markets are open and free, because the market will always generate supply if someone is willing to buy.<sup>48</sup> According to experts and officials, previous experience testifies that energy solidarity was a topical issue in the early 1990s, when the Swedish and Danish producers supplied the Latvian consumers with the energy lacking because of political turbulence and Russia’s attempts to cut the energy supply in order to preserve political control in the Baltics.<sup>49</sup> Similarly, energy cooperation between the Baltic States was more active about 10 years ago within the Energy Committee of the Baltic Council of Ministers, but since the countries joined the European Union cooperation has been mainly through the EU institutions.<sup>50</sup>

The European Union institutions and the role of BEMIP are crucial in assisting the Latvian energy market. As the officials

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<sup>48</sup> Author’s interview with Juris Ozoliņš in Riga, April 2010.

<sup>49</sup> Ibid.

<sup>50</sup> Author’s interview with the officials of the Ministry of Economics in Riga, May 2010.

of the MFA admit, “Developments in energy issues are evident; ... mostly because of the presence of BEMIP as a political agreement; ... the Strategy also provides political supervision.”<sup>51</sup> Latvia has been an active political project coordinator, and the officials of the ministries admit that Latvia is in a good position, as it can influence decision-making on the issues that are of primary importance for the country: “We are well situated to implement our priorities.”<sup>52</sup>

Even though the opinions among the leading officials responsible for the BSS in the ministries differ somewhat on the potential increase in Latvia’s activities with regard to project initiation (the MFA officials would like to see more projects initiated, while the ME officials tend to believe that it is essential to first carry out the ones that have received funding, before submitting new proposals for evaluation), overall performance as the coordinator is viewed as positive. Here, of course, one should not forget that not only the ministries, but also the position of *Latvenergo* and its capacity to adjust have been crucial for the relatively successful performance in implementing the BSS and helping to fulfil its ‘promises’.

Natural gas issues, as already mentioned before, need to be addressed separately. First, this is because of the two antagonistic views, which are expressed more acutely in the case of natural gas dependence. Second, this is because, according to the Ministry of Economics, gas market liberalization in Latvia is currently not possible.<sup>53</sup> The reason for this lies in the exclusive rights of *Latvijas Gāze* as the sole supplier of gas to Latvian consumers and its use of the Inčukalna gas storage facility at least until 3 April 2014. (Under an agreement exclusive rights will be retained until 2017.)

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<sup>51</sup> Author’s interview with the officials of the Ministry of Foreign Affairs in Riga, April 2010.

<sup>52</sup> Ibid.

<sup>53</sup> Changes in the Regulatory Framework of Latvia: Transition from Derogation to open Gas Market. Presentation of the Ministry of Economics of the Republic of Latvia at Working Group on Gas, the Council of Ministers. Brussels, 27 March 2009.

Moreover, technical problems persist, with the lack of pipeline infrastructure capacity to add alternative suppliers,<sup>54</sup> as well as effective use of the Inčukalns storage facility and the planned expansion of its capacity from 2.32 billion m<sup>3</sup> (active gas) up to 3.2 billion m<sup>3</sup>. “Natural gas accounts for approximately 30% of Latvia’s energy resources and this share is expected to increase. Latvia has the third largest natural gas storage facilities in Europe and *Latvijas Gāze* is planning even to double these.”<sup>55</sup> The activities of *Latvijas Gāze* could therefore obviously be seen as the behaviour of a monopolistic enterprise trying to preserve its influence in the future.

Currently the main activities and projects that have received financing from the EU are the reverse gas flows within the infrastructure between Latvia and Lithuania, as well as analysis of the potential development of a new natural gas storage facility in Dobeles. Some have high expectations of this project as facilitating the development of Latvia as a regional natural gas hub (the potential capacity of Dobeles being 30 billion m<sup>3</sup> of active gas). At the same time, others, for instance the officials of the Ministry of Economics, are quite cautious towards these plans, because they have a potential for failure. The main reason for this is that similar gas storage facilities can be found in other places in Europe, and Latvia does not necessarily possess the capacity to out-compete the other storage facilities, especially the ones in the Central and Western Europe which would be closer to the consumer.<sup>56</sup> Nevertheless, this storage facility is only in its initial stages of evaluation, and the actual development plans will be identified only in the near future.

The central problem identified by many experts and professionals is that natural gas imports come solely from Russia and that Latvia is one of the most obvious examples of dependency on

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<sup>54</sup> Author’s interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>55</sup> Maigre M. *Energy Security Concerns of the Baltic States*. Tallinn: International Centre for Defence Studies, 2010, p. 3.

<sup>56</sup> Author’s interview with the officials of the Ministry of Economics in Riga, May 2010.

imported energy resources. At the same time, the official state position is more subtle. Even though the official documents identify and admit the problems of energy security, the Ministry of Economics also positively evaluates the new agreement concluded between *Latvijas Gāze*, *Gazprom* and *Itera Latvija* in February 2009 on the supply of gas to Latvia until 2030.<sup>57</sup> This is seen by the ministry as a positive step towards energy security in the longer term, because the agreements meet the planned requirements for gas consumption by Latvia.

One could speculate that the central motivation for this is the infrastructural dependency on gas as the main source of energy and willingness to develop a good relationship with the Russian Federation, as well as the reason mentioned by the officials of the ME, namely that Russian gas supplies are stable and predictable, and have proven to be rather secure.<sup>58</sup> Moreover, gas is relatively cheaper than renewable sources of energy (electricity generated from biomass, wind energy etc.), and this serves to maintain the positive image of natural gas imports.<sup>59</sup> Natural gas imports from Russia have been present for a long period, and so they have a positive image as an easily acquirable, cheap resource that can satisfy the needs of household consumers and does not require additional massive capital investments. Consequently, Latvia's gas dependence is seen by some as a minor political problem, and by others as a major security and political problem for a small state.

As can be seen, the problems with gas market liberalization in Latvia are more deeply rooted than in the case of *Latvenergo* and electricity market liberalization. The position of the ME on this issue even seems somewhat pessimistic: "Diversification of gas supplies remains a challenge both vis-à-vis infrastructure and market creation. Interest and more active involvement on the

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<sup>57</sup> Author's interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>58</sup> Ibid.

<sup>59</sup> Author's interview with Andris Sprūds in Riga, May 2010.

part of Poland and Finland are needed. Diversifying away from Russia is no longer a bilateral issue for a Baltic country. Voices with bigger weight and pressure are needed – the EU Commission, the US.”<sup>60</sup> Therefore, Latvia admits that its dependence on Russian natural gas, the monopolies in supply and distribution, and problems with diversification and market liberalization are more general European Union problems that should be dealt with politically on the EU level with the Russian Federation. At the same time, this situation has the potential of leading to ‘Gazpromization’ of the Latvian political elite”,<sup>61</sup> as emphasised by Merle Maigre.

Potential development of the LNG terminal in the region, the potential of shale gas and the related development of infrastructure is again an issue where Latvia positions itself as a potential partner country, but not as a more active stakeholder. Therefore, potential gas market liberalization is seen as reliant on the activity of other countries in building interconnections and improving cross-border trade, as well as on potential reduction of prices and other ‘promises’ of the BSS. Latvia has the potential to become the regional gas hub, but the plan can be implemented only if neighbouring countries are also interested in the project.

Moreover, the ‘promise’ of a reduction of dependence on Russia as the sole supplier could largely be implemented through the building of a new infrastructure of gas pipelines between Norway and Latvia (which is admitted as an overly expensive plan by experts of both antagonistic approaches), development of Polish shale gas deposits, building of the LNG station etc. Therefore, the most hopeful diversification away from Russian natural gas imports and meeting the promises of the BSS could be found through the substitution of renewable energy resources for natural gas, as claimed by the protagonists of dependency reduction.

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<sup>60</sup> Author’s interview with the officials of the Ministry of Economics in Riga, May 2010.

<sup>61</sup> Maigre M. (see note 55), p. 9.

Renewable resources, together with increased energy efficiency in Latvia, could lead to a more independent energy policy in general, not only in electricity. On the other hand, this shift requires not only lessening the resistance of the monopolistic enterprises, but also convincing the Latvian population of the necessity of taking action to increase energy efficiency, with potential additional expenditure on the energy produced by renewable resources. Once again, especially during the economic recovery Latvia is going through, this is less likely.

## Conclusions

Content analysis of the BSS and the related documents indicates a number of 'promises' in the electricity and natural gas market which would be fulfilled if the requirements are followed successfully. Analysis of the positions and views of officials and independent experts again demonstrates that some crucial steps still need to be taken before the Baltic energy market can actually be integrated with the Nordic energy market. We can conclude that the situation is more 'hopeful' in relation to the electricity market than the natural gas market. The central reason for this is difference in the positions and behaviour of the two main energy monopolies in Latvia – *Latvenergo* and *Latvijas Gāze*.

In the energy sector most of the 'promises' can quite realistically be fulfilled in the near future if Latvia and other Baltic States continue the successful implementation of the required legal and institutional market adjustments to *Nordel*, as well as successfully joining the Nord Pool. The ending of the energy isolation of the Baltic States, with the creation of an internal energy market and the ending of energy market fragmentation, now mostly depends on the successful and timely start of the infrastructure projects. This would also permit fulfilment of the 'promises' of improving infrastructures, physical integration of the electricity grids etc. Implementation of the infrastructure projects and the future credibility



and competitiveness of *Latvenergo* in liberalized electricity market could be also influenced by the results of the criminal procedure on money laundering against the former leadership of the company instituted on 14 June 2010.

Some of the ‘promises’, such as financial help for the infrastructure-related projects through the European Economic Recovery Plan, have already been fulfilled. Solidarity mechanisms are more a political statement than a means of reducing possible interruptions and shocks, although solidarity could be properly evaluated only in a time of crisis and after the actual integration has taken place. The implementation of the Baltic Energy Market Interconnection Plan and cross-border cooperation in experience sharing and co-ordination of regulatory practices etc. are ‘promises’ that could also be fulfilled only in an active cooperation process. Both the Latvian and the Nordic counterparts seem to be active in working towards these ‘promises’.

The most problematic ‘promises’ at this point are the reduction of energy prices, as well as diversification of renewable resources and improvement of energy efficiency. As noted above, the prices for Latvian consumers will most likely increase rather than decrease, which leads to the question of whether opening the electricity market would really benefit Latvian consumers more than a closed and regulated market. Because of this, some interest groups could claim that market liberalization is more beneficial to companies, both in the Baltic States and the Nordic countries, than to the private consumers themselves. Nevertheless, this situation could also be considered as a price to pay for energy security (at least in the case of electricity). Moreover, the potential price increase could serve as a good stimulus to the consumers to become more active demanders and implementers of energy efficiency projects.

Again, at this point, the natural gas market seems to be in a more complicated situation. The gas market in Latvia has not been liberalized and for some years more will be controlled by Russian gas supplies and the monopoly of *Latvijas Gāze*. Therefore, the promises regarding the natural gas market face strong obstacles to

fulfilment. Diversification of suppliers and introduction of competition mostly depends on the ability of regional partners to define common projects. Even the promise of cross-border trade seems to lack a strong start, even though funding for some of the projects has already been allocated. In the case of the Baltic States, Polish and Finnish support and interest is essential for further development of gas interconnections. At this point, the development of the natural gas market is too little advanced to permit stronger conclusions on the potential fulfilment of the 'promises' of the BSS.

Finally, the analysis demonstrates that present fulfilment of the 'promises', as well as future plans, strongly depend on the monopolistic enterprises and their ability, willingness and interest in liberalizing the energy markets in Latvia. Nevertheless, the willingness on the part of the monopolies to adjust to the new conditions, as the case of *Latvenergo* demonstrates, could be influenced by various financial 'carrots' and hopes of being a strong competitor in a liberalized market.

The electricity market has been relatively easier to liberalize, not only because of particular financial benefits, but also because of the pressures produced by renewable energy use ideas and the presence of the political stimulus at the European Union level. The presence of a stimulus at the EU level is currently most evident through BEMIP or the European Union Strategy for the Baltic Sea Region. However, the potential success of the Strategy and liberalization of the natural gas market now depend on the ability to produce similar expectations and promises to the natural gas monopolies or introduce strong competitors.

# The Future of the Baltic Energy Market – Lessons Learned from the European Court of Justice

INESE STEPÎŢA

## Introduction

The European Union has recently, especially during the period 2005–2006, renewed the debate on creating a European energy policy.<sup>1</sup> Energy issues have again appeared on the agenda of EU Member States and EU institutions, showing a certain degree of willingness to develop closer cooperation in the area.<sup>2</sup> This trend has naturally also been reflected in the EU Strategy for the Baltic Sea Region (the Strategy) and its Action Plan, adopted by the European Commission (EC) on 19 June 2009.<sup>3</sup>

Integration of the EU internal market in the energy sector in the form of liberalization is a prerequisite for the creation

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<sup>1</sup> Hunt M. Ownership Unbundling: The Main Legal Issues in the Controversial Debate. In: Eds. Delvaux B., Hunt M., Talus K., *EU Energy Law and Policy Issues*. Brussels: Euroconfidentiel, 2008, p. 57.

<sup>2</sup> Geden O. EU energy policy. In: Eds. Sprüds A., Rostoks T. *Energy. Pulling the Baltic Sea Region Together or Apart?* Riga: Zinātne, 2009, p. 12; van der Linde C. External energy policy: old fears and new dilemmas in a larger Union. In: Ed. Sapir A. *Fragmented Power: Europe and the Global Economy*. Brussels: Bruegel, 2007, p. 272.

<sup>3</sup> After the request of the MS on 14 December 2007 and endorsed on 29–30 December 2009, see Presidency Conclusions, 14 December 2007, p. 17, available from [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/97669.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/97669.pdf), last accessed on 8 May 2010, and Presidency Conclusions, 29–30 December 2009, p. 11, available from [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/110889.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/110889.pdf), last accessed on 8 May, 2010.

of appropriate infrastructure and for other accompanying measures, namely, the adoption of appropriate regulation. The Strategy and Action Plan particularly note that the lack of appropriate infrastructure has hampered the physical integration of the three Baltic States and, further, has an impact on overall efficiency and security of energy supply.<sup>4</sup> Therefore, the three countries Estonia, Latvia, and Lithuania “remain, with the exception of the *Estlink* power cable between Estonia and Finland, essentially isolated from the wider energy networks of the European Union.”<sup>5</sup>

Incentives to create an EU internal market in the energy sector are not new and do not concern only the three Baltic States, but instead have a wider EU policy context and background. Creation of an EU internal market for energy, which requires liberalization of the energy market, is still in process.

In the history of EU integration the energy sector itself has gone through different cycles of development. One common feature over the period is that this was and still is a sector where many different interests meet, at national, industrial, institutional and individual level. The history of the efforts within the EU to create a common EU energy policy suggests a number of lessons to be learned and demonstrates the divergent interests of different stakeholders in the area.

The research question of this article is: what kind of lessons can one take from other Member States, if one has to contemplate the future of the Baltic energy market? The subject of the study will be

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<sup>4</sup> European Union Strategy for the Baltic Sea Region. Action Plan. SEC(2009) 712, 10 June 2009, p. 46, available from [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/action2009.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/action2009.pdf). Last accessed on 8 May 2010.

<sup>5</sup> European Union Strategy for the Baltic Sea Region, COM(2009) 248, 10 June 2009, p. 8, available from [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/com\\_baltic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/com_baltic_en.pdf). Last accessed on 8 May 2010.

treated in a wider EU context and in the framework of the historical case-law of the European Court of Justice (ECJ).<sup>6</sup>

This article will demonstrate that Member States have been and still are reluctant to create a common energy market, leading to the absence of an appropriate legal framework, to delay in the implementation of Community law in the sector and consequently also to delay in the creation of appropriate infrastructure. Progress in the area depends to a great extent on the presence or absence of powerful stakeholders with an interest in liberalization and further integration of the market in the energy sector, too.

This article will trace the conflicting and divergent interests in the energy sector of the EU by looking at the case-law of the ECJ over the last 20 years (1989–2009). The ECJ case-law reveals the divergent interests of Member States and other stakeholders, the most vulnerable areas or obstacles in the creation of an EU energy market and efforts to develop a common EU energy policy, as well as the way in which these interests have or have not been balanced.

The end of 1980s and the beginning of 1990s is a period significant for the entry into force of the Single European Act – an enabling instrument for gradual establishment of a single market over the period up to the end of 1992. It was accompanied “by a vast legislative programme involving the adoption of hundreds of directives and regulations”.<sup>7</sup>

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<sup>6</sup> Following the entry into force of the Treaty of Lisbon on 1 December 2009, previously the European Court of Justice has changed its name to the Court of Justice of the European Union. The EU has legal personality and has acquired the competences previously conferred on the European Community. Community law has therefore become EU law. In this paper the term ‘Community law’ will nevertheless be used where reference is being made to the case-law of the Court of Justice before the entry into force of the Treaty of Lisbon, see: Court of Justice, Presentation, available from [http://curia.europa.eu/jcms/jcms/Jo2\\_7024/#jurisprudences](http://curia.europa.eu/jcms/jcms/Jo2_7024/#jurisprudences). Last accessed on 8 May 2010.

<sup>7</sup> The Single Market, The EU at glance, Europe at 12 lessons, available from [http://europa.eu/abc/12lessons/lesson\\_6/index\\_en.htm](http://europa.eu/abc/12lessons/lesson_6/index_en.htm). Last accessed on 8 May 2010.

This is also the time when the Court of First Instance of the European Communities was established, in 1988,<sup>8</sup> with jurisdiction in actions brought by individuals,<sup>9</sup> followed in 1993 and 1994 by extended jurisdiction to include also all direct actions brought by natural and legal persons.<sup>10</sup> These institutional changes can be considered as an important factor in enlarging interest representation opportunities for different stakeholders, including private litigants, at the EU level and the mediation of conflicting interests at the ECJ.

### **A wider EU context for energy policy**

Initiatives aimed at creating a common energy policy are not new. Especially in the 1960s, 1970s and early 1980s, the “Commission attempted without much success to unify ... energy security policies” of Member States, since their interests stood in the way of progress.<sup>11</sup> As regards the energy sector, the Member States were and still are in various situations. This difference is also reflected in such aspects as “asymmetry in import dependency ..., the preference ... for certain energy mix, ... competitive position in world markets and different foreign and security approaches”. Consequently, this translates into the particular resources and needs of individual Member States, and their “relationships with the main supplier or transit countries ... and ... geo-strategic considerations”,<sup>12</sup> and agreement among the Member States on a common policy, also in the energy field, historically has been hard to achieve.<sup>13</sup>

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<sup>8</sup> Arnall A. *The European Union and its Court of Justice*. 2<sup>nd</sup> ed. Oxford University Press, 2006, p. 25.

<sup>9</sup> Court of Justice, Presentation, available from [http://curia.europa.eu/jcms/jcms/Jo2\\_9089/?hlText=pirm%C4%81s+instances+tiesa](http://curia.europa.eu/jcms/jcms/Jo2_9089/?hlText=pirm%C4%81s+instances+tiesa). Last accessed on 8 May 2010.

<sup>10</sup> Arnall A. (see note 8), p. 25.

<sup>11</sup> van der Linde C. (see note 2), p. 266.

<sup>12</sup> *Ibid.*, p. 268; Geden O. (see note 2), p. 13.

<sup>13</sup> van der Linde C. (see note 2), p. 268.

Consequently, it is no surprise that energy policy “was never recognised as an explicit community competence”.<sup>14</sup> That the treaties of the time are silent on energy policy indicates that Member States did not want to commit themselves to a common policy in this area.<sup>15</sup> At the same time the “lack of specific chapter or title on energy” in the treaties was not really an obstacle for the Community to introduce various measures in the energy sphere “by adopting a secondary legislation on the basis of its competences in the internal market and environmental measures”.<sup>16</sup> Thus, the Community indirectly applied its competences in the internal market also to energy matters.<sup>17</sup>

The energy sector is still in many ways the competence of individual Member States, which are used to developing their own energy policies.<sup>18</sup> This has resulted over the last 50 years in fragmentation of the EU energy markets and organization of the markets at the national level. The Member States have demonstrated a great reluctance to move away from a “nationalistic understanding of their energy interests”. This has determined specific infrastructure solutions and requirements in the energy sector and has led to the creation of national monopolies and “geographical partition of EU energy markets”.<sup>19</sup>

The main driving force of liberalization was efficient competition, rather than security of supplies.<sup>20</sup> “Concerned by the negative effects that such a market structure may generate in a context of

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<sup>14</sup> Hunt M. (see note 1), p. 57.

<sup>15</sup> Moussis N. *Guide to European Policies*. European Study Services, 13<sup>th</sup> rev. ed., 2007, p. 342.

