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*Edited by Leena Koivisto*

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## The Baltic Sea continues to integrate Western and Eastern Europe

In 2012, the Pan-European Institute received over 250 articles, and hence, the total number of the articles exceeded 1000 last year. We continued to pay a special attention to the modernisation in Russia and the development of the energy sector in the Baltic Sea region. A special attention in the energy sector was particularly given to the construction of the LNG terminals, oil shipments via the Baltic Sea and nuclear power plant projects in the region.

Since Russia after nearly a two-decade-journey became a member in the WTO, it was natural that many authors wished to write on this historic event. In fact, several other columns dealt with the history of the Baltic Sea area from a broader perspective, which is extremely valuable, as knowing our common history better aids ourselves to solve the future challenges in a more sustainable way.

We also compiled two special issues; one focusing on the maritime cluster of the region and another one on the future of Belarus.

The security-related themes will get more room in the future issues. In addition, we will dedicate a lot of attention to the Arctic region in years to come, as the Arctic region may influence the competitiveness of the Baltic Sea region as well.

I am extremely glad that we have managed to create invaluable partnerships with highly respected organisations, such as the City of Turku, the Baltic Development Forum, the John Nurminen Foundation, Finland's national Baltic Sea region think-tank called the Centrum Balticum, and the Turku Chamber of Commerce. We continue to create new partnerships in order to maintain the Baltic Rim Economies as the world's leading virtual discussion forum related to the Baltic Sea affairs. Hopefully, the Ministry for Foreign Affairs of Finland will also decide to become our partner in the future.

Turku, 14.4.2012

*Kari Liuhto*

*Editor-in-Chief (responsible for writer invitations)*

*Baltic Rim Economies (BRE) review*

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## Europe's energy future is in gas and in Central Asia

By Günther Oettinger

Europe is waking from a prolonged recession. Growth is back. Looking forward, we can see that Europe's prosperity, our competitiveness, rests on getting all the elements of a successful economy right. Sufficient, reliable and affordable energy supplies are a major factor among those elements. But as Gazprom CEO Alexei Miller said recently "The European market is skyrocketing: ....by December gas is expected to cost around USD 500 under our long-term contracts. I believe these are not the last record figures for this year." Input prices for fuels threaten growth.

Yesterday's oversupplied gas markets are tomorrow's tight market. There is money in natural gas. But that means that gas, an essential input, will drive up the costs of *Standort Europa*. For the economy's sake, we must bring supply competition by getting more pipelines to new suppliers and companies, and we must expand the LNG market.

Moreover, Europe has to achieve its carbon targets. After Fukushima, gas is more attractive, being relatively a low carbon fuel. It complements intermittent renewables -- like wind -- well. It is plentiful, and there are lots of producer countries. Gas is about to become a fuel of choice.

The shame is that Europe is not connected to as many potential suppliers as it should be, despite most of the producers being within economic range of pipelines or LNG routes. We have three established supply routes with Norway, Russia and Algeria. We will have a growing import market. A comfortable oligopoly of suppliers in Europe is evident. There is evident demand from consumers to have more suppliers, witnessed by the number of consumer-led diversification projects.

This makes us look at the perspective of gas imports from Central Asia and the Middle East. Collectively the region between Kazakhstan and Egypt has much more gas than Russia – by a factor of 1.5. In Central Asia, the world's 4th largest proved reserve, Turkmenistan, is asking for a solid commercial commitment from our companies, in the purchase and in the extraction of natural gas. Azerbaijan, whose potential is globally significant, is also in view. Behind these stand Kazakhstan and Uzbekistan. The Caspian countries are abundant in gas; they actually burn 9.8 billion cubic metres of natural gas every year – as

flares. South of the Caspian, there is Iraq, and the government in Baghdad is looking for a solid partner to develop its domestic market and the export option. Production costs of gas in these countries are globally competitive. Yet, there is no economic export route for this gas to market.

The European Union has launched the Southern Gas Corridor initiative to bring these new producers into the European market. We have active buyers. But we have few active producer companies driving the process.

Over the next 6 months, the European Commission will develop its Southern Corridor strategy and enhance it further. It is looking for upstream investors, from whatever background, who can drive the process to open the Southern Corridor and underwrite the infrastructure to get these sources of supply to market. The Commission supports various pipeline projects linking the Caspian region to Europe. Nabucco, a dedicated gas pipeline from Azerbaijan to the heart of Europe, would have the largest capacity among them. Together with it we also support regional pipeline solutions across the Caspian. We are committed to put in place a generic and welcoming regime for investment in these regions and in the transit routes to Europe. We will accommodate the necessary company co-operation to get the Southern Corridor open. We will make sure that the companies involved have a stable, long-term perspective to enter the EU market.

Europe is not offering subsidy. It is offering a stable long-term market with good prices and the best customers in the world.

Günther Oettinger

EU Energy Commissioner

European Commission



# The Baltic Sea protection – a challenge for Lithuania and for the whole Baltic Sea region

By Gediminas Kazlauskas

The Baltic Sea is one of the youngest seas in the world with a unique ecosystem, which is probably one of the largest brackish water bodies on the Earth. Aspects, such as reticence and water exchange (exchange of water within 30 years), which leads to the Baltic Sea known as one of the most affected and suffering seas in the world to its uniqueness contribute. Taking into account the reasons – intensive industrial development in the Baltic States for many decades when environmental performance has been inadequate and, of course, without prejudice to the realities of today, when the Baltic Sea region is one of the fastest developing regions in the world – the consequences and main problems such as eutrophication, pollution by hazardous substances, biodiversity loss, shipping and other negative effects are predictable.

However, rapid economic growth and development should be an integral part of environmental protection. In order to ensure the protection of the Baltic Sea and to achieve and (or) to maintain a good environmental status of the Baltic Sea, the countries of the Baltic Sea region have been trying to coordinate their actions and to adapt the specific environmental measures. Furthermore, addressing the root problems, from which in the recent decades the Baltic is suffering, the Baltic States are looking for joint solutions to protect the Baltic Sea from pollution.

Taking into account the mentioned problems and being a part of the Baltic Sea region and the EU, an integrated and sustainable approach to environmental protection and social aspects of a rapidly developing economy, and development become important aspects. The protection of water resources and the implementation of sustainable marine and inland water management are the main environmental challenges in Europe. Holistic and ecosystem-based approach has been adopted in the recent years, integrating the concepts of environmental protection and sustainable use, in particular through the implementation of the EU Water Framework Directive (Directive 2000/60/EC) and the adoption of the EU Marine Strategy Framework Directive (Directive 2008/56/EC). These directives set a framework for the preservation and, where necessary, the improvement of water quality of marine and inland waters. Implementing the afore mentioned directives, Lithuania has adopted the Baltic Sea Environmental Protection Strategy. In 2010, the approved National Baltic Sea Environment Protection Strategy is an excellent example of a measure that reflects the national inter-institutional cooperation in marine environmental protection. The document is covered within a strategic topic

for the Baltic Sea issues that are the most relevant and for the sea area. The National Baltic Sea Environmental Strategy has been implemented in accordance with the Action Plan for 2010–2015 having specific environmental measures in line with the other Baltic Sea countries. We believe that the implementation of coordinated action plans and setting their priorities and knowing that the neighbors work in the same direction and towards the same goal, help to achieve the goals. Implementing international requirements, such as the improvement of integrated water management following the principles of sustainable development and water management and an ecosystem-based management Lithuania has launched the project „Baltic Sea Environmental Management Strengthening in Lithuania” with the purpose to set Baltic Sea environmental protection objectives and measures in order to achieve those aims. According to the drafted documents by the project, the National Baltic Sea Environmental Protection Strategy, which will aim to develop and implement the Lithuanian Baltic Sea environmental policy in order to achieve good environmental status of the Baltic Sea, will be reviewed and approved.

Aiming to achieve good environmental status of the Baltic Sea, it is very important to attract not only the attention of authorities but also to approach the industry. Lithuania appreciates the industrial enterprises in Lithuania which take measures to protect our unique sea, and the result of their efforts are reflected in the decisions of the Helsinki Convention.

The Baltic Sea, as well as other European and world water bodies are in our care. That is why we all need to prioritize cooperation between authorities at national level and regional level as well as at the wider international level and to take joint actions in order to make our seas and oceans clean and attractive.

Gediminas Kazlauskas

Minister

Ministry of Environment

Lithuania



## Joint efforts in the Baltic Sea Strategy

By Lambert van Nistelrooij

The EU strategy for the Baltic Sea region (EU BSR Strategy) is a so-called macro regional strategy. Its basis is in the EU territorial policies. Every country on its own is far too small to solve the problems in the area. Consequently, cooperation is an absolute must. It is the EU's first macro strategy and the goal is to develop the whole region around the Baltic Sea to a globally leading region in different ways. With the region's approximately 100 million inhabitants, the region is a player of quite a different rank than what the countries around the Baltic Sea can achieve on their own.

The European Union Strategy for the Baltic Sea Region was adopted in June 2011. Its four key aims are protecting the environment, enhancing the region's prosperity, increasing its accessibility and attractiveness, and ensuring safety and security. The Strategy for the Baltic Sea Region is the first attempt to create a complex common development strategy for a cross-border "macro-region" with common development goals or problems. Steered by the European Commission, it aims to make better use of Community programmes and national policies. The experience will be used for the Danube region, the second European macro-region.

This is the result of the Joint Motion for Resolution, adopted by the Parliament in February. In the debate, I stressed the need for regional and local authorities to be more extensively involved in implementing the EU Strategy for the Baltic Sea Region. In this way funds for environmental protection and infrastructure can be managed more effectively. The program now delivers more than the sum of national strategies.

First of all, Member States should use the EU Structural Funds available for 2007-2013 to promote job creation and economic growth in line with the EU 2020 strategy, harnessing the region's special characteristics to add value at regional level, says the resolution.<sup>1</sup>

Not only structural funds can be used for this region. The Joint Baltic Sea Research and Development Programme (BONUS-169) is made available. The programmes planned total budget is 100 million EUR for the period from 2008 to 2013, of which 50% are public and 50% private funding. It creates an interesting research agenda in which universities all around the Baltic Sea participate. It was not possible to create a common fund: national states kept their say in the choice of projects. Next time we should create further integration.

There are also geopolitical interests. Cooperation with the Russian federation is needed. The Danube region is Europe's gateway to the Western Balkans and therefore it is not only conducive to the improvement of neighbourhood relations in Central and South-Eastern Europe but it is also an excellent opportunity for the entire Union to fortify its political and economic cooperation with the Balkans. As a consequence we will also contribute to the expansion and consolidation of the process of European integration in the region.

Some real achievements so far are projects addressing identified regional priorities. These are already making a contribution to reducing high levels of pollution in the sea, improving transport systems and energy networks, and reinforcing protection from major emergencies at sea and on land. For example, several new macro-regional initiatives are now in place to tackle challenges as diverse as the increase of algae in the Baltic Sea, illegal ship emissions and inadequate procurement practices in health care systems.

A Baltic Sea Environmental Monitoring Centre is set up to provide early warning of accidents and serious cross-border pollution. This is one of the world's most polluted sea areas, suffering from eutrophication, the effects of hazardous substances deposited on the seabed and threats to aquatic biodiversity, including endangered fish populations.

For the future we need to ensure to focus more on cross-cutting issues across the Strategy's Priority Areas, and to secure a closer alignment of existing funding in the Region with the Strategy.

*Lambert van Nistelrooij*

*Member of the European Parliament*

<sup>1</sup> The European Union Strategy for the Baltic Sea Region and the role of macro-regions in the future cohesion policy 2009/2230(INI))

## EU-Ukraine relations – a decisive year ahead

By Alexander Graf Lambsdorff

The end of the Polish Presidency in December 2011 saw the finalization and end of negotiations of the EU-Ukraine Association agreement, and the Deep and Comprehensive Free Trade Area Agreement (DCFTA). After 5 years and more than 20 negotiation rounds, this is certainly a milestone in EU-Ukraine relations. However, the two parties failed at their Kiev summit to actually sign and initiate the agreement due to significant discontent from the EU side with the political situation in Ukraine.

The interpretations of the EU-Ukraine summit thus vary from being described as a success, to actually been considered a failure. Evidently for Ukraine, coming to such a far-reaching agreement must be seen as an important step in itself. If the agreement is ratified and implemented no other country will have such a close and integrated cooperation in the near future with the EU in the entire neighbourhood. For the EU the weeks before the EU-Ukraine summit were somewhat of a test-case for its application of conditionality. The EU issued strong statements describing the trials against opposition leaders, especially Yulia Tymoshenko, as politically motivated, however no political statement, nor diplomatic pressure and threats regarding the future Association Agreement hindered the disproportional sentencing of Yulia Tymoshenko. In summary, there is a finalised agreement that is now pending signature and initialling. For the moment neither verdict on failure or success seems appropriate. The decisive year for EU-Ukraine relations actually lies ahead.

The European Parliament in its December 2011 Resolution took a rather positive stance by calling on the EU member states to give a green light to the agreement and to possibly initial it, while at the same time urging Ukraine to fulfill its commitments to strengthen democratic values, human rights and the rule of law. The positive signal is important for the people of Ukraine who by a significant majority believe that EU cooperation will lead to more democracy and stability. But the final decision taken at the summit not to sign and implement the agreements was the right one. It is only by making its signature conditional on concrete steps in democratization that the EU can possibly retain some of its transformative power.

Ukraine will have general elections in autumn of this year. This is an opportunity for the current Ukrainian government to show its clear commitment to comply with democratic standards. The EU should therefore pursue a double-track approach: on one hand, to continue sectoral cooperation, especially on visa cooperation, and reiterate

its intention to ratify the agreement; while on the other hand to closely follow developments in the run-up to the elections and clearly spell out the conditions the government needs to meet for the comprehensive agreement to be signed at last.

There are some alarming signals coming from civil society voices. Freedom House has downgraded Ukraine in 2011 as only one of two countries worldwide from "free" to "partly free" concerning human rights and democracy. This means that the country is characterized by limited respect for political rights and civil liberties, and that it suffers from an environment of corruption and weak rule of law. Most importantly this category implies that there is a political landscape in which a single party enjoys dominance despite a certain degree of pluralism. Additionally, Ukrainian NGOs have voiced concerns about potential plans to introduce a law that would ban foreign grants to civil society organizations. This would be a direct attack on democracy assistance.

In such a climate it is now up to the Ukrainian authorities to prove to its European partners that free, fair and pluralistic elections matter. 2012 offers them the chance to put Ukraine back on track toward a closer relationship with the EU by demonstrating their respect for European values. The EU will keep an outstretched hand and can play an important role in supporting civil society's campaign for fair elections and efforts to shape a positive pro-European political agenda, but ultimately the responsibility rests with the Ukrainian authorities. If Ukraine succeeds, the way forward after the elections is to finalize the agreements as quickly as possible and support Ukraine towards its path to EU integration.

Alexander Graf Lambsdorff

German Liberal Party

Member of the European Parliament

Vice President of the Alliance of Liberals and Democrats for Europe (ALDE)



# The Russia-EU Partnership for Modernisation

By Vladimir Chizhov

The Russia-EU summit in Rostov-on Don in June 2010 launched a new area of cooperation – Partnership for Modernisation. Why this choice?

The modern world is an arena of ever-increasing and widening globalisation. That means no country, nor even a group of countries, can succeed in social, economic, scientific and technological development on its own, without diverse international relationships. The global financial and economic crisis has demonstrated quite vividly the interdependence of the modern world. Under these circumstances, the optimal way is to move forward jointly through mutually reinforcing diversity. And in the case of Russia and the EU there is every reason and opportunity to achieve this.

The decision to engage in joint work was not taken by chance. For Russia the importance of enhancing cooperation with the EU is quite evident. The EU is Russia's largest trade partner, its closest neighbour, a powerful scientific and technological centre, and a serious player on the international political stage.

In its documents the EU defines as key aims those similar to the ones put forward by the Russian leadership. The long-term "Europe-2020" development strategy distinguishes three main priorities: developing an economy based on knowledge and innovation, promoting a more resource-efficient, greener and more competitive economy, and fostering a high-employment economy delivering social and territorial cohesion. Russia faces the same tasks.

Russia has on the whole successfully passed the test for a responsible internal and external economic policy in the face of the global financial and economic crisis. The growth rate of Russia's GDP, expanding trade relations, latest steps in promoting foreign investment, accession to the WTO clearly testify to this. We are certainly aware of the weak points of the Russian economy, its predominantly raw materials-oriented nature – though in some areas of research and development results achieved in Russia are at the level of best world standards, and sometimes outstrip them. That is why the country's leadership has put in the forefront of internal economic policy a programme to shift economy to innovative development.

Russia does not need to be convinced, or lesser still, to be coerced to modernise. We know from our own past that political and economic stagnation leads to catastrophic results. Obviously it would be naive to sit idle waiting for a possibility to blindly import modernisation recipes from abroad. Therefore, the Russian side sees the Partnership for Modernisation as an important addition contributing to serious internal work undertaken in this direction. It can not replace own efforts either by Russia or by the EU in this area, but building up on a synergy may substantially increase the effectiveness of our joint work.

The Partnership for Modernisation did not take off from square one. It builds on results achieved so far in the context of the four Russia-EU Common Spaces. Sectoral dialogues have become the key implementation instrument for the initiative, providing framework for mutually beneficial projects. A permanent working mechanism was set up to define priority areas for cooperation and check the progress achieved.

A Work Plan for activities within the Russia-EU Partnership for Modernisation was adopted in December 2010. The rolling Work Plan is an informal working tool and is being regularly updated.

The Partnership has brought a new mutually beneficial result-oriented philosophy into our cooperation and has quickly progressed from a virtual undertaking into practical joint projects. In the energy field, for example, both sides are engaged in substantial dialogue on a Roadmap on energy cooperation for the period until 2050. In the area of promoting a low-carbon and resource efficient economy, we agreed to enhance the exchange of experience in the regulation of industrial activities. A major conference with the participation of the private sector on waste-reduction as a business opportunity is planned.

The Russian component of a shared environmental information system has been launched. A seminar to review the experiences of application of the Convention on assessment of environmental impact in transboundary context (the Espoo Convention) on the Nord Stream gas pipeline and possibility to use it for other projects has been held.

The dialogue on public health has been refocusing on clinical trials of pharmaceuticals, on fight against counterfeit medicines, and on communicable diseases. In the framework of Regulatory Dialogue concrete arrangement has been achieved on alignment of technical regulations.

Russian and EU scientists actively participate in research programmes of each other. On October 21, 2011 a Russian Souyz launch vehicle made its maiden flight from the European spaceport at Kourou in French Guyana and put into orbit the first two satellites of the "Galileo" global navigating system. The Roskosmos-European Space Agency cooperation programme envisages as many as fifty such launches.

The successful outcome of Russia's WTO accession negotiations is also duly included in the Partnership for Modernisation record.

Our Partnership does not limit itself to economic, scientific and technological areas. Anti-corruption cooperation is emerging. A list of Common Steps towards Visa-Free Short-Term Travel of Russian and EU citizens was approved and thus gets us closer to starting formal negotiations on a Russia-EU visa waiver agreement.

The list of what has been achieved is far from exhaustive. Russian and the European Union leaders took note of a detailed progress report on the Partnership for Modernisation at their 28th summit in Brussels in December, 2011.

Interest in the Partnership for Modernisation projects emanating from business circles in Russia as well as in the EU – gives ground for optimism regarding the Partnership's future. Vnesheconombank of Russia, the European Bank for Reconstruction and Development and the European Investment Bank have committed to provide financial support (up to EUR 2 billion) for modernisation projects under the Partnership.

The Russia-EU Partnership for Modernisation is complemented with "modernisation partnerships" between Russia and individual EU Member States. Up to now relevant bilateral memoranda have been signed with 19 EU member states. This multi-level scheme of cooperation provides for effective use of benefits of the existing industrial and research specialisation between EU member states, contributes to establishing and deepening of regional cooperation.

We fully realise that a lot of work lies ahead. Difficulties may arise along this road: this is quite natural, as interests and priorities can not coincide everywhere, especially taking into account the fact that in some areas Russia and the EU are and will continue to be competitors. But the most important thing is that we have a joint aim to achieve results and are ready to work together, as there is no alternative today to modernisation for a successful development.

Vladimir Chizhov

Ambassador

*Permanent Mission of the Russian Federation to the European Union*

## From Baltic Tiger to Baltic Phoenix

By Juris Bone

Twenty years of the regained independence in Latvia have run like a slide show. The monochrome pictures of the post-Soviet reality were quickly replaced with open, colourful and multidimensional visions. Economic development moved hand in hand with democratic changes and international recognition. The EU and NATO membership became a reality in 2004. The self-confidence of the people of Latvia grew together with their consuming power. The Baltic region demonstrated rapid transition, so all the three countries were nicknamed as the Baltic tigers. However not everything was set on a stable economic basis of real economy and the bubble started to burst in 2008. GDP in Latvia fell by 18%, unemployment reached 20%. The perspective looked very gloomy.

The possibility of devaluation of national currency was among others discussed by the government. However, it was not regarded as the right remedy (question – did any exist at all). Economically and in particular politically a much more difficult way was chosen – internal devaluation. It meant that all the budget expenditures were cut. Staff cutting by 30% or salaries cut by 30% was a reality. Of course it affected all inhabitants of Latvia and for many it became an unbearable burden particularly because of pending bank loans. So, many people choose the “exit strategy” trying to find jobs abroad. During the year 2011 the hard decisions made started to pay back. Sceptics would say that the fruits borne are still small and sour, but it should be remembered that the starting point was really very low. However, the recent developments in the Latvian economy show that through a comprehensive package of fiscal and financial stabilization measures we have finally returned on the path of growth.

On December 21, 2011 the Executive Board of the International Monetary Fund (IMF) decided on closing the Latvian loan programme, within the framework of which Latvia in total used 4.4 billion euro received from the IMF, the European Commission and World Bank in the period from December 23, 2008, when the IMF Executive Board approved the first part of the loan.

To meet the set budget deficit target, since 2008 budgetary consolidation has been made in amount of 3.3 billion euro with the fiscal impact of 17.5% of GDP. Budgetary consolidation has been implemented in both central and local government budgets, and has covered all sectors.

Given the significant changes in the Latvian economy and gradual global economic recovery from the sharp downturn, since mid-2010 the Latvian economy has returned to growth. Currently, industrial production growth rates in Latvia are one of the highest in the European Union; Gross Domestic Product structure has become more balanced and sustainable.

While executing the international loan programme the government expenditure structure has been improved, the number of employees in public administration and wages have been reduced notably, as well as the use of social safety net measures has been improved. Changes to the tax policy have also been made, which is an essential resource for consolidation, but the tax burden of GDP did not increase due to changes to the economic structure and improved export-import ratio. Incentives were introduced for businesses and employment – corporate income tax relief, micro-enterprise tax, faster value-added tax refund, etc. After completion of the programme the main focus of the tax policy is reduction in taxes on labour. Active work is going on combating the shadow economy and improving tax administration.

Not only the International Monetary Fund and the European Commission, but also private credit rating agencies have consistently upgraded their assessments of Latvia's creditworthiness, taking into account the progress made by the Latvian policymakers and placing Latvia back in the investment grade category with stable and positive outlook forecasts.

Based on these positive developments, Latvia managed to successfully return to the international markets in June 2011, by issuing a greatly oversubscribed \$500m Eurobond at highly favourable coupon rates, eventually sold to a group of diverse top-quality investors impressed by Latvia's turnaround story. With this emission Latvia confirmed its ability to finance budgetary needs, and a sound basis is put for successful refinancing of the debt in coming years at public financial and capital markets.

Despite global commodity price hikes and tax increases as part of the fiscal consolidation, inflation rate is set to return within Maastricht-level by 2012. Current account imbalances have been eliminated, not least due to the export surge. On the financial sector side, the Latvian banking sector enjoys a high level of capitalization and liquidity despite the volatility in the global financial markets.

There are good reasons to be sure the economy of Latvia will continue to grow in 2012 as well. The forecasts made by the government are very cautious as the reality of general slowdown will affect Latvia like other EU memberstates. The economic crisis brought a good lesson for Latvia and put it on much more stable path of development. Certainly there is no place for complacency as the economic growth in the following years will require careful government's policy particularly because of uncertainty of economic development of the European Union. The crisis has also revealed the heaviness of the demographic challenge. This will require permanent attention of the government, however taking care of the people does not mean so much a “social pampering” – but creation of reliable environment where one can feel confident about the personal and family's future.

Competitiveness and productivity will also remain very important challenges to ensure the economic development. Stability, open-minded approach, these are the factors helping to move forward. And it is not a such surprise that Latvia has become the Baltic leader in “Doing Business” index, which is a significant fact that helps to attract investors. As a result of the overall recovery of economy, an improvement in the FDI inflows is also taking place. Though intensity of the inflows has not yet reached the pre-crisis level, still, it shows a positive trend.

It is not only the geographic location that makes Latvia interesting to the rest of the world. The real phoenix who has reborn after the crisis is the entrepreneurial spirit and results become tangible day by day.

Juris Bone

Ambassador of Latvia to Finland



# Mobilising the regional assets through joint efforts – Pohjois-Savo looks at the Baltic Sea region in cooperation

By Jussi Huttunen

Pohjois-Savo region, with its approximately 247 000 inhabitants, aims at promoting the regional competitiveness and expertise through efficient networks and collaboration. Among the innovation cores in the region, there are medical technology, wellbeing, energy technology and dairy & food production, the development of which will be highlighted in the future. In order to create a favorable environment for innovations in regional, national and international settings, the importance of cooperation is crucial, a task Pohjois-Savo aims at actively promoting.

## Unique settings in the joint laboratory

One of the unique settings is the cooperation established in the city of Kuopio, in the Science Park area. Savonia University of Applied Sciences, University of Eastern Finland (UEF), National Institute for Health and Welfare (THL) and The Geological Survey of Finland (GTK) have created an operating environment for research and development activities within the field of water safety, more precisely within the water management safety. In order to collaborate in a concrete manner, the universities built a joint laboratory in the premises of the Science Park in the beginning of 2000. The laboratory as such provides a stable ground for collaboration and to carry out concrete, applied research and product development. Furthermore, the laboratory premises also serve the educational purposes, integrating research, enterprise-driven product development and workplace related learning under the same roof. The collaboration model is a cost-efficient way to carry out research as all the actors are supporting each other, thus providing a continuous chain - from geology to microbiological testing and technological solutions for water distribution networks.

THL and UEF have been operating in the field of water chemistry in Kuopio since the 1980's and have their roots in the risk assessment of the water chemistry. Nowadays the research is water hygiene and microbiology driven. Savonia University of Applied Sciences joined the collaboration in the 2000, as their premises moved to the Science Park area and the joint laboratory was established. Savonia University of Applied Sciences' main operations in the laboratory include research projects (approximately 70%), mainly financed by TEKES (the Finnish Funding Agency for Technology and Innovation) and product development projects, which are directly linked to the enterprises financing the piloting of products/prototypes. The laboratory provides physical settings in order to test the processes and the measuring equipment in a practical environment, which is extremely important from an enterprises' point of view. One of the current topics in research activities in Kuopio has been the real-time monitoring of water quality, where a local enterprise has been actively involved in.

The subject of real time monitoring the water quality still unexplored and there aren't currently solutions to the monitoring issue, yet it is likely to be an important issue in the future, and not only from the perspective of the water safety planning. The water safety plans (WSP) were to be implemented in the EU legislation in the revision of the Directive on the Quality of Water, but as for now, the revision has not taken place and it remains to be seen what the status of WSP approach in the member states. There has been crisis situations regarding water quality and there are certainly risks for many more to occur. The crisis can happen anywhere in Europe, and the preparedness and minimizing of risks calls for new solutions. The water management plants and enterprises need to cooperate, and there is now room for new business

opportunities in the market. Therefore the issue is considered relevant also in the Pohjois-Savo region, where the joint efforts between R&D institutions and enterprises have already produced promising results.

When talking about the expertise in water safety, the uniqueness of Pohjois-Savo is particularly in the comprehensiveness; the actors involved cover basically the whole water production chain. Therefore the knowledge and premises in Kuopio provide excellent opportunities for developing the solutions for real-time monitoring of the water quality in water production and distribution, also in international settings.

## Poland in the focus

All of the operators have their international networks and each have their own expertise, but there is definitely much more to be explored. The expertise of Savonia and the joint laboratory have also awakened international interest. Some concrete measures have already been taken in collaborating, as a group of Polish experts from Wroclaw/Elblag visited Kuopio and the next step is to set up a few pilots in Pohjois-Savo and in Poland, in which the measuring information can be tested. In addition to this, water quality is crucial also in food production, starting from the milk production, in which Pohjois-Savo has comprehensive knowledge. Food production is also one of the regional areas of priority in the future, in which there are similar interests in Poland also.

The joint efforts provide excellent possibilities in an area certainly in the focus not only in the Baltic Sea region, but also more widely in the European countries. The knowledge gathered around the Science Park including the physical settings created especially in the water safety is a regional asset, which can be mobilized. There is a strong belief that the current collaboration model in Kuopio can provide high quality R&D as well as new innovative products for the market, thus boosting the regional growth and enhancing the competitiveness of the region. In addition to the collaboration in water safety, the Science Park area provides expertise in the sectors of health, environment and wellbeing, all within the core competencies of Pohjois-Savo.

There is indeed great potential in knowledge transfer, creating efficient networks and cooperation in the Baltic Sea Region in many respects, not only in the water safety, but also in other sectors such as wellbeing. It is therefore important to sail before the wind and to take a hold of the opportunities ahead. Pohjois-Savo is willing to mobilize the regional assets in order to build active cooperation, thus contributing to the EU strategy for the Baltic Sea Regions as well as the EU2020 landmarks of smart, sustainable and inclusive growth.