<sup>16</sup> Delvaux B., Guimaraes-Purokoski A. Vertical Division of Competences between the European Community and its Member States in the Energy Field – Some remarks on the Evolution of Community Energy Law and Politics. In: Delvaux B. et al. (see note 1), p. 21.

<sup>17</sup> van der Linde C. (see note 2), p. 266.

<sup>18</sup> Geden O. (see note 2), p. 13.

<sup>19</sup> Hunt M. (see note 1), p. 57.

<sup>20</sup> Talus K Security of Supply – An Increasingly Political Notion. In: Delvaux, B. et al. (see note 1), p. 126.

globalisation, the European Institutions recognized the need to open up European energy markets” in the late 1980s and the first directives aimed at creating a common European electricity and gas market were adopted in 1996 and 1998.<sup>21</sup> The liberalization of the EU energy market at the time was the first great achievement, demonstrating a certain degree of willingness and ability on the part of the Member States to agree on a common approach to energy policy issues.<sup>22</sup>

Liberalization of the European gas and electricity markets means opening the European gas and electricity markets to competition. Both legally and also practically, this process relates to the necessity of abolishing national monopolies and oligopolies in the sector.<sup>23</sup> Thus, the mid-1990s were a turning point in the development of the energy sector in Europe – the sector which had so far been excluded from the provisions on competition. From the beginning, many countries were against such a change and protected their energy sectors (monopolies), so that this reform was considered to be the “least common denominator of negotiations” among the large Member States, namely, France, Germany and United Kingdom.<sup>24</sup>

The directives adopted in 1996 and 1998 were reviewed in 2003 through the second energy package. However, less than five years later, the creation of an internal energy market had proved to be far from effective, despite some positive achievements. In September 2007 the EC “revealed the third energy package which proposed new and far-reaching measures to respond to the inadequacies of the current system.”<sup>25</sup>

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<sup>21</sup> Hunt M. (see note 1), p. 57.

<sup>22</sup> van der Linde C. (see note 2), p. 266.

<sup>23</sup> Geldhof W., Vandendriessche F. European Electricity and Gas Market Liberalisation. Background, Status, Developments. In: Delvaux, B. et al. (see note 1), p. 33.

<sup>24</sup> Eising R. Policy Learning in Embedded Negotiations: Explaining EU Electricity Liberalization. *International Organization*. Winter, 2002, vol. 56, no. 1, pp. 85, 92.

<sup>25</sup> Hunt M. (see note 1), p. 57.



The new Lisbon Treaty includes “new wording of the Energy title”, and so one can consider that “after some 40 or so years of the Community legislature’s activities in the energy policy area ... there could finally be a ‘proper’ legal basis for European energy policy.”<sup>26</sup> However, this might not be a solution to all the legal problems.<sup>27</sup>

Compared to the situation before the Lisbon Treaty was adopted, no major changes have been introduced as concerns competences in the energy field. “This new energy title provides for a legal basis for the adoption of measures which aim to ensure the general goals of the existing European energy policy such as the functioning of the internal market, the security of supply, energy efficiency etc.”<sup>28</sup> Thus, the question is whether inclusion of a new energy title in the Lisbon Treaty means that “all measures in the energy field need to be based upon its provisions of the Treaty or may still be adopted on the basis of other Treaty provisions”,<sup>29</sup> such as the internal market, competition or environmental provisions.

From this perspective the objective of creating a European-wide internal market in gas and electricity by liberalizing the sector is an ambitious project. Although the approach, in terms of the ‘legal techniques’<sup>30</sup> used, is very similar to other sectors, such as electronic communications, postal services and rail transport, there are differences in the application and/or criteria used. Many of these differences can be explained by “sector specific circumstances”, but not all of them. “This can be an indication that political influence and/or historical reasons still play an important role.”<sup>31</sup>

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<sup>26</sup> Hunt M. (see note 1), p. 27.

<sup>27</sup> *Ibid.*, p. 20.

<sup>28</sup> *Ibid.*, p. 28.

<sup>29</sup> Delvaux B., Guimaraes-Purokoski A. (see note 16), p. 28.

<sup>30</sup> Access rules, unbundling, supervision/monitoring by regulators, public service obligations, derogations. Geldhof W., Vandendriessche F. *European Electricity and Gas Market Liberalisation. Background, Status, Developments.* Delvaux, B. et al. (see note 1), p. 55.

<sup>31</sup> *Ibid.*

Thus, liberalization and further integration of the European energy market is still an unsolved issue, which is also reflected in the work of the ECJ, with various stakeholders engaging in litigation in order to advance their interests on energy issues.

### **The case-law of the ECJ in the energy sector (1989–2009)**

Analysis of the case-law of the ECJ in the energy sector over the last 20 years (1989–2009, n=43) reveals that litigation in the area has increased remarkably over the last 10 years (1999–2009). This is the time when a substantial majority (81%) of all rulings of the ECJ have been made (see Figure 1) and it coincides with a number of legislative initiatives in the area, as discussed previously.

Analysis of the case-law during this time shows that divergent and conflicting interests were present at the ECJ, most notably in the **electricity sector**, as well as in the **oil and gas sector**. These sectors, as we saw, have been subject to a liberalization process and creation of an internal energy market over the last 20 years.

Disputes in the electricity sector constituted nearly half of all case-law in the energy sector (43% or 19 cases) and mainly related to the application of common rules for the internal market in electricity,<sup>32</sup> access to and use of the national electricity transmission systems,<sup>33</sup> exclusive rights to import electricity for public distribution,<sup>34</sup> as well as the price of electricity transmission.<sup>35</sup> Disputes in the oil and gas sector made up nearly one seventh of all case-law in

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<sup>32</sup> Case C-17/03; Case C-182/05, Case C-352/05, Case C-353/05, Case C-413/04, Case C-358/05, Case C-474/08.

<sup>33</sup> Case C-128/03 (joined with case C-129/03); Case C-414/04; Case C-439/06; Case C-239/07, Case C-274/08.

<sup>34</sup> Case C-274/08; Case C-393/92; Case C-157/94; Case C-158/94; Case C-160/94; Case C-159/94.

<sup>35</sup> Case C-393/92; Case C-157/94; Case C-158/94; Case C-160/94; Case C-159/94, Case C-206/06.

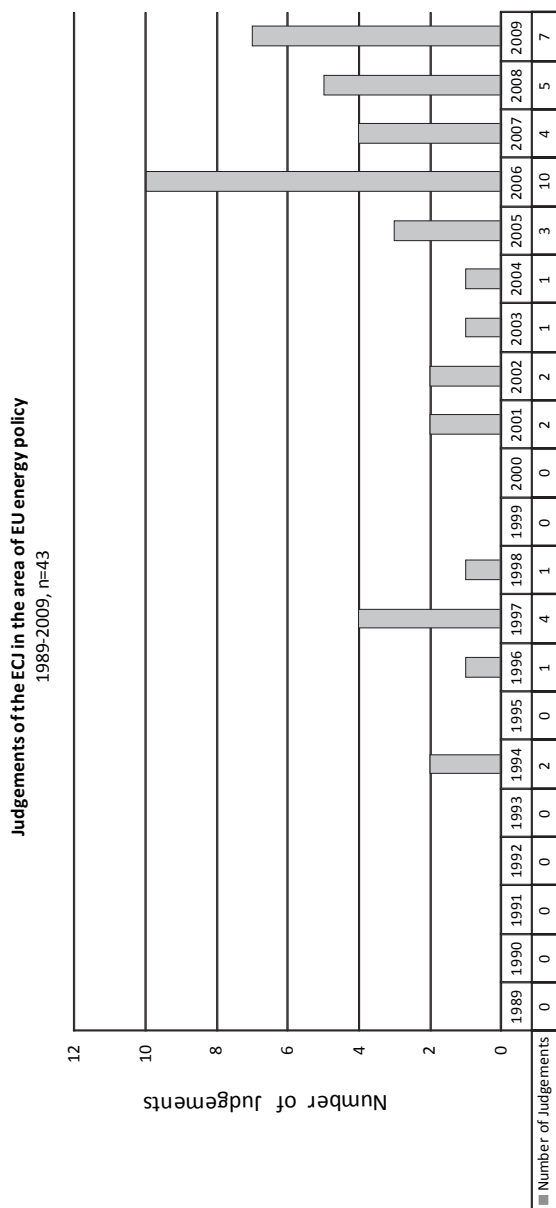
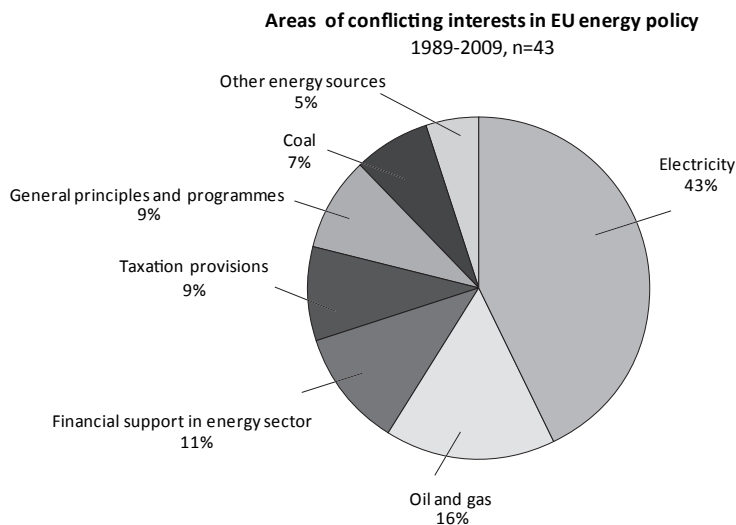


Figure 1. Judgements of the ECJ in the area of EU energy policy

the energy sector (14% or 7 cases), and mainly related to common rules for the internal market in natural gas<sup>36</sup> and exclusive rights to import and export gas and electricity.<sup>37</sup>

Other matters of conflict were **financial support** in the energy sector, the *Thermie* Programme and *Altener II* Programmes<sup>38</sup> (11% of all cases), **taxation provisions**<sup>39</sup> (9% of all cases) regarding energy products and electricity, the general principle and programmes relating to **rational use and preservation of energy**<sup>40</sup> (9% of all cases), the coal sector<sup>41</sup> (7% of all cases), and licences to extract raw coal, as well as **other sources of energy**, namely renewable sources of energy<sup>42</sup> (5% of all cases). (See Figure 2).



*Figure 2. Areas of conflicting interests in EU energy policy*

<sup>36</sup> Case C-259/01; Case C-351/05; Case C-357/05; Case C-354/05; Case C-475/08.

<sup>37</sup> Case C-159/94.

<sup>38</sup> Case C-48/96 P, Case T-287/01, Case T-56/03, Cases T-192/01, Case T-245/04.

<sup>39</sup> Affaire C-360/05, Affaire C-109/06, Case C-388/06, Joined Cases C-145/06 and C-146/06.

<sup>40</sup> Affaire C-342/07, Affaire C-187/08, Affaire C-174/09, Affaire C-22/09.

<sup>41</sup> Case C-128/92, Case T-57/91, Case C-159/94, Case C-390/98.

<sup>42</sup> Case C-379/98, Case T-192/01, Case C-448/01.

## Lessons learned by Member States and other stakeholders at the ECJ

The dynamics of litigation at the ECJ are related to overall changes in the situation in the EU energy market: the internal necessity for market liberalization and diversification of energy sources on the basis of adopted secondary EU legislation (law), as well as the reluctance of certain Member States to transpose legislation already adopted. Litigation on energy issues only started in the early 1990s, with judgements being made only from 1994 onwards. Such a pace of litigation has to be considered as a reaction by various stakeholders to the overall changes that took place in EU energy policy.

Although Member States have adopted (or at least participated in the adoption of) both primary and secondary Community law establishing certain features of EU energy policy at a given time, a number of Member States were not in a hurry to transpose the legislation, thus giving grounds for the EC to submit an application against the Member States before the ECJ for failure to fulfil their obligations as Member States. Even when Member States have transposed Community law in due time, in some cases the way it was transposed into national law has been contested via national litigation by various stakeholders. In most cases, these were enterprises and commercial associations, as well as individuals, who contested the national legislation as not being compatible with Community primary and secondary law.

The Member States against which actions have been brought by the EC before the ECJ for failure to fulfil their obligations as Member States (mostly in the sectors of electricity, oil and gas) include France,<sup>43</sup> Belgium,<sup>44</sup> Greece,<sup>45</sup> Luxembourg<sup>46</sup> and Italy,<sup>47</sup> followed by Spain<sup>48</sup> and Germany,<sup>49</sup> and to much lesser extent Estonia,<sup>50</sup> Poland<sup>51</sup>

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<sup>43</sup> Case C-259/01, Case C-388/06, Case C-159/94, Case C-160/94.

<sup>44</sup> Case C-187/08, Case C-474/08, Case C-475/08.

<sup>45</sup> Case C-182/05, Case C-352/05, Case C-342/07.

<sup>46</sup> Case C-354/05, Case C-353/05, Case C-22/09.

<sup>47</sup> Case C-360/05, Case C-157/94, Case C-158/94.

<sup>48</sup> Case C-357/05, Case C-358/05.

<sup>49</sup> Case C-64/03, Case C-109/06.

<sup>50</sup> Case C-351/05.

<sup>51</sup> Case C-174/09.

and Sweden.<sup>52</sup> Private litigants (companies) have submitted their applications within the litigation initiated at the national level against such Member States as Italy, Austria, England and Wales, and the Netherlands,<sup>53</sup> against a number of decisions of EU institutions,<sup>54</sup> against state or municipal enterprises<sup>55</sup> in such Member States as the United Kingdom, Germany and the Netherlands, and only once against another company,<sup>56</sup> in this case in Germany. In most cases the area of interest for private litigants has been the electricity sector.

For private litigants, litigation invoking Community law before the national court has been one of the strategies to represent and promote their interests, most likely in cases where such opportunities had been exhausted or were not possible in other interest representation formats, for example, at the national level. The adoption of Community secondary law opened a 'window of opportunity' for private litigants to promote their interests at the EU level. However, the outcome or success of this strategy can be considered in many ways as uncertain and dependent on a number of factors.

The possibility of invoking Community law in the energy sector before the national courts, which may be considered the essential criterion for access to the court, has been one of the major factors influencing the success of private litigants. For enterprises, which come second in terms of the number of applications on EU energy policy, it has been no easy task to promote their interests and protect their rights deriving from Community law. In fact, the ECJ has satisfied only one third of all applications from enterprises. The major precondition for an enterprise to promote its interests and, it seems, also for the ECJ to give a ruling in favour of the applicant, has been the existence of secondary Community law to which the applicant can refer, and not so much the capacity and will of the ECJ to interpret widely the provisions of primary Community law along

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<sup>52</sup> Case C-274/08.

<sup>53</sup> Case C-448/01, Case C-128/03, Case C-129/03 and joined Cases C-145/06, C-146/06.

<sup>54</sup> Case C-48/96 P, Case T-287/01, Case T-56/03, Case T-192/01.

<sup>55</sup> Case C-128/92, Case C-439/06, Case C-206/06.

<sup>56</sup> Case C-379/98.

the lines of the 'will of the legislator'. Also, the stance of Member States and formation of certain interest groups can be a matter of consideration for the ECJ when coming up with its rulings.

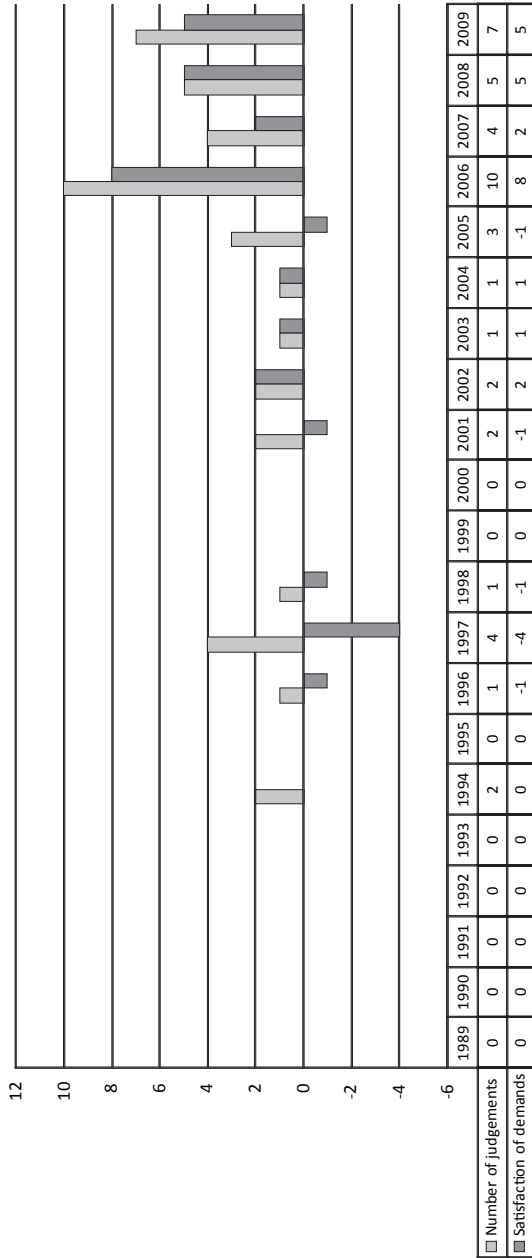
The adoption of secondary Community law has also reinforced the capacity and role of the EC and the ECJ in enforcing the law at national level. The role of the EC and also to a great extent the role of private litigants (companies) as applicants at the court, along with institutional and normative (adoption of secondary legislation) changes, was one of the main factors that made it possible for the ECJ and for the national courts to contribute to the application of the already-existing normative framework of EU energy policy at the national level. However, if we compare the level of access to the court for the EC and private litigants, as well as the relative success of the applications on energy issues before the court, then we see that the EC as an applicant at the ECJ is a much more powerful player: the EC can introduce a direct claim against Member States and also companies before the ECJ. The ECJ has always been, with one significant exception in 1997, on the side of the EC, rather than on the side of other stakeholders.

The ECJ itself cannot be regarded as a driving force in the development of EU energy policy. On the contrary, it can be considered as a guardian of the *status quo* and in some cases, as in 1997, has even applied the brakes to the process of development of the EU energy market initiated by the EC. The existence of secondary Community law has been a major determinant for the ECJ to come up with rulings in favour of the initiators of a litigation process. The case-law in the energy sector shows that the ECJ has demonstrated great reluctance to give a wide interpretation of primary Community law (Treaty provisions), giving priority to the interpretation of secondary Community law. Such jurisprudence is very much in contrast with what might be expected from the analysis of ECJ case-law in other fields, such as EU environmental protection and the social field (free movement of persons and equal rights).<sup>57</sup> We may note quite clearly

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<sup>57</sup> Quintin O., Favarel-Dapas B. *L'Europe sociale: enjeux et réalité*. Réflexe Europe, La documentation Française. 2000, p. 39 ; Cichowski R.A. *The European Court and Civil Society. Litigation, Mobilization and Governance*. New York: Cambridge University Press, 2007, p. 246.

**Judgement of the ECU in the area of EU energy policy: judgements v satisfaction of demands of applicant**  
1989-2009, n=43



*Figure 3. Judgements of the ECJ in the area of EU energy policy: judgements v. satisfaction of the demands of applicants*



that jurisprudence of the ECJ in the energy sector demonstrates rather non-linear rulings, with a comparatively high number of negative judgements in 1997, followed by chain of positive judgements as of 2001 and beyond. This trend also correlates with the existence or not of secondary legislation at the time (see Figure 3).

In 1997, the ECJ rejected a number of cases<sup>58</sup> initiated by the EC where the application was based on the EC Treaty provisions. The EC at the time brought an action against the Netherlands<sup>59</sup> for the application of exclusive rights to the import of electricity for public distribution, and against Italy<sup>60</sup> and France<sup>61</sup> for the application of

<sup>58</sup> Case C-157/94, Case C-158/94, Case C-159/94.

<sup>59</sup> Case C-157/94, Judgment of the Court, 23 October 1997 in Case C-157/94, available from: <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&newform=newform&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&alldocrec=alldocrec&docj=docj&docor=docor&docop=docop&docav=docav&docsom=docsom&docinf=docinf&alldocnorec=alldocnorec&docnoj=docnoj&docnoor=docnoor&radtypeord=on&typeord=ALL&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&affclose=affclose&numaff=C-157%2F94&ddatefs=&mdatefs=&ydatefs=&ddatefe=&mdatefe=&ydatefe=&nomusuel=&domaine=&mots=&resmax=100&Submit=Submit>. Last accessed on 8 May 2010.