Jussi Huttunen

Region Mayor

Regional Council of Pohjois-Savo

Finland



## Energy deficit of Kaliningrad region is passing

By Nikolay Tsukanov

Kaliningrad region is a unique one. It is the utmost western region of the Russian Federation completely separated from the mainland territory by land borders of foreign states and international sea waters. The geographic location and enclave position until recently have made the region vulnerable as regards power supply. The region is situated at the end of gas pipe, after Belarus and Lithuania. Most of the electricity we got from Lithuania, particularly from Ignalina NPP that is closed now.

In the past years a whole range of measures aimed at ensuring energy safety of the region, creation of facilities for the development of the region and attraction of investors has been implemented in the Kaliningrad region.

An underground gas storage (UGS) facility is being constructed in Zelenogradsk municipality now. This infrastructure object will allow to regulate gas consumption during the year. In the warm season of the year, gas reserve will be accumulated, that will be used in the winter so that the citizens, the community facilities as well as businesses of the region are not affected by the lack of gas.

The first stage of the underground gas storage facility with the estimated capacity of 80 ml m<sup>3</sup> is going to be put into operation in 2012. Altogether, the underground gas storage facility, that construction is going to last for several more years, will store 800 ml m<sup>3</sup> of gas. In order to ensure continuous gas supply, the second line of gas pipe was laid from the mainland Russia to Kaliningrad region in 2010, and compressor capacities of gas distribution stations in the towns of Shakyay (Lithuania) and Krasnoznamensk were increased.

We set ourselves the goal by 2015 to provide natural gas supply to each and every settlement of the region with more than 500 inhabitants. Construction of gas pipelines is financed from the regional budget with a token co-financing from municipalities. Also we initiated the elaboration of design estimation documentation and construction of gas pipelines branches to houses. During the gasification process boiler-house plants will be transferred from expensive black oil to natural gas. This will allow to reduce tariffs on heat and hot water for the population.

All in all during five years, the total of 10 billion rubles will be spent on the gasification of Kaliningrad region.

In energy sector we are also implementing a number of large-scale projects. At the end of 2010 the second power generating unit of the Thermal Power Plant-2 (TPP-2) with the production capacity of 450 Mw has been launched. In total, the Plant can now generate 900 Mw of electric power. The implementation of this important project has completely satisfied the today's requirements of the region of electric power supply. The maximum power consumption was recorded in February 2011 and amounted to 728 Mw.

However, the capacity of TPP-2 would be enough to satisfy the growing consumption of energy resources only till the commencement of functioning of the Baltic NPP. The object with the total capacity of 2,300 Mw is being constructed in Neman municipality.

Its putting into operation by Rosenergoatom concern will allow to ensure energy security of the utmost western Russian region for many years ahead.

The construction of the NPP is one of the priority projects of development of the North-West Federal District. The necessity of its implementation in Kaliningrad region became clear when a decision was made on closing down the Ignalina NPP in Lithuania. The special geographic position of the region was taken into consideration.

The first power generating unit is going to be launched in 2016, the second – in 2018. New nuclear power station, as it was already mentioned, will completely meet energy demands of the region. According to estimates, by the year 2020 the region will be consuming power generated by only one generating unit of the BNNP, and the Plant will be able to supply electric power to the neighboring EU countries, having turned into an exporter.

The construction of the Baltic NPP will allow to resolve a number of other issues that are similarly significant: firstly, it would be possible to reduce gas consumption. The challenges associated with it have already been mentioned above. Secondly, it will be possible to set a socially acceptable rate of tariffs for electric power, and the region is going to become more competitive. This in its turn is going to create opportunities for the development of energy-consuming export-oriented productions.

The Baltic NPP will become a catalyst for other projects important for the region. A whole town for 1,500 families with the entire social infrastructure will be built in the town of Neman for those employed at the NPP, including medical treatment facilities and a kindergarten. The region will contribute to implementation of this project by taking part in laying public utilities.

It is for the first time in Russia's nuclear energy sector when private investors including foreign ones are invited to participate in the project. They can get up to 49% shares. Currently, discussions with potential investors are continuing.

Baltic NPP, TPP-2 as well as gas storage facility are federal projects. Their implementation is a result of effective interaction between regional authorities and federal government.

The federal centre realizes and is aware of all challenges that the westernmost region of Russia faces. Every effort is taken to help residents of the region feel their detachment from the great Russia as low as possible.

### Background:

Baltic Nuclear Power Plant was laid on February 25, 2010 in Neman municipality, Kaliningrad region.

It is being constructed according to the project NPP-2006, that satisfies national standards and meets international requirements in the field of nuclear energy.

A nuclear power plant is designed to have a combination of a large number of safety systems: passive heat removal, molten core localization, three-channel independent system of backup power supply, etc.

Nikolay Tsukanov

Governor

The Kaliningrad region

The Russian Federation



## Territorial cooperation – an asset for East Sweden and the Baltic Sea region

By Jan Owe-Larsson

It is time to sum up the current programme period for territorial cooperation in the Baltic Sea Region and to look ahead to the new challenges facing us in 2014 – 2020. East Sweden Region, with 430 000 inhabitants, is a region in south-east Sweden comprising 13 municipalities, with Linköping and Norrköping forming the centre of Sweden's fourth city region. East Sweden Region, located within the TEN-T priority project "the Nordic Triangle", has a well developed infrastructure. Two European motorways (E4, E22) and a main railway line run through the area. There are two regional airports, and a Baltic Sea port in Norrköping. The trade and industry sector is diverse, with the labour markets in Linköping and Norrköping supplementing each other. Linköping University is the fifth largest university in Sweden. The municipalities and the regional authorities have deeply-rooted partnerships with both Nordic and Baltic contacts. A great variety of organisations within the East Sweden Region share a strong desire to develop together in a larger geographical scope, through territorial cooperation.

Since the programme period 2007-2013, all Swedish coastal regions are eligible to participate in cross-border cooperation under the so called 150 km rule (maximum distance over water). This has given the East Sweden Region a first-time opportunity for this type of cooperation, through the development of the Central Baltic INTERREG IV A Programme 2007-2013.

Central Baltic, which amounts to around EUR 102 million, is a cooperation programme between Sweden, Finland including the Åland islands, Estonia and Latvia. The aim is to create a globally recognised, dynamic, sustainable and competitive region, which is attractive for the business sector and for visitors, and where people want to live, work and invest. There are three sub-programmes: the Central Baltic Programme, which includes all participating regions; the Southern Finland-Estonia sub-programme; and the Archipelago and Islands sub-programme.

Fortunately enough, both regional and local authorities, and a variety of organisations have become involved in the cooperation. Based on old as well as recently acquired networking contacts, highly interesting projects have been developed in the Central Baltic region.

"The Baltic Archipelago and Islands Centres" (BACES) project is led by the East Sweden Region. Through this project, our archipelago municipalities and regional players have entered into a joint initiative for development. This has led to increased cooperation in our region and a comprehensive view of the archipelago, actively involving politicians, officials, the economic sector and residents. The project has resulted in closer cooperation with other archipelago areas with similar problems in the Baltic Sea Region. It has contributed to the creation of new interfaces, increased knowledge exchange regarding possible solutions, more focus on archipelago issues, and the generation of new project ideas. Specifically, BACES has also given us an opportunity to carry out actual physical planning, (analyses and plans) and some minor, but important, investments. This has meant major steps forward for the development work.

East Sweden Region is a partner in the project "Beneficial Business Relations between the Central Baltic Region and China", BENCH. Within a decade, China is predicted to be the largest economy in the world. This project generates new contacts and strengthens existing relationships with China. It gives SMEs in our region increased knowledge about China as a trading partner (investment promotion). BENCH improves our relations with the other players in the Central Baltic region

and creates new contacts. This implies that together, we can become a bigger and stronger player on the Chinese market.

Another Central Baltic project just starting up with high expectations is "Baltic EcoMussels". Mussels are well known to be efficient filters of nutrients.

Calculations based on the potential coastal areas suitable for mussel farming along the coast of the East Sweden region, results in possible yearly reductions of about 50 % of nitrogen and about 25 % of phosphorus. Unfortunately, at the moment there is no market. The project, which is led by the East Sweden Energy Agency, will support the development of commercial mussel farming by elaborating a joint business plan and growth strategy and stimulating the market for the small Baltic Sea mussels. The cooperation for this new trade will benefit all the Baltic Sea countries, since mussel farming is considered a good employment substitute for the declining coastal fishing industry.

Other partners from the East Sweden Region are carrying out projects within the pillars of the EU Strategy for the Baltic Sea Region (EUSBSR) – save the sea, deepen integration and increase prosperity. Thus, from a regional perspective, many people are involved in the implementation part of the priority areas of the strategy.

We are now planning for the new programme period 2014 – 2020. We bring with us positive experiences gained from our cross-border cooperation in the Central Baltic Programme and add to these EUSBSR's starting points as a basis for implementation. Our aim is that the local/regional level will have a more defined role during the next period, as evaluations have shown that this is of crucial importance for achieving policy goals.

However, much can be done better. EU bureaucracy must be reduced and simplifications must be carried out without misuse of the joint structural fund resources. Complicated national exceptions can and should be avoided.

According to the European Commission proposals for regulations, the territorial programmes will have a bigger thematic concentration. Territorial cooperation is regarded as an integrated part of regional development work. It is therefore important that future cooperation is even more closely tied to the structural fund programmes within Objective 2, both regarding programme description and implementation. It is proposed that the EUSBSR acquires a more far-reaching role when it comes to influencing decisions as to which programmes and projects will be launched. This opens the door to the strategy being developed into a vital, supplementary steering document for cooperation in the Baltic Sea Region. We welcome these proposals.

Future territorial cooperation is an asset for both East Sweden and the Baltic Sea Region!

Jan Owe-Larsson

President

East Sweden Region

Sweden



## Rural Mynämäki community on the way to competitiveness, employment and safe energy supply

By Pekka Myllymäki

Rural areas in Southwest Finland and a new way of country planning should be one outcome of the EU 2020 strategy in achieving a smart, sustainable and inclusive economy. Combining the targets expressed in many EU Strategies such as the Low-Carbon Roadmap, the Energy Roadmap 2050 with an innovative approach in EU's Multiannual Financial Framework (MFF) and the reform Common Agriculture Policy (CAP) the rural areas in Southwest Finland could play a prominent role in the decades to come. More people should move to municipalities with high renewable energy output.

The international economic and financial crisis as well as the debt crisis affecting the Euro currency area have highlighted the economic problems of Europe. To rectify these problems, the EU has initiated numerous reforms in current operating systems and has created new procedures. The objective of these measures is to promote employment and smart, sustainable and inclusive growth.

On 23 January 2012, intergovernmental ministerial meetings were held on the new European Stability Mechanism (ESM) and on the Draft Fiscal Compact Treaty. The ESM Treaty will be signed in February, followed by ratification by the member states. It is to enter into force in July 2012, a year earlier than originally planned.

EU energy goals have also been incorporated into the "Europe 2020 Strategy for smart, sustainable and inclusive growth", as adopted by the European Council in June 2010. In particular, the EU aims at achieving ambitious energy and climate-change objectives for 2020. The goal is to reduce the greenhouse gas emissions by 20 percent, increase the share of renewable energy to 20 percent and make a 20 percent improvement in energy efficiency. As stated in the Danish EU presidency 2012 priorities that one of the solutions to achieve a greener and more sustainable agriculture could be the use of environmentally-, nature- and climate-friendly farming methods. This could still be ahead developed through innovation and research in agriculture.

The MFF and the Reform CAP can serve as an engine for growth. At the General Affairs Council meeting on 27 January 2012 the ministers discussed the main priorities of the MFF and also the overall amounts proposed by the Commission. The aim of the discussion was to see at which level the member states would like to set up the maximum amounts for EU spending and how these amounts should be spread over the different policy fields in the years 2014-2020.

Some member states identified cohesion policy or the Common Agriculture Policy (CAP) as their main priorities. A number of member states considered both policies as priorities. They highlighted the contribution that cohesion policy makes for enhancing jobs and growth and stressed the added value of the CAP in the form of safe food, security of supply and rural development. Another group of member states emphasised the need for strong support of research, innovation and the green agenda. A considerable number of member states underlined the need to direct EU spending towards jobs and growth, in line with the EU 2020 strategy. Combining CAP with food security, innovation for the green growth and cohesion policy for smart, sustainable and inclusive growth together with a new way of country planning should be one outcome in achieving a thriving economy.

The Regional Council of Southwest Finland is one of Finland's 19 regional councils. The role of regional councils is to operate both as regional development authorities and in

land use and infrastructure planning. Our Council is comprised of 28 municipalities. Municipalities in the first hand are responsible of primary country and town planning. The Council also grants Regional Development funds for projects that set the goals of the Regional Programme and Plan into action. Therefore regional councils are the main implementing authorities of EU strategies.

Mynämäki with some 8000 inhabitants in the region of Southwest Finland is one of the five municipalities involved in the Carbon Neutral Municipalities project (CaNeMu project) and is committed to act as laboratory by working to reduce greenhouse gas emissions more extensively and rapidly than EU targets and schedules would require. The project aims to create a Win-Win situation based on solutions that have economic and social benefits as well as environmental advantages to tailor new cost-effective solutions to reduce emissions, especially in the contexts of housing, food and transportation.

Under HINKU project the emission reduction activities are specifically related to energy saving, improved energy efficiency and renewable energy production. Calculations made by Finnish Environment Institute (SYKE) points out that Mynämäki with 8000 inhabitants has an excess in renewable energy. Special attention in all rural construction schemes should be put to energy-efficiency, wood as construction material and the use of renewables in heat and power. As a significant sugarbeet production area Mynämäki has also a potential to introduce the model of energy efficient farming model based on energy self-sufficiency of the farm.

The introduction of new environmental and energy technology applications entails great potential for growth and new jobs both in the domestic market and in exports. Renewable energy replaces conventional fuels both in the cities and in the rural areas. Renewable energy has an important role in future in providing modern energy access to the billions of people that continue to depend on more traditional sources of energy. This means a huge global market potential for the solutions and devices. One common aspect is balanced urban-rural planning that incorporates renewable energy.

Those who are paying attention to the trends, there is now good reason to be optimistic that hard work and dedication will be rewarded in the near future and this knowledge will itself fuel further change. The organization of rural, decentralized structures of energy in own responsibility would be one way to competitiveness, employment and safe energy supply.

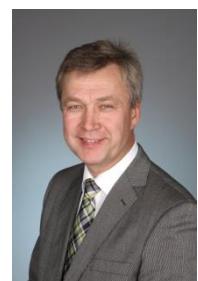
Pekka Myllymäki

*2<sup>nd</sup> Deputy Chairman of the Managing Board*

*The Regional Council of Southwest Finland*

*Chairman of the Municipal Council of Mynämäki*

*Finland*



## Territorial review and regional development in the Baltic area

By Akko Karlsson

The regional Council of Kalmar County and Council of Blekinge, Jönköping and the Regional Council of Southern Småland have engaged the OECD in 2011 to conduct a Territorial Review of four regions. The purpose is to analyze trends of regional performances and institutional settings and focus on policies to assist regions in developing comparative advantages and define unexploited opportunities.

I think that this is a common matter for all in the Baltic area to reflect on for common future. I strongly believe that we have to change and make a more environmental way of both lifestyle and production of goods, food and energy. If we as a Baltic family are able to do sustainable changes I think we will become a flagship model as successful region. Also the exchange program for students and young people as European Voluntary Service (EVS) brings the coming up generations culture and countries closer. In the water-partnership of Euro Region Baltic (ERB) we have youth board concept to be a frontrunner for next generations partnership. Also the NGO- sector needs to be included in local and regional work of environmental and social issues to develop attitude to better behaviour in a broad aspect. We see good result of this way of multi level government as in the "Water user partnership" (WUP)- groups in the ERB and MOMENT project work.

### Back to the presentation of OECD report in territorial review of Småland, Öland and Blekinge

The "Key Facts" show a change from low-to medium technology small and medium -sized enterprises (SMEs). The industrial SMEs are mostly involved in low value-added manufacturing often as subcontracted by major corporations. This risk is that the first level subcontracting corporations will be global internationalised, with potentially serious consequences for local firms in the area.

The Development of knowledge-intensive business is a promising route for ensuring the maintenance and growth of the regions prosperity. The adjustment of the four counties industrial manufactures will require highly qualified and dynamic labour supply.

There are important labour-market mismatches that must be overcome for the transition towards a knowledge-driven economy to succeed. Highly qualified youth (especially young women) tend to migrate, particularly to metropolitan areas.

Most of Småland-Blekinge is blessed with strong natural and historical landscape that can be the base for regional development in the area.

The regions strong SME structure is well suited to the establishment of modern knowledge-based economy, but local business need to modernise and diversify their industrial platform..

There are significant lack of upgraded infrastructure systems as in internal road and rail connectivity, both with Swedish metropolitan areas, and with markets particularly to the east Baltic Sea and Russia.

Key policy issues are now to attract and retrain highly qualified people to the region that match the need of the transition towards a knowledge based economy. Also how to enlarge and diversify the economic base of the region

and further how to enable local universities and local and regional authorities to better support the transition to more dynamic, innovative economy.

### Key recommendations:

**Encourage skilled people** to engage in the local economy and to remain them in the region by strengthening the links between the regional education system and regional business; enhancing support for entrepreneurship among youth and women; and encouraging skilled and locally trained foreign students to fill the local industry's demand of skilled labour.

**Encourage the return** of those who leave; the existence of local economic opportunities should be widely disseminated in communities outside the region.

**Facilitate the up-skilling immigrants.** The challenge will be twofold; attracting skilled immigrants to meet current labour demand and to inject new ideas into the local environment; and further training and up skilling of immigrants already in the region.

**Better communicate and** develop the areas natural resource better to improve the territory's overall attractiveness and business opportunities. Natural heritage are a clear regional asset which promoted strategically, could be the basis for attracting people to the region and for further developing economic activities such as tourism.

**Approve facilitate business succession** in Småland and Blekinge. An inventory of potential business succession opportunities could be used to bring the community people who might be attracted by the lifestyle and nature. It could also be a way to offer new opportunities for women entrepreneurs or alternative business strategies for local self-employed entrepreneurs.

*The message is clear take care of the fantastic nature around Baltic sea.*

*Work with-not against environment and nature.*

*Encourage women, immigrants and the young ones to take part of development.*

*Co-cooperation gives more and education as well but also look on skills.*

*If we focus on renewable energy and technical effective innovation this together will be a "win-win"concept both to human and to environment to build a sustainable growth.*

*The region of Kalmar council since almost 10 year active worked with the goal of a fossil free region until 2030 ( 73% of energy are already now renewable). We would love indeed to involve all of the Baltic family in such as proactive sustainable goals.*

Akko Karlsson

Vice chairman

Kalmar Regional Council

Member of ERB

Sweden



## Cooperation development in the Baltic Sea region

By Slava Khodko

The Baltic Sea region is a specific territorial entity where interests of diverse countries, intergovernmental unions and international organizations overlap. Its development depends on a variety of factors, including current condition of Russian-European relations, peculiarities of interaction between states, security level, objectives and goals on international institutions involved in the policy in the macroregion.

In 2009 the European Union took an important step towards systematization of the policy in the Baltic Sea region and strengthening its positions there: the Council adopted the EU Strategy for the Baltic Sea Region. This document presents the first EU experience in the sphere of macroregional planning. It is aimed at increasing efficiency of the EU current activities in the region. The Action Plan for the Baltic Sea Region comprises 4 priority aspects: sustainable ecological policy, economically prosperous region, prospective region with high-quality transport connection, secure region.

A characteristic feature and in fact an advantage of the Strategy is that it does not imply establishment of new institutions or funds specifically for its implementation. However, the EU Strategy and the Action Plan for the Baltic Sea Region are strictly limited by the EU member-countries' activities, European regional bodies of power and non-governmental organizations. Both documents were elaborated by the EU institutions, therefore, they make no provision for effective mechanisms of cooperation with the Russian Federation and do not embrace Russian interests in the region.

Nevertheless, cooperation development in the Baltic Sea region would be fruitless without Russia. That is why one of the most significant issues on the current agenda is how to unite actions and efforts of Russia and the EU in the region in order to solve common problems.

Russia has to fully comprehend and clearly define its interests in the region and start to participate more actively in regional policy to guarantee a strong voice in significant decisions and events. Among the documents that establish goals of the Russian subjects in the Baltic Sea region is the Strategy of social and economic development of the North-West Federal District until 2020.

Various institutions participated in elaboration of the Strategy – state organizations, leading academic centres, including the Higher School of Economics, interregional cooperation organizations, in particular the Association for Economic Interaction of the Subjects of the North-West Region of the Russian Federation (Association North-West).

The Association North-West was established in 1992, its founders are 11 subjects of North-West Russia in the person of executive and legislative power chiefs.

Under the aegis of the Office of the Plenipotentiary Envoy of the President of the Russian Federation to the North-West Federal District, the Association worked hard on development of the Strategy and participated in discussions dedicated to its amending. At the moment the Association is engaged in development of the Strategy Implementation Plan. Among the main objectives of the Association is creation of conditions for efficient cooperation of the North-West regions in the field of interregional integration and socio-economic development.

Promotion of the interests of the North-West subjects, including those within the framework of cooperation in the Baltic Sea region, is one of top priorities of the Association activities. Currently the Association North-West together with leading academic centres initiates a study called "The Baltic Sea region in the focus of development strategies of the Russian Federation and the European Union". The key points of the study comprise a search for optimal forms of interregional cooperation in the macroregion, elaboration of proposals for the parties in order to foster their cooperation, formation of a database of the most prospect projects in different spheres. Coordination of activities of Russia and the EU in the region may considerably increase efficiency of their interaction. Therefore, the Association seeks to give a new impetus to practical cooperation of the parties.

In 2012 a new opportunity to examine efficiency and coherence of current cooperation mechanisms of Russia and the EU arises: the Russian Federation presides over the Council of the Baltic Sea States – a key pan-Baltic organization in the region. It gives Russia an opportunity both to coordinate long-term objectives of the CBSS in the area of economy, environment, energy, culture and to present its own view of cooperation prospects in the Baltic Sea region.

Nowadays the priority directions of the Russian presidency are being developed in the Ministry of Foreign Affairs of the Russian Federation. One of the objectives may be a search for common action possibilities of Russia and the EU aimed at solution of common problems stated in the Strategies referred to above.

The issue of Russian-EU cooperation in the Baltic Sea region is characterized with one consistent pattern: a special attention is paid to the Kaliningrad region. In particular the EU Strategy for the Baltic Sea Region regards the Kaliningrad region as a subject of pilot projects on interaction with Russia. With no doubt Kaliningrad in view of its geographical location and current economic, social and cultural connections possesses a peculiar position in the Baltic Sea region. However, it is necessary to perceive the North-West Federal District as an entity in the issues of Russian-EU cooperation in the region.

On the basis of the watershed the Russian part of the Baltic Sea region embodies 7 subjects of the North-West: the Vologda region, the Kaliningrad region, the Leningrad region, the Novgorod region, the Pskov region, the Republic of Karelia and Saint-Petersburg.

The North-West Federal District and particularly the subjects included in the Baltic region are interested in fostering cooperation through both cross-border and interregional interaction and intergovernmental organizations' activity. Thus, the Association North-West considers that it is crucial to cover to the full extent interests of the North-West regions in the process of elaboration of the Russian CBSS presidency priority directions.

Within the framework of cooperation development in the Baltic region the Association North-West has initiated a project "The Baltic Sea region. From planning to common action". The project consists of analysis of interests and opportunities of the Russian Federation subjects included in the Baltic Sea region, shaping proposals for Russian authorities in the field of development and implementation

of Russian priorities during the presidency in the CBSS, search for harmonization of Russian and European efforts in the Baltic Sea region. The main cooperation directions highlighted in the project are ecology, transport development, especially port infrastructure, tourism in the whole region.

On 21 March 2012 a Round table with the same title and the Coordination Council on cross-border and interregional cooperation by the Plenipotentiary Envoy of the President of the Russian Federation to the North-West Federal District on the issues of Baltic cooperation development will take place in Saint-Petersburg. These are key events of the project. They will precede the Baltic Sea Day conference that is being held by HELCOM since 2000 in Saint-Petersburg.

When discussing new cooperation mechanisms of the EU and Russia in the Baltic Sea region, one should not forget a successful existing format of the Northern Dimension. The Northern Dimension policy entirely covers the Baltic region and can become a full-fledged platform for interregional relations development. Potential and experience of the Northern Dimension should be used both to solve current tasks and to voice and promote Russian interests in the macroregion. Such an approach would increase interaction between the EU and Russia and would allow not to establish new institutions or expand bureaucracy.

At the same time it is highly important for cooperation to develop in interregional way. It would allow to concentrate on precise problems, work on practical issues and avoid hindrances of high politics.

In 2012 the CBSS celebrates its 20th anniversary, and it can be used as a ground for revision of further prospects of the organization activities, provision of development directions of the Russian-EU relations in the short term. The CBSS can fruitfully use its potential in order to become a platform for the EU member-states interaction with other countries and, therefore, to provide a coordination instrument and strengthen its status as an international institution aimed at practical cooperation.

*Slava Khodko*

*Vice-President, Chairman of the Executive Committee*

*Association North-West*

*Russia*

# Union of the Baltic Cities 20 years – inspired by the past, heading for the future

By Boedker Andersen

Union of the Baltic Cities celebrated last Autumn its 20th anniversary. The XI General Conference of the UBC in Liepaja was organised under the theme "Building on the past – heading for the future". It was attended by well over 200 persons representing our more than a hundred member Cities.

The Liepaja Conference provided an opportunity to look back and to remind us about the road travelled since the Iron Curtain fell apart and the Union was founded in Gdansk on 20 September 1991, as one of the very first of Baltic Sea regional organisations.

This had happened only a few weeks after the Russian President Boris Jeltsin had recognised the independence of the three Baltic Republics.

The Baltic Sea Region, which for centuries had been a natural area of trade and mutual exchange, was bitterly divided for about 45 years, preventing links between human beings, cities, countries.

In the early years of UBC, the main emphasis was to assist cities in the former socialist countries to cope in the new environment. Later, issues such as regional development, co-operation with the European Union and other pan-regional issues also gained in importance.

We can say that a truly historical change has happened in these 20 years. Development in the three Baltic Republics and Poland has been rapid and they have followed Denmark, Finland and Sweden into the European Union. St. Petersburg – the greatest metropolis in the Baltic Sea Region and the Russian Cultural Capital - and its surrounding areas have enjoyed dynamic growth and are increasingly participating in regional cooperation.

In a historically short period, we have been able to overcome a bitter division, restore and promote cooperation and to achieve deeper integration. Today, the Baltic Sea Region is one of the most competitive regions in Europe, with a great potential for development.

The European Union Strategy for the Baltic Sea Region, the first macro-regional strategy of its kind, has created a new, favourable framework for enhanced cooperation around our common sea. Cities and regions have a central role in the implementation and governance of this strategy.

UBC is a network of over a hundred cities in all countries surrounding the Baltic Sea. But it is much more than just a loose network – an e-mail list - where members communicate with each others and occasionally meet. In contrast to many other actors in the Baltic Sea Region, the UBC is an organisation with membership, leadership structures, rules and regulations as well as a common strategy. This organisational structure, combined with the operational flexibility of networks, makes UBC in many ways unique in the region and a solid partner for cooperation.

As an organisation, UBC works on two levels. Its Executive Board, elected by the bi-annual General Conference, is responsible for the overall strategy and its implementation, coordination and public policy development, including cooperation with other organisations and contacts with the European Union and its institutions. It is comprised of the president, three vice-presidents as well as one member city from each BSR country. The Executive Board meets normally three times a year, hosted by different member cities.

The General Secretariat of UBC, based in Gdansk, is in charge of preparing meetings of the Board, ensuring that its decisions are implemented and running the daily operations of the organisation, together with the President. Its work is complemented by the UBC Strategy Coordinator, appointed by the Board and in charge of implementation and development of UBC strategy and policy issues.

From the beginning, UBC Commissions have been providing the framework for the practical, thematic cooperation in various fields. The newest of these is the Commission on Local Safety, dealing with issues a broad variety of local safety issues.

Commissions are increasingly cooperating with each others to enhance their effectiveness and outreach.

UBC Commissions differ in composition, methods of work and outlook. The UBC Commission for Environment is a highly visible and effective structure, with an international Secretariat in Turku comprised of nearly twenty experts. On the other hand, some other commissions have a much more limited scope of activities.

Common to all of them is anyhow their striving to provide an easy-to-enter-and-cooperate framework for member city representatives to exchange experiences and develop new ideas and initiatives. For many smaller UBC member cities, UBC Commissions are a most relevant – and often even the only – international forum for cooperation.

Membership surveys indicate that the UBC has been and is very relevant to its member cities. Another proof of this is the fact that the cities participate actively in its work at various levels and pay their annual membership fees.

However, no organisation can rest on its laurels and just continue doing things as in the past. Urbanisation, deepening integration, multiculturalism, climate change and many other processes challenge our member cities and call for new, fresh ideas and initiatives as well as more effective forms of inter-change and communication. This requires naturally, that also organisations such as UBC critically re-view their way of functioning, in order to serve their members in sizing the best possible way.

Currently, the Union of Baltic Cities is undergoing a thorough transformation process based on its Strategy 2010-2015. A new Communication and Marketing strategy is being finalised, calling for broader participation in content provision and better use of new technology.

Another key strategic process is dealing with the systematisation of expert exchange between cities in the Baltic Sea Region. Our well over a hundred member cities have a huge pool of expertise, which could be even better mobilised for common benefit of all. A systematic exchange programme would help to promote this goal.

Internally, the UBC is creating common criteria to evaluate its own effectiveness in strategy implementation. Based on these criteria, the work of commissions will be evaluated and UBC funding for them will be based on results of this continues evaluation. In this way, we will ensure that relevance and performance will be rewarded.

As the key city network in Northern Europe, the UBC is a natural local authority partner for the implementation of the EU Strategy for the Baltic Sea Region. With this in mind, we are developing our cooperation with other key BSR organisations, such as the Baltic Development Forum, BaltMet and BSSSC. We are convinced that closer coordination and joint initiatives serves us all. Likewise, UBC is enhancing its visibility in Brussels vis-à-vis European institutions.