<sup>60</sup> Case C-158/94, Judgment of the Court, 23 October 1997 in Case C-158/94, available from <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&newform=newform&Submit=Submit&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&alldocrec=alldocrec&docj=docj&docor=docor&docop=docop&docav=docav&docsom=docsom&docinf=docinf&alldocnorec=alldocnorec&docnoj=docnoj&docnoor=docnoor&radtypeord=on&typeord=ALL&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&affclose=affclose&numaff=C-158%2F94&ddatefs=&mdatefs=&ydatefs=&ddatefe=&mdatefe=&ydatefe=&nomusuel=&domaine=&mots=&resmax=100>. Last accessed on 8 May 2010.

<sup>61</sup> Case C-159/94, Judgment of the Court, 23 October 1997 in Case C-159/94, available at <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&newform=newform&Submit=Submit&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&alldocrec=alldocrec&docj=docj&docor=docor&docop=docop&docav=docav&docsom=docsom&docinf=docinf&alldocnorec=alldocnorec&docnoj=docnoj&docnoor=docnoor&radtypeord=on&typeord=ALL&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&affclose=affclose&numaff=C-159%2F94&ddatefs=&mdatefs=&ydatefs=&ddatefe=&mdatefe=&ydatefe=&nomusuel=&domaine=&mots=&resmax=100>. Last accessed on 8 May 2010.

exclusive rights to import and export electricity. The ECJ gave almost identical rulings in support of these Member States, announcing that it was “incumbent on the Commission, in order to prove the alleged failure to fulfil obligations, to define ... the Community interest in relation to which the development of trade must be assessed .... Treaty expressly requires the Commission to ensure the application of that article and, where necessary, to address appropriate directives or decisions” to Member States. In all these cases the EC as applicant was supported by the United Kingdom, whereas the defendant Member States supported each other. These cases show that in the mid-1990s two opposed groupings had become established on the issue of liberalization of the market (Member States v. EC and Member States). It is also very likely that such a balance of power was a certain matter of consideration for the ECJ before giving its ruling and determined the outcome of the dispute.

### **Have conflicting interests in the Baltic energy market been demonstrated at the ECJ?**

Analysis of the ECJ case-law reveals that the Baltic energy market has comparatively seldom been a subject of the work of the ECJ. After the three countries Estonia, Latvia and Lithuania joined the EU, between 2004 and 2009 there have been four cases (9% of total case-law or 28.5% of the cases during the period 2004–2009), giving an insight into the areas of conflict relating to the interests of Estonia and Lithuania. There are no cases where Latvia has been involved.

Among the Baltic States, Estonia has been the most active in the litigation process at the ECJ concerning energy issues. In two cases Estonia, together with Poland, joined the defendant – the Council of the European Union. The two cases<sup>62</sup> were brought before the ECJ by the European Parliament (EP) against the Council, asking the

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<sup>62</sup> Case C-413/04 and Case C-414/04.

ECJ to annul Council Directive 2004/85/EC of 28 June 2004 amending Directive 2003/54/EC of the EP concerning common rules for the internal market in electricity, which also contained temporary derogations in favour of Estonia and Slovenia. Poland and Estonia intervened in support of the Council as defendant, whereas the EC supported the EP. In both cases the ECJ judged that the Council directive is to be annulled, and that the particular derogations applied to Estonia and Slovenia had to be maintained. For Estonia, the derogation meant only a partial opening of the market, representing 35% of consumption on 1 January 2009.<sup>63</sup> In the case of Slovenia the ECJ maintained the effect of the regulation until the adoption of a new regulation.<sup>64</sup> The ECJ also noted that the derogation for Slovenia was justified, since, without a transition period, “energy-intensive industries would be adversely affected by higher prices for electricity imported ... and certain electricity producers by lower incomes from export sales ... . That situation would impede the ongoing efforts of the industries concerned to restructure and respectively comply with Community *acquis* applicable to electricity production.”<sup>65</sup>

The EC has brought one claim against Estonia<sup>66</sup> before the ECJ for not fulfilling its Member State obligations “by failing to comply

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<sup>63</sup> Judgment of the Court (Grand Chamber) of 28 November 2006 – EP v EC (Case C-413/04), *OJ*, 30 December 2006, C 331/4.

<sup>64</sup> Judgment of the Court (Grand Chamber) of 28 November 2006 – European Parliament v Commission of the European Communities (Case C-414/04), *OJ*, 30 December 2006, C 331/4-5.

<sup>65</sup> Judgment of the Court (Grand Chamber) 28 November 2006, in Case C-414/04, available at: <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&numaff=C-414/04&nomusuel=&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&affclose=affclose&alldocrec=alldocrec&docor=docor&docav=docav&docsom=docsom&docinf=docinf&alldocnorec=alldocnorec&docnoor=docnoor&radtypeord=on&newform=newform&docj=docj&docop=docop&docnooj=docnooj&typeord=ALL&domaine=&mots=&resmax=100&Submit=Rechercher>. Last accessed on 8 May 2010.

<sup>66</sup> Case C-351/05.

with the obligation under Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 (1) concerning common rule for the internal market in natural gas and repealing Directive 98/30/EC to notify all the laws, regulations and administrative provisions necessary to transpose that directive into national law". However, in this case no real litigation took place – the EC recalled its application, since Estonia complied with its obligations after the EC had introduced a claim before the ECJ.<sup>67</sup>

As concerns Lithuania, there has been only one case<sup>68</sup> at the ECJ, initiated by a group of Lithuanian parliamentarians against the Lithuanian government. The parliamentarians contested before the national court the Law on Electricity adopted by the Lithuanian Parliament, aimed at transposition of Directive 2003/54/EC establishing common rules for the generation, transmission, distribution and supply of electricity. The Lithuanian, Italian and Finnish governments, together with the EC, submitted their observations to the ECJ. The observations of the Member States were very much along the lines of argumentation of the defendant.

The Lithuanian Parliament contended that Member States were free to determine the rules for connecting to the electricity system. The parliamentarians claimed that the Law on Electricity "... fails to ensure that customers are free to choose between a transmission or distribution system for the purpose of connecting their equipment ... . Directive does not expressly restrict the ability of an electricity customer to connect his equipment to a transmission

<sup>67</sup> Ordonnance du président de la cour 31 mai 2006 dans l'affaire C-351/05, available at: <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&numaff=C-351/05&nomusuel=&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&affclose=affclose&alldocrec=alldocrec&docor=docor&docav=docav&docsom=docsom&docinf=docinf&alldocnorec=alldocnorec&docnoor=docnoor&radtypeord=on&newform=newform&docj=docj&docop=docop&docnoj=docnoj&typeord=ALL&domaine=&mots=&resmax=100&Submit=Rechercher>. Last accessed on 8 May 2010.

<sup>68</sup> Case C-239/07.

system nor does it oblige him to connect only to a distribution system". The ECJ in its preliminary ruling only partially satisfied the claim of the applicant, leaving it to the national court to determine if implementation and application of the access system is taking place in an objective and non-discriminatory manner between the users of the transmission and distribution systems.<sup>69</sup>

The Estonian case demonstrates that its behaviour in the energy sector is very much like that of other Member States – supporting other Member States versus EU institutions on issues considered to be of importance for the country and in its interests, as well as delaying implementation of legislation, not necessarily giving an input into the creation of a common EU energy market. Also, the Lithuanian case demonstrates that Member States are willing and able to form coalitions against other stakeholders at the court on issues that are considered to be of importance and in their interests, leaving an open question: what impact do such coalitions have in practice on the formation of the EU internal energy market?

As regards Latvia, we can talk of a 'lack of presence' at the ECJ. Initially, one could be inclined to conclude that there are no specific or conflicting interests in the Latvian energy sector as regards the functioning of the Latvian or Baltic energy market. However, recent analyses in the field suggest that "Latvia appears to be the most vulnerable country and can be characterized as the most energy insecure country in the Baltic Sea region".<sup>70</sup> Such an observation

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<sup>69</sup> Judgment of the Court (Third Chamber) 9 October 2008, in case C-239/07, available at <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&alljur=alljur&jurcdj=jurcdj&jurtpi=jurtpi&jurtfp=jurtfp&numaff=C-239/07&nomusue l=&docnodecision=docnodecision&allcommjo=allcommjo&affint=affint&af fclose=affclose&alldocrec=alldocrec&docor=docor&docav=docav&docsom= docsom&docinf=docinf&alldocnorec=alldocnorec&docnoor=docnoor&radt ypeord=on&newform=newform&docj=docj&docop=docop&docnoj=docnoj &typeord=ALL&domaine=&mots=&resmax=100&Submit=Rechercher>. Last accessed on 8 May 2010.

<sup>70</sup> Sprūds A. Latvia's energy strategy: between structural entrapments and policy choices. Sprūds A., Rostoks T. (see note 2), p. 230.

is also very well reflected in the Strategy and the Action Plan. The same concern, but in the wider context of the Baltic Sea Region (BSR), was demonstrated by the major industrial stakeholders in their joint declaration of May 2008 which, among other things, indicated that in the BSR there is a need for “promotion of deeper integration in the energy sector by developing diversity of energy supplies and transnational energy networks”<sup>71</sup> Thus, the absence of litigation cannot lead to the conclusion that there are no conflicting interests among the different stakeholders in the Latvian energy market. The absence of litigation in Latvian case rather suggests that different stakeholders so far have not chosen litigation as their strategy for interest representation and thus for the researcher it is difficult to reveal different and conflicting interests in this sector.

### **The strategy and the future of the Baltic energy market**

The Strategy and its Action Plan cannot be considered a miracle solution for the Baltic energy market and its integration into the wider EU energy market. This conclusion is reinforced if we consider that it is individual Member States that are taking the lead in coordination of certain priority areas of the Strategy and its Action Plan, without real and overall EU-level responsibility in the person of the EC. Therefore, the various instruments envisaged in the Strategy and its Action Plan can only be as efficient and successful as

- the willingness and capacity of the respective Member States to integrate the Baltic energy market into the wider

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<sup>71</sup> Joint resolution. Meeting of Employers’ Organisations of the Baltic Sea region, The Role of Employer’s Organisations in Economic Development and Global Competitiveness in the Baltic Sea Region, 12 May 2008, Riga, Latvia, p. 3, available at <http://www.lddk.lv/index.php?main=152&lang=2&group=archive&p=946&page=1>. Last accessed on 8 May 2010.

EU energy market. This also includes elaboration and implementation of an appropriate legislative framework that stimulates diversification of energy sources and investments in infrastructure connecting the market to European networks;

- the provision of appropriate EU-level supervision of the implementation of EU legislation and of the Strategy and Action Plan itself by the EC, where necessary coming up with accompanying financial instruments to support the integration of the Baltic energy market into the wider EU energy market;
- the extent of the growth of production and industries interested in the diversification of energy sources, looking for alternative and more competitive energy resources;
- the level of activity of the different private stakeholders as consumers (from companies to individuals) interested in the diversification of energy sources and access to and use of the national electricity transmission systems, with the possibility, where appropriate, of contesting national law via the litigation process in cases where other means have been exhausted. Not only 'the legal right to choose' an electricity or gas supplier, but a real 'choice of supplier' would be a point of reference for assessing to what extent liberalization and integration of the market has taken place.<sup>72</sup>

From such a perspective the ambition of the Strategy and its Action Plan to integrate the Baltic energy market into a wider EU energy market is not the obvious result that we should expect. The Strategy itself also would not constitute sufficient legal grounds for any of the stakeholders to submit a claim before the court, were it not to be implemented as envisaged.

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<sup>72</sup> Geldhof W., Vandendriessche F. (see note 23), p. 33.

## Conclusions

The answer to our research question – what kind of lessons one can take from other Member States if one has to contemplate the future of the Baltic energy market? – would be that there are still many obstacles to the creation of a common EU energy market and the Baltic energy market as a part of it.

The most pronounced obstacle to the creation of an energy market, not only in terms of legal rights, but in terms of a real choice of electricity or gas supplier, lies in the fact that the Member States, including the three Baltic States, have demonstrated in diverse ways their reluctance to implement the adopted Community law in this sector. Even when the law has been implemented, the way it has been done raises question of whether it really makes a difference for consumers, with tangible benefits in terms of security of supply and cost-effectiveness.

Therefore, the question is: what are the real interests of the Member States in EU energy policy? Is it in their interests to create a common EU energy market or to postpone its liberalization, maintaining national monopolies and giving no real choice to consumers? Analysis in this field suggests that the Member States, including the Baltic States, are not really interested in creating such a common energy market. The ECJ judgements over the period of the last 20 years in the energy sector demonstrate that such stakeholders as the EC and also private litigants (companies and associations) have contributed considerably to liberalization of the EU energy market, in the course of these efforts quite often ending up in opposite camps to the Member States.

In this context, as concerns the three Baltic States, there is no evidence that there exist powerful stakeholders who would advance the creation of a Baltic energy market as part of a wider EU energy market. Therefore, the Baltic energy market will remain isolated, unless the current influential stakeholders will have reason to change their interests, or new, influential stakeholders will appear with an interest and capacity to promote liberalization of the Baltic



energy market and its integration into the wider EU energy market using various means for this purpose, including litigation, if all other means are exhausted.

Divergent implementation of EU law in Member States is another obstacle to the functioning of the internal market. However, this divergence lies in the very foundation of the EU, the principle of 'subsidiarity', reinforced also by the Lisbon Treaty. The necessary harmonization of laws, regulations and procedures towards the EU *acquis* and their proper implementation<sup>73</sup> could be attained if Member States were to coordinate their efforts in this field.

In the context of the Strategy we have to look with high expectations at Estonia, which has taken a leading role in coordinating the 6th priority of the Strategy, devoted to removing hindrances to the internal market in the BSR<sup>74</sup> as well as to Latvia and Denmark who has jointly taken a leading role in coordinating the 10th priority of the Strategy, devoted to improving the access to, and the efficiency and security of the energy markets.<sup>75</sup>

In any case, the very existence of Community (EU) secondary law is the basis and an important precondition for promotion of further EU energy market integration also at the regional level. It is also a precondition for conflicting interests of different stakeholders to be reviewed at the ECJ, thus having a potential to advance further liberalization and integration of the EU energy market.

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<sup>73</sup> Joint resolution... (see note 71), p. 2.

<sup>74</sup> European Union Strategy for the Baltic Sea Region. Action Plan (see note 4), pp. 25–29.

<sup>75</sup> *Ibid*, pp. 46–48.

# **The Employers' Perspective in the Baltic Sea Region – Looking for the Competitive Advantage in Diversity and Participation**

ELĪNA EGLE

## **Introduction**

Employers' organisations' (EOs) of the region regard competitiveness and sustainable development as the key objectives of business cooperation in the region. This region is diverse, with differing social characteristics and cultural heritage (languages, history etc.), but also with remarkable disparities of macroeconomic indicators, such as several different currencies, and differences in industrial development, productivity rates and income structures. Still, the region is united by one sea, which focuses the efforts of the organised business community in looking for new advantages, inspired by the regional strategy of the enlarged Europe.

The author develops the assumption that the EOs of the Baltic Sea states are an essential part of the organised business community, demonstrating their ability to make a pragmatic contribution: bringing appropriate ideas from business reality in order to address the global economic challenges of the countries suffering from economic crisis. The aim of the article is to show that business organisations, recognising the strength and full potential of the region, can mobilize interest groups, national states and international organizations for this purpose. As will be shown in this article, despite the diversity of the regional economies, the EOs have managed to agree that, in order to consolidate and coordinate the viewpoints of organized business, it is necessary

to settle upon a common stand and action with respect to other relevant actors.<sup>1</sup>

One of the greatest challenges for the region is to facilitate the development of the EU Baltic Sea Region Strategy (BSR) and carry out a reform of the CBSS, reaching common targets agreed in the region. The article is based on the analysis of the course of development of the recommendations from EOs that were prepared for the Baltic Sea States summit in Riga on 3–4 June 2008. This case shows up the issues identified in the process of reaching an agreement among EOs and developing proposals during the 1st Meeting of Baltic Sea Employers' Organisations. These proposals were submitted to the CBSS Presidency and the European Commission (EC), as well as to the governments of the relevant states for further integration into EU policy and national flagship projects.

Competitiveness and sustainability objectives of the region were the basis for the involvement of EOs in the development of regional strategy during the Latvian Presidency of the Council of Baltic Sea States (CBSS) in 2008. The priorities for reaching these objectives are education, entrepreneurial activity, energy and development of infrastructure (including transportation). These priorities can be reached by utilizing diversity and increasing the participation of the public sector and NGOs in the implementation of the strategy.

### **The employers' perspective for competitive advantage**

Even though the Baltic Sea Region was hit hard by the global crisis (resulting in significantly negative economic growth in terms of GDP for the Baltic countries, with growth continuing in 2009 only in Poland), the competitiveness fundamentals remain strong,<sup>2</sup> with a great potential of collaboration and development of regional institutions.

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<sup>1</sup> Employers' Confederation of Latvia. Employers' organizations preparing proposals for the strategy of the Baltic Sea Region, <http://www.lddk.lv/index.php?main=152&lang=2&group=archive&p=945&page=1>. Last accessed on 1 June 2010.

<sup>2</sup> Employers' Confederation of Latvia. *Employers' organizations are ...* (see note 1), p. 2.

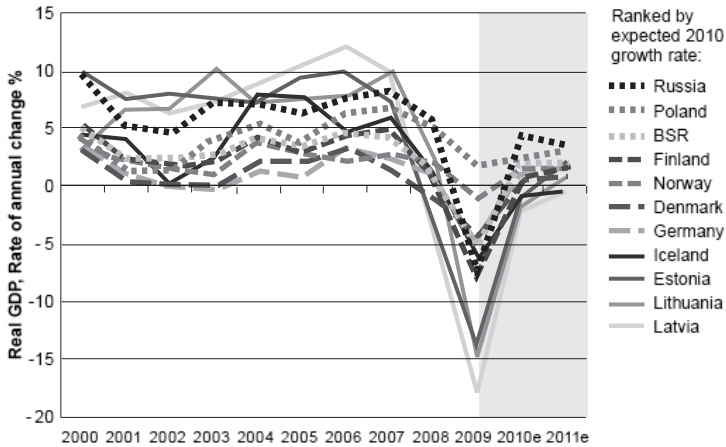


Figure 1. Economic growth: the Baltic Sea Region countries<sup>3</sup>

Because they have used to their full value the resources available in the region, the majority of BSR countries are ranked as being at the highest stage of development (while Latvia, Lithuania and Poland are ranked as being in a transitional period to the stage of the most developed countries).<sup>4</sup> The EOs representing the majority of entrepreneurs in the region have created a network of Nordic and Baltic General Directors, recognising this potential and becoming the driving force of business opinion consolidation in the region. This is also serving to encourage the consolidation and definition of the economic priorities of the EU Strategy for the BSR by the representatives of the organised business community. Certainly, the development of the region should be viewed in the wider context

<sup>3</sup> Ketels C. *State of the Region Report: The Top of Europe Recovering: Regional Lessons from a Global Crisis*. Baltic Development Forum, Copenhagen, 2010, p. 16.

<sup>4</sup> The World Bank. *The Global Competitiveness Report 2007–2008: Global Competitiveness Index 2007–2008*, <http://gcr07.weforum.org/>. Last accessed on 1 June 2010.

of the economic development of the EU, involving the European Economical Area (EEA)<sup>5</sup> and EU Neighbourhood Policy,<sup>6</sup> using the full potential of its geopolitical location.

The EOs as a strong business network of the BSR have reached general agreement that the issue of financial stabilization currently dominates in public discourse and on the political agenda, while the issues of trade, investment and the revival of the real economy receive only limited attention. Following the political agenda, these issues have not been integrated into the update of the strategy, raising the threat that it could become inadequate to the current situation and the socio-economic agenda of society in the mid-term. Therefore the EOs address the following in their Joint Resolution: institutions and policies; economic development; relations between EU members and other BSR countries; the BSR strategy itself and the role of EOs.<sup>7</sup>

The business community still cannot be sure that EU decision-makers can provide the answers, and that the EU has an economic strategy for the future of the region, which would serve to stabilize financial markets and improve the availability of financial resources to the economy and investments in growth, as well as to institutionalize governance of the BSR. The business community of the region needs a vision of the capacity of decision-makers and policy executives in the public sector to deliver responsible business choices, more profound integration in the ongoing processes concerning

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<sup>5</sup> European Commission, External Relations, European Economic Area, [http://ec.europa.eu/external\\_relations/eea/](http://ec.europa.eu/external_relations/eea/). Last accessed on 1 June 2010.

<sup>6</sup> European Commission. Neighbourhood: A new framework for relations with our Eastern and Southern neighbours, [http://ec.europa.eu/world/enp/pdf/com03\\_104\\_en.pdf](http://ec.europa.eu/world/enp/pdf/com03_104_en.pdf). Last accessed on 1 June 2010.

<sup>7</sup> Confederation of Swedish Enterprise, Confederation of Finnish Industries, Employers' Confederation of Latvia, Estonian Employers' Confederation, Lithuanian Confederation of Industrialists, Polish Confederation of Private Employers Lewiatan, Confederation of Danish Industry, and Confederation of Icelandic Employers. *Joint Resolution: The Role of Employers' Organisations in Economic Development and Global Competitiveness in the Baltic Region*. Meeting of Employers' Organisations of the Baltic Sea region, Riga, 12 May 2008.

stabilization of financial markets, and choices for a sustainable environment. If the separate and generally differing national policies of the BSR could be replaced with united BSR policies, then the list of losses for the region in this crisis situation would be much shorter. The global economic setbacks bring a need to define a new content and scale of regional policies, based on social, cultural and economic advantages, as well as on principles of coordination and concentration of resources during the process of implementing and supervising the strategy.

At the meeting of EOs of the BSR, officials and experts focussed attention on the following issues:<sup>8</sup>

- Competitiveness of enterprises;
- Availability of human capital and promotion of employment;
- Social dialogue and the role of good governance and partnership;
- The role of the EU in the development of the BSR;
- Cooperation between the EU and Russia, and the role of the BSR.

This was an exchange of views among seven organizations from seven countries (Sweden, Finland, Estonia, Latvia, Lithuania, Poland, Denmark and Iceland) of the Baltic Sea Region.

Taking into account important consultations among the EOs, using a common form of questionnaire and preparing a number of position papers (October 2007 – May 2008), as well as discussions and consolidation of interests after the meeting of EOs, recommendations were expressed in a resolution of the EOs of the Baltic Sea States.<sup>9</sup> The joint resolution addresses the necessity for:

- Development of communications, transport networks and other infrastructure;
- Harmonization of laws, regulations and procedures towards the EU *acquis* and their proper implementation;

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<sup>8</sup> Employers' Confederation of Latvia. *Employers' organizations are ...* (see note 1).

<sup>9</sup> Employers' Confederation of Latvia, *Baltic Sea States employers' organizations have agreed on the joint recommendations for future development of the Baltic Sea region*. <http://www.lddk.lv/index.php?main=152&lang=2&group=archive&p=946&page=1>. Last accessed on 1 June 2010.

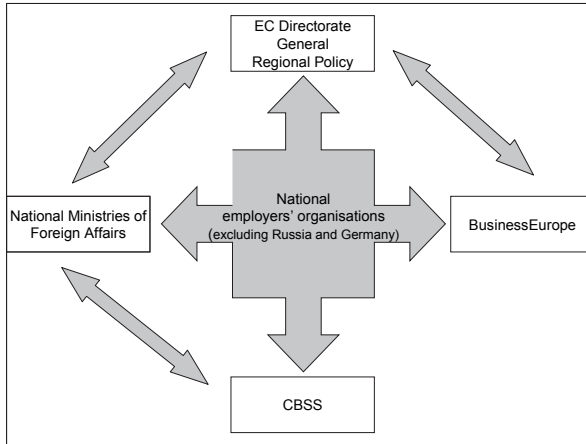
- A greater input in development of knowledge and innovation in the region;
- Deeper cooperation in the energy market;
- Promotion of all kinds of contacts between people, business communities, etc.

Other priorities for reaching regional objectives, regarded as conditional and complementary, such as improvement of employment, investment in research and development, and quality of education, could be reached through a rise of competitive economic activity in the region.

Competitiveness of companies, availability of human resources, proficiency, accessibility of energy and infrastructure, as well as consolidation of these resources represent the greatest challenges for the development of each state. In awareness of the wide opportunities for business development and the global economic challenges, it is necessary to expand cooperation networks and strengthen the role of the BSR in the EU by mobilizing for this purpose national governments and international organizations. Awareness of the potential of the BSR, as well as deep analysis of existing institutions and further regular involvement of the EOs will be valued as a pragmatic contribution, appropriate for business reality.

Figure 2 shows the framework of interest representation and consultations of the EOs and other important actors. The recommendations were discussed with the national ministries, and based on the recommendations the position paper on European Business Confederation (BusinessEurope) was developed and passed to the EC Directorate General Regional Policy. The CBSS and the EOs of Russia and Germany were informed about the results of the EO consultations. It is extremely important to achieve mutual agreement on the priorities and on closer cooperation between the countries of the region, including Russia, in order to continue further efforts to create a common economic space between the EU and Russia. As emphasised by Peter Egardt, Chairman of the Business Advisory Council of the CBSS, there are perceptible changes in the global

business environment which act to defuse the influence of regions; however the driving force behind these changes is precisely the dimension of regional development.<sup>10</sup>



*Figure 2. The framework of interest representation and consultation*

On 14 December 2007 the EU Member States invited the EC to present an EU strategy for the BSR by June 2009. The EOs recommended that this strategy should be developed by applying a new, innovative approach, facilitating consolidation and coordination processes within the region, as well as making sure that it does not duplicate other already existing initiatives and policies, and that it concentrates the processes of strategy implementation.

The BSR requires immediate establishment of an integrated business geography, so the BSR strategy should comply with business needs in the EU, facilitating competitiveness and partnership, pointed out Valdis Krastiņš, Chair of the Committee of Senior Officials of the CBSS.<sup>11</sup>

<sup>10</sup> Confederation of Swedish Enterprise... (see note 9).

<sup>11</sup> Ibid.



Still, feedback about recommendations taken into account is missing, both from the EC and CBSS. Therefore, discussions with the ministries of foreign affairs and the industry ministries responsible for certain priority areas are to be strengthened.

### **Employers' concerns about implementation of the Strategy**

Two main considerations were examined during the consolidation process of the EO resolution. The first is based on the macro-economic indicators, which prove an increase of disparities and 'two speeds' in the region. Currently, the two speeds are best characterised and proven by Figure 3, showing the prosperity level and growth in GDP per capita in selected countries, and expected per capita growth in 2009 to 2020. Latvia, Lithuania, Estonia, Russia and Poland are lacking behind the GDP per capita of the Scandinavian countries. The significant differences consistently serve to raise the question of availability of financial resources and human capital to invest in priority areas defined by the strategy and the development of partnership projects to manage areas of responsibility.<sup>12</sup> Assessment of the influence of these differences is needed in order to foster the region's recovery from the impact of the financial and economic crises, and evaluation of the competitive advantages of the region as such would establish common grounds for further cooperation. The EOs expressed the opinion that the development of this region should be further and more broadly examined. Global slowdown and economic crises is the right moment and opportunity to define a much more integrated collaboration model for the economy.

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<sup>12</sup> European Commission. Regional Policy – Info Regio. *EU Strategy for the Baltic Sea Region*, [http://ec.europa.eu/regional\\_policy/cooperation/baltic/pdf/events/riga/factsheet\\_priority\\_area\\_consolidated.pdf](http://ec.europa.eu/regional_policy/cooperation/baltic/pdf/events/riga/factsheet_priority_area_consolidated.pdf), p. 25. Last accessed on 1 June 2010.

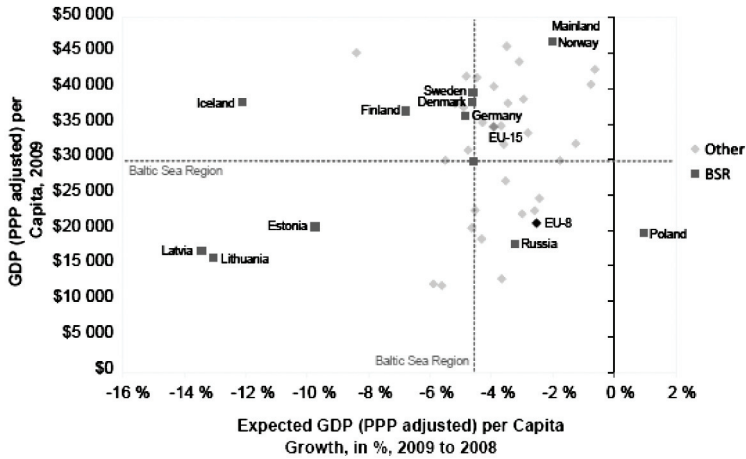


Figure 3. The prosperity level and growth in selected countries<sup>13</sup>

Entrepreneurship and cooperation can be restored, bringing along with it market demand and regional division of labour. Financial expansion policies should be proportionally followed by integration policies for industry and by investments in the educational system. This would be a more complex, but also a more responsible approach. The current economic structure in the BSR would be much more integrated:

- with a higher export and logistics potential;
- with a lower risk of crisis and fall in domestic demand;
- with higher integration and regional division of labour.

The second consideration of the EOs addresses the situation where the objectives of the strategy were reshaped during a framework of constant consultations and discussions. Shortcomings arise when these objectives are not successfully redefined and no compromise is reached. In the case of the involvement of EOs the quality of strategy development and cooperation was not reviewed based on recommendations prepared by employers' representatives and the realities of the economic situation.

<sup>13</sup> Ketels C. (see note 4), p. 16.

The EOs were concerned about the implementation of the strategy, and offered several approaches to integrate the strategy into the framework of other EU strategies by:

- Deep analysis of the work of current institutions in the region;
- Coordination of different policies and actions of different institutions in the region;
- Consolidation of resources by redefining regional institutions, their missions, tasks and priorities, or by merging organisations and their functions, taking full account of the need to adapt to a new environment following the three EU enlargements since 1995.<sup>14</sup>

### Conclusions: encouragement for participation

To create a result-oriented strategy, economic governance of the region should be based on the same principles: there should be preconditions to encourage economic actors to cooperate more efficiently, and to support and implement common regional policy. For instance, it is possible that politicians and civil servants could end up supporting the positions of the International Maritime Organisation and environmentalists on shipping regulation in the Baltic Sea, ignoring the competitive opportunities of the regional shipping sector compared to competitors from other regions, resulting in disregard for regional interests.<sup>15</sup> Lack of proper consultations and expertise forms the background for ignorance of the current situation. National governments are still set upon implementing international

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<sup>14</sup> Confederation of Swedish Enterprise... (see note 9), p. 2

<sup>15</sup> A. Lundius, Swedish Confederation of Enterprise of behalf of supproting 54 confederations of enterprises, European Organisations, Chambers of Commerce, Transport byers-transport users, national steel industry associations, national forest industries, national mining industry federations, other national associations, national ship-owners associations addresses EC president Borroso and Commissioners Kallas and Potočnik on regulation of ship emissions in the Baltic Sea, 12 May 2010.

standards in the shipping industry before proper social, economic and environmental evaluation of the new EU regulations.

The initiative from the EOs activates the issue of relations among hierarchies, seeking to establish responsible commitments on the part of the public, private and non-governmental sector at all levels of the decision-making process.

Consultations with social partners and NGOs had an important place in the development of the strategy. The involvement of society was perceived as a prerequisite to manage the policy process successfully. High-quality consultations in developing the BSR Strategy are essential in order to ensure cooperation among political and socio-economic partners. Governance of the BSR strategy should concentrate on the development of partnerships with social partners and NGOs or the creation of partnerships to develop growth. Such partnerships may be initiated both by the public sector and by interest groups representing certain professions, industries or economic sectors.

To increase the commitment of the public and private sector there is a need for public authorities to negotiate possible misinterpretation of the strategy and legitimate the decisions, in order to avoid possible resistance and conflicts among interest groups. This means that rules governing the coordination and consolidation process are needed, envisaging plural forms of organizations involving social partners and other NGOs. By reaching a common agreement, a commitment on institutionalization and management of resources could be reached in order to implement the strategy.

## Part III

# THE STRATEGY AND THE FUTURE OF REGIONAL ORGANIZATIONS



# **The Strategy for the Baltic Region and the Regional Realities (an Attempt at Political Evaluation)**

VALDIS KRASTIŅŠ

A cursory look at the map of the Baltic Sea shows an idyllic picture: some of the richest European countries on its shores, so many excellent ports at short distances, ships crisscrossing the sea. Where else can you find such an almost ideal situation for cooperation? However, the reality has not been so overwhelmingly positive, but sometimes vexing, and even downright disappointing. This article attempts to find answers to several why-questions. It starts with a look at the past and future of Baltic cooperation, followed by identification of some opportunities that the Strategy offers the Baltic Region. The concluding section tries to identify some of the problems ahead.

## **Listing superlatives**

If you're looking for superlatives, read about the Baltic Sea. The most polluted sea in the world, the most depleted one (when speaking about the diversity of its biosphere), the sea with the highest concentration of sea traffic and highest trade volume carried on it. The sea as the most important element in facilitating trade and other contacts among the countries on its shores. The closest network of regional plans, projects, structures and organizations covering the sea and its shores.

Let us take up the last item on our list of superlatives – the network. Has it really helped to improve trade and contacts? To a certain extent, yes. But at the same time the sheer complexity of the network has caused irritation and confusion because of overlapping functions and a lack of clarity about the fields of action and levels of competence, not to speak of the obvious waste of human and financial resources always evident in such cases.

The European Union inherited this rather messy network when all the countries around the Baltic Sea (except Russia) joined it in 2004, and the Baltic Sea became practically an inland sea of the EU. A streamlining operation of the intertwining network, a cleaning-up and bundling of resources seemed possible, even inevitable. But the reality turned out to be different. Notwithstanding the presence of so many EU member states, which were now surrounding the sea, one Baltic Sea country was (and still is) outside the EU and therefore could not be taken aboard directly when drafting plans and making decisions about the region in Brussels. And without Russian cooperation many projects were and are impossible: re-establishment of the ecological equilibrium of the Baltic Sea, maritime safety and maritime cleanliness arrangements, to mention just a few.

To address this, the European Commission took up the threads of a Finnish initiative from 1997, the Northern Dimension, which had been dangling in the air for some years, lacking political will within the EU for its implementation and, consequently, with no financial and administrative capacity. It was retrieved from the dustbin and reinvented as an EU external policy instrument for dealing with Russia. Since then it has served well in various fields, allowing common goals to be defined and pursued. Another vehicle for involving Russia has been the Helsinki Commission (HELCOM). Even if it cannot boast of spectacular achievements as yet, HELCOM has been able to identify the burning ecological problems of the Baltic Sea and elaborate definite plans for tackling them.



Whereas the need to involve Russia is clear, along with all its consequences, there are other, less obvious hitches and obstacles playing into the regional cooperation efforts. As everyone involved with cooperation schemes around the Baltic Sea knows from experience, we have on the shores of the sea the most powerful country in Europe, then a big country aspiring to be powerful and, last but not least, a country which has the ambition and potential to be a kind of regional leader. Indeed, compared with Germany, Russia and Poland, all the other countries around the Baltic Sea have one common drawback: they may be very successful, but they are smallish or truly small. And one can swear by the code of political correctness that all are equal, but in reality some will always be 'more equal'. As the organizations and institutions around the Baltic Sea have been run on a consensus principle, the 'more equals' have had ample opportunities to influence, push and object, quite often watering down decisions that they have deemed unnecessary or inimical to their interests, to the level of lowest possible common denominator. In my personal opinion, it is this inequality which has sometimes caused the establishment of yet more cooperation bodies in the naïve hope that this time it will go better. Alas! Geopolitical weight categories have always been a powerful element in the decision-making and cooperation game.

### **The Council of the Baltic Sea States and its cooperation efforts**

All this has been evident in the ups and downs of the Council of the Baltic Sea States (CBSS). Its roots are in the post-Berlin Wall years, with their rosy mirages and well-meant efforts to bring the newly re-emerged countries around the Baltic Sea into the traditional European cooperation patterns. The CBSS was conceived exactly for this purpose by its founders in 1992. Nevertheless, complicated geopolitical realities had their hand in the play from the very beginning. The new organization could not ignore the fact that

the St Petersburg region borders on the Baltic Sea as well, bringing in Russia with all its tangles and still-undefined relations between the central government in Moscow and the regions (which turned out to be a source of great uncertainty and frustration in the years to come). Then there was the still-unanswered general question about how far Baltic cooperation would and could stretch into the vast Russian space.

In the case of Germany the question was similar: which of the federal states would take part in Baltic cooperation and how? It took some time to sort this out, and even in later years the legal intricacies of the federal structure were felt in German attitudes.

The attitude of Poland towards Baltic cooperation has developed in a rather erratic way. It has depended to a great extent on the current Polish government's answer to the main question: is Poland a Central European or Baltic country? It took quite a long time for the Poles to sort it out in a way that was satisfactory, at least temporarily, for them and for their partners.

Involving the Scandinavian countries was simpler, but even here some problems needed to be solved: Denmark, Sweden and Finland did not want to 'go it alone' and deemed it necessary to bring in Norway and (a little later) Iceland. In other words, the Scandinavians joined the CBSS individually and at the same time *in corpore* (going by the geopolitical structure of the Nordic Council of Ministers, then already a successful body for cooperation with very respectable achievements).

Thus, there were (and still are) 11 countries altogether seated around the CBSS table, which chose the consensus principle as their *modus operandi*. Next, they had to decide on the agenda for their discussions and possible actions. As at that time there was not the slightest notion of the newly-emerging countries joining the EU or NATO, the initial idea was to make the CBSS agenda as wide and universal as possible. It soon turned out that it was not to be. All security questions were dropped from the discussion almost from the beginning, precluded by conceptual differences (members of

NATO, non-members, neutralistically orientated, anti-NATO, etc.). Also, nothing very much came of the attempts to facilitate and boost trade between the members: some countries were already playing by the rules of the EU and the rest were not very willing to bow to calls for homogenization of breathtakingly differing customs and transport regulations. So it all boiled down to humanitarian issues: boosting people-to-people contacts, tourism, and some educational matters. And even on these harmless projects the results often were not forthcoming: after a political decision had been taken in the governing body of the CBSS, the financing of implementation was up to the individual member governments, and without the necessary money the working groups of the CBSS were often left in limbo – i.e., lame.

It was a situation that repeated itself many times during the now almost 20 years of the CBSS. It has done few real deeds to boast of. Its role has consisted mostly of identifying the regional problems and bringing them to the attention of member countries and the general public – no mean achievement in itself, but not exactly an inspiring one. So, no wonder that some member countries got impatient: Sweden, for instance, during the second half (early 1997) of its presidency of the CBSS (after Reinfeldt's government took office). The Swedes insisted that the CBSS should reform itself, taking on the role of a project-oriented organization. This was a good idea. But once more it turned out that 'this is a rich man's world': the demand that the CBSS reform itself and at the same time find the necessary finances for the projects was not realistic, and to a large degree the CBSS retained the features of a political discussion body. The disgusted Swedes turned away much of their effort from the CBSS and took up from the European Parliament the drive towards an EU Strategy for the Baltic Region – one of the mainstays of the Swedish presidency of the EU. As it became obvious that a proposal to discontinue the CBSS would not get the necessary consensus among members, it remained for Latvia during its presidency of the organization to redefine its priorities, putting education at the

top of the list. It seems that the two successful educational projects, in Kaliningrad and now in Pskov, which involved extended, serious organizational and financial preparations by all member countries, could possibly point to a brighter, more meaningful future for the CBSS. There may be some other options for the organization. These will be discussed below. But now let us turn our attention to the latest brainchild of the European Commission, the Strategy for the Baltic Region.

### **The Strategy for Baltic Region – a look into the future?**

It is an admirable effort, clear and comprehensive, and at the same time precisely detailed. Through its Action Plan, the Strategy has succeeded brilliantly in taking account of the very complexity, mentioned earlier, of existing cooperation structures in the region, entrusting them individually with tasks that they were used to doing and therefore could accomplish successfully. The right use has been made of Northern Dimension policies and projects as external policy aspects of the Strategy, also involving the EU and Russia's four spaces. The problems and tasks mentioned in the Strategy include almost everything that in the course of time has been identified as being of importance for the region. All in all it is an excellent intellectual effort, accomplished with the involvement of all the countries concerned. The question remaining is a simple and very crucial one: who will oversee the implementation of the Strategy as a whole, with all its complexities, as parts of a living organism? There are very big financial possibilities involved: the sums earmarked are in billions, so this time the Strategy could work. But the European Council did not give the Commission a mandate to oversee and implement, foreseeing the use only of the already existing rules of the EU game (indeed, it is stressed in the documents of the Strategy that no new bodies and structures should be created). Will it work that way?

The argument against EU ‘overseers’ for the Strategy might have been that it was not created ‘from above’ and was not meant to be implemented as a directive. The Strategy was developed from the proposals by member states, who evidently were interested in the issues brought up and would therefore use the already existing mechanisms for corresponding actions. Nevertheless the question about implementation remains, especially if one remembers some other beautiful, promising, collectively developed plans that still remain in the status of good, logical train schedules, but have failed – simply because not all the trains mentioned in the nice ABC guide actually ran and too many lines remained empty, ruining the idea of a well-functioning structure.