Our overall goal is to serve member cities and their inhabitants as effectively as possible and in this way to contribute to the development of the Baltic Sea Region as an area of sustainable, smart and future-oriented development.

Per Boedker Andersen

President

Union of the Baltic Cities, UBC



## The power of two metropoles

By Jyrki Myllyvirta

Lahti has a central location in Southern Finland, 100 kilometres north of Helsinki. This city has become an integral part of the Helsinki metropolitan area not only thanks to the motorway, high-speed rail connection, and daily commuter traffic that link the city to the capital but also through university-level co-operation, expertise and innovation policies, and other forms of strategic co-operation. Excellent examples of this are Lahti's participation in the World Design Capital 2012 year together with Helsinki and other cities in the capital region and the city's increasing co-operation with St Petersburg and Northwest Russia.

Active development of Lahti's links with St Petersburg has accelerated considerably with the new high-speed rail connection to St Petersburg. Today, travelling from Lahti, a lively environmental technology and design centre with more than 100,000 inhabitants, to St Petersburg, a Russian metropolis with a population of nearly five million, takes only 2.5 hours, which opens substantial opportunities for commerce, travel, research, investments, and cultural life flowing between Finland and Russia in both directions. It is perhaps ironic in a sense that it now takes less time to reach the former capital of the neighbouring Russia than it takes to travel to Turku, the former capital of Finland.

Lahti's closer collaboration with Helsinki and the city's more objective-focused attitude towards St Petersburg are results of strategic choices by Lahti. Lahti's new strategy highlights the city's location within the sphere of influence of the rapidly growing St Petersburg as one of its key strengths. It now seems more than likely that St Petersburg's role as one of the most important centres of the Baltic region will only become stronger in the future. This is why no complicated arguments are required as to why Lahti should participate actively in this development. This is also why Lahti has decided to increasingly participate in international co-operation together with the municipalities of the capital region: the international standing and visibility of the Lahti region are much better as a part of the Helsinki metropolitan area than they would be if the city tried to act on its own.

### The Helsinki Centre in St Petersburg as a bridgehead

Lahti has collaborated with Russian authorities in and near St Petersburg for a long time, especially on matters related to the environment, water supply, and sewage treatment. For several years, however, these activities were relatively unorganised and mainly based on models of operation involving bilateral ties. To promote the objectives stated above, Lahti, together with Helsinki, Tampere, and Kotka, became involved in the activities of the Helsinki Centre in St Petersburg.

As a shared representative of these cities, the Helsinki Centre focuses on maintaining ties between them, promoting their interests, and developing co-operation with an extensive scope. The centre supports and provides a physical setting for co-operation between cities and other co-operating parties in St Petersburg and throughout the Leningrad administrative region. For the participating Finnish cities, it is beneficial that both St Petersburg and the Leningrad *oblast* are defined as growth centres in Russian regional policies: the central administration

supports them by funding innovation-zone and regional-cluster efforts.

Export-oriented companies in the Lahti region have utilised their own networks and connections in St Petersburg and undoubtedly will continue to do so. Although Russian business activities resemble Western-style business-to-business operations more each year, the role of the city's official administration is still very important in the Russian business environment. This is why city-level co-operation on different administrative levels may facilitate the establishing of new business contacts and make it easier to move commerce projects forward. The Helsinki Centre provides an excellent bridgehead for this – for both regional companies and the authorities and organisations responsible for developing the cities, their travel services, and cultural life.

### Focus on environmental expertise

Lahti's activities in St Petersburg target long-term multidisciplinary co-operation and increased visibility for Lahti. Lahti has long collaborated with St Petersburg's municipal water-supply company, Vodakanal. The latest joint project was the Water Expertise Centre, launched by Vodakanal and the Lahti Science and Business Park. The centre was established to form a meeting place for Russian, Finnish, and European water-technology experts on Vodakanal's premises in St Petersburg in January 2011. Approximately 1,000 individuals participated in training held at the centre in its first year. Training programmes focus on sharing best practice in water production and sewage treatment, highlighting the necessity of investments for ensuring the availability of clean water and demonstrating new technologies.

The Lahti Science and Business Park too has initiated efforts focused on the Russian market, launching a regional 'Russian cluster' for companies based in the Lahti region and establishing waste-management and energy clusters under the national clean-technology cluster. Approximately 40 companies participate actively in the clusters that focus on Russia. The objective of the clusters is to disseminate expertise and maintain commercial relationships.

The latest initiative focusing on St Petersburg and North-west Russia is the 'ESYLEP project', which aims to promote environmental companies from Southern Finland in St Petersburg and North-west Russia and to attract Russian environmental and energy investments to Finland within the framework of environmental commerce. The project's implementation stage runs from 2010 to 2013 in the form of a co-operation project of Culminatum, the Lahti Science and Business Park, the LAKES Lahti Regional Development Company, and GreenNet Finland.

Although environmental expertise and design form the city's key strategic spearheads, the activities focusing on St Petersburg and Northwest Russia also feature lively and increasing co-operation and commercial potential especially in the fields of culture, well-being, trade-fair activities, and shopping and holiday travel. In addition to our excellent location, the reaching of these objectives is supported by Lahti's other natural strengths: affordable prices, beautiful and clean nature, and a safe and predictable business environment. These cannot, however, result in financial gain on their own. The number of high-

quality services available in the Russian language in this region must be increased.

### Conclusion

Being international is not an end in itself for Lahti. Instead, it forms part of the city's everyday activities and stems from highly pragmatic objectives. It is for this reason also that our activities focusing on St Petersburg are aimed at building on our regional vitality and attracting new expertise and ideas, skilled international workers, customers, tourists, investments, and positive publicity, as well as research, development, and innovation funding, to the Lahti region.

In 2011, Lahti also proposed to the Finnish Ministry of Employment and the Economy a growth agreement between Lahti and the state administration. This agreement among key ministries, the City of Lahti, surrounding municipalities, regional institutions of higher education, and economic development agencies would form a framework for long-term development of the region's competitive edge

and for strengthening the international-quality environmental and design expertise and the innovation centre that have already formed in the region. The growth agreement would also provide a solid foundation for objective-focused co-operation with St Petersburg and North-west Russia in general, with potential to result in new initiatives with nationwide significance.

*Jyrki Myllyvirta*

*Mayor*

*The City of Lahti*

*Finland*



## Water flows down from Russia's mountains

By Mikael Pentikäinen

Shortly before the Russian Duma elections, a Russian author in Moscow described the situation in the country by saying that "the waters have started flowing down from the mountains".

The writer was thinking that an unpredictable change was taking place, whose outcome was difficult to anticipate.

The author's prophecy was partly realised in the elections of the Duma, and appears to be continuing in demonstrations in different parts of the country.

Despite considerable preparations, the United Russia party of Prime Minister Vladimir Putin and President Dmitry Medvedev – a political apparatus built for the elections and for ruling the country – suffered a defeat.

Officially, United Russia certainly did get half of the vote. However, the result cannot be seen as good in a country in which the electoral system favours those in power, and where especially the television is in the hands of the Kremlin, where there is election fraud, and where voters are guided and pressured.

In areas near the Finnish border, in St. Petersburg – Putin's home city – and in Karelia, United Russia won just a third of the vote.

The message from the Russians to Putin and his partners in politics and business was clear: irritation has increased, and there is a desire for change in Russia's political life.

The movement of water is a good description of an episode at Moscow's Olympic Stadium on November 20th. At the stadium, Putin faced unprecedented demonstrations.

Putin was congratulating heavyweight fighter Fedor Emelianenko who had defeated the American Jeff Monson. Putin addressed the audience after the match, and the people started protesting.

Three different kinds of spin were put on the episode in Moscow last week. One explanation was biological. Putin's security personnel had held some large men in the crowd, preventing them from going to the toilet, even though they would have needed to. When Putin showed up, the discomfort found its release in booing the Prime Minister.

Another explanation was athletic. According to that theory, the people had come to watch a sporting event, and not to listen to a political speech. Everyone staging something additional got booed.

The third explanation was political. According to this one, people wanted to tell Putin that people had enough of the machinations of his machinery.

The real explanation could be a combination of these, but it doesn't actually matter, because the episode has become a political symbol. Respect for those in power has decreased.

The election result and the catcalls at the stadium showed that many Russians had had their fill of Putin and the political and economic structure of those close to him. In it, politics has been harnessed as a tool for personal enrichment, and the country's riches have been taken by a small group of people for their own use. This method has made many, Putin included, very rich.

The structure is characterized, depending on how diplomatic the person making the analysis is, as either thoroughly rotten, or flexible.

Many feel that Putin has become a prisoner of his own structure. He cannot relinquish power, because it would topple the whole system, and could lead to a situation in which those benefitting from it, Putin included, might be held to account.

Where do the waters flowing from the mountains go? What can be expected from Russia? Many expect a change, and

many expect that change to come from the Kremlin, in spite of everything.

In the Kremlin, the wise political operatives can see that a precondition of the function of their structure is that Putin – today's Tsar – should enjoy a sufficient amount of popularity.

It is no coincidence that Putin flies fire-fighting planes, tames tigers, and finds sunken treasure in the sea. All acts of heroism have the aim to make the Russian leader sufficiently beloved.

Medvedev was never up to this, even though the West likes him. In Moscow, Medvedev is primarily the butt of jokes – after the elections, more than ever.

Many believe that if he actually becomes the prime minister, his period in office will be short, because Medvedev's managerial skills are not sufficient for the prime minister's post.

The setup can make it necessary to weed out the extensive corruption which angers the people. The setup can also deepen Russia's economic difficulties, because the Kremlin is afraid to implement necessary, but politically difficult reforms out of fear that Putin might lose popularity.

Before the elections there was another interesting series of events seen in Russia. A relic claimed to be the belt of the Virgin Mary made a tour of the country awakening great interest from the public.

The holy belt brought from Greece was viewed by as many as three million Russians.

In Moscow the most enthusiastic stood in line for 24 hours just to see the relic. The line in front of the Church of Christ the Saviour was eight kilometres long at one point.

The popularity of the holy object shows the power of the Orthodox Church and religion in Russia. The Church is one of the few factors that can unite modern Russia. It is a strong, but conservative and nationalist force that can get people on the move.

Compared with many ecclesiastical figures, Putin is a great liberal. The leader of the Russian Church, the Patriarch Cyril, is characterised as a brilliant politician. The Patriarch has an office in the Kremlin, and Putin listens to him.

The waters may well flow from the mountains toward nationalism and the Church. A union between a stronger new Tsar and the Patriarch of the old church is not an impossible vision in the Russia of the new decade.

It is good to reflect on how the unexpected change in Russia will affect Finland.

Relations between Finland and Russia are good at the moment. Presidents Tarja Halonen and Dmitry Medvedev are leaving a good legacy for their successors.

If instability grows in Russia, as might be expected, it will inevitably have an impact on Finland, even if it does not cause problems for our bilateral relations. That is something that needs to be kept in mind.

Mikael Pentikäinen

Editor-in-Chief

*The Helsingin Sanomat*

*Finland*

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## Cooperation within Baltic Sea region (BSR)

By Börje Svanborg

What does the BSR countries have in common? Is the development of the region the sum of the development of the nations in the region? Is there any cooperation that can create value that isn't taken care of? And the forbidden question "is there a risk for a race to the bottom instead of a race to the top"? Is the gap between the Scandinavian/Nordic countries and the "Baltic states to big?

When discussing this I have sustainable growth by increasing internationalisation of the enterprises and the innovation systems in mind. Attracting investments is one key activity to succeed with that, which is my daily work.

I am not going to give explicit answers to these questions but I will try to put some light on the possibilities to benefit of increased cooperation.

Let us start with some facts:

The region is probably one of the most competitive regions in the world.

- Sweden, Finland and Denmark is in the top 10 of "Global competitive index"; *world economic forum, 2010-2011*
- Sweden, Finland and Denmark is ranked the top 3 countries in EU as the most competitive countries. *Lisbon Review Index; world Economic Forum, 2010*
- Sweden, Finland and Denmark is top 10 in R&D expenditure in per cent of GDP. *IMD World competitiveness yearbook 2010*
- Denmark, Finland and Sweden have a higher level of overall productivity than for example Germany and UK. *IMD World Competitiveness Yearbook 2010*
- Regarding the number of postgraduate degrees (PhD's in science and engineering) both Sweden and Finland is ranked higher than US and Japan. Denmark is ranked between US and Japan. *OECD Science, Technology and Industry Scoreboard 2009*
- Well educated workforce (percentage of population 25-34 with higher education) Sweden, Denmark and Finland is ranked higher than UK, Netherlands and Germany
- Regarding English skills: Sweden, Denmark and Finland is within the top 4 countries (per cent of population age 15 and older). *Europeans and languages*
- Best ICT infrastructure in the world: Sweden is No1 and Norway, Denmark and Finland within the top 6. *Connectivity scorecard 2010*
- "Most networked economy in the world": Sweden No 1 and Denmark, Finland, Norway within top 10. *World economic forum Network Readiness Index 2010*
- "World class digital economy" Sweden No 1, Denmark, Finland, Norway within top 6. *Economist Intelligence Unit 2010*
- "IT penetration, computers per capita". Sweden No 1, Norway, Denmark and Finland within top 9. *IMD World Competitive yearbook 2010*
- "Great place to live" Norway No 1 and Sweden No 7. *Human Development Index 2009*
- *Etc, etc*

The list can be much longer than above. I have not done any research when producing it. I have just taken a couple of reports that was on my desk.

Above shows that the Scandinavian/Nordic countries stands very strong regarding how competitive they are in comparison with the rest of the world. This shows so strong

competitiveness that I can't see any risk for a race to the bottom. I rather see a great potential for a race to the top.

We can also see that the differences between the countries regarding different sectors like Life Science, ICT and Cleantech sometimes is big. To cooperate within these strong sectors therefore might be difficult. I rather think that the base for cooperation should be that each country developed its own business opportunities without trying to be as common as possible. The competitiveness then can be the union of different opportunities and the cooperation can be focused on the communication/marketing of these opportunities abroad. When doing so it's important that we have the countries outside BSR and EU in mind. The cooperation between the BSR countries for increasing flows of competences, investment and trade between us is of course important. The big issue must anyway be to put the BSR on the map in China, India, Brazil and other emerging markets because that's where the biggest growth are. If we succeed in that mission it will stimulate increasing flows within BSR. The Nordic tradition to start with developing the product and then bring it to the markets is not that modern in the new fast revolving globalised world. The product sometime has to be developed together with the costumers/markets. This is more true now than ever if we talk about "distant, fast changing growth markets that we don't really understand. Let's start the journey of marketing the BSR together without waiting for more development. As we can see from the list above we already are good enough.

A problem though is that I think the history tells us that this can't be done in some kind of common organisation that we finance and create between us. There are a lot of projects and organizations working with different cooperation and activities in the BSR but no one has the overall responsibility for the BSR brand linked to sustainable growth. We have a lot to tell the world but not enough will happen if no one has the responsibility of the BSR brand and what it stands for. On the other hand it's possible that each country could increase the use of the BSR brand when developing its business opportunities.

If we in the future want to have sustainable growth we have to communicate to the emerging markets that within EU there is clusters and regions that is international very competitive. We therefore must develop other brands than Europe and this must be an EU responsibility and not an issue for the BSR participating countries.

In the meantime the countries in BSR can show the rest of the world that we want to cooperate between us and are very skilled in doing so.

Börje Svanborg

Vice President, Regional Cooperation

Invest Sweden

Sweden



## Towards the Rio+20 in the Baltic Sea region

By Kaisa Kononen

The global community is preparing for the Rio+20, the United Nations conference on sustainable development to be held in a few months time. The overall goal will be to secure globally the political commitments on the backdrop of the progress made to date and new and emerging challenges faced by the global community. The summit will also focus on two specific themes, namely the green economy and the much needed institutional framework for sustainable development.

During the decades passed since the launch of the concept of the sustainable development it has become increasingly clear how multifaceted, -leveled, -dimensional, -sectoral and ambitious this goal is. The progress cannot be immediate and may require generations before some remarkable achievement can be witnessed. Equally required in realising this are major scientific & technological developments, major political agreements and inevitable economical sacrifices.

There is an overall consensus repeated in all major sustainability policies that the development has to be based on the best scientific knowledge. Among other, 'one of the key preparatory documents for the Rio+20 concerning the oceans and seas, 'A Blueprint for Ocean and Coastal Sustainability'<sup>1</sup>, defines four main objectives for embracing the green economy and the institutional development. One of these objectives is actions resulting in policy, legal and institutional reforms for effective ocean governance and another one notes actions supporting marine research and evaluation, technology and capacity transfer. The document states:

*The integration of science into institutional decision making, including policy creation, regulatory enforcement, and adapting to new knowledge as it is created is essential for the future. Too often, scientific and technological opportunities are ignored or under-utilized in the absence of responsible and equitable governance arrangements and institutional willingness to promote change in industry and governments.*

Drawing nearer the ambitious global goal is like building up a huge-sized puzzle with tiny pieces – inevitably some parts of the puzzle progress faster, others slower. The key to success, however, is the ability to take the advantage of opportunities provided by various development processes by identifying and realising the opportunities for added value and win-win situations.

### Synergies from strategies

The Baltic Sea region is one of the fore-runners of identifying synergies of many parallel processes that potentially can create a lot of added value. In reflection of the Rio+20 objectives, this is particularly the reality with three major strategies originated from different sectors during the last decade and impacting greatly together the strategic direction of the Baltic Sea region:

- The European Research Area (ERA) process that aims to overcome the fragmentation of research in Europe along national and institutional barriers. Fragmentation prevents Europe from fulfilling its research and innovation potential, at a huge cost to Europeans as taxpayers, consumers, and citizens
- The European Maritime Policy that highlights Europe's maritime identity and leadership, which is worth preserving at a time when environmental pressures are threatening the future of maritime activities. It aims to promote a maritime industry that is innovative, competitive and environmentally-friendly. In addition to

maritime activities, the policy proposes also to include the issue of quality of life in coastal regions.

- The EU Strategy for the Baltic Sea region that helps to coordinate actions by the European Union, EU countries, regions, pan-Baltic organisations, financing institutions and non-governmental bodies to promote a more balanced development of the Baltic Sea region. The Strategy aims to make this part of Europe more environmentally sustainable, prosperous, accessible and attractive as well as safe and secure.

### Integrating top Baltic Sea research to underpin fit-for-purpose management practices

BONUS – the joint Baltic Sea research and development programme 2010-2016 was developed within the first one of the three strategies, the ERA. The programme has funding worth of EUR 100 million for the coming six years provided by the eight Baltic Sea coastal EU member states and the European Union. It aims at enhancing the Baltic Sea region's research capacity in order to underpin the development and implementation of 'fit-for-purpose' regulations, policies and management practices.

Due to the surge of maritime issues to the top political level of the EU and the launch of the EU maritime policy, BONUS has a specific status of being implemented on the basis of a codecision by the European Parliament and the Council. The EU's Strategy for the Baltic Sea Region has also offered BONUS an excellent platform for multisectoral stakeholder consultation – most recently this was realised in October 2011, when the BONUS Forum was organised back to back with the EU Strategy for the Baltic Sea Forum.

Already for the past three years, the 16 BONUS+ research projects have been piloting the unprecedented, macro-regional BONUS research programme model. The preliminary final reporting of the BONUS+ projects is underway and results demonstrate a high volume of critical top knowledge produced by the projects to the decision makers and other end-users in key policy processes that have critical impact on the future of the environmentally threatened Baltic Sea. The next BONUS call that will be building on the experience gained from the BONUS+ projects and leaning on the joint, region-wide developed strategic research agenda. This will open in the first half of 2012 and be worth a maximum of EUR 40 million.

### Integrating science and policy

By merging the major funding sources around the Baltic Sea into one durable, cooperative, interdisciplinary and focused multi-national programme in support of the region's sustainable development is an important progress towards the Rio+20 goals. In fact, BONUS is the much needed new institutional setup for integrating science into decision making and policy creation. It is now in the hands of the policy makers, of industry and ultimately of each of us as voting citizens how the outcome of the programme is received and how much there is willingness to utilise the best science for a better and more sustainable future.

More information about BONUS: [www.bonusportal.org](http://www.bonusportal.org)

Kaisa Kononen

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<sup>1</sup> IOC/UNESCO, IMO, FAO, UNDP. (2011). A Blueprint for Ocean and Coastal Sustainability. Paris: IOC/UNESCO

## BSR deserves a communication strategy

By Allan Alaküla

I have to confess that in due course I have learned to enjoy the messianist sound of the different sorts of plenaries of the European Union Baltic Sea Strategy (EU BSR). The strategy is becoming a role model for other emerging EU macro-regions and a bottomless well of inspiration for other EU-wide policies. The great success of BSR cooperation should sooner or later conquer hearts and minds on the global scale.

But what makes it truly "charming" is that the Strategy is elaborated and implemented without a communication strategy.

Several state-of-the-region reports and identity-related analyses do not even describe the state of the media in the region. Well-organised media owners, both public and private; media employees, i.e. journalists and media academies have been left out.

Media is recalled only when messages about the great success of the Strategy do not reach the news threshold. And no wonder, they rarely do.

As a result, the Strategy does not have enough political support, because most of the knowledge remains within the cloud of Strategy insiders. Without political will, every strategy dies. It is a vicious circle.

Communication is the most sensitive and therefore highly centralised function of governance in all modern organisations. It is comparable only to the cooperation between intelligence services and coordination of foreign policies of different nations, unthinkable without the highest level of mutual trust and commitment.

If asked today what the news in BSR is, we can google only the media of the BSR nation-states or their micro-regions. The Baltic Sea macro-region does not even pretend to exist, neither to those living inside of the region nor to the wider world.

And yet there are plenty of fundamental favourable preconditions for in-depth, functional and effective media cooperation in BSR.

The most important is the actual state of real integration in the region. Vast cross-border investments, labour mobility and tourist flows have already created a significant basis for regular cross-border media coverage.

We have the world's biggest share of publicly owned media across the region. It is only a matter of political will to arrange a substantial BSR-wide exchange of content between Public Service Broadcasters (PSB). The first step would have to be to authorize PSBs to rebroadcast each other's self-production.

BSR should also discuss taking obligations to support their films' production, distribution and exhibition, like the EU support system for European film production.

Most of the Region is covered country-wise by several multinational media companies (Modern Times Group, Schibsted, Marieberg, Orkla, Aamulehti group etc) and we have no major media owners from outside of the region. It remains only a matter of moderate public subsidies to start cross-border content exchange inside multinational private media groups.

There is no local language to dominate the region. English has almost ousted German, Russian, Nordic languages from BSR cross-border relations. And English is occasionally also the best available tool for global communication of the region. The editing language of centralised BSR communication would therefore be English.

The ongoing networking between BSR municipal communication professionals is similar to the cooperation between regions and cities Europe-wide (like European Association of City Televisions). A good example of such

cooperation is the Baltic Metropolises Info Forum network that has made links between municipal information services of Oslo, Helsinki, Riga, Tallinn and Petersburg. Tallinn and Helsinki are also developing cooperation between their municipal TV-channels.

BSR seems to be mature enough for elaborating its communication strategy and envisaging a joint BSR media platform.

But of course there are also challenges.

The BSR has no recognised capital, and in foreseeable future we will not be able to agree on one. However, Euronews serves as a brilliant example of hosting Pan-European media not even from any national capital but from the city of Lyon, France. To be well located, the heart of BSR media need not be set up in a capital city either but in a BSR city like Gdańsk, Malmö, Rostock or Turku.

As most BSR countries do not participate in Euronews directly (the stakeholders are Finnish YLE, Swedish TV4 and Russian RTR), the experience of multinational media cooperation remains limited. However, through increasing EU allocations to Euronews (over 10 million euros in 2012) almost all BSR countries are involved.

The name issue may seem secondary but it reflects also the lack of common information sphere. It is not easy to proceed with centralised communication until the Sea between us is called Baltic by four nations, Eastern by five and Western by one.

The Russian issue in BSR communication can not and should not be ignored. The Russian-speaking community inside the EU outnumbers smaller Baltic nationalities. One should also consider the proximity and importance of Kaliningrad enclave and the North-West of Russia which includes Saint-Petersburg, the biggest city on the shores of the Baltic Sea.

The last EuroPComm conference in Brussels indicated a U-turn in EU communication strategy. If in 2010 the key phrase was 'decentralised communication', in 2011 all major EU institutions spoke in favour of stronger coordination. Little wonder - especially during the crisis - when Brussels gets all the blame and the member states get credit for the few achievements. The EU can not sustain without meaningful communication tools that can at least effectively compete with the media powers of the member states.

BSR on its behalf should contribute to the EU centralised communication policy. From the EU perspective, enhancing cross-border media cooperation inside the BSR that would boost macro-regional content, should be integrated into Pan-European media platforms, why not Euronews.

The fact that the EU BSR Strategy ignores the media issue should not prevent the development of joint information space. There are other things happening in the region as well that are being overlooked in the Strategy but that influence the BSR probably more than most actions listed in the Strategy. The most notorious example is the North Stream pipeline laid to the bottom of Baltic Sea.

Modern Baltic Sea Region can not emerge without a powerful media arm. The Story of the EU BSR Strategy is a good proof of that.

Allan Alaküla

Head

Tallinn European Union Office

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# Communication is the key – towards a successful network

By Anna Saarentaus

Based on organisational theories and practical experiences, successful networks can be characterised as

- Having a structure that supports its main functions,
- Being productive and well-performing,
- Being capable of innovation and
- Having well-functioning social relationships that are reflected in group identification, in support to other group members, and in the well-being of employees.

These issues are discussed more in detail below, with comments on the materialisation of these aspects in the stakeholder network of the European Union Strategy for the Baltic Sea Region (EUSBSR).

## Appropriateness of network structure

The main functions of the EUSBSR are the formulation and delivery of the strategy (a top – down function), and the implementation of strategic and cooperative actions and Flagship Projects, and respective reporting (a bottom – up function).

In the EUSBSR, the network structure supports both top – down and bottom – up functions. The stakeholders are organised in a hierarchical structure based on the level (policy making, coordination, operative work) and activity (Priority Area) they are involved in. Similar hierarchical organisations are commonly found to be manageable, i.e. their authority and responsibility are clearly defined, and extendable. This seems to apply to the EUSBSR as well. In the strategy, the organisation of authority is centralised, meaning that important decisions are usually taken on a high level and passed down the organisation. Priority Area Coordinators and Lead Partners are effectively used as "specialist managers".

## Productivity and performance

Based on a closer analysis of two Priority Areas of the EUSBSR, the stakeholders are mostly connected and comfortable with their task activities. On the axis centralised – dispersed, the network of the EUSBSR can be seen as a dispersed organisation: people belong to teams whose members are scattered in various locations even when working towards a common goal. Dispersed work enables combining various kinds of expertise regardless of geographical boundaries - this is particularly true of the EUSBSR with its 1,500 stakeholders. Even if there is some face-to-face interaction, dispersed teams mainly use information and communication technology in their work, making them partly "virtual teams", and creating challenges for communication, cooperation, collaboration and coordination.

## Capability for innovation

Knowledge is a major source of innovation. Thus knowledge creation is an important precondition for innovation, and it can be managed by improving internal knowledge sharing and by acquiring new knowledge through widening of the network.

Within the EUSBSR, knowledge sharing takes place within Flagship Projects. In regard to acquiring new knowledge, it is generally believed that smaller, tighter networks are less useful to their members than networks with lots of loose connections (weak ties) to individuals outside the main network. These kind of open networks are more likely to introduce new ideas and opportunities to their members by linking them to other social worlds instead of sharing information with colleagues who already share the same knowledge. Thanks to the diversity of organisations involved, the EUSBSR has connections to external social capital. Without functioning connections between Flagship Projects and Priority Areas, capacity for innovations that benefit the EUSBSR may be lost, however.

## Social relationships

The EUSBSR project teams cross not only geographical, linguistic and cultural borders but also organisational borders. At the same time, most of the people involved have various responsibilities of which only some are related to the EUSBSR. This is reflected in the stakeholder identity: Based on the comments of the stakeholders, it is evident that they do not always associate themselves with the EUSBSR.

## Observed strengths

The EUSBSR network can be identified as capable of supporting the formulation and delivery of the strategy and of implementing strategic and cooperative actions and Flagship Projects. Moreover, the division into Priority Areas allows different parts of network to evolve in different ways to adapt to changes in the operating environment. Thanks to the diversity of organisations involved, the network also has connections to external social capital.

## Development needs and means

The most alarming weakness of the EUSBSR is related to the observation that the network does not create sense of ownership for the strategy on the operational level, where people have difficulties in keeping updated with the whole. Only in cases of a strong Priority Area identity there is a sense of ownership of the strategy. In these cases, there are in effect many smaller networks that are responsible for outcomes of the strategy. With a weak Priority Area identity, the stakeholders rather belong to a project team, and lack a common EUSBSR identity. A better sense of ownership for the strategy would contribute to the commitment and motivation of the stakeholders.

A partly overlapping development need relates to observed gaps in horizontal communication. Many projects are thematically closely related, and communication between these projects should be improved. Moreover, there would be gains in productivity and performance, if isolated project groups and individuals are connected to the network, the density of connections is increased, and the visibility of Horizontal Actions and the involvement of Russian partners are improved. Weak connections between Flagship Projects and Priority Areas may also restrict the capacity for innovations that benefit the EUSBSR.

There seem to be also information needs related to feedback, to the contact information of stakeholders, to the implementation status of the EUSBSR, to the roles and responsibilities within the strategy, and to the transparency of decision making.

In order to develop the strategy network, attention should be paid to communication practices, in particular to the articulation of the central values and the main objectives of the organisation, to the establishment of virtual networking and feedback mechanisms, and to the development of a culture of systematic and continuous content provision. Moreover, increasing the transparency of decision-making deserves a second thought.

Anna Saarentaus

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# EU Strategy for the Baltic Sea Region – from good intentions to effective implementation and results

By Alain Roggeri

To be successful the implementation of the Baltic Sea Strategy needs the active participation of local public and private actors. However, it is becoming more and more obvious that such engineering cannot be driven and implemented just with a bottom-up approach. Strong involvement and direct support of all the political and administrative institutions which are the usual pilots, initiators and implementers of policies at national level are essential. During recent months, there have been several warning signs alerting us to the need for more deliberate and focused efforts by the national authorities in order to translate good intentions into concrete actions and thereby to successfully progress towards the achievement of the agreed objectives.

In June 2011, the Commission, reporting on the first 18 months of implementation of the EUSBSR already stressed the need for a stronger political and administrative commitment and a better alignment of existing funding sources.

On 15 November 2011, on the basis of the Commission's report, the European Council concluded the review of the European Union Strategy for the Baltic Sea Region by inviting the Commission and the Member States concerned to (i) take account of the EUSBSR when designing the future programmes, including the transnational, national and regional programmes and those with other countries in the macro region and (ii) facilitate the alignment of the funding sources with the EUSBSR objectives, in particular the EU programmes/funding instruments for the 2014-2020 period.

More specifically, Commissioner Hahn stressed in his recent letter to the Prime Ministers of the Member States in the Baltic Sea Region, that "*the implementation of the Strategy should be understood as a horizontal issue, cutting across many different ministries, with the involvement of all relevant national and regional experts...; great results from the Strategy cannot be expected if we confine the implementation of the Strategy to the territorial co-operation funds. Only if the needs identified in the Action Plan - which was widely consulted and agreed upon in the Region are linked to all available Structural Funds, will the Strategy succeed.*"

The need for better alignment at organisational and institutional level, in the national and regional planning and in the delivery and funding mechanisms was also underlined in the conclusions of the study "Analysis of needs for financial instruments" commissioned by the European Commission in relation to the implementation of the EUSBSR:

- Member States have to make more of their resources available, both in terms of coordination support and policy funding
- More pro-active stimulation and coordination is needed, including clear incentives for those implementing the Strategy
- Despite the existing possibilities, current efforts to align funding still remain insufficient (while more than 100 funding instruments are available, only 20 are presently used).

The diagnosis and the recommendations referred to above are all pressing the national and regional authorities to address the identified issues by a more coherent alignment of the implementation of national sectoral policies with the official commitments of their governments to the EU macro regional strategy.

The preparation during 2012 and 2013 of the next 2014-2020 programming period provides the Member States with a unique opportunity to work intensively in order to address the

following questions: how will the strategy help in developing their regions/ territory? In which areas will cooperation and collaboration in the macro region make them stronger? How can the national/regional programmes support the achievement of both the national/regional and the common objectives adopted by the Member States at macro-regional level? How much of the financial resources of the programmes need to be allocated?

It is now time to take the appropriate actions. The international and interregional cooperation aspects need to be considered as core elements in the definition of the national and regional strategic planning.

In each country all actors at national level must work together for the identification of the areas/ sectors where convergent or joint actions with other partners in the macro-region will bring them the foreseen benefits. Inter-ministerial and interregional agreements have to be built on specific action plans, the division and sharing of responsibility, the allocation of resources.

The public authorities of the different countries should endeavour to

1. create a clearer ownership of the strategy by the national and regional public institutions, ensuring a common understanding and a better bridging between the national ministries, the managing bodies of the different programmes at national and regional levels and the different coordinators in charge of the priority areas of the EUSBSR;
2. strongly integrate the macro-regional strategy objectives into national / regional thinking, design and planning by the main sector Ministries (transport, energy, enterprise, etc.) in order to reinforce the contribution of the future national and regional action plans and programmes to the common objectives;
3. utilise and adapt the existing delivery systems, working methods and operational tools and develop operational platforms and tools for cooperation between the different countries/regions in order to facilitate the implementation of the strategy for the Baltic Sea Region;
4. select the most relevant funding sources, set-up the appropriate mechanisms and decide on the respective budgetary contribution in order to provide the necessary financial means to the implementation of the projects and actions and the achievement of the targeted results.

All this preparatory work shall contribute to setting up more accurate and efficient action plans and regional or thematic development programmes to be implemented until 2020 under the single responsibility of each national/regional actor or by acting jointly. The European Commission will continue to act to facilitate this process but cannot substitute its efforts to the decisions and responsibility for action of the national and regional authorities.

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# The municipal authorities and the Baltic Sea Strategy – conditions for greater local involvement

By Ellinor Ivarsson, Tommy Holm and Fredrik Gunnarsson

*What are the conditions and the capacity of Swedish municipal authorities to contribute to realising the Baltic Sea Strategy? AND – what are the benefits? We do not know much about this at present, and with the current implementation system this is not a prioritised issue within the strategy. This is of course regrettable, but above all it may result in a significant weakening of the impact of measures at regional, national and international level. The time is right to make an improvement for the next programming period – not only by drawing up an inventory of the conditions and needs at the local level, but also by incorporating local operators into the strategy and its action plan. The Swedish Association of Local Authorities and Regions (SALAR) is keen to see a focus on these issues now during the Danish presidency, looking ahead to 2014-2020.*

In October 2009, during the Swedish presidency, the European Council adopted the conclusions for the European Union Strategy for the Baltic Sea Region. The strategy and its action plan are based on four pillars: *an environmentally sustainable region, a prosperous region, an accessible and attractive region and a safe and secure region* – with 15 priority areas and 80 or so “flagship projects”.

The realisation of the strategy requires a broad acceptance of responsibility in the ten Baltic States; the problems and challenges set out as well as the opportunities that exist around the Baltic Sea also affect all levels. The implementation of the strategy is shared among the countries, each of which is responsible for coordinating a specific priority area. In Sweden, this means that a large number of sectoral government authorities are deeply involved in the work, with county administrative boards and regions also playing a significant active role.

Collaboration around the Baltic Sea ought not to be a surprising priority for Sweden, with the longest coastline of all of the Baltic States - the future of the Baltic is a crucial, natural issue. Throughout history, sea routes have consistently been the natural form of contact with the continent and the rest of the world. The question is therefore not “WHETHER” Sweden has an interest in enhanced Baltic cooperation, the question should rather be “HOW” such cooperation should be structured and how commitment and involvement should be channelled to implement the strategy. There are certainly a number of good examples of local projects among Swedish municipalities within the framework of the strategy, especially in the field of safety in ports and at sea. Most indications are, however, that the strategy has not made a significant impression on municipalities. This is a problem, at least in a Swedish context, as the municipal level with its wide-ranging area of responsibility is a necessary player if the strategy is to be realised in Sweden. The most fundamental argument for this is that Swedish municipalities have the monopoly on planning for their territory.

The EU's budget and programming period for 2014-2020 is currently being negotiated. This represents a golden opportunity for necessary improvements to and links between the EU-funded programmes around the Baltic Sea and the Baltic Sea Strategy's action plan –

changes to create more direct integration of the local level into work on the strategy. In the rest of this article we will concentrate on the most obvious weaknesses and discuss possible solutions for implementation in the next period:

## The inflated implementation plan: four pillars, 15 priorities, 80 flagships

The diversity of the various parts of the strategy is extensive, and is obviously adapted according to the Baltic States' perceived challenges and needs. The problems around the Baltic Sea are both composite and multidimensional, and require that players at various levels and in various sectors contribute to the solutions. It is thus reasonable that responsibility be shared between the countries, as this enhances the conditions for joint commitment.

But there is reason to fear that the local level perceives the strategy and its implementation plan to be diffuse and inaccessible. The operational superstructure risks overshadowing the local “workshop” where the practical work has to be carried out. Problems and challenges are also combined at the local level – the level of pollution, for example, depends on the economic structure, transport systems and agricultural development. Dealing with these problems requires integrated strategies at a local level too, although in the worst cases they can be counteracted by the allocation of responsibility to several different players at the macro level.

## The absence of a local “tone” in the strategy

At present, far too little of the strategy has dealt with the role of the local level in the implementation process. By the same token, there is also a clear need for the local level to be involved in designing the structure of the various parts of the strategy. In its assessment of the Baltic Sea Strategy (June 2011), the Commission also mentions the need for greater involvement from local authorities, as well as increased visibility and a better degree of specification in the various parts of the strategy. These factors are of course interrelated and interdependent.

The strategy is, however, initiated at national and international level, and it is reasonable that the originators, the Commission and the Member States, take the initiative to achieve greater local adaptation of the strategy and its implementation.

## Presence and absence of funding instruments

No economic funding has been specially appropriated to implement the strategy. The idea expressed is rather that the strategy and the action plan should serve as important reference documents for existing funding instruments in the region, e.g. the EU's structural funds. In practice, it is above all the transnational Baltic Sea Region Programme that has served as a source of funding for initiatives within the framework of the strategy. There was, however, no explicit link to the strategy in the Baltic Sea Programme when the programme was planned and written to begin back in 2007, two years before the strategy appeared. The money in the programme is now also running out, limiting

the opportunities for external funding of local development work.

The ambition – that the strategy's priorities shall show how to use existing sources of funding – might be a good one, but it is not working in practice. Ahead of the next programming period, strategy (objective) should be linked specifically to programme (funds).

#### **Enhancement of implementation structures**

In its assessment, the Commission recommends that the implementation structures be further enhanced – both financially and in terms of personnel. National coordination committees and contact points are also recommended for the 15 priority areas. For these suggestions to be of practical significance, they should be integrated into the countries' basic structures of authority and administration.

The conclusion is a wise approach, if the strategy is to be realised, basic authority structures must incorporate procedures and work methods into their routine operations. But as the strategy is based on work at several levels, the risk remains that the strategy will be an activity alongside the routine operations of regional and local operators. Measures are therefore required that require initiatives at the local level, that "capture" the planning responsibility of municipalities and that are based on the location-based/local element. In 2010, the action plan was give a new, so-called "horizontal activity", the purpose of which was precisely to enhance both the strategic planning capability among authorities concerned and the dialogue between different levels. Experiences from this "horizontal activity" must naturally form the basis of planning implementation for 2014-2020.

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# The EU Strategy for the Baltic Sea Region – "business as usual" in the EU?

By Colin Wolfe and Małgorzata Pekala

Macro-regional strategies and their maritime cousins, sea-basin strategies, are relatively recent concepts. For a long time there was limited reflection on cooperation at a level between the overall EU-27 dimension and national level. Although territorial cooperation is now over 20 years old, its focus had largely been cross-border. Only more recently had thought and resources been given to transnational programmes.

This changed with the arrival of serious consideration for the macro-regional approach. It responded to several new elements: 27 EU Member States needed flexibility to deal with issues that demanded cooperation attention, but did not necessarily engage the whole EU territory. The issues themselves – environment, risk prevention, climate change, connectivity, global competitiveness – clearly needed policy responses and concrete actions to go beyond national borders. The themes were often interrelated – progress e.g. on energy required consideration of environmental and security issues, and demanded a territorial and integrated approach. The macro-regional concept provided this, and also the potential to mobilise common policy making and common funding for common goals.

This all makes macro-regional strategies very different from previous work. The European Parliament recognised this with their initial report on the need for an EU Baltic approach. Inspired by this, the Council requested an EU Strategy for the Baltic Sea Region, to which the Commission responded by substantial consultation in the Region and mobilisation of relevant experts and services. In turn, this brought a change of mindset, encouraging a macro-regional perspective going beyond previous thematic and geographic boundaries. This has been the most innovative feature of the work institutionally, and has required considerable effort. Making a macro-regional strategy is not "business as usual". Indeed, more reflection in (re-) shaping this approach is still needed.

**In respect of policy development**, two years into implementation the Strategy has substantially improved coherence across EU sectoral policies. The first results can be seen – more responsive regional approaches to fisheries management, better integration of maritime surveillance. The Commission now monitors new policy processes, regulations and programmes from the Baltic regional perspective, ensuring that the macro-regional dimension is present. Moreover Member States will in future reinforce this process through sectoral Councils reflecting on the Strategy as a need arises. The macro-regional approach should also be evident in the national policies of Member States.

**In respect of funding**, since the Strategy came with no additional resources, it seeks to align existing EU, national, and other funding in the Region, to ensure synergies and avoid duplication. Since it was the middle of the current EU programming period when the Strategy appeared, this was a major innovative challenge. Work is still needed. Now as preparation for a new programming period 2014-2020 begins, this can be more systematically addressed, since the Commission's proposals takes the concept more fully into account. Both: macro-regional and sea-basin approaches must systematically be included in all programme negotiations.

**In respect of administration**, the Strategy came with no new institutions. Instead the Strategy promotes, strengthens and coordinates existing cooperation and networks in the Region. It creates a framework for more intensive interaction among diverse partners, and reinforces this process through several groups of key actors. This has encouraged a major change in thinking, for the Commission as well as others. The frame requires open people, and creative approaches. Maintaining the commitment of political leaders to this more flexible way of working is also crucial.

**The Strategy also emphasizes wide participation**, including private sector, non-EU countries and regional and international organisations. The "State of the Region Report 2011"<sup>1</sup> notes that the Baltic private sector's engagement remains limited, in particular in relation to competitiveness-related projects, but the openness is there. The Strategy is now also (re-) focusing on cooperation with non-EU countries, especially on intensifying work with Russia. It is enlarging cooperation as well with regional and international bodies, such as the Nordic Council of Ministers and the Helsinki Commission (HELCOM).

Indeed the EU Strategy for the Baltic Sea Region is not "business as usual". However, two years into the implementation phase it provides a strong new frame for comprehensive Baltic Region development. There are concrete achievements, even as challenges remain. The "new business" is working.

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<sup>1</sup> "State of the Region Report 2011: The Top of Europe's Quest for Resilience: A Competitive Region Facing a Fragile Global Economy"; <http://www.bsr2011.eu/wp-content/uploads/2011/10/State-of-Region-Report-2011-Section-B-CLEAN-09-23-11.pdf>

# The European Union Strategy for the Baltic Sea Region – where do we stand today?

By Janne Jõesaar-Ruusalu

The EU Strategy for the Baltic Sea Region, endorsed by the European Council in 2009 under the Swedish EU Presidency, has its roots in the European Parliament, where among the initiators were the current President of the Republic of Estonia Toomas Hendrik Ilves and the current minister for European Affairs and Foreign Trade of the Republic of Finland Alexander Stubb, then members of the European Parliament. The Strategy is aimed at using a variety of already existing institutions, legislation, and funding sources to boost and enhance cooperation in the region. The Strategy covers eight EU member countries: Finland, Sweden, Denmark, Poland, Estonia, Latvia, Lithuania, and Germany, which all share the aspiration to make our region's environment cleaner, connections better, and to increase competitiveness and prosperity.

By now a clear political framework has been designed in accordance with Europe 2020 priorities and objectives. It is crucial that the political support for the Strategy be maintained and further enhanced at all levels – EU, national, regional and local.

We have now two years' experience in the implementation phase of the Strategy. The Strategy currently has 15 priority areas and Estonia is in charge of coordinating the internal market policy area. We can identify many ways to remove the hindrances to the internal market and thus increase competitiveness: interoperable IT solutions (including the establishment of the commonly recognized systems of e-payments and e-invoices), recognition of professional qualifications, establishment of a network of research institutions, identification and removal of legislative barriers, development of transport and energy infrastructures, etc. The added value here could pave the way for trans-European solutions as well.

As several of the challenges facing the region – particularly in the environmental field – embrace a wider area than is covered by the eight Strategy member states, the other countries in the region – Norway, Iceland, and Russia – are involved as well. There are several platforms for working with these countries: HELCOM, the Northern Dimension, the Nordic Council of Ministers, and the Council of the Baltic Sea States.

Last summer the first review process was launched and the European Commission presented a report on the implementation of the Strategy. In autumn the EU member states adopted Council conclusions based on this report. The first lessons learned have been defined and future plans have been made.

One of the lessons learned is the need for more clarification on the roles and responsibilities of the different stakeholders – the European Commission, member states, coordinators of the priority areas, and others. We need to have a common understanding among ourselves regarding what to expect from each other.

The other important lesson is that the Strategy should be better explained and visible for all the partners, be they local municipalities, universities, NGOs, or others. Tallinn University recently organized a conference on the partnership between the state, universities and local municipalities within the Strategy, during which different approaches to the Strategy were discussed and the overall meaning of the Strategy was elaborated for the partners. These kinds of conferences act as a vital line of communication. Cooperation with the private sector is also an area that needs further exploration.

How can we evaluate whether the Strategy has been successful? At the moment, this is one of the most important topics being discussed by the states involved. The plan is to set very clear objectives and indicators. For example, when we talk about the removal of internal market barriers, then a specific and measurable goal for us could be to increase the volume of cross-border services.

The Strategy is not an isolated thing; it is developing along with the region. The Strategy's first Action Plan, which was adopted in 2009 and includes about 80 different projects, is in many ways exhausted and needs a thorough examination. There is a need to set aside projects that for various reasons have not worked and add new, viable ones. The Action Plan is the "flesh on the bones" of the Strategy and the review process requires a lot of attention. The goal should be for the included projects to be strategic processes rather than short-term projects, and for them to be viable and likely to find funding for implementation. We have now entered a crucial phase of discussions and negotiations on the next EU programming period from 2014-2020. When planning the different national and EU funds, the Baltic Sea Strategy and its Action Plan should serve as guidelines.

When cooperation within the region improves, the whole region and each country separately will benefit from it. A lot of the projects can be never implemented by one state alone. The Baltic Sea Strategy helps us sharpen our vision, see more clearly into the future and shape it according to our ideas of the future Baltic Sea Region.

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# The EU Strategy for the Baltic Sea Region in 2012 – implementation challenges

By Rikard Bengtsson

Two and a half years after the decision to launch the EU strategy for the Baltic Sea region (EUSBSR), the strategy has largely moved out of the political limelight as a new model for sub-regional cooperation, instead taking on a technical posture about implementation of concrete projects. In terms of success and value-added, the first reviews and progress reports amount to a mixed picture. Certain projects and sectors have advanced quite far, others are lagging behind. The emerging picture also holds indications about the major stumbling blocks ahead. Four challenges stand out as crucial for the future relevance of the strategy. Three of these (withering political commitment, unclear financial preconditions and weak governance mechanisms) are generic to the format of macro-regional strategies in the EU context (summarized in the oft-cited three No's – no new institutions, no new/specific funding, no new legislation). The fourth challenge (external dependence) is of special kind in the Baltic Sea case given the centrality of Russia for the future development of the region.

## Political commitment

The political role of the EUSBSR is changing. The strategy was widely heralded as a novel instrument for functional cooperation and received substantial political attention in 2008 and 2009 (also due to new forms of policy preparation and public consultation). Once decided, the political attention at the EU level has largely shifted elsewhere. As other strategies are now being developed and implemented, the focus of the EUSBSR has become primarily administrative. Thus, a first key challenge in the near future is to retain the political commitment and interest in the strategy and in the region. Significantly, it is not only the weakening political attention at the central EU level that is troublesome, but also the uneven commitment among the states of the region itself. Already in the Nordic circle of countries, one finds variation in terms of weight attached to Baltic Sea cooperation relative to other (sub)regional issues.

## Adequate funding

Adequate funding for implementation remains a second challenge. The key principle for the macro-regional construction is one of no designated funding schemes but rather alignment of existing funds at EU, national and regional levels. Relying on available structural funds is far from unproblematic, however. Beyond a potential crowding out effect against the background that the agendas of the macro-regional strategy and the structural funds programs do not completely overlap, there is also the issue of the degree to which the character of the structural funds corresponds to the needs of agents of EUSBSR cooperation. More specifically, a number of problems have been identified, including cumbersome and inflexible application processes, preclusion of private sector involvement, and the transnational dimension being largely absent. But to be sure, the funding issue is only partly about securing centralized EU funding, including the use of existing means in the form of structural funds. It is also necessary to align national funding programs along the ambitions of the strategy.

## Governance

A third set of challenges concerns the governance of the strategy, specifically regarding relations between member-states and the Commission and the involvement of sub-national and non-state actors. The Commission has taken on a lead role in the preparation and first review of the strategy and also holds an operative role in the horizontal actions. It has, however, been unwilling to take on a strategic leadership role

in the sense of making decisive priorities among issues and actors, instead promoting an all-encompassing approach to allow the strategy to grow organically from within the region. While there may be positive aspects to that in terms of legitimacy as well as functionality, it will most likely result in a wild-grown and disparate strategy with a diffuse profile and unclear value-added. This implies, however, a political opportunity for the states of the region to claim ownership of the strategy. For that to materialize, greater concerted political attention among the capitals of the region would be needed.

A crucial aspect of implementation concerns the involvement of sub-national actors, not least of civil society and business actors, which has thus far been underdeveloped. Numerous calls have been made for expanding the involvement of non-governmental actors in the strategy. This is necessary in terms of operative implementation of existing actions and project plans. It is equally important, however, in terms of the future profile of the strategy – broader involvement may bring new ideas both about new priority areas and about how to deal with existing and new areas. Beyond this functional aspect, greater involvement also renders the strategy greater legitimacy as an integral approach for interaction in the region, and as a model for other contexts.

## Built-in vulnerability

Fourthly, implementing the EUSBSR is challenged by the dependence on external actors with partly independent legacies, mandates and agendas. This is evident in reliance on independent intergovernmental and non-governmental bodies for implementation, but also crucial regarding the engagement of Russia. Most of what the strategy attempts to contribute to will ultimately and effectively be determined by Russia, given the cross-border nature of issues. Russia's limited engagement thus far reflects two intertwined logics. One is that the EU decided to develop the strategy as an EU-internal strategy despite the interdependent nature of the problems that the strategy seeks to address, and moreover, kept Russia outside strategic governance aspects of the strategy. The other side of the story is that the commitment of Russia towards the EUSBSR as such seems weak, although some of the topics covered by the strategy are of substantial interest to Russia, including environmental issues and maritime safety. In the end, Baltic Sea issues are subordinate to Russia's general bilateral cooperation with the EU, and as such also vulnerable to overall developments of that relationship.

In concluding, a number of positive signs emanate from the first years of EUSBSR implementation, while the set-up and early operation also displays generic weaknesses. What can be concluded is that the long-term relevance and added value of the strategy is challenged from different corners, to be dealt with at the EU level but importantly also within the region.

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# The EU Baltic Sea Region Programme as major start-up support to the EU Strategy for the Baltic Sea Region

By Eeva Rantama

Since 2007, 80 transnational cooperation projects in the fields of innovation, transport, Baltic Sea environment and regional development have been co-financed by the Baltic Sea Region Programme 2007 – 2013. The Programme, covering 11 countries around the Baltic Sea, is one of the transnational cooperation programmes under the Territorial Cooperation Objective of the European Community. It is financed by the European Development Fund (ERDF), the European Neighbourhood and Partnership Instrument (ENPI) and Norwegian national funding with a total of 220 Million EUR.

The first macro-regional strategy of the EU, the Baltic Sea Region Strategy was adopted by the European Commission in June 2009. The Strategy was launched without establishment of new institutions, new funding or legislation. The idea was that the existing funding instruments in the region would support the implementation of the Strategy. The EU Commission asked in particular the ERDF co-financed programmes to support the implementation process by granting funds to the projects that correspond to the objectives of the Strategy. The aim was to get especially the so called flagship projects started as soon as possible.

As the Baltic Sea Region Programme priorities were already very much in line with the priority areas of the Strategy many flagship project promoters quickly discovered the Programme as a suitable financing instrument for transnational activities. At the same time priority area coordinators of the Strategy discovered many already running projects of the Programme as relevant flagships. Such projects were for example *EfficienSea* developing e-navigation, *COHIBA* identifying sources and inputs of hazardous substances to the Baltic Sea, the Baltic Sea Labour Network project *BSLN* as well as the *Bioenergy Promotion* project.

Now when Programme funds are almost exhausted half of the Programme's 80 projects demonstrate a clear link to the Strategy. These include 14 flagship projects and 27 projects that are a part of a bigger flagship or so called "strategic" or "horizontal" actions of the Strategy's Action Plan. The ERDF funding of these projects is 108 Million EUR. That means that 55 % of the Programme ERDF funding goes to projects implementing the Strategy. The figures will still slightly increase as the final call of the Programme is focused on "horizontal actions" of the Strategy i.e. multi-level governance and Baltic Sea region branding.

When looking back to the two first years of Strategy's implementation one can say that the Baltic Sea Region Programme practically made its start possible. Even if some flagship project promoters were somewhat irritated about the technical requirements of the Programme, the Programme seemed to offer a functioning instrument to finance the transnational cooperation needed to get the Strategy's implementation started. Frequently used examples to demonstrate achievements of the Strategy are for instance the Baltic Sea Region Programme projects *Baltic Deal* developing good practices in agriculture for less nutrient leakages into the Baltic Sea, and the project *StarDust* as the starting phase for Baltic Sea region Programme for innovation, clusters and SME-networks. At the same time it has turned out to be difficult to align financing of any national programmes to transnational projects under the Strategy.

The Baltic Sea Region Programme has also in its turn gained from the Strategy. It is one of the main challenges for territorial cooperation programme projects to achieve enough visibility and acknowledgment by national and EU level policy makers in order to secure durability of projects' outcomes. It is true that many of the flagship projects co-funded by the Programme would have existed even without the Strategy. Yet the Strategy has offered new platforms to increase the visibility and relevance of these projects. The connection to the Strategy also seemed to mobilize additional resources devoted to the projects. It is therefore expected that the impact of these projects will be higher than it would have been without the Strategy.

The discussion about the next Structural Funds period is in full swing. In the first version of the published draft EU regulations there is a link between macro-regional strategies and territorial cooperation programmes. Currently there are still several open questions regarding the practical meaning of this link.

One of the core questions for the future Baltic Sea Region Programme is how far its thematic priorities are expected to be in line with the Strategy and if there will be a possibility to co-fund also transnational projects not in the focus of the Strategy. From the Strategy point of view the question is how far further financing instruments like national programmes will be aligned to the implementation of the Strategy. The financial volume of the future Baltic Sea Region Programme will remain very modest compared to the volume of other financing instruments in the region. Furthermore, the Baltic Sea Region Programme in its established form is well suitable for financing transnational cooperation in particular in its starting phase searching for joint solutions to common challenges. Other financing sources need to take over however for instance when the cooperation aims at major investments.

Secondly, the question is how the cooperation between the Programme management bodies and the priority area coordinators of the Strategy should and could work. During the current period priority area coordinators weakly responded to the Programme secretariat's invitations to events supporting project development. The reason may be the lack of personal resources by the priority area coordinators and the lack of experience of such cooperation. Ideally, priority area coordinators together with the Programme secretariat would support the development of strategically relevant good quality transnational projects in the region. The priority area coordinators would bring the expertise in their field and the respective networks in the Baltic Sea region for finding relevant partners. The role of the Programme secretariat would then be to offer its technical knowledge of the Programme requirements and the experience of prerequisites for a functioning transnational project.

A third question is the cooperation with Russia as an important partner in the development of the Baltic Sea region. Unfortunately, an agreement with Russia for the Baltic Sea Region Programme funding failed in the current period. So far, Russia stayed away from the Strategy's implementation as well. Lately, however, the EU Commission increased their efforts to include Russia. Russia will be a partner also in the preparations for the new Baltic Sea Region Programme. One can hope that lessons were learned from the previous preparations. Practical solutions and an agreement for financing Russian project partners should be found this time.

Clear guidance from the EU Commission on what is expected from the programmes is a prerequisite to find solutions for effective Strategy implementation in the future. Continuing political support to the implementation of the Strategy in the Baltic Sea region countries will be another success factor. Furthermore, the practical links between the Strategy and the future Baltic Sea Region Programme should be set-up in a dialog between the implementing bodies of the Strategy, in particular priority area coordinators, and the Programme bodies.

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## Research collaboration – a way to turn grand challenges into opportunities

By Gunnel Gustafsson

Placing today's developments in perspective, the grand challenges of our time are visible along several main lines – economic instability, climate change, pandemics and security threats. From a research and innovation policy perspective, one of our main challenges is that while the key drivers behind the grand challenges are global and complex, contemporary policy instruments for funding research and innovation are in most cases national and sector-based.

### A Nordic policy window for research and innovation

The establishment of the Nordic Research and Innovation Area (NORIA) in 2005 came in response to an important policy window. The ambition was to respond to societal problems with the help of research and innovation, to facilitate the use of knowledge in practice and to accomplish innovation and growth. Therefore two new organizations, NordForsk (Nordic Research) and Nordic Innovation, were established. They were given the task to facilitate collaboration between the five Nordic countries. Shortly thereafter, in 2007, the prime ministers of Denmark, Finland, Iceland, Norway and Sweden decided to launch several initiatives in order to make the most of the opportunities associated with globalization. One of these globalization initiatives, the Top-level Research Initiative within climate, energy and the environment started in 2008 and focuses on research and innovation. With a budget of 56 M Euros over a five-year-period, it is the largest collaboration initiative within the formal Nordic cooperation up to date.

### Thinking globally – acting regionally

Although grand challenges are global, a regional path is also needed taking into account how the challenges might take on different regional expressions. As pointed out by Jerzy Langer in Research Europe (January 2011), the Top-level Research Initiative is a result of common political will to contribute to solving global challenges on a regional level. As such, this initiative has taken the Nordic countries beyond the planning phase and into the realization phase of solving the global challenges.

It can be claimed that a common and broad perception of global challenges is needed in order for actions like the Top-level Research Initiative to take place. A new consciousness in the Nordic region, based on the awareness of global warming and scarcity has paved the way for a new mindset that takes into account global vulnerability. This was expressed in the Lund Declaration from 2009, where the need to tackle the grand challenges was expressed.

As argued in a recent report from the Top-level Research Initiative, written by Gudmund Hernes, an ecological revolution is now emerging in how human beings perceive the use of Mother Earth. This multidimensional new mindset has come as a response to nuclear accidents, flooding, terrorism etc. In essence it means that it is now believed that human beings determine the conditions of earth, not vice versa, and that irreversible changes may occur in an alarmingly fragile nature.