Maybe the most obvious example of implementation failure on the EU level is the Lisbon Strategy. Nowadays we hear it being judged as overambitious. But it, too, was developed through a common effort, which, it seems, was partially abandoned, thus considerably diminishing the intended impact of the whole enterprise. (One is tempted to speculate on the results for Europe if the Strategy had been put fully into action during the years of economic upsurge ...)

There have been other efforts by the EU and its structures. A Baltic Sea Region Programme for 2007–2013, dealing with territorial cohesion aspects, has been admirably drafted, but the question remains – how far has it been implemented? It is nice to read here of the BSR as “a European laboratory of integration”, where “three different economic backgrounds and cultures came together”. But one keeps wondering whether is it not the different backgrounds in particularly that have hampered, even stopped quite a few co-operation efforts. What about the influence of the ‘three different backgrounds’ on the new Strategy?

In this context it is relevant to mention the successful cooperation of the Scandinavian countries in the framework of the Nordic Council of Ministers. It has been successful because the cooperation happened, as you can read in any programmatic document of this organization, on the basis of common values, compatible

development of societies and a comparable level of economic achievement in the member countries. The Northerners are very aware of this and have been guarding their organization jealously from the intrusion of other economic and cultural backgrounds. And it should be remembered that from time to time voices have been heard within the EU speaking about the need to retain a certain conformity of economic and cultural backgrounds for achieving lasting results. In their crassest form, these views culminate in the idea of a two-tier Europe, with a nucleus that could and would accomplish the most far-reaching projects.

### Implementation of the Strategy

Be that as it may, today's European Union includes countries with very different economic, social and cultural backgrounds. The idea of ironing out at least some of the differences with the help of special programmes has yet to give lasting practical results, as the recent developments in the southern part of Europe have shown only too clearly. And in the Baltic Sea Region the three different backgrounds mentioned earlier are very, very much in evidence on the shores of the sea. It would be unrealistic not to take this into account when evaluating the chances for the Strategy to work. Therefore, one is thrown back on the idea of a coordinating centre for successful implementation of this beautifully conceived and necessary document.

Could it be the Council of the Baltic Sea States? One should not forget that many points of the new Strategy were identified within the framework of the CBSS. Facilitating border crossing, eliminating transport bottlenecks, eliminating the ecological contamination of the sea, moving in the direction of shipping security and cleanliness, civil security questions, including the fight against organised crime and human trafficking, energy security and the development of renewable energy sources, and the notion of sustainable development itself – to mention just a few important issues that

have been big on the agenda of the CBSS and its subsidiaries, and in some cases have originated there, but then, for various reasons, mostly practical, have drifted away to the agendas of other regional bodies. At present the CBSS is hardly mentioned in the documents of the new Strategy.

This means that either there must be a strong political initiative and action to elevate the CBSS into a leading and coordinating role once again, or the organization is on its last legs and will have to dissolve itself. It is obvious that the need for a political discussion club in the region, involving Russia (for long years a valid and important argument for the existence of the CBSS), has outlived itself. Russia is now directly involved in the Northern Dimension framework, and has other opportunities to become engaged in EU projects. It seems that only an enhanced role in regional coordination could give the CBSS a new lease of life.

In evaluating the need for a regionally located coordinator one should not forget that nowadays even the most ardent Euro-centrists have to acknowledge that the Commission with its vast army of functionaries in the directorates and other bodies cannot know everything about anything in Europe. A regional approach, once shunned as a blasphemy against the Commission and its powers, has gained ground considerably and is being favoured again. The reasons for this are clear: a better, hands-on understanding of local problems. A regional approach also involves the possibility of influencing EU decisions by sheer adding-up of voting power according to the new Lisbon rules for majority decisions. Symptomatically, the Central European Visegrad Group of countries has been revived by the participants: the sum of their weighted votes could easily match combined German-French voting power. As Poland and Hungary, both members of the Visegrad Group, will have the European presidency in 2011, the gravitational centre of the EU at that time may shift to the direct vicinity of the Baltic Region.

Evidently it will be the Polish attitude that will influence to a great extent the first real steps in the implementation of the

Strategy for the Baltic Sea Region. Once more it will be a question of geopolitical priorities for the Poles. Will Poland consider itself to be a Central European or a Baltic power? The answer to that question, taking into account the ever-growing importance and success of Poland, might have far-reaching consequences for the region. But, in order to avoid all the ambiguities, fluctuations and uncertainties in respect to the Strategy, the best way would be to establish a regional coordination centre for it. Or to use one of the existing cooperation structures and endow it with a clearly defined and limited mandate as an arm of the Commission for overseeing the much-needed realities of the Action Plan of the Strategy. For me, having for long years been associated with Baltic cooperation efforts, it would be painful to see the wonderful Strategy relegated to the realm of good intentions. We all know what way is paved with such intentions ...



# The Baltic Sea Strategy: Illusions and Perils

MARIKA LAIZĀNE-JURKĀNE

*Know the other and know yourself: Triumph without peril.  
Know nature and know the situation: Triumph completely.*  
Sun Tzu (360 B.C.)

The European Union has a tendency to develop strategies – the Lisbon Strategy, the European Health Strategy, the EU Strategy for Sustainable Development, the EU and Central Asia: Strategy for a New Partnership. These are only the first four results in the list of more than two hundred entries which appear on the screen after entering ‘EU Strategy’ in the search engine of the EU website. The Baltic Sea Strategy, the first germs of which can be found in 2004, and which was officially adopted on 26 October 2009, is among these numerous EU strategies.

The countries of the Baltic Sea Region have their own distinctive characteristics and tendencies. They have a tendency to attach significance to all initiatives, partnerships, visions and strategies. Right after the adoption of the Baltic Sea Strategy, Cecilia Malmström, then Swedish Minister for European Union Affairs, emphasised the significance of this initiative launched during the Swedish Presidency of the EU by saying: “I am very pleased that the whole of the EU is behind the Strategy. Now we can work together much more clearly to strengthen the Baltic Sea Region environmentally, but also to improve growth and coordination on security issues.”<sup>1</sup> Likewise, in an article

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<sup>1</sup> EU Baltic Sea Strategy, adopted on 27 October 2009. [http://www.se2009.eu/en/meetings\\_news/2009/10/27/eu\\_baltic\\_sea\\_strategy\\_adopted](http://www.se2009.eu/en/meetings_news/2009/10/27/eu_baltic_sea_strategy_adopted). Last accessed on 15 December 2010.

bearing the meaningful title *Nordic Stamp on EU Baltic Sea Strategy*, Halldór Ásgrímsson, Secretary General of the Nordic Council of Ministers, underlines the unique network of cooperation which exists among the Baltic Sea States.<sup>2</sup> The EU's Baltic Sea Strategy was immediately called the pilot project of a new cooperation format in the EU.

The Baltic Sea Strategy, just like various other strategies, contains idealised and illusory aspects; the same could be observed in the Northern Dimension, the Nordic Globalisation Initiative, the HELCOM Baltic Sea Action Plan, and other projects significant for the Baltic Sea Region. They tend to attach significance to all ongoing processes and state that they will eventually improve the Baltic Sea environment, facilitate the region's competitiveness, increase regional security, and develop even closer ties among the region's inhabitants. Nevertheless, despite the interactive and institutionalized character of this region, the Baltic Sea States have not yet managed to achieve all these goals.

Disregarding the ironic remarks on the attempts of the Baltic Sea States to draw European and global attention to the Baltic Sea Region, it has to be admitted that the Baltic Sea Strategy contains great illusions and dangerous perils. The aim of this article is to assess the trends of the Baltic Sea Strategy, the challenges and risks it might face, and the opportunities it can offer; furthermore, this article will assess the possibility of Baltic and Nordic regional co-operation organizations becoming involved in implementation of the Strategy.

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<sup>2</sup> Nordic Stamp on EU Baltic Sea Strategy. 16 June 2009. <http://www.norden.org/en/news-and-events/news/nordic-stamp-on-eu-baltic-sea-strategy>. Last accessed on 15 May 2010.

## Dangerous pitfalls

Numerous statements, action plans, resolutions, and programmes have been wrapped around the Baltic Sea Strategy. When reading the Strategy, the reader will be overwhelmed by the effect of *déjà vu* in relation to the goals, identified challenges and opportunities, the tasks to be fulfilled in order to achieve the goals, and the vision on practical implementation of the Strategy. This is because many of the ideas and principles framed in the Strategy are well-known Baltic Sea Region slang. The Baltic Sea Strategy tries to manoeuvre among diverse strategies, policies and instruments of the European Union, as well as the strategies, decisions and initiatives of other organizations.<sup>3</sup> Undoubtedly, an attempt to create a common framework document oriented towards the development of the region is positive; however, this Strategy lacks the mechanism for its practical implementation.

Analysis of the Strategy for the Baltic Sea Region requires the assessment of the general essence of the concept behind the Strategy. Ideally, a strategy should be a totality of interests, goals, means, and approaches. Alfred Chandler states that “strategy involves coherent and consistent decisions, coordinated resource allocations, and theories of action (outcome and response) that may help indirectly achieve a goal unattainable by direct frontal attack.”<sup>4</sup> At the same time he indicates that strategy should not be focused on mere identification of long-term goals. Those drafting a strategy face dangerous risks – the process of drafting can become

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<sup>3</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region. Brussels, 10 June 2009, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/baltic/com\\_baltic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/baltic/com_baltic_en.pdf), pp. 2–3.

<sup>4</sup> Teece D.J. Alfred Chandler and “capabilities” theories of strategy and management. 1 April 2010, p. 4. <http://icc.oxfordjournals.org/cgi/content/full/19/2/297>. Last viewed on 15 May 2010.

a goal in itself, the setting of goals can become a priority in the process, and resources might not be envisaged for implementation of the strategy.

Currently it is premature to conclude whether the Baltic Sea Strategy is a goal in itself or a framework for functional activities. However, the current progress of the Strategy has already revealed its declarative status, which can become a dangerous pitfall. It is essential for those promoting the Baltic Sea Strategy to refrain from using a 'head-in-the-sand' approach,<sup>5</sup> i.e., to continue working in line with the original plan, which usually produces a result considered successful by those involved in the process, while being regarded as completely unsuccessful by those outside the process. Assessment of the existing cooperation in the Baltic Sea Region reveals that discussions and phrases prevail over real action oriented towards the implementation of goals defined in the Strategy. In order to ensure that this Strategy does not end up in the archives of the EU's initiatives, stakeholders of the Baltic Sea Strategy should try to avoid this significant risk.

By analysing the Baltic Sea Strategy from the perspective of the strategy concept, efficient strategy criteria have to be considered. First, any strategy should contain an assessment of the existing situation. The Baltic Sea Strategy complies with this criterion, because it clearly and precisely defines the problems, challenges and opportunities of the region. Second, any strategy should include a vision of future development. The Baltic Sea Strategy meets this criterion, since it states that the future of this region will be characterized by competitiveness, sustainable development, elimination of disparities, welfare, and security. Third, any strategy should envisage means for achieving the set goals and for responding to existing challenges. This aspect of the strategy concept is also present in the Baltic Sea Strategy, as it clearly describes the mechanism intended

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<sup>5</sup> The Changing Role of Strategy. An Interisle Consulting Group Whitepaper, 2004, p. 2. [http://www.interisle.net/sub/Changing\\_Role\\_of\\_Strategy.pdf](http://www.interisle.net/sub/Changing_Role_of_Strategy.pdf). Last viewed on 15 May 2010.

for achieving the goals, namely, the EU Structural Funds, the initiative of the member states in implementing the project, and finally the Action Plan.<sup>6</sup>

Although the Baltic Sea Strategy meets the basic theoretical criteria of a perfect strategy, it creates several illusions and poses several risks and pitfalls, which can have a significant impact on the role of this Strategy in the future.

The first illusion is that the Baltic Sea Strategy intends to turn the Baltic Sea Region into a very special and unique region within the European Union. Adoption of the Strategy does not ensure improvement of the situation or attainment of a special status *per se*. What counts is the action taken by member states and involved organizations in implementing the Strategy. It is essential to ensure that the six-year-long discussions on the need for the Strategy materialize in active implementation of the Strategy. Mats Engström points out that there are already enough talk shows about regional cooperation, and asks: how concrete will the result be?<sup>7</sup> At this moment, the involved countries should cease making statements on the role and significance of the Strategy; the involved countries must start thinking about the value which the Baltic Sea Strategy will add to the entire region and individual countries. This idea is also clearly supported by Johannes Hahn, EU Commissioner for Regional Policy,<sup>8</sup> who states that the success of the EU Strategy for the Baltic Sea Region cannot be taken for granted.<sup>9</sup> It will take three to five years to see whether the current critical attitude to the Baltic Sea Strategy is well-grounded or not. Nevertheless, the policy-

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<sup>6</sup> Communication from the Commission to the European... (see note 3), pp. 10–11.

<sup>7</sup> Engström M. The Baltic Sea Strategy Needs More Teeth. 20 September 2009. <http://matsengstrom.wordpress.com/2009/09/20/the-baltic-sea-strategy-needs-more-teeth>. Last accessed on 15 May 2010.

<sup>8</sup> EU Commissioner for a period from 2010 to 2014.

<sup>9</sup> Eckstein A. Helsinki Hosts the First Baltic Sea Summit. 10 February 2010. <http://www.europolitics.info/sectorial-policies/helsinki-hosts-first-baltic-sea-summit-art262765-19.html>. Last accessed on 15 May 2010.

makers have to take this risk into account. Shortly before the Baltic Sea Strategy was adopted, the analysts of the Baltic Sea Strategy came up with the slogan: “Enjoy your holiday – there’s hard work ahead!”

The second illusion is closely linked to the expectation that this Strategy will serve as an example for others. Diana Wallis, Vice President of the European Parliament, underlined that the Baltic Sea Strategy “gives a momentum” for developing similar policies for the Danube Region and possibly even for the Adriatic.<sup>10</sup> Paweł Samecki, EU Commissioner for Regional Policy,<sup>11</sup> used even more colourful epithets to describe this Strategy; he said that the Baltic Sea Strategy is a “new animal” in the EU and expressed the hope that the “new modern way to coordinate EU policies in the region” could be transformed or modified for other European regions.<sup>12</sup> It is excellent that the EU Member States from the Baltic Sea Region are regarded as pioneers in at least one area. If the goal was to prove that the Baltic Sea Region is the first region which has managed to get its own EU strategy, it has been achieved. However, will that increase the competitiveness and welfare of the region? It is a matter of the desire of the Baltic Sea Region states to prove themselves and realise their ambitions. However, if this desire to be a pioneer and an example persists, there is a great possibility that the Baltic Sea Strategy will not be shelved. Undoubtedly, the Baltic Sea Region is a brilliant litmus paper, which will show the usefulness and effectiveness of a special strategy in a macro-region.

The third illusion, which also poses a significant risk, relates to the status of the Baltic Sea Strategy. It is true that the Baltic Sea Strategy should be treated as European Union domestic policy which refers exclusively to the Baltic Sea Region Member States

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<sup>10</sup> “Baltic Sea Strategy” seen as a model for Danube, Adriatic. 21 September 2009. <http://www.euractiv.com/en/climate-environment/baltic-sea-strategy-seen-model-danube-adriatic/article-185597>. Last accessed on 15 May 2010.

<sup>11</sup> EU Commissioner for a period from 4 July 2009 to 2010.

<sup>12</sup> “Baltic Sea Strategy” seen as a model for Danube, Adriatic (see note 11).

of the EU; however, it builds a bridge towards the involvement of third countries, namely Russia, Norway and Belarus, in the Strategy through the Northern Dimension, HELCOM,<sup>13</sup> and the Arctic Policy.<sup>14</sup> Undoubtedly, the problems and challenges of the Baltic Sea Region can be overcome by ensuring cooperation among all countries, including non-EU member states, particularly in the areas of environment, energy, communication, etc. However, Russia's attitude towards the Baltic Sea Strategy has been changing from reserved to critical. Assessment of the discussion which has taken place in the framework of the Baltic Sea Parliamentary Conference (BSPC)<sup>15</sup> from 2004 to 2008 permits the conclusion that Russia's attitude during this time has been reserved. The issue of the Strategy for the Baltic Sea Region was included in the agendas of all annual meetings of the BSPC.<sup>16</sup> At that time the BSPC Enlarged Standing Committee could even agree on proposals which were submitted during the consultation process of the Baltic Sea Strategy.<sup>17</sup> Russia's patience and silence ended shortly before the adoption of the Strategy. Already on 1 September 2009, during discussion on the

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<sup>13</sup> The Helsinki Commission (HELCOM) works to protect the marine environment of the Baltic Sea from all sources of pollution through intergovernmental co-operation between Denmark, Estonia, the European Community, Finland, Germany, Latvia, Lithuania, Poland, Russia and Sweden.

<sup>14</sup> Communication from the Commission... (see note 3), p. 5.

<sup>15</sup> The Baltic Sea Parliamentary Conference (BSPC) was established in 1991 as a forum for political dialogue between parliamentarians from the Baltic Sea Region. BSPC aims at raising awareness and opinion on issues of current political interest and relevance for the Baltic Sea Region. It promotes and drives various initiatives and efforts to support a sustainable environmental, social and economic development of the Baltic Sea Region. BSPC gathers parliamentarians from 11 national parliaments, 11 regional parliaments and five parliamentary organizations around the Baltic Sea.

<sup>16</sup> Annual Conferences of the BSPC. <http://www.bspc.net>. Last accessed on 15 May 2010.

<sup>17</sup> Views of the BSPC in the EC Consultation on the EU Strategy for the Baltic Sea Region. 17 December 2008. [http://ec.europa.eu/regional\\_policy/consultation/baltic/doc/organisation/baltic\\_parlconf.pdf](http://ec.europa.eu/regional_policy/consultation/baltic/doc/organisation/baltic_parlconf.pdf). Last accessed on 15 May 2010.

resolution adopted by the 18th BSPC,<sup>18</sup> the Russian delegation managed to change the wording of Paragraph 4, which urges the member states of the region to take concrete steps towards harmonization of various strategies and programmes of the EU Strategy for the Baltic Sea Region, by adding the phrase “so-called” before the EU Strategy for the Baltic Sea Region, thus emphasising its point of view. Repeated attempts to include the issue of the Baltic Sea Strategy in the agenda of the BSPC were abandoned due to Russia’s rhetoric regarding the role of this Strategy in the region. During the meeting of the BSPC Enlarged Standing Committee that took place on 28 January, Valentina Pivnenko, Vice-Chairperson of the BSPC Standing Committee, asked about the reasons for excluding Russia from the EU’s Baltic Sea Strategy, emphasising that when the EU started to discuss and draft this Strategy, Russia was not invited. Lars Gronbjerg, expert at the Unit for Relations with Russia and Northern Dimension Policy of the Directorate-General for External Relations of the European Commission, responded that Russia cannot be an official member of the EU Baltic Sea Strategy as it is an internal EU strategy. But the Strategy is open to all who are interested. Involvement of Russia in implementation of the Baltic Sea Strategy should take place in pragmatic manner, based on common interests. Anders Lindholm, Programme Officer of the Directorate-General on Regional Policy of the European Commission, added that Russia has been well informed on the Baltic Sea Strategy since the very beginning. The Ministry of Foreign Affairs of the Russian Federation has submitted to the European Commission an informal position (non-paper) regarding the Baltic Sea Strategy. It is no secret that the EU’s Baltic Sea Strategy must be regarded as an internal EU dimension, with the Northern Dimension as an external EU strategy.<sup>19</sup>

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<sup>18</sup> Conference Resolution. Adopted by the 18<sup>th</sup> Baltic Sea Parliamentary Conference (BSPC). 1 September 2009. <http://bspc.s3.amazonaws.com/18%20BSPC%20resolution%20FINAL.doc>. Last accessed on 15 May 2010.

<sup>19</sup> Report on participation of the BA delegation in the meeting of the BSPC Enlarged Standing Committee. Documentation of the BA Secretariat. 28 January 2010, pp. 4–5.