A Nordic lesson learned so far is that a precondition for action is the existence and continuous creation of common cultural values and trust, alongside with attempts to lower the degree of political and administrative fragmentation. With regard to collaboration on research and innovation, this is reflected in trust building processes for quality assurance such as peer review and establishment of critical mass in small or scattered areas with the potential for creating benefits.

### NordForsk – a Nordic platform for research collaboration

With the establishment of NordForsk in 2005, the Nordic Council of Ministers aimed at enhancing the coordination of research and research-driven innovation on these and other issues. The aim of the organization is to facilitate cooperation in all fields of research and research-driven innovation when this adds value to the work being conducted in the Nordic countries.

Over time NordForsk has developed a comprehensive research agenda and shifted towards larger strategic initiatives. Priorities for the period 2011-14 fall within the areas of research infrastructure collaboration, building Norden-EU relations, funding of research collaboration and providing policy analysis. Some of NordForsk's new initiatives should be highlighted. The sharing of research infrastructure across borders and access to data constitutes Nordic strength. Since 2011, the Nordic eScience initiative and the Nordic Data Grid Facility are hosted by NordForsk. Another area of great importance is health and welfare, where the Nordic region has competence and possesses data and health registers from a large number of the population. These registers form the basis for urgently important knowledge production in response to grand challenges. NordForsk will 2012 begin to develop a joint programme on health and welfare. Lastly, the Nordic countries are knowledge-intensive societies. The performance and international attractiveness at all levels of the educational systems are therefore a political priority. Currently, NordForsk is launching a major initiative within Educational research.

In an increasingly globalized and at the same time fragmented world, we trust that Norden has the potential to become a strong region in Europe. These recent initiatives reflect how the Nordic countries join forces aiming at a more systematic and ambitious coordination of research and innovation, and how regional collaboration can be one step in the right direction towards turning societal challenges into opportunities.

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## The role of science in Russia's modernisation

By Levan Mindeli

The process of modernising Russia is understood as a strategy of renovation, the elimination of backwardness, achievement of an up-to-date level of competitiveness comparable to advanced countries, sustainable rates of social and economic development, high living standards, expanded reproduction of the human potential, respect for nature, protection of citizens' rights, and development of democracy and law and order. The orientation of the country to modernisation is associated with radical transformations in the social structure, political activities, public psychology, and other areas of social life. All this suggests organic inclusion of the national economy in the world's newest innovation processes, integration into the global economy, intensive use of a wide range of innovations in all areas society that are impossible without appropriate investments, close interaction between the government and business, and the optimal use of results of scientific, technological, and intellectual activities.

So far, Russia has better positions in research activities than in their further implementation in the form of know-how, industrial prototypes, and trademarks (for example, by 2010 the gap between technology imports and exports amounted to 22.4 billion roubles, whereas by 2007 it had been 11.9 billion roubles). Thus, the field of foreign trade in technology reflects the old disease of the Russian economy: an excessively long path from research to applied development and especially to introduction into production. For its part, the sector of knowledge generation must be capable to flexibly respond to new global trends and needs of the national economy and society, to ensure close co-operation between the research sector and higher education, as well as to effectively implement commercialisation of new technological solutions.

Achieving the purposes of modernisation is possible only on the basis of scientific knowledge, the intellectual capital of society and its creative potential, a system of efficient training of R&D personnel and skilled technicians. However, the most serious problem in Russia is the lack of demand for R&D results from the business enterprise sector of the economy, which will negatively affect the timing of the modernisation. Results proposed by R&D institutions, even those at the global level, find no application because of low overall receptivity to innovation in Russia. Private businesses are reluctant to innovative industries, finding more profitable areas of investment. The lack of incentives and weak competition constrain the redistribution of capital from the primary industries into high technology production and the use of new technologies and the introduction of innovation products. As a consequence, the chronic depletion of the range of exports is a dangerous trend for Russia, as the principal place belongs to hydrocarbons, while the share of high-tech products is only about 9 per cent, mainly the export of arms. It should also be noted that revenues from the export of raw materials can and should be directed to the production sector and contribute to its innovative development. However, we cannot rely solely on the importation of foreign

technologies. Without planning and implementing our own technological breakthroughs it is impossible to modernise Russia, in our opinion.

As the international experience shows, successful modernisation requires common will and understanding of the goals of this process in society at large, not limiting to individual representatives of the state power. However, the so-called manual control cannot be completely excluded. Russia is a specific country with its largely unique history of development, in which the human factor has always played a significant role (just to remember Ivan the Terrible, Peter the Great, Vladimir Lenin, Mikhail Gorbachev, and Boris Yeltsin). The transfer of foreign experiences onto the Russian soil should be very careful because it is necessary to consider both the particular environment where they were formed (Western European, American, etc.), and Russian specifics. This also applies to the projects existing in government circles to shift the centre of gravity of scientific research for solving the problems of modernisation into educational structures that have not yet the necessary infrastructure for these purposes and, which is even more important, scientific schools (that, as well known, provide the basis of research activities and are being formed for decades). The sample is taken from the United States possessing the network of universities that perform the lion's share of basic research, and national academies are voluntary public associations that do not receive budget funding. Science in Western Europe (and later in the United States) has historically occurred at universities as research and education complexes. The Russian Academy of Sciences was an initiative of Peter the Great as exactly a *research institution*. And so far here, in spite of all past and present problems, the most qualified and internationally recognised research workforce is concentrated. It appears that government policy should be aimed at enhancing the role of basic research in solving the problems of modernisation, and the academy sector should maintain its position as the leading research centre in the country.

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## Multi-dimensional challenges and governance in the Baltic Sea region

By Jan Widberg

The future path of the Baltic Sea Region holds numerous opportunities, but also continuous challenges: environmental threats, economic disparities, imbalances in social welfare, pockets of poor health and social well-being, infrastructural deficiencies. Perhaps the core challenge of the Region is to develop its economic potential for the sake of prosperity and social welfare, while at the same time restoring and protecting environmental sustainability. Further progress in and of the Region will be achieved only by working more closely together and making sure that all major stakeholders in the Region are on board.

It is of decisive importance to acknowledge that there indeed is a multitude of potentials to be harvested from a more integrated Region, both internally and externally. Stronger cooperation in the fields of economy, energy, infrastructure, and the promotion of a common labour market with fair conditions for industry and labour, will strengthen the Region's competitiveness in a wider European and also global scale.

Cooperation on health and social welfare issues will reinforce social well-being throughout the Region, which is a basic precondition for an inclusive democracy and economic growth. Cooperation on education and research will help boosting the intellectual excellence of the whole Region. Cooperation in the fight against crime and corruption will make the Region a safer home for its citizens. Frequent personal encounters and tourism promotes an understanding of the common cultural heritage and nurtures a sense of togetherness. Therefore, it is necessary to facilitate mobility within the Region and to tear down administrative and physical hurdles, such as visa restrictions, for an unimpeded movement of people and enterprises. This is especially pertinent in border regions with a coherent economic-geographic character.

A large number of collaborative organizations and institutions have sprung up over the years, fostering joint endeavours for the benefit of the Region and its citizens. The track record of cooperation so far is satisfactory, yet there is still a long road to travel before the Baltic Sea Region can be seen as fully cohesive. A basic tenet of enhanced cooperation in the Region, and thus cohesion, is to encourage the evolution of a deliberate division of labour between stakeholders, aiming at strengthening their comparative advantages and, by synergies, their combined capacity to manage the challenges of the Region.

An open and all-embracing political dialogue is an inherent component of the overall development of the Region. The BSPC, for instance, with Russian Chairmanship in 2011-2012, gathers parliamentarians from altogether 27 parliaments and parliamentary organizations around the Baltic Sea. BSPC constitutes a platform for a candid political debate, which is a prerequisite for the pursuit of pragmatic approaches and compromises to complex issues. Hence, BSPC contributes to a transparent, democratic and progressive political process, as well as to practical solutions, in the Baltic Sea Region.

By and large, economic resources are available, albeit through different funding channels. Since the overarching objectives of the major strategies of the Region coincide to some extent, there are synergies that can be harvested in the coordination and implementation of strategies. It is therefore important to bring sharper clarity over the availability of various financial resources, and to use them flexibly and efficiently. Various funding channels must be better aligned, and access to funds should be widened and facilitated for all stakeholders

of the Region. This would support a development of projects and approaches which is based on the nature of the challenges, regardless of their geographical distribution, and not on administrative divisions.

A successful management of the challenges of the Region also requires an innovative mode of regional governance. Governance, in this context, refers to a flexible and pragmatic pattern of interaction for information exchange and cooperation between stakeholders, which can contribute to clarity and an overview over activities and resources, and boost their individual and collective impact - in accordance with the venerable formula that the whole is greater than the sum of its parts.

Against this background, the concept of multi-level governance is constructive. It implies an interaction between stakeholders on a vertical axis – national, regional, local, and civic. It should also be supplemented by a horizontal dimension, one which embraces multi-sectoral governance in order to integrate various policy sectors into a holistic approach. Challenges are not only transcending territorial borders; they are also spilling over sectoral boundaries. Such a view is intrinsic to the macroregional concept, as well as to the holistic strategies of e.g. Integrated Maritime Policy and Marine Spatial Planning.

This adds up to what can be called a multi-dimensional mode of governance in the Region. Commendable efforts have already been launched to support such patterns of interaction: The Forum for the EU Strategy for the Baltic Sea Region is one, the Northern Dimension Parliamentary Forum another. They are serving as a kind of town hall meetings, where citizens, experts and decision-makers can congregate and exchange opinions and ideas. Perhaps they should also be complemented with a more condensed working meeting format, a sort of a recurrent round table of chairmen of the organizations in the Region, in order to pursue hands-on discussions on how to complement each other's competencies, promote a division of labour, and synchronize agendas and priorities.

At the end of the day, though, the value and success of cooperation in the Baltic Sea Region will be judged by its capacity to improve the welfare – in a wide sense – of the citizens of the region. Strategies and programmes win credibility both from the sense of participation that citizens experience during their preparation and implementation, and from their ability to deliver tangible and positive results in people's everyday life. A sincere and expanded dialogue with citizens, NGOs, civic organizations and others should therefore be an integral part of cooperation and governance in the Baltic Sea Region.

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## CPMR Baltic Sea Commission as a developer of the Baltic Sea Area

By Janne Tamminen

The Conference of Peripheral Maritime Regions (CPMR) is a European think-tank and lobbying organisation of more than 160 Member Regions from 28 countries. It was founded in 1973 in Brittany, France, on the basis of three issues, a need for greater involvement of the Regions in European integration, disparities in competitiveness between the central part of Europe and its peripheries and insufficient enhancement of Europe's maritime interfaces. The decision-makers in the CPMR are elected politicians from Member Regions.

The Baltic Sea Commission (BSC) was founded in 1996 and it is one of the six regional Commissions of the CPMR. In those days the Baltic Sea Region had experienced a huge transformation after the collapse of the USSR. European integration was accelerating and several challenges such as social diversion, insufficient infrastructure and environmental threats had even greater importance than before. Today the Baltic Sea Commission gathers 26 Regions in seven countries around the Baltic Sea and Norway.

The main activities of the CPMR Baltic Sea Commission include Cohesion Policy, EU 2020, Maritime Issues, Transport Issues, Neighbourhood Policy, Energy and Climate Change. Some of these sectors have a specific working group. In this article I will highlight some of the main issues that are currently on the agenda of the Baltic Sea Commission.

### BSC and the EU Strategy for the Baltic Sea Region

The Baltic Sea Commission has actively taken part, from the first stages, in the elaboration of the EU Strategy for the Baltic Sea Region (EUSBSR). As the first of a series of macro-regional strategies where the territorial approach is new, the Baltic Sea Strategy has great expectations. Our objective here has been to emphasise the concrete meaning and the contribution of the EUSBSR for our Member Regions, and to encourage Member Regions to actively take part in the implementation. Several Regions that are Members of the Baltic Sea Commission have a very active role on the Baltic Sea Strategy.

The EUSBSR is aiming at developing a prosperous, sustainable, attractive, accessible and safe and secure Region. This will be achieved through a clear focus on 15 priority areas and 13 horizontal actions. One of the horizontal actions is to strengthen multi-level governance to create a stronger implementation capacity for the EUSBSR.

### Maritime and transport issues are crucial for peripheral maritime regions

Maritime issues also constitute one of our key priorities, because the sea basin dimension is very important for the organisation. The CPMR has supported the European Commission in shaping the Integrated Maritime Policy (IMP). The Baltic Sea Commission will be involved together with the CPMR in specific technical and political initiatives concerning the re-launching of a new policy cycle of the IMP.

Maritime Spatial Planning is expected to be an efficient new tool which has potential to deal with a number of issues related to sustainable use of the seas in the Baltic Sea basin. Maritime Spatial Planning (MSP) and Integrated Coastal Zone Management (ICZM) have had a great importance in the work of BSC.

Regions dealing with spatial planning and development issues also see a clear need for transparency, predictability, coherence and stability to support the planning and management of coastal sea areas in the interest of sustainable

economic growth. A key aspect of this is the interaction between regional, national and EU level planning, as well as EU level mechanisms that ensure coherence across borders.

MSP and ICZM are about organising the coexistence of competing objectives in coastal areas and at sea. That includes economic, environmental, social and cultural objectives. Cross-border cooperation of these areas has a strong significance. Efficient planning of activities has crucial importance for coastal Regions.

Also other issues on maritime fields are appearing on the agenda of the BSC in line with the EU agenda and the action of the CPMR in general. Maritime safety, fisheries or shipbuilding has great importance for several BSC Member Regions.

Due to their location being far away from the European core area, the question of accessibility is crucial for the Regions around Baltic Sea. Many of them are strongly dependent on maritime transportation. The BSC actively follows EU Transport Policy. The main issue has been the revision of the Trans-European Transport Network (TEN-T). At macro-regional level, the BSC will continue to cooperate with relevant transport projects under the Interreg Baltic Sea Programme, and we will also follow the EUSBSR in transport issues.

### Towards increasing cooperation around the Baltic Sea

All countries around the Baltic Sea belong to the EU except Russia. However links with Russia are one of the key issues of the BSC. The importance of Russia will rapidly grow in the near future, and it will have a big influence on economic development, maritime issues, transport etc. More contacts and cooperation with Russian Regions in Baltic Sea area are needed. Many Regions and cities already have their bilateral relationships with Russian partners and we are rather optimistic to raise more cooperation also through organisations.

Around the Baltic Sea there are a plenty of organisations and some of them work on rather similar issues. The CPMR Baltic Sea Commission will be developing cooperation with other Baltic Sea organisations. Cooperation is necessary and it will increase. Initiatives are taken to organise joint events and adapt joint papers. However, each of the Baltic Sea Area organisations has its own place. All the organisations have their own history, different kinds of Members and structure and their own working methods. That's why I think there will continue to be several Baltic Sea organisations in the future too. If we take a look at the EUSBSR and the idea of macro-regional strategies I think that the large amount of operators testifies the high level of activity within the area.

The CPMR Baltic Sea Commission is a forum for the gathering of politicians and experts of its Member Regions. We collaborate for the success of Baltic Sea Area. In the global context most of the regions around the Baltic Sea are relatively small, but the whole Baltic Sea Area collaborating together will be an attractive and competitive entirety.

Janne Tamminen

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# NDEP – a partnership delivering concrete results for the Baltic and Barents Seas

By Jaakko Henttonen

The Northern Dimension Environmental Partnership (NDEP) celebrated its 10th Anniversary in June 2011 at the premises of its most committed client, SUE "Vodokanal St Petersburg" with high level international attendance. "The NDEP is a real – one might say the biggest – success story of cooperation between the European Union, the Russian Federation and other countries in Northern Europe", stated Mr Paavo Lipponen, former Prime Minister of Finland, in his opening address.

The success of NDEP lies in its ability to implement concrete projects to improve the environment of the Baltic and Barents Sea regions which make up the Northern Dimension Area (NDA). There are many initiatives in these regions promoting environmental sustainability but ultimately, it is the concrete results that matter.

## Concrete results

The NDEP was set up in 2001 to address some of the most pressing ecological problems in the NDA. Of particular concern was the nuclear legacy of the Russian Northern Fleet, poor wastewater treatment, lack of energy efficiency and inadequate management of municipal and agricultural solid waste - initially in north-west Russia (including Kaliningrad) and also more recently in northern Belarus.

At the start of 2012 the NDEP portfolio has 28 concrete projects which, once implemented, will deliver significant pollution reductions in the Northern Dimension region. Phosphorous will be cut by 2,300 tonnes per annum (HELCOM target for Russia is 2,500 tonnes per annum). Nitrogen will be reduced by 7,600 tonnes per annum (HELCOM target for Russia 6,970 tonnes per annum). Carbon dioxide emissions will be cut by over 400,000 tonnes per annum. Thanks to NDEP co-financed projects, the city of St Petersburg is set to reach 98% efficiency in wastewater treatment by 2015. The NDEP Nuclear Safety window has 10 projects fully grant funded to address the safe storage and transportation of the spent nuclear fuel in the Kola Peninsular, including the decommissioning of the "Lepse" ship presently moored in Murmansk.

## Formula for success

By means of its high level political profile, the NDEP has managed to pool **substantial financial contributions** in excess of EUR 330 million from the European Union, Russia, Belarus and ten other countries (see Table below).

NDEP Support Fund in 2011		
Environmental	Nuclear	
€44 m	European Union	€40 m
€60 m	Russia	€40 m
€26.1 m	France	€40 m
€10 m	Sweden	
€10 m	Germany	€10 m
€19 m	Canada	€20 m
€3.1 m	Finland	€2 m
€10 m	UK	€25.2 m
€1 m	Norway	€10 m
€10 m	Denmark	€1 m
	Netherlands	€10 m
	Belgium	€0.5 m
€1 m	Belarus	
€173.2 m		€158.1 m
		€331.3 m

The funds are used as grants by the International Financial Institutions (EBRD, NIB, EIB, NEFCO and World Bank) which act as the Implementing Agencies of NDEP. Through their **unique experience in the region**, the IFIs are able to secure the most optimal financing packages through a combination of loans, grants and local budget funds. The NDEP grants are used as incentives to attract other sources of funding and to make otherwise difficult projects in the municipal infrastructure sector financially viable. So far the loans for NDEP projects by IFIs amount to EUR 680 million with total investment costs exceeding EUR 3.3 billion.

The NDEP has a **light operating structure** as it utilises the existing resources and expertise of the International Financial Institutions. The European Bank for Reconstruction and Development (EBRD) acts as the Fund Manager of NDEP. The Assembly of Contributors is the main governing body who decides on grant allocations to projects. The International Financing Institutions are the main driving force behind the preparation of bankable projects which are then presented to the Assembly for approval.

Although the concept of the NDEP was initially developed during the consecutive Finnish and then Swedish Presidency of the European Union in the late 1990s, the NDEP benefits from a great deal of **political openness** to initiate dialogue with other countries. A case in point is Belarus which joined NDEP in 2001 with a donation of EUR 1 million. The NDEP contributors recognized the cross-border impacts of improved wastewater treatment in Northern Belarus whose rivers flow into the Baltic Sea. For instance, the Belarusian town of Baranovichi located close to the Polish border with a population of 165,000 produces 32 tonnes of phosphorous per year which flow untreated to the Baltic Sea through the Neman River. In contrast, Stockholm Water which services 1.2 million people with adequate treatment produces only 16 tonnes of phosphorus per year. Based on initial commitment from Belarus, three wastewater treatment projects for Vitebsk, Grodno and Brest were approved for NDEP grant funding. The investments will be implemented with loans from the EBRD and NIB.

## Challenges

NDEP projects are in the municipal infrastructure sector where, due to prolonged underinvestment, the municipal companies face serious problems of low creditworthiness and continuous deterioration of assets. Bureaucracy often slows the implementation of projects in the municipal infrastructure sector.

Kaliningrad wastewater project is an example of such challenges. The IFI loans were signed in 1999 already but there has been little progress. Thanks only to political pressure and funds pooled by NDEP, the project was put back on track and construction of the vital wastewater treatment plant is now finally in progress with expected completion by the end of 2012.

**Future activities and lessons learned**

During the first 10 years of NDEP all the major cities within the NDA have managed to upgrade their wastewater treatment facilities (with the exception of Kaliningrad). The next step is to modernize wastewater treatment plants in small municipalities. For example, in Leningrad region alone 184 wastewater treatment plants in smaller towns need to be rehabilitated. NDEP will continue, in close cooperation with Russian federal and local authorities, to pool funds for further essential tasks to reduce direct discharges.

In addition, projects to raise energy efficiency are highly prioritized by NDEP partners, also better management of agricultural and municipal solid waste. These challenges will undoubtedly require NDEP actions beyond the present mandate of 2017, as indicated by the 10th Anniversary statements.

The main "lesson learned" from NDEP for any other initiatives in the region is to have concrete and deliverable objectives. The first NDEP project, the St Petersburg Southwest Wastewater Treatment Plant - inaugurated in 2005 by the Russian and Finnish Presidents - proved the success of the NDEP framework and created the necessary trust and commitment.

In conclusion it is the spirit of good cooperation shared by all the NDEP partners and its practical approach that makes this Partnership a success and a model for other initiatives to follow.

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## Germany and the Baltic Sea region

By Bernd Henningsen

Germany and the Baltic Sea – that is a topic with many variations. According to political taste or regional location, the intonation of the melody may differ, or its volume may vary, sometimes going completely silent; in Northern Germany, the sea is more prominent than in the south; the government and the opposition use this topic to differentiate each other, and state (*Länder*-) parliaments and governments have an even greater need to distinguish themselves. In this respect, the attention Germans pay to the Baltic Sea Region is not substantially different from that of other Baltic Sea countries.

As Germany, in 2000/01 – ten years after the fall of the Berlin wall and the reunification of Germany, but also ten years after the restoration of unfettered access to the entire Baltic Sea – first held the Presidency in the Council of Baltic Sea States (CBSS), the opposition in parliament sent a large letter of inquiry to the Federal Government, who responded under the ambitious title: ‘The Baltic Sea Region – opportunities and risks in a potential growth region of growing world-wide significance’<sup>1</sup>. On 80 weighty, oversized pages, with numerous statistics and data, the political, economic, and cultural significance of the Baltic Sea Region for Germany and the world was laid out.

Even though we thought at that time, that more efforts were necessary, the Baltic Sea Region, as described in this official document, had a high priority in German policy. Accordingly, the German government offered a considerable programme to accompany their presidency: it included government meetings, conferences, scientific seminars, and cultural events. High-level representatives of the parliament and government made knowledgeable contributions, political and cultural ambitions were formulated, and programmes were promoted. Notably, the government indicated the significance that the region occupied in government affairs through the creation of a ‘Baltic Sea Ambassador’ (even though this title was informal) – an act which was not mere symbolism.

After all, the Baltic Sea Region, and the Council of Baltic Sea States’ secretariat, in Stockholm, were of vast relevance to German politics and the economy: travel and trade with the Baltic Sea states had, since the *Wende*, grown incredibly, and the eastern Baltic Sea states (Poland and the Baltic countries) were not yet part of the EU. Above all else, the oft-cited fact that Russia was also present gave weight to the region in general, and the secretariat in particular: the Council of Baltic Sea States provided an opportunity for equal footing when communicating and dealing with Russia.

The Baltic Sea has been (nearly) an internal sea of the EU since 2004, and important resolutions – as well as those affecting the region – are now written or discussed in Brussels, rather than Stockholm, Berlin, or Copenhagen, or at least, that’s the impression. At the time of Germany’s Council of Baltic Sea States Presidency, the office of the German ‘Baltic Sea Ambassador’ was restricted, their duties and presence were reduced and their personal resources were trimmed. The Council of Baltic Sea States summit has long waited in vain for the attendance of a German head of government: only Gerhard Schröder came to Danish Kolding in 2000.

Anyone who speaks with officials today about the topic of ‘opportunities and risks in a potential growth region of growing world-wide significance’ will be greeted with scepticism. Today, the Baltic Sea Region has only marginal importance for

German politics – in other large member states, the Baltic Sea is also seen as a marginal note: the European debt crisis, the world financial crisis, and the revolutions in the Arab world occupy people’s attentions and activities.

This is what the programme of the second German Council of Baltic Sea States Presidency of 2011/12 looks like – it was decided on at short notice, it is not very elaborate, and its presentation is modest. If one were to write a caption to convey German political will for co-operation and integration in the region, 20 years after the establishment of the CBSS by foreign secretary Uffe Ellemann-Jensen and Hans-Dietrich Genscher, it could be ‘Is that really necessary?’ On the year of its anniversary, the Baltic Sea Region is no longer an orchestra, but a solo performance. In comparison to the 90’s and 00’s, the North German states and the Federal Government are occupied with small change,<sup>2</sup> rather than lasting efforts. Disinterest and disinclination usurped German policy – the Baltic Sea is not a centre of conflict, nor a threat; economic relations are healthy, as is political exchange.

Evaluating the worth of strong neighbourly relationships, and that even symbolic presences have real political pay-offs, is hard. An example of this lack of sensitivity would be the handling of one of the largest investments projects in the region: the natural gas pipeline between Russia and Germany, which went into operation last year. There can be no doubt that this was a huge effort and an important investment in the European energy supply. That the project did not succeed in becoming a multilateral project, a common Baltic Sea project, was, in the final analysis, a poor showing: Russia and Germany and no-one else got it done, or so it appeared to their smaller neighbours.

Thus, it appears that German politics have, after the Baltic Sea enthusiasm of the 90’s and 00’s, returned to a state that is more similar to that of the post-war period, when the Baltic Sea, declared by the East German regime to be a ‘Sea of Peace’, was in contradiction a no-go area. This finding is only cushioned by the fact that, for all intents and purposes, none of the other Baltic Sea states have greater regional ambitions – despite great effort on the part of the European Commission towards the strengthening of regions, especially the Baltic Sea Region. But that’s another topic.

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<sup>1</sup> Print material from the German Bundestag 14/2293, on 1.11.2000 („Die Ostseeregion – Chancen und Risiken einer Wachstumsregion von zunehmender weltweiter Bedeutung“) <http://dipbt.bundestag.de/dip21/btd/14/044/1404460.pdf> [30.01.2012]

<sup>2</sup> Print material from the Landtag of Schleswig-Holstein 17/1622, on 01.07.2011 <http://www.landtag.ltsh.de/infothek/wahl17/drucks/1600/drucksache-17-1622.pdf> [31.01.2012]

## Baltic Sea region cooperation at a crossroad

By Gunnar Lassinantti

Twenty years ago the official Baltic Sea Region cooperation after the end of the cold war started and the Council for Baltic Sea States, CBSS was established. Compared to other regions in Europe and the rest of the world the Nordic and the Baltic sea regions have probably the most comprehensive and active operating structure based on common institutions and networks in many different fields.

In spite of this fact there is a need to evaluate what the cooperation has achieved, the state of the region today and prospects for the future. These topics were discussed in Gdansk in the end of October last year when a combined conference was held for the business organisation Baltic Development Forum, BDF and the Second Annual Meeting by the European Commission on the Baltic Sea Region Strategy.

The Baltic Sea Region Strategy which was adopted by EU a few years ago sticks predominantly to the concept competitiveness. The aim of the strategy is to raise the region to become the most competitive region in Europe and a stronger stakeholder in the world economy. Means as more innovations and improved infrastructure in areas like financing, physical assets, communication, research and education are strongly underlined in the strategy.

Even if also the Baltic region is affected by the global financial crises from 2008 it has preserved a relatively better economic position compared to many other regions as for example southern Europe.

The Baltic Sea Region Strategy – taking into account its positive aspects – can be criticized for its narrow perspectives. The strategy relies very much on official authorities, institutions and networks, a pattern that was apparent regarding the composition of the participants in the most recent Gdansk conference. Representatives of branch organizations rather than directly from enterprises took part.

A European social dimension was very much lacking in the Gdansk discussions. The off-going president of the BDF, the former Danish Foreign Minister Uffe Elleman Jensen suggested that even more limited priorities should be strived for in the Baltic cooperation.

Social themes and the importance of the civil society and its particular bottom up profile were absent in Gdansk. A few number of NGOs and people dealing with social affairs were present and hardly no trade unionists participated in the conference and, thus, limited the perspectives.

There are several unfinished or even retarded questions to consider in the cooperation.

In 1990 the prime ministers of Sweden and non-communist Poland invited to a summit in Ronneby, Sweden to discuss environmental challenges. That was the very starting point for the cooperation with the "new neighbours east and south of the Baltic Sea". Since then a comprehensive apparatus of authorities, institutions, networks and cross-border operating banks have been established and involved in different environmental programmes. Some important measures have been carried out as improved sewerage facilities in the cities of Saint Petersburg and Kaliningrad. But still very much has to be done in order to save the Baltic Sea for the future in ecological terms. The remaining problems and the question why not more has been achieved in this area should be analysed and discussed.

The two previous German states were united in October 1990 and the three Baltic states got their independence after the failed coup attempt in Moscow in August 1991. That changed fundamentally the geo-political conditions in the region. After some years the former communist states, except Russia, became members both of the EU and the Nato. Soviet

Union and Russia had been promised no expansion eastwards of Nato by the US, but no formal agreement had been signed. After some time forced by Poland's strong wish to become a member the informal agreement was dropped and several countries entered the alliance.

West doesn't usually think in terms of how Russia's reaction might be, but rather to ignore it. Undoubtly the process of expanding Nato has permaneted a great part of suspicion against the west and prevented a development to more confident relations between Russia and the West. The negotiations within OSCE on a European Security Architecture has not been fulfilled into any final document. Russia's request on guaranteed security stands against "West's" proposals on the human dimension.

Growing appearance of intolerance and xenophobia directed towards ethnical and sexual minorities must be more firmly approached and solved within the framework of the Baltic Sea Region cooperation. Trafficking and severe cross-border criminality have to be met by contra-measures. The same in fact must be the case regarding limitation of press freedom and journalists work as well as NGO's and the civil society's possibilities to operate independently and in contact with their partners abroad.

Development of real democracy in theory and practice must be a matter of highest priority in the cooperation on all levels. Cross-border culture projects started already at the time of the divided Baltic Sea Region and have continued with new forms of activities after the opening of the Berlin Wall.

The interplay between multilateral and bilateral forms of cooperation has to be reconsidered and a real bottom up model preserved. When the Baltic States and Poland became members of the EU from May 2004 it was understood that previous national sources for aid and assistance should be replaced by funds and projects under the auspices of the EU. This new model of decision making has not functioned in a satisfying way. The EU bureaucracy in Brussels is far away and the rules to get accessibility to EU money very complicated and they need a lot of administrative capacity which most small NGOs are lacking.

The earlier, now closed national funds have led to negative consequences and in fact caused dramatically reduced bilateral contacts, projects and cooperation between the civil societies in for example the Nordic countries and the Baltic states/Poland during the last 7-8 years. There is obviously a need to rethink this new reality by governments, parliaments, authorities and cooperation institutes and also to reopen and allocate resources to some of the previous programmes.

The Baltic Sea Region cooperation for the future needs a variety of forms, many actors, hard day to day work, committed contacts, cross-border discussions and projects and a remaining bottom up model.

*Gunnar Lassinantti*

*Member of the board*

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## Growth in vessel transport necessitates regional cooperation on maritime safety and security

By Bjarke W. Bøtcher

When the EU Strategy for the Baltic Sea Region was adopted in 2009 its 15 Priority Areas addressed a long range of issues of which one is maritime safety. The overall aim of this Priority Area is to make the Baltic Sea a leading region within maritime safety and security. The work is jointly coordinated by the Finnish Ministry of Transport and Communications and the Danish Maritime Authority.

Maritime transport is most important to the region. The total cargo throughput of the ports in the Baltic Sea Region will, according to the forecast of the Baltic Transport Outlook published in December 2011, increase by 30 percent from 2010 to 2030, while the average annual growth rate is approximately 1.3 percent.

According to the Outlook growth can be expected in most segments of maritime transport, with the exception of liquid bulk including oil; which may decrease somewhat in the future. A sizable level of oil transports will, however, remain. Even if the growth rate is lower than the rates previously experienced it is still a significant figure; which tells us that vessel traffic in the region is expected to grow considerably in the years to come.

From the viewpoint of maritime safety, the growth raises a number of challenges.

The Baltic Sea is already heavily trafficked with nearly 2000 ships operating at any given moment. Moreover, the Baltic Sea is shallow; the fairways in some places - in particular through the Danish straits - are quite narrow, and the marine environment most sensitive to pollution. At the same time, the amount of and also the size of vessels are growing. In the Northern parts of the Baltic Sea ice is frequently a challenge to navigation. In this context it is worth noting that already today the largest vessels are wider than the width of the icebreakers normally available.

The expected introduction of liquefied natural gas (LNG) as an environment-friendly fuel for consumers on land as well as for ships will imply frequent visits of large LNG tankers to some ports of the Baltic Sea which impose new and still partly unknown safety challenges.

All this calls for regional cooperation including a policy dialogue, better exchange of information between authorities, joint planning and dissemination of best practises, and not least common development of new and smarter solutions.

### Regional contributions to the global level

In the EUSBSR Priority Area on maritime safety and security we aim to contribute to this. In order to ensure that the activities are anchored all over the region, the Priority Area Coordinators have created an international Steering Committee encompassing representatives of relevant maritime authorities in the Baltic Sea States and regional organisations such as HELCOM and CBSS as well as the European Commission.

The Committee has an ongoing dialogue on maritime safety and security issues, and has recently decided to undertake the preparation of a joint, regional scenario for the development of maritime safety and security in the Baltic Sea Region. This scenario will hopefully allow joint discussions on how to plan and prioritise the work in accordance with the future needs of the region. Furthermore, the Committee monitors the currently eight Flagship Projects of the Priority Area, in which authorities and organisations at different levels from all over the Baltic Sea Region cooperate to achieve results in such fields as:

- Improve exchange of real-time maritime surveillance pictures and situational awareness, information between coast-guard functions and maritime authorities in order to enhance maritime safety and security, and to improve pollution prevention and response thereby contributing to achieving a

common information sharing environment. The Maritime Surveillance North project (MARSUNO) headed by the Swedish Coast Guard and the Baltic Sea Maritime Functionalities headed by the Finnish Border Guard are useful examples of Flagship Projects in these fields.

- Speed up resurveying of major shipping routes and ports to remedy the fact the sea charts of the Baltic Sea in some areas are based on surveys which are nearly 100 years old. This enhances the safety and in some cases new surveys can allow adjustment of shipping routes and help to save fuel. This work is carried out by HELCOM and the Baltic Sea Hydrographic Commission.
- Become a pilot region for e-Navigation by developing prototype infrastructure for e-Navigation and testing selected services, which i.a. may allow the helmsman to see real-time maritime safety information displayed directly in the chart. In two consecutive years, conferences on e-Navigation organised by the EfficienSea project have attracted the world community within its field and has resulted in a regional contribution to the development of a global standard for e-Navigation within IMO.

Other Flagship Projects of the Priority Area concern the development of centres of excellence for maritime training, efforts to reduce the number of accidents in fisheries, making a risk assessment for LNG carriers in the Baltic, and to minimize the risks of transporting dangerous goods by sea.

Such important projects require funding – and often more than the regular budgets of the participating institutions can offer. For the Priority Area, it is therefore crucial, that the EU funding programmes will welcome project proposals regarding maritime infrastructure and maritime safety issues in the financial perspective 2014-2020, which is being negotiated these months.

Russia is an important maritime actor in the Baltic Sea Region. Several of the ports which can expect significant growth in the years to come are Russian. Naturally, good cooperation with Russia is essential for several of the projects and initiatives mentioned. Fortunately, Russia is already actively participating in some projects whereas the Priority Area Coordinators would welcome additional Russian involvement in other fields of activity.

Albeit shipping is global by nature, and therefore traditionally has preferred global rules and standards to regional ones, certain challenges may apply to a given region only or can be addressed better or faster in a regional perspective, from which new forms of cooperation and solutions could be conveyed to the global level.

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# Baltic Sea region clusters as platforms for a global maritime growth potential

By Mervi Pitkänen

Go global? It is a question today among the companies a bit similar than to be or not to be.

The global economic and structural development in terms of business, manufacturing and innovation activities, create both new opportunities and challenges for companies and other actors in Baltic Sea region. Today even more globalizing business, companies are more involved in the global value chains. However even though SME's are still more directly involved within the local markets, the value chains of large companies are global and therefore affecting highly to the SME's. The global affects, industrial, economic and social are coming more and more local also.

But to go global, sets companies in front of new challenges.

More generic skills are needed among companies. The product itself is not enough in the global markets and features serving more for example added value such as services are required. This leads to the fact that development required in companies business change also. Moving more from specific technical product development towards business development is inevitable.

This encourages seeking cooperation across the geographical borders. Especially for SME's the "home market" Baltic Sea region is the most obvious first international environment.

This requires also public actors to form novel means of supporting mechanisms especially for research and development activities.

The raises the question for private-public discussion, of which strategic areas of competence are the ones where the Baltic Sea Region is able to provide added value in global value net-works. In the global business environment, the Baltic Sea Region should seek to establish innovation environments in selected field of sectors, which attract the most advanced and growth-oriented companies and highly skilled workforce.

The central objectives should be aimed at enhancing and renewing the competence based competitiveness of trade and industry, national economy and regions through a broad-based innovation policies.

The EU Maritime Policy states that the oceans and seas to be approached in a holistic way, and this creates the vital discussion for the change of the mindset from the traditional sectorial approach among the maritime clusters more towards reformed value creation.

Value creation that takes an overall view for economic and sustainable development aspects of the oceans and seas, including the marine environment is the key novel approach for future competitiveness.

The economic role of Baltic Sea Region and maritime-related activities and businesses will increase also in the future. The climate change is estimated to bring new areas and locations and possibilities to develop the strategic location of the Baltic Sea. The industry has also the possibility to grow as part of this.

## Potential for BSR cooperation and renewal

The Maritime Clusters serve as a strong link both regionally and nationally as well as internationally between research and business actors in the BSR maritime and shipping industry. Clusters offer companies a triple-helix cooperation model, forums and contacts for the joint development of new products and business ideas together with universities and other educational institutions, public administration bodies and investors.

New models for transnational and multi-regional cooperation platforms between the BSR maritime clusters should be

developed in order not only to improve the competitiveness of the maritime value-chains but also increase the cooperation between companies and universities.

These platforms should aim;

- To form a functional model and management to increase macro-regional scientific re-search and development as well as education within the maritime and offshore industry
- To build internationally acknowledged innovation hubs, world class innovation and re-search networks
- To facilitate the emergence and development of innovative, globally competitive and effective transnational innovation and research platforms for creating new competencies and business opportunities

## Strategic alliance between cities, universities, companies and other regional development actors

Renewable innovation environments are concentrating on macro-regional and transnational innovation hubs and business concentrations for renewal and growth. These innovation environments create novel platforms for upgrading of methods and tools for the innovation process to better meet the changing global business requirements.

Due to the global structural and economical changes, the efforts are to be directed in strengthening the competitiveness and in promoting the growth-oriented business possibilities.

Governments, regions, universities and individual companies are facing also challenges to find new strategic methods for triple-helix cooperation to address the changes in the environment. One of these efforts is BSR Stars, a joint effort by the Baltic Sea and Nordic countries which has been developed over a period of one and a half years, involving approximately forty people from ten countries' ministries and national innovation agencies. Currently from the beginning of project 2011, 67 partners from businesses, innovation centers, cluster initiatives and region innovation agencies have agreed to participate in the project. There is a strong commitment to make the flagship BSR Stars work, be part of implementing the EU BSR Strategy, and contribute to EU 2020 and Europe's innovation capacity.

As the long-term vision of BSR Stars is to establish the Baltic Sea Region (BSR) as a functional region with an internationally competitive position in a number of strategically-prioritized areas and to be globally-recognized for its multidisciplinary research and education, attractive business conditions, open and internationally-collaborative innovation environments, and high quality of life.

This programme is good example of significant efforts done by the private-public actors to enable companies be more competitive in the global markets, developing their business locally within Baltic Sea Region i.e going global, but acting local.

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## Regional and European determinants in favour of the development of the port of Gdańsk

By Julian Skelnik

Throughout its over 1000-years' history Gdańsk has unceasingly been associated with its port. The untrite history of the city of Gdańsk has always influenced the port and vice versa: the development of the port contributed to the welfare of the city and the very Poland as its natural hinterland. The motto on the Gdańsk coat-of-arms says: "Nec temere, nec timide", and it explains pretty well the way Gdańsk has acted.

Under the Polish reign in the so-called golden age of XV-XVI centuries, Gdańsk, a member of the Hanseatic Union, was the most populous and the richest city of the past Rzeczpospolita (Republic of Poland). At that time Gdańsk became a dynamic centre of European trade exchange, being also the biggest port in the Baltic and second biggest in Europe.

Gdańsk is the place of both the beginning of World War II and of its virtual end. It is there that the Hitler Germany attacked the Polish Westerplatte transit outpost on 1st September 1939, and it is also there, in the Gdańsk Shipyard, that the *Solidarność* Agreements were signed on 31st August 1980, thus giving an impuls for the collapse of the communist regime all over Europe.

Formerly, in the interwar period the Free City of Gdańsk could not spread its wings as a port since it was cut off from Poland's hinterland. That is why Poland had to build a new sea port in Gdynia to satisfy her sea trading needs. The post-war communist rule in Poland created a different concept for both the ports: Gdynia became specialized in general cargo handling, Gdańsk – mostly in bulk cargo. The building of the Outer (Northern) Port in Gdańsk in the 1970s seemed to strengthen this tendency.

Today, thanks to erecting the Deepwater Container Terminal (DCT), Gdańsk has been gradually increasing its general cargo turnover (to make it come up to almost 30% of the total turnover volume in 2011). The DCT became a container hub in January 2010 when the first MAERSK big ocean-going liner sailing from China called at the port of Gdańsk. After a short time the figures (for 2011) representing the container turnover in the port, showed already nearly 700 thousand TEU, by the way having left the port of Gdynia behind in 2010.

Gdańsk can boast of having six features a good port must absolutely have: 1) convenient location, 2) convenient location, 3) convenient location, 4) access infrastructure, 5) expansion areas, 6) environment-friendliness. It seems that any other Baltic port can hardly meet these criteria to an equal extent. Enough to say, the port of Gdańsk, situated centrally in the southern Baltic, never freezes.

Location means also hinterland, and the latter comprises not only Poland with her population of almost 40 million (out of about 100 million consumers in the whole Baltic region), but also at least Slovakia, Hungary, Belarus and a big part of Ukraine. Thanks to Poland keeping up good economic relations with these countries, the port of Gdańsk has good prospects for handling a considerable portion of those partners' foreign trade volume.

This is right now starting to be the case as far as container traffic is concerned. New investments to expand the DCT are envisaged to increase its handling capacity to as much as 2 million TEU in the next few years.

A new logistic centre designed to be erected soon in the neighbourhood of the DCT in the Gdańsk Outer Port, on the basis of public-private partnership, will foster the development of the port as a hub. The investment will also be carried out thanks to the existing area expansion reserves.

On the other hand, it is not a secret that the poor road system in Poland should be dated back to the times the country was under partitions (XIX and beginning of XX centuries) and constituted just peripheries of the occupants' states. This being so also the road access to the port terminals over the past years, including the communist time, was highly neglected.

Only since Poland's accession to the European Union this state of affairs has steadily been changing for better. The European funds of 2004-2006 and 2007-2013 financial programmes have become an efficient instrument to improve the port access infrastructure. Thus a north-south road-rail axis, with a tunnel under the Vistula port canal, the so-called *Sucharski* Route, is being constructed to form a necessary connection with the A-1 expressway, part of the TEN-T Baltic-Adriatic Corridor.

The effective use of the European 2007-2013 funds, as of March 2010, appears to be twice as high as that of Germany and Spain, the second biggest beneficiaries. Simultaneously, the port of Gdańsk, forming part of the TEN-T core network (together with the Gdynia port) hopes and expects to get a due share in the Connecting Europe Facility investment means, recently opened for applications.

At present (2011) the port of Gdańsk takes the 9th position among the top 10 Baltic seaports with a turnover volume of over 25 million tonnes, but the rank of the port is expected to rise due to the growing container volume.

An important factor enhancing the ranking of Gdańsk amongst other Baltic and European ports will appear once the shale gas resources, deemed to be abundant in the Gdańsk Pomerania region, start being excavated. This will make the port of Gdańsk independent of the fluctuating Russian crude oil imports and transit pursued through the Outer Port petroleum terminal.

These factors should contribute to strengthening the role of the port of Gdańsk in the Baltic and in Europe the more so as recent forecasts by competent bodies point out that the Polish foreign trade exchange will increase by 125% by 2025, reaching 692 billion USD (283 billion USD in 2010) against the world average growth of 73% at the same time. Poland's main business partners will remain Germany, Russia, Italy, France and other West European countries, as well as China. The Warsaw stock exchange has entered the year 2012 as the biggest one in Central-Eastern Europe, surpassing considerably in terms of capitalisation (108,6 billion EUR in November 2011) and turnover (58,2 billion EUR) those of Vienna, Athens, Prague and others of the region.

The mentioned trends are supposed to hopefully improve the position of Poland in terms of the GDP value among the EU member states (in 2010 5th last position with almost 8 thousand EUR per capita). It is, however, worth emphasizing that among those countries (and e.g. Russia) it was only Poland to note real economic growth in

the period of 2009–2011. One must admit that the prudence of the Polish government's economic and financial policy merits due appreciation here.

Today the value of the cargo handled through the port of Gdansk amounted to 25 milliard EUR in 2011. The structure of the goods handled in the port of Gdansk was in 2011 the following: fuels – 41%, general cargo including containers – 29%, other bulk – 20%, coal – 7%, grains – 3%. Until 2010 it was exports that prevailed in the port of Gdansk turnover volume. In 2011 the proportion: exports – imports turned to be more like 50:50. At the same time the number of people involved due to the port activity, reached 40 thousand persons.

The port of Gdansk is aware of the challenges it has to face sooner or later. One of the most serious is the MARPOL Annex VI requirements to be complied with in as early as 2015 within the Sulphur Emission Control Area (SECA). Gdansk, however, believes that the outlined opportunities definitely surpass possible threats, and this must result in starting to play a major role in the Baltic Sea Region and Europe, given all the advantages seemed to be lavished on the port of Gdansk.

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## Air cargo in the Baltic Sea region

By Gunnar Prause

The Baltic Sea Region is rather famous for its maritime transportation than for air cargo operations but ongoing activities are indicating that air cargo might play an increasing role in the future transportation of valuable and time critical cargo within the BSR. By analysing current IATA figures it turns out that only 2% of international trade (measured in tonnes) is transported as air cargo but this part represents a value of 35% of all shipped good. Despite the down turn in logistics due to financial and economic crisis long term estimations are expecting an annually growth of 6% for the global air cargo market for upcoming years.

When it comes to EU air cargo situation it can be stated that the total cargo volume is about 12 Mio. tonnes where the main airports and air cargo players are situated in Central Europe. The top 4 EU air cargo airports Frankfurt (FRA), London (LHR), Amsterdam (AMS) and Paris (CDG) are responsible for about half of all handled air cargo inside European Union and they are all located outside BSR. In order to get a better understanding of air cargo in the BSR it makes sense to zoom into the air cargo situation of the largest EU member states in the BSR namely Germany and Poland. Both countries are summing up with their BSR airports to about 5% of their national air cargo volume. The same picture appears by taking a closer look to the total air cargo volume in BSR which amounts to only about 5% of total European air cargo volume.

The main commodity groups of BSR air cargo operations are machinery parts, equipment, high-tech products, fish/food, and fashion goods. The main player in BSR air cargo business is Copenhagen airport ranking as number 16 among EU air cargo airports. The two other big BSR cargo airports are Stockholm – Arlanda and Helsinki – Vantaa but their handled air cargo volume is reaching only about half of the volume of Copenhagen. All other BSR airports are playing a minor role in air cargo business.

An interesting fact of air cargo business is that dedicated air cargo flights are related to intercontinental long haul flights mainly to Far – East Asia and Northern America but this is only about one third of the total air cargo volume. The largest parts of air cargo volumes inside BSR are transported by trucks or as "Belly Cargo", i.e. as additional freight in passenger planes. The biggest part of BSR air cargo business is organised as road – feeder service in a so called "Flying Truck" concept between airports. These truck based air cargo services possess their own flight numbers and they are handled like normal airborne transportation with all ordinary security checks.

In contrast to passenger flights which are based on open ICT – systems the air cargo market is closed, i.e. competition replaces cooperation and joint solutions. This means in practice that the various closed air cargo groups including all well known air cargo companies do not allow a complete air cargo overview, so they keep their information to assure their position on the market. Consequently there is no given information about possible air freight at the single airports in BSR regions that could be booked as possible air cargo for a return flight.

In order to bring more light into the BSR air cargo situation and to facilitate the air cargo related development in BSR Wismar University launched together with 13 other partners from all over the BSR a proposal in the frame on BSR Interreg IV B under the acronym "Baltic.AirCargo.Net" focussing on the improvement of the air cargo transport sector by service oriented ICT-methods and processing logistic network. The project, being approved in June 2010 for three years, aims at enhancing the operating environment in the air cargo sector in the Baltic Sea Region and beyond, by providing complex measures that accommodate the demand for air transport in an optimal way to regional airfreight stakeholders.

The project partners from Klaipeda, Linkoping, London, Norrkoping, Parchim, Riga, Tallinn, Tampere, Wismar and Warsaw will provide a complex analysis of the current situation on airfreight transport market in the BSR, associated infrastructural and operational needs of the regional airports, their prospects for future development and their possible role in the global network of air cargo supply chain. Pilot business actions will explore the air cargo market with a focus on the establishment of a network for the development of value-added logistic services in the Baltic air cargo sector.

By the application of modern service-oriented ICT methods a significant optimization is expected in the synchronization of airport hinterland traffics. The new Baltic air cargo information system will help to optimize airport hinterland traffic, to increase the utilized capacity through additional-booking of transport volume as well as the minimization of fuel and labour costs by bundling of transports. This effects the reduction of air transport related emissions and unnecessary energy consumption - by increasing the efficiency of transport.

Meanwhile in summer 2011 the corresponding air passenger project "Baltic Bird" was approved by BSR Interreg IV B Monitoring committee as the second BSR related air transportation project. The close interaction between air cargo and passenger flights, especially in the area of "Belly Cargo", was the background idea to include Wismar University as a project partner in "Baltic Bird" in order to safeguard a close cooperation and synergy between both air transport projects.

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## The new EU Territorial Agenda – a Baltic Sea region perspective

By Jussi Rautsi

The EU ministers responsible for spatial planning and development adopted the EU Territorial Agenda 2020 (TA 2020) last May during the Hungarian Presidency. The subtitle is Towards an inclusive, smart and sustainable Europe of diverse regions. The Polish Presidency in 2011 kept it steadily at ministerial level and launched it into action. Now it's Denmark's turn to take the baton. With two BSR EU Presidencies in a row, we can take a look what the TA 2020 might mean to the Region.

The TA 2020 is a policy framework for cooperation between national, regional and local actors to promote territorial cohesion as a third pillar of EU cohesion policy. The TA 2020 serves the EU 2020 Strategy by suggesting territorial coordination of EU and national sector policies to improve their efficiency in a certain area. This place-based approach means that measures are tailored according to regional and local needs and capacities. Connecting territorial potentials gives more strength for economical, social and environmental performance: the right instruments, both EU and national, in the right place and time. Maritime spatial planning is included in the TA 2020.

Why territorial cohesion now? The economic crisis and such megatrends as climate change and new energy paradigms point out the need of a territorial approach. A better involvement of regional and local actors in the EU programming process follows the inclusiveness principle of the EU 2020 Strategy. Public-private partnerships are important, and the private sector needs to understand what the territorial approach is all about.

As a new EU goal, territorial cohesion needs new concepts and better territorial knowledge. Besides national data and information, better synthesis research is needed especially on macro-regional scale. The ESPON Programme (European Observation Network for Territorial Development and Cohesion) is geared to produce the knowledge base.

The TA 2020 does not pre-empt post-2013 EU structural funds negotiations, but it points out the advantages of territorial coordination of structural policy measures. The success of the TA 2020 depends on the commitment of Member States and EU institutions. Member States can decide whether they take the TA 2020 into account in their national policy making and spatial planning systems.

The VASAB Long Term Perspective (VASAB LTP) is an explicitly territorial development perspective for the entire BSR adopted by ministers. The VASAB LTP can be used to look at the TA 2020 from the BSR perspective. The BSR is a macro region with exceptional economic, social and environmental diversity. Because of inefficient territorial cooperation and coordination, a lot of development potential is unused. Therefore the BSR is a good testing ground for territorial cohesion. The ESPON is financing a VASAB project on monitoring territorial development in the BSR as a test case for European macro regions. Norway is the lead country and Russia is participating. VASAB and HELCOM are developing maritime spatial planning together.

The TA 2020 includes six territorial priorities. They are:

- Polycentric and balanced territorial development is a key for territorial cohesion. BSR cities and regions should cooperate more to improve competitiveness and overcome the distance from the European core. VASAB suggests cooperation clusters of cities, Helsinki, Tallinn and St. Petersburg being an example.
- Integrated development of cities and rural regions means that cities should look beyond their administrative borders and focus on their functional regions. This is

important in the BSR because of the often large rural and / or sparsely populated areas around cities.

- Cross border territorial integration of functional regions has many advantages for BSR regions, both urban and rural. Economical advantages can be gained by abolishing obstacles caused by borders for city networks, urban-rural partnerships and labour markets. New governance models have to be developed.
- Global competitiveness of regions with strong local economies needs globally successful products. Vulnerability to external economic shocks can be avoided by a diversified local economy. Innovative businesses can succeed in rather peripheral BSR locations if there is proper infrastructure.
- Territorial connectivity for individuals, communities and enterprises as well as access to transport, public services and IT are essential for territorial cohesion. The integration of transport with other territorial functions has prime importance for cohesion policy. The new Core TEN transport network is pretty well in line with the VASAB LTP. However, besides Rail and Via Baltica, VASAB suggests better integration of North-Western Russia. Linking with the Northern Dimension in the high North is a new challenge.
- Connecting ecological, landscape and cultural values of regions is a foundation for territorial cohesion. Natural and cultural heritage and environmental quality are parts of territorial capital and identity with economic opportunities as well. The recent European Environment Agency EEA report on green infrastructure and territorial cohesion shows mechanisms that integrate greener infrastructure into different policies.

Being mentioned in the TA 2020, the alarming state of the Baltic Sea rings a loud bell. The Marine Strategy Framework Directive and EU Integrated Maritime Policy call for coordinated actions from Member States on maritime spatial planning. The TA 2020 points out that solving user conflicts and balancing various interests in marine space is as essential for territorial cohesion as it is on land. VASAB and HELCOM have joined forces to develop maritime spatial planning with two projects called BaltSeaPlan and Plan Bothnia. The BSR countries are eagerly waiting how the Commission will come out to promote maritime spatial planning.

Too many strategies? The TA 2020 is meant to be implemented with all EU cohesion policy programmes, serving the EU 2020 and the EU BSR Strategies. Working under the CBSS umbrella, VASAB's LTP suggests rather concrete subjects for territorial cooperation. Russia will, after Germany, hold the chairmanships of VASAB and CBSS. One can hope that political will is found to the cross-fertilization of these strategies in order to improve territorial cohesion in the Baltic Sea Region.

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## Nordic cooperation – the adaptation process continues

By Tobias Etzold

Over the past few years, Nordic cooperation has regained strength and impact and redefined its position within the wider landscape of (regional) cooperation in Europe. Despite some inertia and occasional reluctance and resistance to reform, both the Nordic Council (NC) and the Nordic Council of Ministers (NCM) have managed relatively well, in particular in comparison to other international and regional organisations, to adapt to new external circumstances and to find niches in the wider institutional system of Northern Europe. Unlike other regional organisations that merely depend on their member states' interest, the Nordic cooperation structures benefit from a fairly stable anchoring and support in Nordic societies, strong traditions and a fairly influential bureaucracy and leadership. Therefore, even if the Nordic countries' governments and parliaments would want to, it would not be easy just to eradicate institutionalised Nordic cooperation. To some extent, Nordic cooperation is even based on an old notion of a common identity and common values and contributed to their construction and reconstruction. Thus, unlike the primarily interest-based and pragmatic intergovernmental Baltic Sea cooperation, Nordic cooperation is a hybrid of a calculated interest-partnership and an identity-based partnership. This characteristic makes Nordic cooperation special. Currently, Nordic cooperation also profits from the fact that internationally-minded, Europe-oriented and pragmatic governments reside in all five Nordic capitals and combine in a pragmatic way the advantages of different forms of international and regional cooperation. While recent calls for shaping a Nordic Union are fairly unrealistic, they seem to have triggered a fresh debate on the future relevance and the capabilities of Nordic cooperation, reminding people and decision-makers of its benefits. After a period of stagnation, the Nordic debate became fairly lively again.

Naturally, Nordic cooperation continues to focus on the Nordic area ("Norden"). Nonetheless, Nordic cooperation has opened up and became more internationally minded and European in recent years. The Baltic Sea Region (BSR) and Norden's adjacent areas even became priorities of Nordic cooperation. The NCM plays, for example, a strong role in the implementation of the Northern Dimension (ND) of the EU, Russia, Norway and Iceland and the newly established EU Strategy for the Baltic Sea Region (EUSBSR). Unlike the Council of the Baltic Sea States (CBSS), the NCM was involved in the elaboration and implementation of the EUSBSR from the beginning, attempting to contribute with its expertise and experience to the strategy's success, mainly in the areas of research, innovation and energy. However, owing to still occurring coordination problems and overlap between the activities of the various actors of regional cooperation, also the NCM faces the challenge to enhance cooperation and coordination. Therefore, the further adaptation to the wider institutional system by offering a specific contribution to regional cooperation in Northern Europe and developing efficient cooperation with the EU and other actors will remain important. With its expertise, experience and financial and human resources, the NCM is in a good position to contribute to the creation of a coherent system of regional cooperation in Northern Europe and the BSR.

While the NC and NCM have implemented several reforms over the past 20 years, their reform process continues as new external changes and challenges occur that are affecting those organisations. In autumn 2011, the NC has decided on further changes concerning its working structures (for example, organising two annual sessions) and on enhancing its external relations. The Council strives to strengthen its contacts with

the EU, in particular the European Parliament, and to consider EU-relevant issues on a more structural and permanent basis. This has been discussed since some time, concrete proposals have been made but action still has to follow. An effective institutionalised intra-Nordic coordination of EU-related issues seems increasingly important. By elaborating those measures, the NC reacted on criticism that it was acting too slowly in the past and that its work and the debates on Nordic cooperation were only insufficiently anchored within the national parliaments. Since some time, a clear need has been expressed to modernise Nordic cooperation and the NC, to make the cooperation more political and obligatory and to establish Nordic policies and ideas more strongly within the Nordic societies. Also abstaining from the traditional consensus principle ("opting out") in the NCM could provide Nordic cooperation with more legitimacy and a fresh impetus, possibly rendering the decision-making process faster and more effective. However, also this issue has been brought up and discussed various times in the past few years without reaching an agreement. Some fear to lose a specific characteristic of Nordic cooperation, distinguishing it from the cooperation within the EU.