The representatives of the Council of the Baltic Sea States<sup>20</sup> have also admitted that the inclusion of the Baltic Sea Strategy in the common agenda is a hard task. Thus, on 28 January 2010, Neris Germanas, Chairman of the CBSS Committee of Senior Officials, responded to the question regarding the link between the Baltic Sea Strategy and the Northern Dimension partnership diplomatically, but clearly, by saying that the “CBSS Committee of Senior Officials had a meeting during which ways and formats of implementation of the Baltic Sea Strategy were discussed. The CBSS is an organization of the EU Member States and non-EU countries. The question which has to be answered is on how to include the EU Member States and non-member states in implementation of the Baltic Sea Strategy. The CBSS should think how to include Russia, Norway and Iceland into the process of the Baltic Sea Strategy. And this is not so easy task to be solved.”<sup>21</sup> The same opinion was voiced by Peer Krumrey and Carsten Schymik, who stated that Russia cannot be ignored; however, it has a hybrid role in the context of this Strategy.<sup>22</sup> This proves that the illusion held by the member states of the EU’s Baltic Sea Strategy about the inclusive nature of the Strategy has shattered; furthermore, it means that the current focus should be put on the possible ways to attract Russia to involvement in order to achieve the goals of the Strategy.

The fourth illusion, which poses a significant risk, relates to the ultimate task of the Strategy – no new institutions.<sup>23</sup> The justification for this is the undeniably large number of existing cooperation

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<sup>20</sup> The Council of the Baltic Sea States (CBSS) is an overall political forum for regional inter-governmental cooperation, established in 1992. The Members of the Council are Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, Sweden and a representative from the European Commission.

<sup>21</sup> Report on participation of the BA delegation... (see note 20), p. 2.

<sup>22</sup> Schymik C., Krumrey P. EU Strategy for the Baltic Sea Region. Core Europe in the Northern Periphery? Working paper FG 1, 2009/08, April 2009. [http://www.swp-berlin.org/common/get\\_document.php?asset\\_id=5908](http://www.swp-berlin.org/common/get_document.php?asset_id=5908), p. 5. Last accessed on 15 May 2010.

<sup>23</sup> Communication from the Commission... (see note 3), p. 10.

structures and networks in the Baltic Sea Region. It is also undeniable that the activities of these cooperation organizations overlap and duplicate each other. The Strategy states that the European Commission should monitor the implementation of the funded programmes. This is only logical, because this is the mechanism used for monitoring and utilization of EU funds. However, there are concerns that the implementation mechanism of the Strategy could be hindered, because the chapter devoted to implementation and management indicates that the Commission could fulfil the need for an independent multi-sector body that can guarantee the necessary coordination, monitoring and follow-up of the Action Plan, as well as a regular updating of the plan and Strategy as necessary.<sup>24</sup> In view of the impressive number of cooperation organizations which have already been established in the region, and the fact that it is an internal EU policy, one can agree that there is no need for a new monitoring and management institution; however, one of the stakeholders, either a state or institution, should take the leading role in facilitating the Strategy.

The fifth illusion is concealed behind the goals and future vision of the Strategy, because politically countries can express their readiness to cooperate in the areas of innovation, research, elimination of trade barriers, as well as other fields of economic cooperation; however, the countries of the Baltic Sea Region will remain competitors in certain business categories and in their vision on competitiveness. It is unlikely that in order to eliminate economic and social disparities the Scandinavian trade unions will lower their requirements for the Baltic or Polish labour force, or that the Norwegian labour market will not try to lure away the highly-qualified labour force from Estonia or Sweden. This is the problem which was expressed as a warning by Toomas Hendrik Ilvess, President of the Republic of Estonia, who indicated that the countries of this region have not yet agreed on how to dismantle the secondary barriers that they still

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<sup>24</sup> Communication from the Commission... (see note 3), p. 10.

have in the areas of the four freedoms.<sup>25</sup> Also, Dalia Grybauskaitė, President of the Republic of Lithuania, has highlighted the necessity of removing artificial obstacles for integration of the Baltic Sea Region and the rest of Europe.<sup>26</sup> Therefore, the illusion that the common interests of the region will prevail over national interests can be questioned and is likely to shatter.

### **A pioneer role for existing cooperation institutions?**

The Baltic Sea Strategy envisages that the existing forms of cooperation are capable of undertaking the practical implementation of the Strategy. The Baltic Sea Region is often given as an example of a particularly close network of multifunctional cooperation among interparliamentary, intergovernmental and non-governmental organizations. The Baltic Sea Region is very rich in various forms of inter-institutional cooperation – it is easier to identify levels and spheres in which there are no cooperation organizations. This is the main problem of this region, because assessment of the activities of the diverse regional cooperation organizations reveals that the goals and spheres of activity of these organizations overlap and/or duplicate one another. The lack of correlation/interaction among the diverse policies implemented by the cooperation organizations of the Baltic Sea Region is even more evident. Analysis of the agendas of the most active cooperation organizations of the Baltic Sea region, namely, the Council of the Baltic Sea States, the Baltic Sea Parliamentary Conference, the Baltic Sea Region Energy

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<sup>25</sup> President Ilves at the ministerial conference on the EU Baltic Sea Strategy in Stockholm, Sweden. 18 September 2009. <http://www.president.ee/en/speeches/speeches.php?gid=130637>. Last accessed on 15 May 2010.

<sup>26</sup> Grybauskaite: EC should be involved in implementation of the Baltic Sea Region Strategy. 2 June 2010. [http://www.baltic-course.com/eng/baltic\\_states/?doc=27691](http://www.baltic-course.com/eng/baltic_states/?doc=27691). Last accessed on 2 June 2010.

Cooperation (BASREC),<sup>27</sup> the Helsinki Commission (HELCOM), the Nordic Council<sup>28</sup> and the Nordic Council of Ministers,<sup>29</sup> the Baltic Assembly<sup>30</sup> and the Baltic Council of Ministers,<sup>31</sup> shows that the goals, tasks and challenges included in the agendas of these organizations correspond to those indicated in the EU Strategy for the Baltic Sea Region. Therefore, a logical question arises: if these organizations, which have been functioning on various levels and within multifunctional frameworks, have not managed to make the Baltic Sea Region more competitive, have not eliminated the most significant economic and social disparities among the countries of the region, and have not improved the ecological environment of the Baltic Sea, what reason is there to believe that the Baltic Sea Strategy will succeed and that these organizations will be able to implement this Strategy in life? Undoubtedly, one of the favourable

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<sup>27</sup> The Energy Ministers of the Baltic Sea Region Countries and the European Commission decided during the conference in Helsinki in October 1999 that the regional cooperation in the field of energy should be realised in the form of BASREC. The countries and institutions participating in BASREC include the governments of Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia and Sweden. The European Commission is represented by DG TREN – the Directorate General for Transport and Energy. The participants also include the CBSS, Nordic Council of Ministers, and the Council of Baltic States.

<sup>28</sup> The Nordic Council (NC) was formed in 1952. The Council has 87 elected members from national parliaments of Denmark, Finland, Iceland, Norway and Sweden as well as from the three autonomous territories: the Faroe Islands, Greenland and Åland.

<sup>29</sup> The Nordic Council of Ministers (NCM) is the forum for Nordic governmental cooperation, established in 1971. The Ministers of Cooperation have the overall responsibility for Nordic cooperation.

<sup>30</sup> The Baltic Assembly (BA) is an international organization, which was established on 8 November 1991, in Tallinn with the aim of promoting cooperation between the parliaments of the Republic of Estonia, the Republic of Latvia and the Republic of Lithuania.

<sup>31</sup> The Baltic Council of Ministers (BCM) is governmental cooperation organization, which was established on 13 June 1994, in Tallinn with the aim of promoting cooperation between the governments of the Republic of Estonia, the Republic of Latvia and the Republic of Lithuania.

signs for the success of the Baltic Sea Strategy could be the fact that the EU has allocated EUR 55 billion to the Baltic Sea Region for the period from 2007 to 2013.<sup>32</sup>

I think it is wrong to believe that the cooperation organizations of the Baltic Sea Region will be able to undertake the role of coordinating the implementation of the Baltic Sea Strategy. First, it is impossible for them to assume this responsibility, because the regional cooperation organizations differ in terms of the regions they represent (the Baltic States, the Nordic Countries), the diverse levels they represent (intergovernmental, interparliamentary, non-governmental, and intermunicipal), etc. I doubt whether the CBSS or the BSPC can assume the leading role, due to the attitude and position of Russia. I don't believe that the Baltic and Nordic cooperation organizations have sufficient capacity for assuming a leading role in implementation of this Strategy. It is unlikely that the countries of the Baltic Sea Region will be able to distribute functions and responsibilities among themselves without any coordinating mechanism provided by the European Commission. Another significant reason for the inability of the regional cooperation organizations to distribute responsibilities and functions among themselves is closely related to the fact that almost all the organizations have immersed themselves in discussions on reforms and their implementation. The member states of these organizations understand that the number of organizations is too high and that they duplicate each other; furthermore, it is clear that it is easier to create a new system and approach in a vacuum than in an oversaturated region. Another weak link in this process relates to the lack of countries that could serve as initiators and driving forces. Experience in implementation of various partnerships and strategies shows that Finland was the driving force in the Northern Dimension, and Poland was a strong leader in the EU's Eastern Partnership; unfortunately, it is hard to identify one country which could be a driving force for the EU's Baltic Sea Strategy.

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<sup>32</sup> Report on participation of the BA delegation... (see note 20), p. 6.

Another significant aspect in the context of cooperation organizations of the Baltic Sea Region relates to the division of labour between intergovernmental and interparliamentary organizations. In the period from 2004 to 2009, parliamentary cooperation organizations, namely, the Nordic Council, the Baltic Assembly and the Baltic Sea Parliamentary Conference, were actively lobbying the positions of their member states and the need for the Baltic Sea Strategy in the EU. Currently the Baltic Assembly and the Nordic Council are using the Strategy as a policy issue in dialogue with Belarus. Now it is time for intergovernmental organizations, namely the Baltic Council of Ministers and the Nordic Council of Ministers, to take over the implementation phase of the Strategy. It is hard for the Council of the Baltic Sea States to do something because of Russia's criticism of this project. This has been indicated by Dalia Grybauskaitė, President of the Republic of Lithuania, who emphasised that today the governments of all the countries in the region, especially the EU Member States, bear the great responsibility for implementation of the Strategy, by engaging as widely as possible other members of the Baltic Club, by inviting next-door neighbours as observers, and by securing the support of their permanent and active partner – the European Commission.<sup>33</sup> In this context it would be interesting to see the results of the Nordic-Baltic cooperation audit that is planned to be published by the Ministers for Foreign Affairs of the Baltic States in the near future.<sup>34</sup> It is logical to expect that the new format of Nordic-Baltic cooperation will be able to undertake joint implementation of the Baltic Sea Strategy.

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<sup>33</sup> Grybauskaite: EC should be involved... (see note 27).

<sup>34</sup> Foreign Minister Paet, Latvian and Lithuanian Colleagues Agreed to Carry Out Audit of Nordic-Baltic Co-operation. 9 April 2010. <http://www.vm.ee/?q=en/node/9300>. Last accessed on 15 May 2010.

## In between reality and illusions

Time will reveal the role of the Baltic Sea Strategy, because currently the Strategy has only raised great expectations and is described by colourful epithets, such as 'Christmas tree', 'new animal', and 'pioneer model'. The European Union has a number of regional policy initiatives, including the Mediterranean Union, the Barcelona Process, the Northern Dimension and the Eastern Partnership. The EU also has a number of policies which can be applied in some but not all Member States. However, it is still unclear how the Strategy will work in practice.

*Know the other and know yourself: triumph without peril.* This statement clearly indicates the steps which should be taken in implementing the Baltic Sea Strategy. Member states should not celebrate the adoption of the Strategy; instead they should actively use the Strategy and relevant funding in order to achieve the defined goals and overcome the isolation of the region from a global perspective. Those who shape and implement policy in Latvia are advised to put more effort into getting acquainted with the maximum possible results they want to achieve in the long term within the framework of the EU's Baltic Sea Strategy.

*Know nature and know the situation: triumph completely.* Latvia and the entire Baltic Sea Region should clearly and honestly define the complex and target-oriented (issue-oriented) approach to regional cooperation in the Baltic Sea Region. Concurrently there should be a clear understanding of what each country expects from the Baltic Sea Strategy and cooperation institutions of the Baltic Sea Region.

# The Baltic Sea Strategy and the Future of Europe

DAUNIS AUERS

*I think the Baltic Sea Strategy can and will serve as a model for regional cooperation in Europe.*

Cecilia Malmstrom, Swedish Minister for EU Affairs  
Stockholm, 2 September 2009<sup>1</sup>

Much is expected of the Baltic Sea Strategy (BSS). It has been lauded as a blueprint, pilot, model, role-model and laboratory for future European cooperation and integration. And all this before it had even kicked-off. Expectations are high because it seems to address the fundamental changes and challenges caused by the European Union's growth into a Europe-wide organization. Perhaps most significantly, at a time of Europe-wide budgetary and fiscal restraint following the global economic crisis, the BSS uses existing funds to finance and, it is hoped, better execute new initiatives. It is already serving as the mould for the launch of a European Strategy for the Danube Region. Other regions are also clamouring for a similar policy. In April 2010 the Italian Secretary of State for Foreign Affairs, Alfredo Mantica, argued for an Adriatic-Ionian strategy to be developed forthwith because "we certainly cannot wait for years to see if a so-called 'pilot project' is successful, not least because we have great confidence in the work that the Baltic Sea macro-region has already embarked upon."<sup>2</sup> The same meeting

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<sup>1</sup> Malmstrom C. Taking the Baltic Sea Strategy forward during the Swedish Presidency. 2009. Available online at Government Offices of Sweden. <http://www.sweden.gov.se/sb/d/7972/a/131117>. Last accessed on 30 March 2010.

<sup>2</sup> Mantica A. Address at the Forum on "European macro-regions. Integration through territorial cooperation". 13 April 2010, Brussels. Available online at Committee of the Regions. [www.cor.europa.eu](http://www.cor.europa.eu). Last accessed on 14 May 2010.



also proposed other regional strategies “including for the North Sea-English Channel ... the Mediterranean, the Alps, the Atlantic Arc and other potential configurations of cooperation across and beyond the EU.”<sup>3</sup> Clearly, a political bandwagon is rolling and there is a great deal of pent-up demand for a macro-regional approach to European cooperation and integration. There is also significant optimism that the BSS will prove to be a success.

But can the BSS actually deliver and point the way forward for Europe? This chapter addresses this important question by, first, locating the BSS in the ongoing debate on the future of Europe that, with contributions from scholars, politicians and European citizens, has dominated much of European discourse since the Second World War.<sup>4</sup> It begins with a summary and typology of the many diverse and often conflicting historical and contemporary debates and issues on the future of Europe, and then locates the place of the BSS in these broader debates. The next section considers the EU concept of regionalism and looks at the Baltic Sea Region (BSR) in more detail. It particularly examines the widespread claim that the BSR is a representative ‘microcosm’ of Europe, which, it is argued, makes it an appropriate experimental laboratory for the new macro-region strategy. The final section considers the policies, cooperation strategies and instruments adopted by the BSS and the extent to which they are innovative and transferable to other regions. The conclusion will ask whether the BSS model of cooperation, if successful, will undermine or strengthen the EU. In other words, can the EU really be ‘united in diversity’?

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<sup>3</sup> Stahl G. Opening address at the Forum on “European macro-regions. Integration through territorial cooperation.” 2010. Available online at Committee of the Regions. [www.cor.europa.eu](http://www.cor.europa.eu). Last accessed on 14 May 2010.

<sup>4</sup> The EU attempted to introduce citizens into the debate through the launch of the ‘Debate Europe!’ website in March 2006, which functioned for almost four years until it was ‘archived’ at the end of February 2010. See Debate Europe: [http://ec.europa.eu/archives/debateeurope/index\\_en.htm](http://ec.europa.eu/archives/debateeurope/index_en.htm). Last accessed on 30 March 2010.

## A very brief history of debating ‘Europe’

Debates on the future of the European ‘project’ have been a permanent and prominent feature of the EU. Indeed, the Union has always seemed to live in the future as much as the present. However, debates on Europe did not begin with Monnet and Schuman. Rather, the earliest debates on the nature and political future of Europe can be traced back to at least the 18th century and the philosophical writings of Jean-Jacques Rousseau published in 1756, that argued for a federal form of European government to unite nations in the same way those nations unite individuals.<sup>5</sup> In 1795 Immanuel Kant, who lived his whole life in the Prussian city of Königsberg on the Baltic Sea, argued that the only guarantee for peace and prosperity in war-torn Europe was a “federation of free states” uniting the continent.<sup>6</sup> Indeed, various versions of this abstract visualization of a united Europe as an oasis of peace and prosperity continued to be debated well into the first part of the 20th century. The all-encompassing misery of the First World War prompted more detailed and potentially executable plans of European integration, such as the Austrian Count Coudenhove-Kalergi’s *Pan Europa* or the Briand Plan for a confederal Europe.<sup>7</sup> The Second World War gave these debates a greater sense of urgency, partly because of the intensity of the war and, later, the sheer horror of the concentration camps and mass-bombing of civilian populations, and partly because of the resulting Cold-War division of Europe into East and West. This produced ever more detailed yet theoretically driven models for European unification. Jean Monnet and Paul Schumann, as well as

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<sup>5</sup> Rousseau J.-J. *A Lasting Peace through the Federation of Europe and The State of War*. London: Constable and Co., 1756 (republished in 1917).

<sup>6</sup> Kant I. *Philosophical Project for Perpetual Peace*. London: George Allen and Unwin Ltd., 1795 (republished in 1917).

<sup>7</sup> See Coudenhove-Kalergi R. *Pan Europe*. New York: Alfred A. Knopf, 1926. For a contemporary discussion of the Briand plan see Whitton J.B. The Briand plan for European Union. *Current History*, September 1930, pp. 1176–1180.

Karl Deutsch, David Mitrany and Altiero Spinelli prompted and cajoled the political negotiations and institutional debates that led to the creation of the European Coal and Steel Community and, in 1957, the signing of the Treaty of Rome and the creation of the European Community.<sup>8</sup>

Since the Treaty of Rome came into force and the EU (or European Community, as it was then) began its work, debates on the future of Europe have typically involved discussing the role, place and identity of the EU as the key actor on the continent. The reunification of the continent after the collapse of communism accelerated and amplified these discussions, which can be divided into four major categories: institutional, geopolitical, policy-driven, and identity-oriented.

Institutional debates ask two fundamental questions. What is the EU? And what is it developing into? Much of the discourse has focused on who controls the integration process and, resultingly, whether the EU is or is not evolving into a federal, con-federal or nation-state driven organization. It then asks what sort of powers should be granted to the European institutions, and what should be kept in the hands of the nation-state. These debates have a long history. They began in the 1950s and 1960s with the polarizing discussion on the nature of Europe which posed Jean Monnet (who envisaged a closely integrated supranational Europe) against Jacques De Gaulle (who wanted a looser confederative group of nations). Later scholarly discussions attempted to make sense of the existing EU and identify the sources of power and influence, often described as a conflict between supranational/neo-functional

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<sup>8</sup> See Mitrany D. *A Working Peace System; An Argument for the Functional Development of International Organization*. Chicago: Quadrangle Books, 1941/1966. Spinelli A., Rossi E. *For a Free and United Europe: A Draft Manifesto*. 1944. Available online at European Navigator, <http://www.ena.lu/>. Last accessed on 30 March 2010. Deutsch K. *Nationalism and Social Communication: An Inquiry into the Foundations of Nationality*. Boston: MIT Press, 1953.

and intergovernmental/realist interpretations. Politicians have also attempted to influence the debate by setting out their visions of Europe. These have ranged from, on the one side, the state-centred model famously advocated by Margaret Thatcher in her 1988 Bruges speech, which declared that:

“To try to suppress nationhood and concentrate power at the centre of a European conglomerate would be highly damaging and would jeopardise the objectives we seek to achieve. Europe will be stronger precisely because it has France as France, Spain as Spain, Britain as Britain, each with its own customs, traditions and identity. It would be folly to try to fit them into some sort of identikit European personality.”<sup>9</sup>

To, on the other side, Valéry Giscard-d’Estaing, who in 2003 recognised that, while the Convention on the Future of Europe was not creating a federal state, it could not be reduced “to a mere treaty for cooperation between governments. Anyone who has not yet grasped this fact deserves to wear the dunce’s cap of the famous Carolingian schools!”<sup>10</sup> Variations on this debate continue to fire pro-Europeans, eurosceptics and points in between.

The BSS certainly fits into this category of debate. The concept of integration is an integral part of the discourse on macro-regions (as indicated by the Committee of the Regions’ April 2010 conference, entitled *Europe’s Macro-Regions: Integration Through Territorial Co-Operation*<sup>11</sup>). Although the three noes that structure the BSS – no new funds, no new legislation and no new institutions – clearly ensure that there will be no great formal institutional or legal

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<sup>9</sup> Thatcher M. Speech to the College of Europe, 20 September 1988. Available at <http://www.margaretthatcher.org/speeches/>. Last accessed on 18 May 2010.