Possibly, the real debate on the future roles of NC, NCM and Nordic cooperation in their existing formats still lies ahead. Particularly if Iceland and one day even Norway should join the EU, they might have to redefine parts of their mission, tasks and functions and to revise their organisational structures again. Currently, such a scenario seems fairly unrealistic, taking into account the negative stance of a majority of the Icelandic and the Norwegian peoples toward EU accession of their respective country, but cannot and should not be ruled out completely. Then, it will be particularly important to decide on and implement concrete reforms faster than in the past when it often took long to decide on adequate measures. In case at least one of these countries will join the EU, a key question will be whether the NC and NCM will be even more strongly needed as instruments for Nordic EU-policy coordination and will be willing and better able to turn into such. Alternatively, they might primarily turn into arenas for Nordic political debates but less for project implementation and policy formulation and coordination. Overall, considering the current challenges for regional cooperation in Northern Europe in which the EU plays an increasingly important role, for regional organisation such as NC and NCM, the search for new legitimacy and the need to adapt to external changes will continue.

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## WHO Healthy Cities promote cross-sectoral work to tackle unhealthy lifestyles

By Johanna Reiman

The Baltic Region and Europe are facing the increasing challenge of needing to deal with the adverse affects of unhealthy lifestyles. Fortunately, many cities have already initiated actions to improve the health of their citizens. Finland has set a good example by enacting a New Public Health Law, which came into force in 2011 and which recognizes the idea of Health in All Local Policies. Its principles are consistent with those of the World Health Organization Healthy Cities programme, which has since 1987 aimed at including health in all planning policies of municipalities. The City of Turku hosts the Baltic Region Healthy Cities Association, which works together with the Healthy Cities project in ten nations throughout the Baltic Sea Region. The Association is a coordinating and networking body and is also involved in international health promoting projects. A good life is generally considered to include good health. However, currently the population of Europe is not doing well in this context. For the first time since the start of measuring life expectancy, younger generations are forecast to live shorter and un-healthier lives than their parents.

The biggest killers of our time are the so-called non-communicable diseases: e.g., cardiovascular diseases, cancer, chronic respiratory diseases and diabetes. According to statistics, over half of all adults in the European Union are overweight, the consumption of alcohol is on the rise and we have unhealthy diets. For many people, physical exercise is not a part of their daily routine. An additional worrying phenomenon related to non-communicable diseases is that they are often 'inherited', i.e. a sedentary lifestyle is learned at home. Non-communicable diseases are thus socially communicable. However, it is important to mention that there is a solution to all those challenges: many diseases are preventable, or else a person can delay their occurrence until later age simply by changing his or her lifestyle!

Life is valuable as such. We do not need to argue to agree that it is priceless. On the other hand, a price can be calculated for lives lost prematurely. It is estimated that five extra years of life expectancy offers a 0.5% advantage in Gross National Product (GNP). Correspondingly, chronic illnesses can decrease GNP by as much as 7%. According to WHO, non-communicable diseases cause over 60% of deaths and the health costs in Europe are growing faster than the European economy as a whole. The World Economic Forum stresses this challenge, acknowledging that nowadays non-communicable diseases are one of the most serious threats to the world economy both in developed and in developing countries. Fortunately, countries are beginning to recognize the need for genuine action in that field. The world's first ministerial conference on healthy lifestyles was organized in Moscow in April 2011. As a result, tackling non-communicable diseases became a part of the agenda of governments and organizations. Later that year, in September, the United Nations General Assembly stated that the ongoing negative development in human health needs to be stopped.

But apart from the global and national efforts, the action needs to be taken at the level of local governments. The WHO Healthy Cities programme is an example of a framework being used by cities and municipalities in their work for the better health and well-being of their inhabitants. Currently, over 2200 cities throughout all of Europe and 220 cities in the Baltic Sea Region belong to the network. The concept stresses the need for the cross-sectoral planning of health from the city perspective. Taking well-being into consideration in, e.g. urban planning, education, sports and culture, is of crucial importance. Taking health into account as a core issue in all

policies demands that decisions be made at the very top levels of the city's planning procedures.

Cities have great opportunities to motivate people to live healthier lives by making healthier choices easy, e.g. by using the knowledge of healthy urban planning. Last autumn Baltic Region Healthy Cities Association hosted a British professor who insisted on having a bike during his stay in Turku. He always arrived on time at the meeting point, well before the other members of the group, who got stuck in traffic jams travelling by car. That was possible only because Turku has a well-developed system of biking routes. Another example comes from the Finnish city of Pori. The local 'Pakka' project aims at restricting the availability of alcohol for young people. Actions have included making trial purchases to find out how easy it is for minors to buy alcohol. Cooperation has been built between many different actors: schools, police, church and other institutions; it was not limited solely to the one department of the city administration.

In the recent years, the WHO Healthy Cities programme has focused more strongly on promoting local solutions for tackling the increasing health inequalities. It is common knowledge that people with lower socio-economic status experience poor health more often than those who are better educated. The Norwegian municipalities in Østfold County (members of the Healthy Cities network) decided to work towards effective health interventions, increasing the capacity building potential of politicians and city plan-ners, and empowering inhabitants in the cooperation with Latvian municipalities from the Vidzeme region. HEPROGRESS – Reducing health related social and gender inequalities and barriers to social and economic participation – is a project that focuses on how local communities can reduce the effects of poor health in relation to healthy ageing and marginalization in working life as well as reduce the number of school dropouts. The Baltic Region Healthy Cities Association supports the project by disseminating its results to other WHO Healthy Cities.

We know that non-communicable diseases can be tackled by adopting actions that promote health. The most important means for increasing an individual's well-being are physical activity, healthy food, cessation of smoking and restricting the use of alcohol. Although life is not a performance for our own sake, we should improve our habits. WHO will hold the Healthy Cities Conference in St. Petersburg in June 2012 and the City of Helsinki will host the 8th Global Conference on Health Promotion in June 2013. Non-communicable diseases are high on the agendas for both of these meetings and examples from the Healthy Cities programme will be presented there.

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## The Baltic Sea below the surface

By Jacob Carstensen

"Out of sight, out of mind" is a saying that reflects human behaviour in a nutshell. This also applies to the Baltic Sea. While nuisance algal blooms in summer make it for the media headlines, less visible problems in the Baltic Sea are often neglected. The waters of the Baltic Sea are not as clear as in the Mediterranean Sea, for natural reasons and because of large nutrient discharges from land and atmosphere. These have increased by factors 3-5 over the last 100 years. Therefore, the human eye can only see approximately 10 m down in the water column, maybe giving the impression that the bottoms of the Baltic Sea are sandy and full of life, similar to what most people experience on a summer day at the beach. However, most of the bottoms are muddy sediments that potentially could be full of animals, although different kinds of animals than those people observe at the beach. But today large areas (more than 60,000 km<sup>2</sup>) are devoid of animals because of low oxygen concentrations, also referred to as hypoxia, leaving just bacteria behind.

It has not always been like that. Low oxygen concentrations are a natural phenomenon in the deep waters of the Baltic Sea, but these dead zones of low oxygen concentrations have spread from less than 10,000 km<sup>2</sup> at the beginning of the 20th century to a present level where almost 25% of the bottoms in the central part of the Baltic Sea are dead! The Baltic Sea is naturally prone to hypoxia and therefore much more sensitive to nutrient discharges from urban areas and agriculture than the North Sea, where currents and tides bring oxygen down to the bottoms. Varying water exchanges between the North Sea and the Baltic Sea can modulate hypoxia in the Baltic Sea, but the overall increase in hypoxia over the last 100 years is clearly caused by discharges of nutrients, exceeding the natural processing capacity of the Baltic Sea. Today, many coastal areas and seas around the world share the problem of hypoxia with the Baltic Sea; hypoxia has rapidly become a global problem.

Should we care about dead bottoms below 100 meters depth in the Baltic Sea? The species living at those depths are not endangered and most of the animals can still inhabit the remaining 75% of the bottoms where oxygen concentrations are still high enough for them to survive. So, we need perhaps not care about dead zones in the Baltic Sea for the sake of the individual worms. However, we might want to take a look at the services these worms provide us. The large expansion of dead zones has consequences for several visible phenomena that should interest most humans with an interest in the Baltic Sea and who get their income from it. In addition to the nutrients coming from land and atmosphere, the occurrence of hypoxia enhances releases of nutrients from the sediments that further fuel algal blooms affecting the quality of coastal waters, particularly when washing ashore on beaches during summer time. Thus, hypoxia worsens the algal blooms. Second, the animals (the worms and mussels and others) living at the bottom are an important food source for fish that constitute a valuable resource for fishermen. The large dead zone in the Baltic Sea means that less food is available for the fish and consequently, less fish can be harvested from the sea. One of the most valuable fish in the Baltic Sea is cod that lays its eggs in the deeper waters, but the eggs will not hatch if the waters are

hypoxic. Over the last 100 years the volume where the cod eggs can hatch, the so-called cod reproductive volume, has been reduced by almost 50%. The reduced volume for egg hatching will affect the recruitment of cod in the Baltic Sea and hence the amount of cod harvested. Therefore, hypoxia in the deep Baltic Sea is not only affecting the animals living on the bottom; it also affects humans enjoying the services that the Baltic Sea provides.

It makes sense to combat hypoxia and optimise the services provided to the populations around the Baltic Sea, but what does it take? There are three major factors that must be considered, if a healthy Baltic Sea is to be re-established: 1) Nutrient inputs, 2) Overfishing, and 3) Climate change. Nutrient inputs stimulate the growth of algae that consumes oxygen when sedimenting to the bottom and is therefore considered the principal cause of hypoxia. Algal growth is limited by both nitrogen and phosphorus, the more limiting of these two nutrients changing with time and space. Therefore, measures for reducing both nutrients must be considered. Overfishing can also enhance hypoxia through so-called trophic cascades. Overfishing of cod and low recruitment releases the predation pressure on herring and sprat, which increase their population sizes and exert large predation on zooplankton, small animals normally controlling the amount of algae in the water. If the algae are not grazed by the zooplankton, the algae will sediment to the bottom and consume oxygen. Finally, a warmer climate will exacerbate hypoxia in the Baltic Sea, because warmer water contains less oxygen and oxygen consumption increases with temperature. Whereas climate change is difficult to address from a regional perspective, nutrient inputs and overfishing are manageable if all countries around the Baltic Sea have the will. These latter two pressures are addressed in HELCOM Baltic Sea Action Plan (BSAP) and EU Common Fisheries Policy (CFP).

The measures required for reducing nutrient inputs and overfishing are known, but their specific reductions to re-establish a healthy Baltic Sea are uncertain. Through experimental work and models the scientific community can help policy-makers by reducing this uncertainty, but lack of certainty should not prevent decision-taking. The solution is adaptive management, where measures are taken, environmental consequences monitored and assessed, and targets and measures are revised in a continuous cycle. In parallel, science should strive to improve the predictability of possible outcomes from decision making.

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## Sustainable Development Strategy for the Baltic Sea Region

By Grazyna Sapota

Today's economic conditions are forcing the world to seek new sources of competitive advantage. Experts suggest that in modern times, research, sustainable development and implementation of innovation are key factors for the development of world economy. The competitiveness of a modern economy is decreasingly dependent on fixed capital investment, and more and more - from the investment in acquiring and creating knowledge. Correlate the activities at the interface between science and business is a key to raising the competitiveness of the economy. One of the strategic objectives of the Polish maritime policy is to support research and implementation to enhance the competitiveness of the maritime economy. This role plays interdisciplinary research teams consisting of researchers and practitioners. Sustainable development has been a fundamental objective of the European Union since 1997 and was defined according to the Brundtland report in 1987 as *meeting the needs of the present without compromising the ability of future generations to meet their own needs* – in other words, a better quality of life for everyone, now and for future generations. This definition implies reconciliation of environmental, social and economic demands - the three pillars of sustainability EU's strategy (EU Sustainable Development Strategy - EU SDS). The overall aim of the strategy is to identify and develop actions to enable the EU to achieve a continuous long-term improvement of quality of life both for current and for future generations. As a result of this strategy, EU has mainstreamed sustainable development into a broad range of its policies. However, the sustainability strategy should not be brought about by policies only. It must be taken up by society at large as a principle that is guiding the many choices and decisions citizen makes every day. That means that all decisions made should be based on the sustainability concept. However, to reach this goal requires profound changes in thinking, in economic and social structures and in consumption and production patterns.

Research should help to assess the status and trends in operational process improvement. And also to create tools of assessment processes, which are the basis for taking accurate and effective decisions regulating these processes. Publication of the results of research work gives concrete practical dimension of that. The problem is whether that policy maker will be able benefit from these publications.

It is important to keep the EU Baltic Sea Strategy high on the EU agenda. It is crucial for the future of the Strategy that its objectives motivate the Member Status and local partners to implement the strategy effectively.

One aspect where we should start is work between the Baltic Sea status and wider Europe in order to ensure that the European Union continues to develop and implement a strategy for growth and competitiveness and which strengthens the Single Market and fights protectionist tendencies.

The Baltic Sea Region is a sub-set of the diversity of innovation potential that can be found in the EU as a whole. The BSR has regions with widely varying levels of

economic development and innovation potential. Many strategic plans point out the Baltic Region as being a key area for development in northern Europe. To develop the region in a sustainable way and contribute to extended interaction between countries, companies and people, activities close to shore lines are key issues as well as an effective, safe and environmentally sound sea transport system. An obvious situation is the development of ports which is of major importance to facilitate transport and to develop cultural activities as well as business opportunities. Ports and fairways have to be developed, maintained and improved in terms of depth and width. Dredging of sediments has to be carried out regularly due to sedimentation, erosion and more deep-draught ships. Other construction activities, such as the construction of pipelines or windmills, may also reactivate the contaminants in the sediments. A major problem is how to treat the very soft, contaminated sediments. Sediments are handled differently all around the Baltic today. In order to protect the sensitive Baltic Sea environmental system an all-embracing Baltic Sea strategy regarding management of dredged sediments is needed, but this is lacking today. In some cases national regulations exist, but without proper coordination between other countries. They are two alternatives for managing the dredged sediments: land disposal and sea disposal. The dumping in the sea is normally not possible due to environmental restrictions and the disposal on the lands is very costly. The project SMOCS (Sustainable Management of Contaminated Sediments, BSR Programme 2007-2013) realized by international consortium is a good example for sustainable management and development. Project SMOCS gives the third solution in management of contaminated dredged sediments: treatment and stabilization in order to reduce their environmental impact and apply the stabilization/solidification technology in order to use it for managing of contaminated dredging sediment. The material obtained as a result of the stabilization process can be used for the construction of quays, roads or car parks. It is prove to be a cost-effective and sustainable technique. There is a problem with the use of this technology in countries such as Poland, Lithuania, Latvia, etc., where are needed the appropriate changes in national legislation. However, in the project SMOCS the problem with handling sediments in a sustainable way is addressed with the overall aim to support actions all around the Baltic Sea.

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## "Three in one"—the recipe to save the Baltic waters and its ecosystems

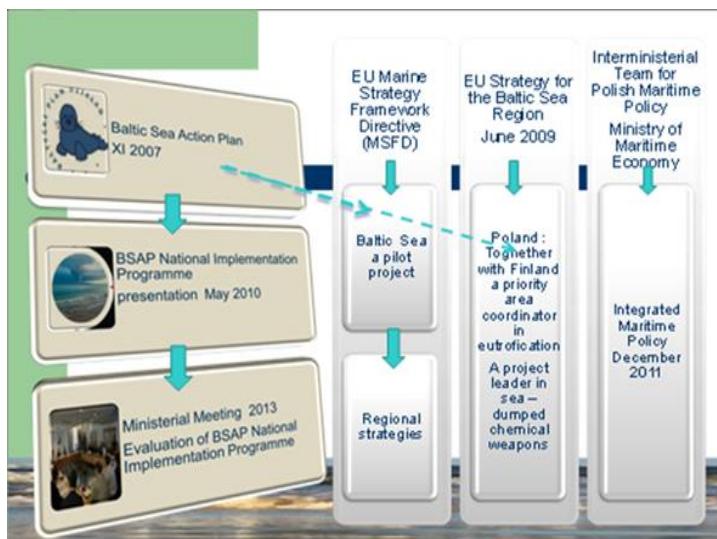
By Andrzej Jagusiewicz

Needless to write that the eutrophication of the Baltic waters is the biggest threat and its reduction is the biggest challenge. Therefore lowering the related pressures is crucial to combat eutrophication in Poland. The commitments of the Baltic States to do so are stemming from the Baltic Sea Action Plan (BSAP) adopted at the HELCOM Ministerial Meeting held in Poland in Krakow in 2007. However, this document of the political nature had to be still converted into concrete action plans. This really happened at the next event of such importance held three years later in Moscow. Since then we have so called National Implementation Programmes (NIP) of the executive nature dealing with all Baltic environmental challenges, including primarily eutrophication.

To combat effectively the latter, the phenomenon that suffocates the marine life, we need to reduce considerably in 2021 the maximum allowable nutrient input to the Baltic Sea by 15,250 tonnes of phosphorus and 135,000 tonnes of nitrogen from about 21,000 tonnes of phosphorus and 600,000 tonnes of nitrogen emitted annually. And the fight must go on everywhere and at least on the five identified fronts by:

- Controlling relevant industrial point sources
- Extending the sewage treatment system and cleaning the municipal waste waters
- Lowering diffuse pressure from agriculture
- Introducing P-free detergents and
- Decreasing nitrate emissions to air.

Since 2007 HELCOM has got two "friends"; these are EU Marine Strategy Framework Directive (MSFD) of 2008 and EU Strategy for the Baltic Sea Region (SBSR) and particularly in its ecological pillar. They are perfectly interrelated and complement each other providing necessary synergy in action (see below)



Chief Inspectorate of Environmental Protection is the governmental agency responsible for implementing the Helsinki Convention, MSFD and priority area "eutrophication" of the SBSR in cooperation with Finland. Therefore, the Chief Inspector is at once Head of Delegation with HELCOM, the first ever Polish Marine Director and supervisor of the progress being made under BSRS to combat eutrophication. So to say "**Three in one!**" This provides a rare window of opportunity by avoiding any duplication

of work, wastage of financial resources and much better efficiency of action. Just due to synergy between the three elements.

We feel in Poland depository of the BSAP signed in our old capital, and we feel particularly responsible for implementing it as almost 100 % of the Polish territory constitutes the Baltic Sea basin. That's why we fight daily on all five fronts. Below there are some details.

Industrial point sources are well regulated by EU and HELCOM recommendations and they are better and better controlled with respect to their discharges. Contrary to them we must finish our EU homework and finish by 2015 the National Programme for Municipal Waste Water Treatment imposed by the Accession Treaty. This is our flagship endeavor, a civilization leap forward with respect to combat eutrophication of the Baltic waters. As deadline is approaching the Programme is dynamically implemented by upgrading and expanding sewage waste water treatment - its cost is over 8 billion euros. Only in last years over 10 000 km of sewage system were constructed for more than 2 billion euros; more than 345 waste-water related projects achieved resulting in 50 new plants and almost 350 plants modernized by upgrading their technology or increasing their capacity for extra 1 billion euros.

More efforts should be also done to control diffuse sources from agriculture which is under well progressing restructuring. Here are a few examples: organic farming is developed annually by 20 % in terms of number of units exceeding 20 000, the biggest poultry and pig farms are well taken under full control of the EU IPPC Directive, Polish soil is in a good shape not exceeding the recommended HELCOM doses of N and P per hectare and finally Nitrate Vulnerable Zones are being extended with focus on the area close to the Baltic coast.

Concerning detergents, a pressure coming from 38 million of Polish citizens, half of the Baltic catchment population; we are preparing to eliminate P from laundry detergents down to HELCOM recommended level of 0,5 % P per weight by the end of 2014 and are fully aware that this is only a starting point.

And finally, nitrate air deposition, which constitutes 25 % of the total Baltic N balance, will be successfully reduced from the Polish territory by EU regulation like recently agreed the Industrial Emission Directive and just being renegotiated emission ceilings under the UN/ECE Gothenburg Protocol, both tackling combustion plants operating on fossil fuels.

By all these measures Poland is trying to reduce N and P load and is well advancing as compared to temporary targets of the HELCOM BSAP by achieving so far more than 50 % of N reduction and more than 30 % of P reduction, although statistically Poland is the least polluting country in the Baltic Sea Region per inhabitant of the catchment area.

To sum up, I would like to highlight Polish efforts in providing the effect of synergy between HELCOM activities, implementation of the Marine Strategy Framework Directive and EU Strategy for the Baltic Sea Region when combating the eutrophication, the worst enemy of the Baltic community. Only generating synergy and only together we, all stakeholders of the all Baltic States, will be successful.

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## The Baltic Sea and cities – the flow goes both ways

By Lotta Nummelin

I remember vividly the summer of 1997. It was the first summer when massive algal blooms occurred along the Finnish shorelines, to the amount that the general public noticed it. Scientists had warned about the bad state of the Baltic Sea for decades before, but to deaf ears. During the first decade of the 21 century several serious algal summers made even more people aware of the problem and the state of the Baltic Sea became a hot topic in the media and for the general public.

The Baltic Sea is an example of an environmental crisis of multinational scale. International treaties together with national and intergovernmental legislation have not been powerful enough to bring a satisfying improvement of the state of the sea, even if most topics are well investigated and there is an understanding of what should be done or how to prohibit more damage. The Baltic Sea Action Plan by Helsinki Commission (HELCOM) hand in hand with the EU Baltic Sea Region Strategy, the Water Framework Directive and the Marine Strategy Framework Directive list actions to be implemented or the environmental status to be achieved. However, these suggested actions are various to their nature, some being within the reach of EU or governments, some directed to individuals, cities, regions, companies, research institutions or NGOs. Common for them all is that in practice most emissions may not be cut off on state level, but on local level, and thus municipalities and cities bear a great responsibility for several decisions and actions that have a direct impact on the state of the sea.

### The role of cities

Since the effects of nutrient loading influence local waters in first hand, the greatest benefit of reduced eutrophication also comes to cities and municipalities as well as their citizens. In order to achieve such an improvement, voluntary actions are needed in addition to present legislation. Coastal cities are also directly dependent of the state of the Baltic Sea.

The municipal waste water treatment is often in the hands of municipalities. Cities can through their harbours facilitate for ships to leave their waste waters on land to be treated instead of letting it to the sea. City planning and land use also influence the waters. Proper planning of storm water solutions, where treatment is arranged on site, is important since heavier weather conditions are to be expected as a consequence of the climate change. Marine spatial planning can also be applied on local level. The cities green areas and in some cases agricultural areas can be used as good examples in water protection. Cities can also, in cooperation with research institutions, take active part in research and can through cooperation with other actors show example to others.

### The Baltic Sea Challenge

In 2007 the mayors of two Finnish cities of Helsinki and Turku decided to do their part. The Baltic Sea Challenge initiative was born. In the core of the initiative is the commitment to protect the Baltic Sea at the local level on a voluntary (i.e. not legally binding) basis. Many of the above mentioned actions are taken from the joint Baltic Sea Challenge Action Plan for Helsinki and Turku.

In the city of Helsinki clean waters and a healthy Baltic Sea is seen as a question of competitiveness and is written as such in the city's over arcing strategy. Within the term "competitiveness", the city identifies several related advantages: Clean waters increase business, tourism and recreational opportunities and attract inhabitants due to a stronger pride and identity for the city, which together affects the local economy positively. Water quality work creates new working places within new water protection measures and new projects, which further have an added value on the economy.

The Baltic Sea Challenge has also another dimension. The city mayors understood that they alone could not do it all. Therefore they challenged other actors to join. At the moment the network consists of over 180 different actors, including cities and municipalities, companies, universities, schools, associations etc. In order to be a Baltic Sea Challenge actor you have to commit to voluntary water protection work and you are expected to make your own Baltic Sea Action Plan with water protection measures from your organisations standpoint. The Baltic Sea Challenge is a way of creating networks between different types of actors, changing ideas and promoting water protection. The Baltic Sea Challenge is further a working method for cities and municipalities to increase the cooperation within their own organisation among departments, as well as externally to other actors.

The Baltic Sea needs everybody's contribution on all levels. Through inspiring networks, where we can learn from each other, proper results can be achieved.

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## How an age friendly environment can be promoted in the Baltic Sea region

By Andrzej Tubielewicz and Marcin Forkiewicz

The proportion of people over the age of 55 in the total population will rise over the coming decades and ageing poses one of the greatest challenges to the European Union. Since the problem of demographic shift is universal and is growing fast, it is more and more important to mobilise the full potential of the older generation. 'Active ageing' implies that older people can stay longer in the labour market and can increase their contribution to society. We need to shift from a model of older people who are passive recipients, consumers, users, to the one where, sharing their knowledge and experience, they are actively involved in facing challenges and creating innovative solutions. Moreover, active ageing can be supported through efforts to promote the Baltic Sea Region. The strategy and the action plan of such a solution need to emphasise that people past the age of 55 constitute enormous economic and social resources as they are well educated, motivated and healthier than ever.

Generation changes on the labour market have resulted in greater awareness of the need to skilfully match the expectations of different age groups, by means of the so-called intergenerational management, which must give consideration to the key factors such as:

- salary level,
- effective use of the working time,
- opportunities for development and learning,
- working conditions.

This also goes for people over 50 and their activation in terms of transferring business knowledge and experience and also learning to use new technologies.

In the light of the labour market changes, the demographic trends and the consequent necessity to engage the elderly in greater vocational and social activity, the issues of further education should also include the process of continued education of persons aged 55+. This involves, above all, adjusting the level of knowledge of this age group to the labour market demands and active life in the society of the 21st century. Another benefit of the training for the elderly is the psychological aspect involved in improving their comfort of life by raising their self-esteem and confidence when faced with the demands of technological and social progress and thus combating alienation and social exclusion.

It is a vital but often underestimated effect of further education on persons over 55, improving their mental well-being (reducing stress and depression caused by the awareness that their education level does not meet the needs of the knowledge society). Therefore, adjusting further education to the needs of the elderly also means raising the overall vocational activity level and participation of this social group in day-to-day life.

In this context of demographic changes, 19 partners from 8 countries of the Baltic Sea Region have jointly developed Best Agers project for enhancing the engagement of people aged 55+ in the labour market innovation processes and entrepreneurial activities. The "**Best Agers – Using the knowledge and experience of professionals in their primes to foster business and skills development in the Baltic Sea Region**" project is being implemented in the years 2009–2012 under the European

Union's Baltic Sea Region Programme – priority 1: Fostering of innovations across the Baltic Sea Region. The goal of the project is 'to make a contribution to European territorial cohesion and promote the strengthening of the Baltic Sea Region as an attractive and competitive region for capital investments, work and life'.

The Best Agers project wants to show how an increased inclusion of older people in the area of business and skills development can help strengthen competitiveness in the Baltic Sea Region. To achieve this, the Best Agers project:

- analyses good practice examples,
- tests their efficiency and transferability to other regions,
- develops new cooperative transnational solutions,
- recommends courses of action for the improvement of economic and social regulatory frameworks.

In this respect the use of age management of multigenerational teams is considered, as it is of special significance both in counteracting social exclusion of the older generation as well as in the processes of transferring experience to the young, their coaching and mentoring. The project partners discuss also the problem of implementation of new flexible employment forms adapted to the best agers. They try to work out an effective action plan to create sustainable and inclusive living and working environment, where older people can pursue socially and economically active life.

The partners develop, implement and evaluate various initiatives, including:

- older and retired experts promoting the coaching of small and medium-sized enterprises to help them expand and internationalise their business or overcome situation of crisis,
- reputable entrepreneurs assisting students and founders of new business,
- developing strategies for the preservation of the know-how of people approaching retirement from their professional career,
- promoting entrepreneurship among best agers,
- sharing knowledge, working for better social rights and social inclusion, and fighting against poverty and discrimination of older people.

Some problems concerning best agers can be solved by implementing the following ideas:

- creating the mentoring system,
- giving the employees opportunity to obtain new skills with their current employer,
- adapting the employees' skills to company needs.

Social and economic inclusion of best agers and the problem of combating poverty require that coordinated actions be taken in a smart, sustainable and inclusive way to foster full social and economic participation of older people and to create better environment supporting better future for best agers.

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# What is there in between competition and competition? – investment promotion in Policy Action Plan for the Marketing of the Baltic Sea Region

By Agata Mężyńska

**One of the first lessons one learns in the field of investment promotion is that attracting investors has much to do with a beauty contest. There are some who need to put much effort to win, and those who get their prices at no expense. And of course - adding to that global economic climate – there is a fierce competition in the market. The question is, if there is a chance for cooperation.**

Promotion of a country abroad is often treated as a homogeneous subject. Nevertheless investment marketing stays in sharp contrast to e.g. tourism promotion. One can promote a several-hundred-kilometers-long route as a destination. An investment plot is directly linked to one location and in most cases also to one economy. Therefore the investment agencies all over the world predominantly compete to get their share of the cake. That is an interesting starting point for analysis of the policy recommendations in *Policy Action Plan for the Marketing of the Baltic Sea Region (PAPM)*.

The challenges undertaken in the PAPM are indeed serious when one looks at the regional characteristics and global investment flows at the same time. The latter according to UNCTAD in 2011 went beyond the pre-crisis average of ca. USD 1.5 trillion. However the global flow rise of 12,1% in 2011 is linked mainly to the increase in mergers and acquisitions (M&A). However, the first objective of investment promotion agencies (IPAs) is to win so-called greenfield investments. The volume of these has in fact slightly fallen in comparison to 2010 (USD 807 bn vs USD 780 bn in 2011) – and remains below the pre-crisis level. Also the average size of the investment project has fallen over past 3 years. For the region the crises meant a decrease of share in global foreign direct investments (FDIs) from ca 8% to ca 5% - the difference of about USD 2 bn annually.