<sup>10</sup> Speech by Valéry Giscard d’Estaing, Aachen, 29 May 2003. Available at [european-convention.eu.int/docs](http://european-convention.eu.int/docs). Last accessed on 18 May 2010.

<sup>11</sup> Committee of the Regions conference, Europe’s Macro-Regions: Integration through Territorial Co-operation. 13 April 2010. [www.cor.europa.eu](http://www.cor.europa.eu). Last accessed on 18 May 2010.

innovations, the BSS will lead to closer regional cooperation at a “new governance level ... that is located between the nation state and the supranational community” and involves a multiplicity of regional, national and non-governmental actors, as well as existing pan-Baltic institutions.<sup>12</sup> This potentially innovative use of existing institutions and instruments may well foster ‘ever closer union’ at the macro-region level and will fire discussion on the wider impact and meaning of concrete regions going it alone and geographically close groups of states integrating with each other while, inevitably, growing more distant to other EU states.

The second area of debate concerns the borders of Europe and, in the contemporary sense, the issue of who can and who can’t join the EU. De Gaulle’s two *non* denying Britain membership of the community in the 1960s were motivated both by a fear of increased American influence over the community (and thus a diluted French influence), and by the British economy’s alleged incompatibility with the mainland European economy (because of its high level of trade with its former colonies, as well as its reliance on agricultural imports). Essentially, Britain did not fit the image of what De Gaulle perceived a European country to be. Since then, of course, the EU has expanded north and east and south to encompass most of the continent and 27 Member States. The cultural expectations of what is ‘European’ have shifted as a result. However, Turkey’s ongoing ticklish accession negotiations, as well as the place and pace of integration with the Balkan and non-Baltic former-Soviet states leave the future borders of the EU still open to question and dispute. However, these issues do not affect the BSS. The Baltic Sea is almost an internal EU sea, with Russia, which has no immediate intention of applying for

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<sup>12</sup> Schymik C., Krumrey P. EU Strategy for the Baltic Sea Region: Core Europe in the Northern Periphery? *Working Paper FG 1*, 2009/08, April 2009. SWP Berlin.

membership of the Union, as the only non-EU Member State with a direct border on the water. The BSS may well facilitate and innovate forms of EU-third country cooperation, but it will not touch on the enlargement discussion.

Third, debates on the policies and policy direction of the EU have particularly accelerated since the Single European Act of 1986 reinvigorated the single market and the 1992 Maastricht Treaty on European Union introduced several new policy areas to the European political arena. However, the 'three noes' make clear that the BSS does not have the authority to create any new policy areas. It rather aims to build on, and make more efficient, existing areas of cooperation and issues of common concern to the region, such as a sustainable environment and a linked-in regional transport network. In the long-run, however, the region could well identify common problems particular to the region that are not on the EU policy agenda and, using the influence of having one-third of EU Member States in the BSR (including many of the wealthiest), attempt to leverage their concerns onto the EU policy agenda.

Fourth, contemporary Europe appears to have multiple external and internal identities. The recent national debates in France and Britain, prompted by the European Convention and the Constitutional Treaty, polarized around different conceptions of what Europe was, and what it was developing into. The British fretted about the creation of a socialist Europe while the French bemoaned a creeping economically liberal Europe. This polarization has also been mirrored in the external debate on whether Europe is fundamentally atlanticist and thus allied with the USA and other states of the 'West', or a more independent international actor in its own right. The BSS will inevitably touch more on the internal identity debate. Indeed, the policy may well foster the development of a stronger North European identity that currently does not exist.

Certainly, the contemporary BSR contains a number of different and occasionally conflicting identities. Thus there is a particular

Nordic identity associated with post-Second World War economic success, a strong welfare state and active environmentalism, as well as engagement with developing states. This is supported by mutually comprehensible languages (at least in the case of Denmark and Sweden, as well as Norway), comparable social and economic policies and a largely shared historical experience. These same background conditions also underpin the three Baltic States, although a shared identity is disputed and at least partially unwanted.<sup>13</sup> This is because, rather than being based on positive policies or experiences, it is rooted in a more unhappy shared history of subjugation by empire, occupation, authoritarian dictatorship, exile, deportation and only mixed economic success. Thus, rather than coming together, the Baltic States have tended to fragment. Estonia is drawn to the Nordics, and Lithuania to Poland and Central Europe. Moreover, despite being the geographically central Baltic State, Latvia has been no great advocate of Baltic unity. Germany and Poland, of course, also have a difficult relationship shaped by historical conflicts. For example, in 2007 Polish leaders demanded a more favourably weighted vote in the Council of Ministers that would take account of population losses caused by German aggression in the Second World War.<sup>14</sup> Germany, in any case, is only partially engaged with the BSR. Its “economic centres are to be found in the South and the West and the affinity of German politicians and economic leaders to the North is ... not strong.”<sup>15</sup> The lack of general BSS cohesion

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<sup>13</sup> Although Marko Lehti has argued that since accession the three Baltic States have increasingly identified benefits from greater mutual cooperation. See Lehti M. Baltic Region in becoming from the Council of the Baltic Sea States to the EU's Strategy for the Baltic Sea Area. *Lithuanian Foreign Policy Review*. 2009, no. 22.

<sup>14</sup> Webster P., Charter D. Poles demand more EU votes to compensate for war deaths. *The Times*, 22 June 2007. Available at <http://www.timesonline.co.uk/>. Last accessed on 15 May 2010.

<sup>15</sup> Henningsen B. The future of the Baltic Sea Region in Europe. In: The European Dimensions of the BSR Commitments for the Future Development. 2009.

is emphasized by the startling fact that the eight EU countries of the BSR use seven different currencies. These divisions mean that the contemporary BSR lacks a cohesive and unifying identity. The intensification and regularization of regional cooperation based around the Baltic Sea will inevitably put identity back on the agenda.

Thus the BSS will potentially contribute to the debate on European cooperation in two key ways. First, in terms of the construction of regional identity and, in particular, its relationship with the broader European identity. Second, in developing new forms of potentially transferable regional institutional cooperation and governance. The following section considers these two issues in more detail.

### **Regionalism in the EU and the Baltic**

This section initially outlines the different forms that cooperation between groups of EU states has taken, and then examines the uniqueness of the BSS form of collaboration. It then turns to look at the BSR in more detail, considering previous forms of regional cooperation and the changes that the BSS could potentially bring. It then asks if the BSR is a representative region of the EU, and thus an appropriate 'laboratory' for new terms of cooperation.

Cooperation between groups of EU states has been known by a number of terms – closer cooperation, enhanced cooperation or differentiated integration, as well as by more specific phrases, such as multi-speed Europe, *Europe à la carte*, or variable geometry Europe.<sup>16</sup> It is hardly a new concept and can be found in many contemporary policy areas. The European Monetary Union, for example, does not include Britain, Denmark, Sweden and most of the

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<sup>16</sup> For a fuller discussion of these phrases and their varying meanings see Stubb A. A Categorization of Differentiated Integration. *Journal of Common Market Studies*. 1996, vol. 34, no. 2.



Member States that joined the EU in 2004 and 2007. The Schengen Zone began life outside the EU institutions in 1985 as enhanced cooperation between the Benelux States, France and Germany, and still excludes Ireland, Bulgaria, Romania, Cyprus and the UK. Denmark and the UK also negotiated various opt-outs to elements of the Maastricht Treaty on European Union. Certain groups of EU states also have long histories of informal but lasting political cooperation and position harmonization – the Nordic states and more recently the Nordic-Baltic Six, Benelux, the German-French tandem and, since 2004, the Visegrad states. There have also been *ad hoc* coalitions, such as the 2003 ‘Group of Six’ core net-paying EU countries (Austria, Britain, France, Germany, the Netherlands and Sweden) that successfully called for a lowered ceiling on total EU expenditures for the 2007–2013 financial perspective. Moreover, the concept of ‘enhanced cooperation’ – defined as allowing “those countries of the Union that wish to continue to work more closely together to do so, while respecting the single institutional framework of the Union” – has been incorporated into the European treaties since Amsterdam.<sup>17</sup>

The primary motivation for these forms of cooperation has been functional – the pooling of policies or resources for some economic or political benefit on the basis of shared interests. The BSS is innovative in that it promotes a geographically based form of enhanced cooperation. This means that some countries that have traditionally been included as a part of the Baltic Region – Norway and Iceland – have been excluded from the BSR because, while they share a Nordic identity with Denmark, Sweden and Finland, they lack a geographic border with the Baltic Sea. This leaves the eight countries in the region that are EU members. This amounts to approximately 100 million people living around the sea (although the total population of the eight EU Member States

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<sup>17</sup> Europa Glossary. Available at <http://europa.eu/scadplus/glossary/>. Last accessed on 15 May 2010.

comes to over 145 million). This signals a shift from cultural identity-based Baltic regionalism – which could be seen in the Baltic region in the 1990s with the creation of the Council of Baltic Sea States (CBSS) that included Norway and Iceland – to a strictly geographic definition.

The shift to a geographic definition indirectly recognises that the BSS as a region of common values and a common history did not materialize as had been expected 20 years ago. During the Cold War the Baltic Sea was a dividing line between East and West. The collapse of the Soviet Union in 1991 led to attempts to use the sea as the basis for the construction of a common region with a common identity. Thus the ‘Copenhagen Declaration’ of the first CBSS Ministerial Session in 1992 recognised that one of the key aims of the organization was to “strengthen the idea of regional identity” and that a “shared basis cultural heritage – but with different expressions – binds the countries surrounding the Baltic Sea together.”<sup>18</sup> However, as the discussion on existing regional identities in the previous section indicated, and Table 1 below reaffirms, the BSR remains heterogeneous, being made up of states of hugely differing levels of wealth, development and governance. In the 2008 Economist Democracy Index, the four post-communist BSR states are ranked as ‘flawed democracies’ while the Nordic states plus Germany are ranked as ‘full democracies’. In 2008 all four post-communist states had a GDP well below the EU-27 average, while the Nordic States and Germany were well above the average. The same division applies for the United Nations Human Development Index and Transparency International’s Corruption Perceptions Index.

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<sup>18</sup> 1992 CBSS 1st Ministerial Session – Copenhagen Declaration. Conference of Foreign Ministers of the Baltic Sea States, Copenhagen, 5–6 March 1992. <http://www.cbss.org>. Last accessed on 19 May 2010.

Table 1

## Comparative indicators for the BSR states

	POPULATION (2010)	DEMOCRACY INDEX (2008)	GDP (PPS) 2008 EU=100 <sup>19</sup>	HDI INDEX RANKING (2009) <sup>20</sup>	CPI INDEX (2009) <sup>21</sup>
Estonia	1 340 274	37	67.4	40 (High)	27
Latvia	2 248 961	46	57.3	48 (High)	56
Lithuania	3 329 227	42	61.9	46 (High)	52
Poland	38 163 895	45	56.4	41 (High)	49
Denmark	5 547 088	5	120.1	16 (Very high)	2
Sweden	9 347 899	1	122.3	7 (Very high)	3
Finland	5 350 057	6	116.9	12 (Very high)	6
Germany	81 757 595	13	115.6	22 (Very high)	14

Sources: Eurostat, Economist Democracy Index 2008, United Nations Human Development Report 2009, Transparency International Corruption Perceptions Index 2009

Thus the BSS, being based around geographic rather than common-interest or shared-cultural cooperation, indirectly recognises these existing regional differences. However, it also builds on existing forms of cooperation in the region. Indeed, the Baltic Sea has long been an arena of regional integration. The Hanseatic League is an early example of geographic-regional cooperation initially based on economic benefits, but eventually developing to include political and military harmonization. To just mention the governmental level, the BSR has more recently seen Nordic integration (through the Nordic Council), Baltic cooperation through the Baltic Council

<sup>19</sup> Eurostat (2010). GDP per capita in Purchasing Power Standards. <http://epp.eurostat.ec.europa.eu/>. Last accessed on 10 May 2010.

<sup>20</sup> The 2009 UN Human Development Index covered 180 countries.

<sup>21</sup> 180 countries were listed in the 2009 Corruption Perceptions Index Report.

of Ministers and the Baltic Assembly, wider regional cooperation in the Council of Baltic Sea States and, since 2004, construction of the Nordic-Baltic Six (NB6) as a form of position and policy harmonization along the lines of the Benelux model. This cooperation is mirrored at other levels and means that the BSR does have experience of intensive forms of cooperation between governments, local governments, business groups and non-governmental organizations.

The emphasis on geography rather than culture certainly makes the BSS experience potentially more transferable to other regions. Indeed, the heterogeneity of the BSR certainly seems to be reflected in other potential regions of cooperation. In the short term there appear to be four other potential regions that could duplicate the BSS practice. Andrew Cottey has identified five 'European sub-regional groups', including the BSS (which he refers to as Northern European cooperation), as well as Central Europe, the Balkans/Black Sea, the Mediterranean and the Former Soviet Union.<sup>22</sup> Esko Antola has recognised five 'Olympic Circles' of European regional cooperation that more or less coincide with Cottey's division: the Baltic Sea, Mediterranean, Visegrad (meaning central European), Danube and West European.<sup>23</sup> The major difference between the two visions is that Cottey includes cooperation between exclusively non-EU states (the Former Soviet Union) while Antola identifies a specific form of enhanced West European cooperation based around the Benelux States and Franco-German cooperation (whereas Cottey merges Benelux cooperation into Northern Europe). In any case, with the exception of Western Europe, the other regions of potential cooperation are culturally heterogeneous and contain a similar mix of rich and poor, old and new democracies, small and large, and other divisions. Similar to the BSR, they are also touched by non-Member States. The heterogeneous BSR is undoubtedly a re-

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<sup>22</sup> Cottey A. Sub-regional Cooperation in Europe: An Assessment. *Bruges Regional and Global Governance Papers*. 3/2009. <http://www.cris.unu.edu/BRIGG-Working-Papers.159.0.html>. Last accessed on 19 May 2010.

<sup>23</sup> Antola E. *EU Baltic Sea Strategy*. London: Konrad Adenauer Stiftung, 2009.

presentative region of Europe. The focus on common needs shaped by geography rather than a shared culture or history also provides a mechanism for promoting cooperation between states that are not just different, as in the BSR, but may also have a recent history of conflict. However, geography is just the starting point. The real test of success for the BSR as a model for future European cooperation will be the governance dimension.

### New regional governance?

The extent of institutionalised cooperation in the BSR since 1991 clearly makes it an appropriate laboratory for the new regional strategy. Of the various regions listed previously, only Western Europe could claim to have a similar level of interconnectedness, although even there it is more *ad hoc* and less institutionalised than in the BSR. Key to understanding the applicability of the BSR as a model for future European cooperation is the extent to which these institutions and common concerns can be replicated in other regions. As a result, this section will first focus on the institutional governance of the BSR and then on the major common policy areas.

As already discussed, the BSR contains no provisions for new institutions. Rather, it envisages a three-level system of governance that involves the Member States (responsible for ‘policy development’), the European Commission (‘co-ordination, monitoring, reporting, facilitation of the implementation and follow-up’) and ‘partners already active in the region’ (‘implementation on the ground’).<sup>24</sup> The only vague element is the third point – the ‘partners active in the region’. This should likely be interpreted as the various existing institutions of Baltic cooperation that can serve as a font of institutional knowledge and experience critical to successful policy

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<sup>24</sup> European Commission Communication concerning the EU strategy for the Baltic Sea Region. 10 June 2009. <http://www.ec.europa.eu>. Last accessed on 18 March 2010.

implementation. Their real experience of cross-border regional cooperation, the relationships that have been formed, and their knowledge of the situation on the ground should allow the BSR to get off to a running start. In this sense the lack of new institutions could actually prove to be a strength of the BSR.

However, some of these institutions will have to be reactivated and re-engaged, since they have been largely neglected and at least partially hibernating since accession in 2004, when the EU took over as the major framework of regional Baltic cooperation. It has been particularly convincingly argued that these institutions need to band together in order to form a broad-reaching 'political space' that would bring together the various interested regional actors – national, regional and municipal governments, civil society, and the private sector – in a shared forum for debate and action.<sup>25</sup> However, this would require these existing institutions to be made much stronger and given more decision-making power. There is also a need to decide on how to deal with the non-BSR states that currently occupy places in these institutions, particularly the role of Russia, which is liable to be a less predictable and constructive partner than Iceland or Norway. Nevertheless, this is a clear step in the direction of subsidiarity – the concept that decisions should be taken as closely as possible to EU citizens – in that it takes governance away from the institutions in Brussels and brings it closer to the affected region. Naturally, there is no reason to believe that the CBSS has greater political legitimacy among Baltic citizens (indeed, this macro-region level of government is initially likely to be even less well-known than the institutions of the EU), but the geographic closeness to the citizens of the region may well bring this legitimacy in time.

As a geographically driven concept, the BSS policies primarily focus on the object that unites the region – the Baltic Sea – which

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<sup>25</sup> Antola E. Baltic Sea Region as a Pilot in Macro-Regionalisation in Europe. Baltic Sea Region University Network Forum, Turku. 26 February 2010. <http://www.centrumbalticum.org/en/speeches/>. Last accessed on 18 March 2010.

following the 2004 accession became “something of an EU inland sea.”<sup>26</sup> This has two major policy dimensions within the BSS. First, the Baltic Sea as an urgent environmental issue (traffic on the Baltic Sea having doubled since 2000, partly because of the once rapidly growing economies of the post-communist states, and also as a result of increased regional integration). Second, the Baltic Sea as an instrument for cohesion and prosperity through increased and mutually beneficial energy links, trade, and socio-economic cooperation. Both of these admittedly broad policy areas are genuinely transnational in character and realistically can only be effectively tackled at the regional level.

This can essentially be described as a pluralist approach to regionalism. It allows concrete regions to develop specific policies, within certain constraints, in contrast to the previous rather more standardised and one-size-fits-all approach. The latter may have been acceptable for an EU of six, nine or 12 members, but is incompatible with the differing needs and desires of a diverse EU of 27 states. Indeed, both the BSS institutional model and adopted policy areas can, with time, be duplicated elsewhere if political leaders are prepared to show the necessary political will and commitment. The BSR has a head start in terms of the depth and experience of regional institutionalization, but there is no reason why this cannot be reproduced in other regions.

### **Conclusions: will the Baltic Sea Strategy point the way forward for Europe?**

The ultimate measure of the BSS as a new model of European cooperation will be the successful execution of policies on the ground. Many of the preconditions for success are in place. The

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<sup>26</sup> Malmstrom C. Taking the Baltic Sea Strategy forward during the Swedish Presidency. 2009. Available at Government Offices of Sweden. <http://www.sweden.gov.se/sb/d/7972/a/131117>. Last accessed on 30 March 2010.

Baltic region has a long history of successful micro- and macro-region cooperation, and the major actors in this process have a history of cooperation and know each other well. Moreover, while the region is heterogeneous in many respects, the BSR remains one of the wealthiest, most stable and most peaceful regions not just in Europe, but in the world.

The BSS will clearly influence the future of the macro-region policy and, if it proves successful, will provide a new model for regional cooperation and integration in the EU. This might even allow this wealthy region of the EU to act in concert and exert its strength in the EU (although Germany's only partial engagement with the region severely weakens the BSR's political strength). In the long-run this may mean a less coherent, harmonised and centralised EU. It could also lead to an EU of competing regions rather than competing states. For example, both the public and politicians in the wealthier Baltic Sea States may question the wisdom and logic of making large fiscal transfers to geographically distant Balkan and Mediterranean states while the physical infrastructure and general competitiveness of the three Baltic States and Poland, part of an increasingly integrated BSR, remain visibly backward. Some kind of loss of centralised EU institutional authority seems inevitable. Simultaneously, however, it could also mean an EU that is more adept at adapting and delivering its policies to the multiple diverse regions that constitute the continent.

Thus the BSS could potentially move the BSR from being on the margins of Europe to becoming core Europe. While it is impossible to predict the future, this prospect has a tantalising symmetry. The contemporary Baltic Sea Region has been largely shaped by the EU. Will the Baltic Sea Strategy shape the future of the EU?



## In Place of a Conclusion: Bringing the Debate Forward

Summary of a round-table discussion

*On 16 June 2010, Riga was the venue for a round-table discussion on the EU Strategy for the Baltic Sea Region. The discussion was organized by the Association of Political Scientists of Latvia with the assistance of the Nordic Council of Ministers, the Ministry of Foreign Affairs of Latvia, and the Representation of the European Commission in Latvia. The discussion was aimed at exchanging views among senior scholars, and representatives of government and civil society, in order to further the exchange of ideas, as well as to widen and enrich the academic perspective provided in the book, and to lay the foundation for further discussions on the topic at later stages. The seminar was also part of the effort to gain as many perspectives from around the region as possible, so that the view from Latvia would be balanced with insights from other countries.*

*The discussion was divided into two sessions. During the first session the experts focused mainly on general issues relating to the origins and future prospects of the Baltic Sea Region (BSR), staying aloof from issues of governance and administration. Special attention was given to the ways of balancing different visions and interests persisting in the region. Insight into regional and national perspectives on the Strategy was provided. Speakers in the second session focused mainly on the problems related to building new models of governance and ensuring efficient implementation of the Strategy. Without the*

*ambition of providing a comprehensive picture, the speakers shared the view that this new Strategy is going to be a success.*

**Speakers:** Anda Catlaka (Latvian Ministry of Foreign Affairs), Imants Gross (Nordic Council of Ministers' Office in Latvia), Pertti Joenniemi (Danish Institute of International Studies), Mindaugas Jurkynas (University of Vilnius), Žaneta Ozoliņa (University of Latvia), Iveta Reinholde (University of Latvia), Toms Rostoks (University of Latvia) and Valdis Zagorskis (European Commission Representation in Latvia).

### **Why is this Strategy unique in the context of the European Union?**

The Baltic Sea Region and this particular Strategy constitute an important building bloc of cooperation within the EU, and a significant contribution to the idea of modern Europe as such. The hope was expressed that the Strategy and cooperation within its framework will make the EU truly successful in the 21st century.

The EU has continuously advocated cross-border cooperation. However, by the introduction of this Strategy a clear message has been sent that macro-regions are now seen as a key element of European integration. The EU is working in terms of macro-regions, and the BSR is a pilot project for this approach. It is planned to use this as a model for future cooperation on similar macro-regional strategies in the EU. The model value of the Strategy has already proved its viability, since the Danube initiative is moving forward, and similar developments might also take place in the Adriatic region. Consequently, high expectations, great responsibility, as well as a variety of challenges arise from this undertaking.

However, such developments have not avoided views opposed to it, and the negative potential of trends of regionalisation has been highlighted. The Baltic Sea Region Strategy has met resist-

ance in the form of a **policy of three NOs** (NO money, NO new institutions, NO new legislation), articulated by the representatives of the Southern countries of the EU. The reason for such sentiment is a competitive attitude arising from cultural jealousy that there is too much progress taking place in the North, while the Southern part of Europe is getting more and more marginalized. Moreover, the Southern countries do not want to let the BSR disturb the distribution of financial means within the EU. Taking into account these considerations, it is even surprising (but also flattering) that the European Commission has offered this region as a model to copy. Representatives of the South might even read this as insulting language, because it establishes a certain hierarchy. It was proposed during the discussion that maybe the Commission has gone too far by explicitly naming the BSR as a model region.

Not only issues of a practical nature are problematic in this regard. Speakers shared their concern about the disappointing reality in the field of international relations theory, which, due to the lack of theoretical tools, is incapable of responding to the processes of regionalisation on a trans-border level. This is why the theory has to be developed and enriched with a new emphasis. Besides, nowadays most significant studies of regionalisation focus mainly on Asia. If a comprehensive picture is sought, then trends of regionalisation in the EU must be looked at through the lens of global regionalisation processes.

Still, several positive developments can also be identified. The diminishing of rather dictatorial attitudes on the part of Brussels concerning regionalisation is one of them. In regard to regionalisation within the EU, up to now the Commission has stressed coordination and homogenization; it has sought rather regulated regionalisation. This is particularly visible in the European Neighbourhood Policy, where **conditionality** is the key concept, and complying with a certain strict set of criteria is required. During the 1990s the EU did accept regionalisation, but its rule-governed nature was also stressed. Providing rules, regulations,

and a frame for regionalisation was up to Brussels itself. In the context of this standardization, it was clearly articulated that regionalisation might become dangerous if it spreads too wide and is not rule-bound. Not only can it harm the process of European integration, but it can even become a **mortal danger** to it. There is every indication that Brussels has become more flexible concerning this Strategy. Now the emphasis has shifted. Increasing reliance on the regions themselves is becoming obvious, as it is acknowledged that regionalisation works best if it takes into account the possibilities and problems of the region itself. Thus, Brussels provides more space for regions to unfold. This trend marks the second advent of regionalisation in the context of European integration, and regionalisation is being perceived as a core facet of developments in the EU.

State-like approaches and development of the EU along these lines were identified by several speakers in various contexts. The concern, put in scholarly terms, is about the threat of divided sovereignty. Nation-states are naturally based on the principle of sovereignty. The recent developments in the EU provide a plausible demonstration that it is moving in a similar direction. The EU seeks to adopt several features characteristic exclusively of nation-states (a presidency and foreign service, as well as a rapidly developing military aspect). In doing so, it is, in essence, threatening the principle of indivisibility of sovereignty. However, tendencies towards regionalisation can also be regarded as a division of labour – nation-states remain sovereign, emphasizing borders, internal and external policies, as well as security matters, while the EU develops along the lines of regionalisation. If so, a division of labour is taking place, and a clash between sovereignties does not come up.

Another speaker, however, regarded the very fact of having a strategy as demonstrating the application of a **state-like approach** by the EU. Usually, countries develop their regional strategies, and this EU strategy towards a particular region provides an example of such an approach. However, in practice, this kind of approach is not much in evidence. It is hard to predict where such developments

are going to lead. At a certain moment the European Commission may start getting more and more involved, as well as taking more responsibility for the Strategy and its results, and it is hard to predict how far such developments might lead. At the present moment it seems that the heaviest burden concerning the Strategy rests on the countries of the region.

The role of the EU institutions in developing and implementing the Strategy was invoked in different contexts during the discussion. It was positively noted that the European Parliament has demonstrated a certain enthusiasm, and that there are feelings of deep attachment towards this initiative. However, the political commitment from MEPs can be questioned. The European parliamentarians representing Latvia, in particular, can be blamed for not promoting the idea of the Strategy enough. This lapse of enthusiasm can be partly explained by the changes in domestic and EU agendas. It is a serious challenge for the academic community, as well as civil society, to encourage parliamentarians to take a more active stance.

As regards the Commission, its strong commitment to this Strategy was highly appreciated, despite the concern addressed above. Special attention was paid to the fact that in the final stage it was the Commission itself which actively and willingly gave the green light to the Strategy, thus taking a supportive role, despite some resistance. In the end the will of the EU was decisive, not the initiative of the countries of the region, and this encouraged countries to take further steps. This active stance of the Commission has been an unambiguous signal that it needs this region because of its role as a model for others to follow, and has also marked certain changes of constellation. The Commission is becoming more and more demanding as to what this region delivers. Such trends, as noted by several participants of the discussion, are proof of long-term strategic thinking present in the EU. It is an opportunity to use the region in order to impact developments in the EU at large, but at the same time it is an extremely challenging endeavour.

## The history and prospects of cooperation within the BSR

The BSR as such is a comparatively new phenomenon. In essence, it has not existed before, despite certain common interests and similarities between countries. Intellectually, this region started to gain more definite form in the late 1980s. Later, in the 1990s, political spillover took place, as it was necessary to provide stability through cooperation. Tension between the Baltic States and Poland, on one hand, and Russia, on the other hand, had to be overcome by bringing those countries together. Cooperation was undertaken on less sensitive issues, leaving aside the concerns of high politics, as well as views on history and its interpretations. That was a new approach at the time, and thus a new region was born.

Even today, it is clear that this instinct of cooperation has not vanished. The Strategy is not the only attempt to bring countries together. Parallel developments are taking place in the region, although their fruitfulness may often be disputed.

This hopefulness, however, is undermined by the lack of a clear Baltic Sea regional identity. Self-affiliation of the countries to the region is not sufficient (and is especially low among the Baltic States). Moreover, the Nordic countries and Baltic States have different regional identities. Neither is identity present in the Strategy, which is purely problem-solving by its nature. The practices and implementation of the Strategy could lead the countries of the region to a more solid identity, but not necessarily. The project-based approach which the Strategy rests upon, although it helps to keep the interest of the stakeholders to a certain extent, is not enough to provide a basis for a common identity to arise.

As a consequence, cooperation has still not grown out of the realm of low politics. Truly significant issues and real problems (such as *Nord Stream* or human rights) are pushed aside in the framework of the Strategy. A certain degree of cooperation is, of course, better than nothing. At the same time, it would be highly

desirable to get realistic, to cross the boundaries of the topics that should not cause alienation, and stop avoiding inconvenient matters.

When considering the Nordic perspective on the Strategy, speakers emphasized that the Baltic Sea Area is most important for Denmark and Sweden. Sweden feels attached to the undertaking, having put it on the agenda of the European Commission and the Council, as well as pushing forward and advocating the idea of the Strategy during its presidency. The key images of the BSR in the Nordic countries relate to economic, energy security, and environmental issues. All countries agree that cooperation in the BSR should be sustained and facilitated.

The crucial point, however, is that the great divide between the Nordic countries and the Baltic States, which was expected to disappear after the latter accessed to the EU, has grown even deeper. The Strategy might be regarded as a tool to bridge this gap. However, it is still not clear whether it is a great opportunity for everyone, or whether there are going to be losers. History provides examples of regional cooperation models where the participants have not stood on fully equal positions (for instance, the Hanseatic League has been associated with Swedish and German dominance in the region). At the current stage there are no losers, because everyone sees this Strategy as an opportunity. It is not excluded, however, that in a couple of years we might experience certain changes in the attitudes of some states.

When formulating preferences for regional cooperation, Finland and Norway put an emphasis on the Barents Region, which includes cooperation with Russia. This country, however, has been practically excluded from the networks of cooperation within the BSR. In many respects, Russia is not welcomed because of the historically-determined resentment of the Baltic States, and their unwillingness to engage in cooperation, leaving aside the sentiment of victimization.

Although this is an internal EU strategy, it was posited more than once that true progress in all 15 priority areas put forward in

the Strategy can be brought about only through the engagement of Russia. On the other hand, Russia itself is not keen on cooperation in the BSR, and it sees this space as nothing more than a transit area for the pipeline. Still, the majority of speakers shared a conviction that certain ways to include Russia should be sought, at least in some of the priority areas. The involvement of the **Northern Dimension** in managing one of the priority areas can be regarded as a certain manifestation of progress, as Russia is also automatically engaged. However, some of the speakers voiced doubts as to whether it is not already too late to try to attract Russia to problem-solving in this region. Not having been involved in the matters of the BSR from the very first days of its development, now Russia has not even mentioned this region in its Foreign Policy Strategy. Moreover, regional organizations and cooperation in multilateral frameworks is not on Russia's agenda at all, as it tends more and more to take on the role of a global player. And this ambition is the cause of a certain asymmetry in the region.

### **Building new models of governance and ensuring efficient implementation of the Strategy – building bridges between academic and government perspectives**

The Strategy will make a significant contribution in helping the EU to switch to a new kind of governance strategy. In policy planning and coordination within the EU, this is a new approach. As a pilot project, it needs new models of governance, not only on the EU level. New kinds of national responses and modes of governance are also at stake here. Developing a new type of regional civil society governance model is also important. It has to be taken into account that some NGOs have rich experience in regional exercises, while some also have national and sub-regional experience, and they have to learn how to participate in this new governance exercise as well. These innovative aspects of Strategy should be taken very seriously by the stakeholders involved.



First of all, it was noted that the states are **firmly back in the driving seat** in this region. Although implementation of the Strategy is being organized through the involvement of a variety of stakeholders, states are still in most cases responsible for the priority areas. The state level was distinguished as being one of the most crucial among the various levels of governance and implementation, because in the end the states will have to prove that a certain degree of progress has been reached within the priority area they have been managing. Even if cooperation in the BSR is not state-dominated, there should more responsibility on the part of states.

Speaking in more general terms, concerns were voiced on the lack of true willingness by any of the stakeholders to take the leading role in the process of implementing the Strategy. In this respect, the Strategy can be likened to a **bus**: the passengers have got on freely, they have one route to drive, but it is not clear who is the driver. This role could be taken on by a country, organization, or the European Commission. In the first year of the Strategy, none of these are driving. Some of the speakers would like to see the Baltic States taking the initiative, but a willingness (as well as capacity) to play this role has not been demonstrated yet. As concerns the regional organizations, the Strategy has not become an integral part of their agendas for various reasons: the Baltic Council of Ministers is project-based; the Council of the Baltic Sea States is reluctant towards this initiative because Russia is a member of it, and the Baltic Assembly has also been quite inactive on this matter.

The issue of responsibility was also problematized in terms of taking responsibility for the consequences of implementing the Strategy. Governance of the Strategy means taking certain steps and performing certain actions which have to be measured. Sooner or later, civil society will require tangible results. How the successes and failures of the Strategy will be measured is still an open question.

According to an alternative perspective, a cause for concern is the fact that each of the stakeholders seeks to be at the centre of the process of implementing the Strategy. If this is so, it is not clear who possesses the decision-making authority.

Although the European Commission was praised for giving the green light to the Strategy and supporting it during the early stages of its life-cycle, it was admitted almost by common assent that the Commission's role in the implementation phase should be increased. If the Commission were to clearly state what it expects of this Strategy, then the vision would also become clearer on the national level, and appropriate responses would be sought. Nevertheless, some advice about the governance of Strategy has already been provided. Such issues as funding, technical assistance and networking have been discussed, but further guidance would be welcome all the same.

Good governance is not possible without the involvement of civil society and experts at an early stage of the policy planning process. This has been enhanced to a significant degree in Latvia. The Strategy was developed through a wide consultation process, thus providing stakeholders with a sense of ownership. Experts, members of the business community and other representatives of civil society have been involved from the earliest stages, and many of them now recognize that their ideas are reflected in the Strategy. It was noted that ownership comes along with the chosen model of governance; it is facilitated to a large extent through national contact points, priority area coordinators, and also political leadership. Still, the sense of ownership is also one of the reasons why the stakeholders have high expectations of the Strategy.

Despite the illustrations of good practices and a structured, multi-layered network of involved partners, several problems can also be identified. Now, one of the main challenges is to keep the stakeholders on board, in order not to lose fresh ideas and sustain open debate for closer networking in the region. On the other hand, although from a theoretical perspective the Strategy has a tendency towards multidimensional networking, in the framework of which each stakeholder can be a winner, there is still a problem in the fact that not all the stakeholders are speaking the same language. Misunderstandings can easily arise here.

The experts also cautioned that it will be a challenge for the whole public administration to ensure an integrated approach to the Strategy. First of all, this is not a matter for just one or two ministries. Second, an efficient functioning structure is lacking also in the sense that there is very weak cooperation and coordination of activities at the sectoral level between ministries of various countries. Effective mechanisms should also be introduced for coordination with other organizations, and various cooperation mechanisms in the region are required, in order to avoid overlapping of functions and activities.

When discussing models applied by the countries to govern the Strategy, three such models can be identified:

1. one ministry is in charge of coordinating projects relating to the Strategy;
2. a joint venture (several ministries build a unifying entity);
3. a steering group with the Ministry of Foreign Affairs as a leading institution (as in the case of Latvia). This kind of holistic approach to governance has been chosen in order to promote regional thinking. Even if such a structure may seem slow, it can be worth it, if working for a long-range objective.

Discussion was continued by focusing particularly on the case of Latvia and explaining where the country stands in terms of its administrative structure.

Regarding regional cooperation experience, three groups of ministries can be distinguished. First, there are ministries which, although they have gained a rich experience during the 90s, have now reached a stage when they have to adapt themselves to the new circumstances and revive regional cooperation networks. Second, there are ministries with limited cooperation experience, which thus feel lost in the Strategy. And third, there are ministries without any such experience.

In Latvia an incongruity was found to exist between the optimal model of governance as seen by the civil servants, on the one hand, and the perception of politicians, on the other. While the civil servants, being directly involved in the process and

seeking the optimal solutions, propose a model with a group of three ministries (Ministry of Foreign Affairs, Ministry of Finance, and Ministry of Regional Development and Local Government) represented, the politicians are ignoring their effort. The lesson is clear – communication among the various stakeholders involved in the implementation of the Strategy is lacking in Latvia.

The motivation of civil servants was also discussed at some length. While Latvian civil servants assert their dedication to the Strategy and its aims, they are convinced that such dedication is lacking in other countries of the region. It is hard to reach a feasible answer as to how to enhance motivation. Although there is some uncertainty stemming from the fact that the exercise as such is absolutely new, Latvian civil servants do not demonstrate disbelief. Instead, they are searching for better ways to govern the Strategy. This is evidence of how serious the Latvian government is about the Strategy. Commitment is also increased by doing, and *vice versa*. It must be admitted, however, that the level of commitment varies among the ministries.

Particularly in the case of Latvia, governance and implementation of the Strategy will be influenced by structural reforms, which often results in a decrease of financing and staff, and, as a result, a situation may arise where nobody is truly responsible. However, it was noted that if the Strategy is among the priorities of the respective minister, the issues concerning the Strategy will be highly prioritized in the work of ministry.

The problem of funding was highlighted in various respects. From the very early stages of drafting the Strategy it was clear that a special budget line would not be allocated to this aim, at least in the current budget perspective. Implementation of the Strategy means practical actions which lead to certain results. If such results are not present, it will be impossible to keep stakeholders interested, and as a consequence, the networks of cooperation will dissolve. Although interest may be based on a common identity, as mentioned above, such an identity has not formed yet, and there is no time for building it. Other speakers objected to such a view,

arguing that, despite the lack of funds, the stakeholders demonstrate a high level of commitment and enthusiasm. Besides, there are still many unexplored opportunities for combining the existing financial sources and attracting new ones.

### **What would an ideal strategy for the BSR look like?**

In the last part of the discussion the participants were asked to share their views on the ideal strategy for the BSR; what conditions might facilitate it, or, on the contrary, become obstacles to it.

Several crucial points of concern and challenges, as well as some general problems which should be taken into account at the later stages of implementing the Strategy, were brought to light in this respect.

Although, if this initiative is to be taken seriously, the above-mentioned consideration of financial guarantees cannot be disregarded, it must not remain the only concern in discussions around the Strategy. Unfortunately, such a trend has been observed lately. The crucial issue of the future of the Strategy must not be abandoned in the debates evolving around it, otherwise it will be a dead Strategy from the very beginning. It is important to sustain the discussion on regionalisation and identity-building, while avoiding overly idealistic visions.

Although the importance of the idea behind the Strategy, as well as necessity to analyze various aspects of its implementation, are hard to overemphasize, this view was also challenged, by stating that all the talk about the Strategy might be an exaggeration. Now we just have to let those engaged in the process of implementation get to work, and wait until 2011 before undertaking new discussions and stating new aims.

Obviously, there is political will for implementing such a Strategy. Specific further steps should be taken to strengthen it. The suggestion was made that a special body should be established

under the auspices of the European Commission, bearing particular responsibility for the BSR.

So far, not enough attention has been paid to the activities of branding the region outside its boundaries, especially in Poland and Germany, which are among the largest countries neighbouring the region. Some positive developments in this respect have already been observed regarding Germany. However, the country is still not seriously interested in developments within this region.

Awareness and ownership should also be developed in the opposite direction by going more local and focusing on the human element. Many aspects present in the Strategy concern everyday human life (environmental issues, for instance). Still, local governments have not been properly represented in the various stages of governing and implementing the Strategy.

It is still too early to undertake the work of evaluating the Strategy. Still, principles and mechanisms for assessment have to be established. First, each stakeholder will judge the success or failures in relation to its own expectations. Second, it must not be forgotten that certain results can be expected in the near future, while it might take a longer period for others. And finally, there will be visible, as well as invisible success of the Strategy.

Also, two separate sets of priorities should be distinguished. First, it is important to determine what kinds of projects to push forward (concrete, measurable outcomes are important here, as well as compliance with the expectations of stakeholders and society at large). Second, there is also the set of ideas. It must be recognized by the parties involved that there will be no projects if there are no ideas. These two sets have to be put into a more general perspective.

The Strategy needs clear short-, middle- and long-term priorities, as well as a time frame in the form of the Action Plan. The process of revising the Action Plan and Strategy has to be implemented at different levels of activity areas in order to determine which dimensions do not justify expectations. Delivery should remain the key indicator of success.

Some stakeholders still have not recognized that the Strategy is an already on-going process. Euphoria about the mere fact of having a strategy should be replaced by real efforts to bring it to life.

Disregarding this, the discussion was concluded by acknowledging that the Strategy, being the first exercise of its kind, is already a good start, and is a great chance for the Europeans living around the Baltic Sea to engage in new European macro-regional politics for themselves.

Reported by *Inese Grumolte*

# EU Strategy for the Baltic Sea Region: A Year After and Beyond

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