The ten countries of the region differ a lot in terms of attracting FDIs and can be divided in at least four categories. The unquestionable long-term leaders, attracting more than half of the region's FDIs are Germany and Sweden. Germany leads in volume of investment and Sweden in investment per capita (analyzed period: 1994–2010). Both countries are key European and important global players. Second group are the remaining Nordic countries, attracting together - in more or less equal share - ca 15% of FDI inflow to the region. That means 2-3% of GDP of each and about USD 1000 per capita. The countries are both stable and well developed. The latter two groups consist of the post-transformation countries. The third consists of the Baltic States, which attract about 3% of region's FDIs, again in equal shares. In case of Lithuania and Latvia that means on average annually ca 3-4% of GDP and USD 200 per capita. For the smaller economy of Estonia the average numbers are more impressive with almost 8% of GDP and almost USD 700 per capita. The investment inflows to the three economies show significant correlation with the global FDIs' flow. And even if the volume of inflow seems less significant it has relatively high influence on internal economies. The last group consist of two very different countries – Poland and

Russian Federation. The first attracted over last years ca 11% of the region's FDIs (annually on average ca 3% of GDP and about USD 200 per capita), the second almost 17% (below 2% of GDP and USD 110 per capita). Poland is the country with the strongest correlation between world investment climate and national FDIs' inflows in the region. Finally the countries and Sweden have lost relatively least in terms of investment during the recent crisis.

The PAPM provides a framework for cooperation fit in between competitiveness and economic benefits of joint promotion, especially in distant markets. It suggests tied IPAs' cooperation in non-competitive areas as well as identification of specific sectors and over-national clusters. The other valuable idea is promotion of the whole BSR as a green region. There is also a proposal of the co-location of foreign offices. Finally it lists methods of coping with financial matters and division of responsibilities, including regular stakeholder meetings and modifying access to EU funds to answer the needs of IPAs. However, the document neglects two aspects, which complicate its possibility of implementation: the difference in sizes of countries and economies, and the variety of investment conditions linked to e.g. to the legal matters. The equal cooperation in promotion abroad between all the countries seems very difficult to achieve.

It would be recommendable to pay more attention to identifying not only a common offer, but also niches. The other point that could bring the document closer to fulfillment is identifying a more precise project management pipeline. The common promotion seems easy as long as we limit ourselves to overall information - organize events or prepare publications. Once the potential investor starts negotiations, one should know how to provide them with a tailor-made offer or set of offers. Then appears the question, how to secure all the offers the same importance, basing on quality only. The bigger economies will in most cases be able to provide more potential locations and therefore easily overshadow the smaller ones. Also the IPAs with relatively bigger funding will be in privileged position, even when supporting actions funded on EU level.

The document answers well to the investment market reality, however it is still too general for immediate fulfillment. The cities of the BSR have already created together an investment guide, including trial to identify investment niches for each of them. Let's hope the publication will be a good opening to further building of detailed cooperation framework.

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## Boosting sustainable production in SMEs in the Baltic Sea region – challenges and solutions identified by the SPIN project

By Daniel de Graaf

There is general agreement in society today that our civilisation needs to develop along more sustainable lines and that natural resources need to be used much more efficiently in order to ensure intact ecosystems for present as well as for future generations. The term 'green economy' is often used as a synonym for these needs, even though this concept focuses primarily on the interface between the environment and the economy. It widely neglects intragenerational and intergenerational issues but is nevertheless reflected in many political initiatives on the national, European and international level. Despite its conceptual limits, the approach of 'greening the economy' is at least a step in the right direction on the long way towards sustainability as defined by the Brundtland Report<sup>1</sup>.

Steadily rising prices for energy and raw materials have been a significant driver for a growing debate - also in the BSR - on how to do more with less, i.e. producing more products, services, well-being with fewer resources. Although the fact that the Earth's resources are limited was prominently put on the political agenda as early as 1972 with the publication of the report to the Club of Rome entitled "The limits to growth", it was only some years ago that economies and markets woke up to the profound problem of scarce and dwindling resources facing rapidly growing demand. Alleviating the problem by increasing resource efficiency truly appears to be without any alternative, given the fact that world population is growing and an increasing number of people in developing countries such as China and India are adopting the consumption patterns of the western hemisphere, resulting in a steadily increasing demand for what is also referred to as natural assets.

The model of sustainable development has many facets, one of which is sustainable production. Since more than 50% of the gross domestic product (GDP) in Europe is generated by small and medium sized enterprises (SMEs), half of the mission of making production more sustainable and resource efficient needs to be accomplished by businesses with less than 250 employees.

Like large companies, SMEs can increase their material and energy efficiency and thereby improve the sustainability of their production processes by taking measures to optimize these processes or by buying new, advanced equipment. While one may assume that the first is done using the company's own in-house competence, the latter requires external expertise which not only becomes manifested in the product itself, e.g. new machinery, but is also needed during the phase it is first put into service which is very important for efficient operation. However, in real life and in contrast to large companies, SMEs often fail to pursue either of these opportunities since they and their employees are fully occupied by the daily work, leaving no time to address the issue of sustainable production, let alone implementation approaches. Most SMEs have no specialized staff responsible for efficiency or innovation issues, so that measures to improve the sustainability of processes remain scarce and left to chance. Since most entrepreneurs are not aware of the cost structure of their business, even the fact that material consumption in the production sector accounts, on average, for 45% of a company's costs does not constitute an incentive for action. So how can this dilemma be resolved? What may bridge the gap between great saving potentials on the one side and lack of knowledge and capacities on the other?

There are three things that need to be done to boost resource efficiency in SMEs:

A first crucial task is to make companies better aware of their own situation regarding resource efficiency and its economic

<sup>1</sup> The report by the World Commission on Environment and Development (WCED) was released in October 1987 and defined the term sustainable development to be development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

benefits. Nearly all SMEs in the production sector have to cope with increasing material prices due to resource scarcity, and owing to its timeliness, the topic has already found its way from scientific publications to the daily press. So it is not a lack of awareness of the topic itself but rather a lack of self-assessment. Entrepreneurs assume that their production is as efficient as it can get, even if this is in striking contrast to the actual situation in many companies. As a consequence, efficiency measures are not considered a solution to the problem, and complaints remain the only reaction to increasing material costs. In order to correct this misjudgement, detailed information must be disseminated through intermediaries such as chambers of commerce, agencies, etc. Altogether, they have to transport the message that SMEs are able to improve the situation themselves through the right measures, e.g. by applying eco-innovations.

Second, missing capacity for appropriate innovation must be created through external consultancy. When they call in resource efficiency advice, SMEs receive an analysis of their potentials for saving on material costs, which they may exploit in a second step. This takes the form of simple measures to optimise work and production processes or major production modifications coupled with larger investments in new, innovative equipment. Needless to say, most SMEs will first opt for measures which are easy to implement and less costly, but more radical innovations often not only result in more sustainable production but also bring forth better or even new products. Hence, larger innovation projects can definitely pay off for the company's development and profits.

In most cases SMEs cannot finance such investments themselves, which brings us, third, to the companies' access to finance. Especially since the outbreak of the worldwide financial crisis in 2008, it has become more and more difficult for SMEs to find appropriate possibilities for financing sustainable production investments. Banks are reluctant/refuse to lend money to small companies, fearing a complete loss in case the company goes bankrupt. As one possible solution, resource efficiency measures may be supported by national programmes in addition to private loans.

The three aspects described here are central issues of the SPIN Strategic Actions for Decision Makers report, which was published by the SPIN (Sustainable Production through Innovation in SMEs) project co-financed by the BSR Programme 2007-2013. The report summarises the findings gained in three years of project work and provides a coherent approach for the whole BSR to supporting SMEs in developing and applying sustainable innovations. The aim is to improve the framework conditions both for SMEs in demand of sustainable innovations but also for SMEs which are suppliers of such innovations to make production more sustainable. Target groups addressed by the Strategic Actions report are policy-makers at EU, national and regional level but also public authorities, financing institutions, business networks and associations. By highlighting practical solutions for challenges connected with sustainable production in SMEs and giving examples of consultancy services, financing opportunities and policy initiatives, the report not only contributes to the discussion in the BSR on resource efficiency, but also provides concrete recommendations on how to tackle this topic, which is key to the region's development in the 21st century.

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## Why stay in the Baltic Sea region?

By Agnieszka Kowalcze

Co-operation and trade exchange in the Baltic Sea Region has a long tradition and has been developing despite periods of stormy historical relations between the countries in the region.

Regional co-operation should be fostered and promoted on every possible level to ensure that the companies, while looking for new business opportunities, will consider, as their first choice destination, area of the Baltic Sea Region rather than moving their operations outside the region, for example to Asia. This has special importance for small and medium sized companies and innovative start-ups, as they often have neither financial nor managerial resources to operate on long distance.

The economic data, analysis of the region and sufficient knowledge about local markets and their specificity can be much more convincing for the company if they are supported with practice. Therefore, it is important to be a part of a strong, reliable and supportive network of the fellow companies that have already entered the market in question. Exchange of information, building network and learning from experiences of those companies who have succeeded is extremely important.

A successful example of unique multilateral co-operation is the Scandinavian-Polish Chamber of Commerce (SPCC). Established in 2004 as a merger of the four business organizations – Danish, Finnish, Norwegian and Swedish – SPCC has become one of the biggest bilateral or even multilateral chambers of commerce in Poland. It represents interests of Nordic companies in Poland and since 2011 also Estonian companies operating on the Polish market as well as Polish companies interested in the Nordic markets.

The Chamber plays an important role in creating networking and meeting platform where companies can exchange experiences and build network. Together, investors from all of those countries are much more effective and powerful than alone and play a much more significant role, as a group of foreign investors coming from the same region, in relations with authorities and politicians. Cooperators and competitors, having different interests, are able to join forces and co-operate to secure and develop their businesses and interests.

The Chamber associates the biggest Nordic investors present in Poland, which represent the main sectors of the Nordic economy such as finance, energy, environment, construction, logistics, telecommunications, paper industry, furniture production, oil industry and food processing.

The branches of economic activities in Poland, where Nordic investors run their businesses, have not changed so much during the years. The interesting thing is that constantly increasing group of the SPCC members are micro, small and medium sized enterprises - representing a variety of industries - which see opportunities for development and expansion. Those companies can be the real facilitators of the growth of the region in the forthcoming future.

The SPCC's members include those who are experienced on the Polish market, and also those, who have just started their activities in Poland. The oldest member company was founded in 1956, but there are also companies that were founded just last year. The largest

number of companies went into business in Poland in 1999 and in 2005. However, each year new investors have been establishing their operations or looking for business partners in Poland. The perspective for the co-operation between Polish and Nordic companies has never been bigger and more promising. That creates new opportunities for further expansion of trade, development and co-operation.

From the dynamics of Nordic foreign direct investment (FDI) growth during recent decade we have observed that Danish, Finnish, Swedish and Norwegian entrepreneurs are more and more often choosing Poland as a destination for their operations, instead of moving far away.

Geographical location, still relatively low cost of production and availability of well qualified workers and specialists make them run their businesses in major industries of the Polish economy, providing it with enhancement and employment growth.

Nordic companies present in Poland account for around 10% of all foreign investors in Poland. Taking into consideration the origin of capital, the most active investors in the recent years were Swedes, reaching their peak in 2009 when their companies have started every second of the Nordic investments in Poland. Considering value of the capital and the number of new workplaces created by investors, Swedish companies are even stronger. According to the statistics provided by the National Bank of Poland, the total value of foreign investments in 2009 was 35,5 billion PLN from which 5,4 billion PLN was invested by Nordic companies. Out of that sum, 4,5 billion PLN came from Swedish companies.

The picture and perception of the Nordic countries and the investors is very positive in Poland. Therefore, apart from using all the opportunities on the Polish market Nordic companies can also be a source of inspiration for Polish companies.

Strong tradition of research and innovation, advanced position in green technology and the business culture characterized by openness, long term thinking and transparency as well as respect for employees, environment and society makes them the most desired employers in Poland.

On the other hand, Scandinavians can benefit from Polish business culture by learning spontaneity and creativity in looking for alternative solutions. Combination of these business cultures can positively influence competitive advantage of the region so the efforts that are being made to create sustainable development in the region would bring results.

Good co-operation and development in the future make the business stay in our region.

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## Russia as an environmentally responsible energy superpower?

By Veli-Pekka Tynkkynen

From the mid-2000s, mainly American scholars have argued that Russia is turning into an Energy Superpower, especially in relation to the main buyers of Russian energy, the EU countries. They argue that Russia uses its energy wealth as leverage for political and geopolitical aims central for Russia. This argumentation stems especially from two episodes in EU—Russia energy relations: the “gas wars” of 2006 and 2009 between Russia, Ukraine and the EU. In addition, it evokes fears that the Russian energy giant *Gazprom* has started to acquire shares of national gas distribution companies in the territory of the EU and the former socialist states. Europe could fall victim to the Russian spider web where energy supply, transnational pipelines and distribution networks are governed by one country.

Russian leadership argues, as do many European politicians and scholars, that Russia is only after stable markets relations and economic prosperity via energy exports and distribution businesses. The argument goes that Russia would not jeopardise its energy relations with the EU, the biggest customer, using energy as leverage for political goals. Regardless of how the international political might of Russia is eventually evaluated – in traditional military or in recently claimed resource or energy terms – it is clear that its political manoeuvring space has drastically changed since the 1990s. If 20 years ago Russia was living from hand-to-mouth, and was strongly dependent on buyers of its energy, today's Russia has at least financially the potential to act as an Energy Superpower and to push forward its political agenda, accumulated energy wealth as its sinew.

Judging by the political initiatives of the EU, energy security has become one of the most central topics in Europe during the recent years. EU's stance on energy security is understandably dualistic. On the one hand, the EU is worried about its future energy supply and, for example, the EU—Russia Energy Dialogue is mainly constructed along this line. On the other hand, diversification of EU's energy mix is becoming as central topic as the security of supply. Especially, the fear that member states with a socialist history are becoming chronically dependent on Russian energy has sharpened the tone. Approximately one third of oil, gas, coal and uranium imports to the EU area come from Russia, making Russia the biggest supplier of Europe in all fossil fuel categories. Thus, it is somewhat surprising that we have not really seen pleas from the EU calling for wider environmental responsibility in energy production and transportation from the main supplier. This deviation is even more striking, since the EU energy policy is globally the most forward-looking in environmental terms.

Naturally, it cannot be argued that environmental issues are not at all on the EU—Russia Energy Dialogue agenda. Especially the issue of energy efficiency has been raised by the EU. Certainly, energy efficiency as a cooperation topic is also much more attractive for the Russian party, since it is organically related to the economic dimension of the modernisation project pursued by the Russian leadership. The environmental effects of energy production are thus partly touched, but this sensitive issue as a distinct subject has not been on the agenda headlines since the beginning of the 2000s, retelling mainly the Russian sentiments.

Seen from this viewpoint, Russia's position as an Energy Superpower is real. Russia may not have a headlock on EU in energy relations, but certainly Russia has a distinct influence on the energy policy agenda that is being formulated in the EU. On several political arenas the EU is behaving as an environmentally responsible player, but does not pose the question with what kind of environmental costs the majority of

energy consumed in Europe is being produced. In a way this is understandable, since the EU has only bad choices in this respect: the option for Russian energy is oil and gas from the Middle East or Nigeria. These countries do perform badly not only on the environmental arena, but also have a notorious track record in human-rights violations.

If official Russia denies that it is an Energy Superpower, on other political arenas Russia has claimed that it is a Great Ecological Power. Russia has tried to convince that it should be economically compensated for the ecological services its natural ecosystems produce for the global community – production of oxygen and storing of carbon in Russia's forests and peat lands. This argument was pushed forward as Russia negotiated its future greenhouse gas (GHG) emission quotas during international climate negotiations, which resulted in the Kyoto Protocol. However, the problem is that Russia as the world's biggest energy producer refused to take part in post-Kyoto climate treaty. Thus, the image of a Great Ecological Power, and simultaneously Russia's attractiveness or *soft power*, is weathering in the eyes of the international community.

However, considering these concepts together, Russia as an Energy Superpower and a Great Ecological Power, the positive and attractive dimension of the latter could justify and make acceptable the otherwise negatively perceived nature of the former. In practice this means that in order to accept Russian energy companies to penetrate European markets as equal players, and not fighting against the idea that Europe could become even more dependent on Russian energy, international energy companies should gain access to upstream operations in Russia and European consumers should be permitted full access to environmental data concerning energy production and transportation in the Russian energy sector. For example, there prevails a huge discrepancy between official Russian data and international estimates concerning emissions of Russian hydrocarbon production and transportation industries. Officially stated volume for flared associated petroleum gas (APG) is less than 20 Bcm, whereas a study by the World Bank estimates that annually up to 60 Bcm of APG is wasted in oil production in Russia. A similar inconsistency concerns the data on leakages and GHG emissions resulting from the Russian gas transportation system.

Common rules of the game for commercial actors, transparency and access to reliable information can dispel the still prevailing mistrust between these two organically bind entities. EU and Russia could significantly become closer in energy relations, if both would submit to the demands central for the other: security and environmental sustainability of energy supply for the EU and long term customership for Russia.

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## Energy nationalism and cooperation in the Baltic Sea region

By Leonid Karabeshkin

The countries of the region claim to become more energy independent from Russia, viewing excessive dependence from Russia as a security risk. First and foremost, this refers to the former parts of the Soviet Union – Estonia, Latvia and Lithuania. This policy finds support from the EU's energy policy aimed at integration of energy links and bringing market rules of competition into them as well as decreasing import dependency. Some hindrances derive from the EU's environmental policy, which strive to decrease emissions and impose strict safety requirements to generation installations.

One of the rationale behind the energy policy of the Baltic States is related to Russia's growing energy nationalism, which was is interpreted as its unilateralism in pursuing energy policy and its temptation to use energy leverage for foreign policy purposes. In fact, energy nationalism is inherent not only to energy suppliers, and the energy policies of the Baltic States are not less nationalistic: all off them tend to retrieve maximal unilateral benefits, often missing cooperation not only with Russia, but among themselves.

The list of evidences is long. All the Balts want to construct their own LNG terminals, neglecting the expert conclusions that only one is enough. Estonia has announced construction of the terminal in Muuga Port in Tallinn, one more agreed in Paldiski, Lithuania is going to do the same in Klaipeda and Latvia claims the best place for LNG terminal is in Riga.

Latvia pretended to play a coordinating role in energy issues in the Baltic Sea region, but the competition with Lithuania for the right to become a starting point for *Swedlink-Nordbalt* energy connector to Sweden was finally won by Vilnius. Nevertheless, but the alternative project *Ambergate* (Latvia-Sweden) is still in the list of TEN-E priority projects. Estonia already possesses *Estlink* to Finland and is going to double its capacity.

The Baltic States want to construct the Nuclear Power Plants (NPP) without Russia's participation in framework of a joint project in Lithuanian Ignalina-Visaginas. But Poland as a potential partner withdrew, recalling to the NPP plans on its own territory. Estonia has envisioned a small nuclear station as well, though this is currently postponed due to technological reasons. Some years ago the CEO of Latvian energy company as well promoted the idea of building NPP in Latvia. He still argues that it is unreasonable to make vast investments on the territory of another state (in Lithuania).

Simultaneously, the Baltic States, Lithuania first, refuse to cooperate with Russia on the construction of the Baltic NPP in the Kaliningrad Oblast, though Russia made such proposals and demonstrated interest in attracting foreign investor with a share of 49%. All want to increase the use of their own energy sources – wood, peat and garbage (more politically correct term 'biomass' is typically used), while the share of more environmentally friendly natural gas is going to decrease. The Baltic States are suspicious to importing electricity from Russia, though Latvia and Lithuania enjoy the opportunity to cover half of their demand by purchasing relatively cheap electricity from the East, which helped to avoid the forecasted price shock after final closing Ignalina NPP in 2009. But Estonia as the only net-exporter urges them to limit the volume of import from Russia, arguing it with unfair competition of Russian producers, their environmental negligence, congestion of transmission links as well as political and security risks.

All the Baltic States unsuccessfully fought against the Nord Stream pipeline system. The representatives of the Port of Sillamäe in the North-East Estonia regret that such a rigid

stance of the state prevented from receiving investments and jobs for technical facilities. And the current CEO of Estonian transmission operator "Elering" hints that if Russia would propose to build new gas links through the Baltic Sea, the response could be more cooperative.

All with a different speed are going to divide national pipelines from the traditional supplier – Russian Gazprom and local distributing companies where the Russian gas monopoly used to have a share. But the real degree of gas dependence is often exaggerated – in Estonia natural gas from Russia constitutes only about 10% of its total energy balance and is going to decrease by 5-6%. Seemingly, using the security argument, the governments are going to strengthen their presence in economy and receive additional revenues for leaky budgets.

The total result of energy nationalism in the Baltic Sea can be rather sad. The region will be overburdened with new energy infrastructure to be paid off by EU taxpayers and local consumers. This will hardly decrease prices, but definitely imply environmental damage, saying nothing about general competitiveness of the Baltic Sea region. The production would potentially shift to the areas with more affordable production factors, including Russia. The increased competition and probable loss of energy markets would negatively affect Russia's income from hydrocarbon exports, respectively reducing its imports from the Baltic Sea states, depriving them of the meaningful growth driver. The creation of a new more independent from Russia energy infrastructure would enhance those interest groups which are in favour of permanent tension rather than rapprochement in Russian-European relations.

So, there is a clear need of facilitation energy cooperation around the Baltic Rim, which relevance used to be downplayed on the regional agenda, partly because Russia did not view the region as an appropriate field for discussing energy. This should include not only widening coordination among Baltic and Nordic states, implying energy market integration and outlining common position vis-à-vis Russia. But there is a need for a pan-regional outlook inclusive rather than alienating towards Russia. The positive sign is that German chairmanship in CBSS (2011-2012) put energy cooperation as a priority, though in rather traditional rather than ambitious way. The German MFA Minister Guido Westerwelle pointed the need of trust-based dialogue to make a successful energy policy in the region. Russia could develop cooperative trends on the issue during its forthcoming lead in CBSS.

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## Does history pose an obstacle to Baltic identity?

By Jörg Hackmann

Publications on the history of the Baltic Sea region have increased significantly since the fall of the Iron Curtain. This is hardly a coincidence; instead, it reflects a common desire to see the new ties and relationships established after 1989 not only as a phenomenon *ex nihilo*. If common traditions and interests can be revealed in the past, so goes the argument, this could underscore contemporary co-operation. Such debates about common history and culture in the Baltic Sea region emerged long before Björn Engholm's well-known initiative in the mid-1980's for a "New Hansa". Usually such discourses on history and cultural traditions are framed today as searches for an identity whose nature is collective, national, or regional.

We should have these debates in mind when looking at the initiative of the Baltic Development Forum to explore the opportunities for a regional branding of the Baltic Sea region. For this purpose, a report was commissioned from Bernd Henningsen, former director of the Northern European Studies Department at Humboldt University in Berlin. His report "On Identity – No Identity" (with a more complex and scholarly subtitle – "An Essay on the Constructions, Possibilities and Necessities for Understanding a European Macro Region: The Baltic Sea") was presented at the 2nd Forum on the EU Baltic Sea Region Strategy in Gdańsk in October 2011.

Somewhat surprisingly, the title of the report calls into question the very purpose of the report and frankly states the author's conviction that there is no such thing as a Baltic identity. In Henningsen's words, a Baltic identity discourse is "an exaggerated, faux-scientific discussion". His hypothesis would have implied either that the report be very brief indeed or not have been carried out in the first place. Henningsen's main argument is that there cannot be such a thing as collective identity and that therefore, a Baltic identity does not and cannot exist. Nevertheless, the Henningsen does acknowledge the possibility of what he calls a "we-feeling", and points to things than can contribute to it, such as nature, architecture, church organs, novels, and many more.

The report leaves the reader confused as to whether there is a specific feeling of belonging, of shared traditions in the Baltic Sea region or whether the notion is only a chimera created by some politicians and writers. Thus, the report raises several critical issues. Leaving the question aside whether Henningsen's claim for the non-existence of collective identity is supported by sociological and psychological research, two further aspects need to be addressed: do historical conflicts between classes, nations, or empires render impossible an understanding of interactions or shared experience that are not based solely on conflict? And second, should we reject the claims for showing recent co-operation to have a historical foundation by revealing that they are, in the words of Eric Hobsbawm, inventions of traditions? If we accept Henningsen's argument, we would quickly run into historical fatalism, as conflicts in history would lead into a vicious circle, where former clashes must necessarily provoke new conflicts; the early modern wars between Sweden and Poland, for instance, would make any Polish-Swedish talks about commonalities impossible.

In fact, such a negative view of history is quite common: many are convinced that we should not look back, but keep our eyes only directed towards a better future. Bearing in mind Walter Benjamin's renowned image of the angel of history, which was pushed forward while looking backwards into the past, one may doubt whether such an understanding of human existence without considering history is possible at all. Even

beyond this philosophical notion there is a problem in agreeing to the argument that the "mare balticum" was in fact a "mare bellicum". Our perception of the region would then be reduced to conflicting national interests and world views. But as we have known for decades, nations are not natural forms into which mankind is organized, but are outcomes of historical developments and thus subject to further development and change. This leads to the second argument, that historians may unmask recent visions of Baltic history as cultural or political constructions. Such deconstructions of the Hansa, the Vikings or the Soviet notion of a "sea of peace" do not imply, however, that we can get rid of such constructions entirely. The idea that history can be unveiled and depicted "as it really was", was abandoned already some 150 years ago. Even Henningsen's references to Baltic nature as identity producing features are nothing more than cultural constructions, and rather recent ones at that.

What follows from these critical remarks? First, there is a broad international quest for perceiving the Baltic Sea region as a historical entity with common cultural features. Second, this quest for a non-national, trans- or supra-national perspective on Baltic history should not be rejected as false consciousness qua flashback of Leninism. Third, the idea should be abandoned that there is only one authoritative master narrative of Baltic history upon which a common Baltic identity can be built – this seem to be the windmill at which Henningsen is tilting.

And this leads to a fourth point: we should look at the history of the Baltic Sea region through a prism of multiple perspectives – one aspect alone, be it that of the Hansa, Gustav II Adolf, or tsarist rule – may generate different and partly contested visions. The research on collective memory has already paved the way: in making different and even contested visions visible, they become subject to dialogue. With this theoretical framework in mind, a Baltic history project initiated by Academia Baltica in Lübeck, in co-operation with historians from Szczecin, Riga, Tartu and other universities, was launched in 2010 and declared one of the priorities during the German presidency of the Council of the Baltic Sea States. The project shall make use of history for exploring commonalities and differences in the Baltic Sea region; this means discussing the history of the region not by imposing answers *ex cathedra*, but by exchanging views from varying parts from the region held by everyone from students to elderly people, and by moderating these views on an online platform. With such an open approach, discussions on history may contribute to enhancing a Baltic identity that exceeds national boundaries.

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## WTO membership will change Russia

By Pascal Lamy

As the world observed the 20th anniversary of the fall of the USSR, WTO members welcomed Russia to the WTO. Pure coincidence some would say, rather symbolic others would argue. Nevertheless, this accession marks the beginning of a new era for both Russia and the WTO.

Russia's WTO membership decisively hooks Russia to the global economy and to the multilateral trading system and its rules aimed at ensuring an open, transparent and non-discriminatory environment. It will make the Russian economy more competitive and more effective.

Russia's accession also means further trade opening and opportunities. With Russia's membership, the WTO now covers around 97% of world trade and is getting closer to fulfilling its universal goal. The accession of Russia is a tangible sign of confidence in the WTO and in the multilateral trading system.

### A long road to WTO membership

WTO membership is not an easy ride. It requires determination and perseverance. It entails significant efforts on the side of the acceding government to adjust its legal framework to WTO requirements. Russia's accession process lasted 18 years, slightly longer than China's 15 years.

Russia's membership marathon began in 1993 under the leadership of the former Russian President Boris Yeltsin, in a context of profound domestic transformations and geopolitical repositioning of the country on the international scene. Needless to say, these factors had an important impact on the accession process. The conflict with Georgia, in the summer of 2008, led key WTO members to temporarily suspend the accession negotiations and prompted Georgia to request a suspension of formal talks – suspension that was only lifted a few hours before the final accession meeting. Vladimir Putin's announcement, in June 2009, that Russia was withdrawing its individual application for WTO membership and would, instead, join the WTO as part of a Custom Union with Belarus and Kazakhstan, also delayed the Russian accession process by several months. However, at the end of day it is not the length of the journey that matters but the conditions under which one arrives at its final destination.

With strong political will, Russia accomplished the reforms needed to bring its trade policy in line with WTO rules and to participate in the world trading system. At the eighth WTO Ministerial Conference in December 2011, Russia was stamped with the "WTO quality label". It is now expected to ratify the accession package during the summer of 2012. Only then will Russia become the fully-fledged 156th member of the WTO.

By acceding to the WTO, Russia undertakes to implement a series of rules and commitments which are bound to profoundly transform its economy.

### Russia will reap the benefits of WTO membership both economically and politically

The role that trade can play in economic development is vital. WTO membership should yield important benefits for Russia, as it did for China.

According to World Bank experts, in the medium term, the WTO membership gains should represent about 3% of Russia's GDP per year, with wages rising 4 to 5% and more

than 99% of households gaining income. In the long run, the gains could reach 11% of GDP per year with wages rising between 13 and 17%.

Russia's membership will expand Russia's current access to foreign markets and open up new trade opportunities for Russian businesses, thereby supporting Russia's efforts to diversify its economy away from oil and gas and to broaden its economic base. Russian companies will no longer be the target of discriminatory treatment and in case of trade-related disputes with other WTO Members. Russia will be able to use the WTO dispute settlement mechanism to argue its case in front of independent judges. The benefits for Russia's economy should be substantial, but it would be a mistake to believe that WTO accession only benefits the business sector. Russia's 150 million consumers also have a lot to gain from WTO accession. Membership will create new opportunities for them as they will gain access to a greater selection of available goods and services at lower prices.

Russia is often said to have faced difficulties in attracting and retaining investment. It is no secret that capital goes to stable environments. The WTO disciplines provide a transparent and predictable environment for trade and foreign investment. As a consequence, WTO membership should help attract more foreign investments into Russia which are crucial in creating employment and facilitating technological development. It should enhance investors' confidence in Russia.

Politically, Russia also has a lot to gain from WTO membership. As a member of the G-8/G-20, Russia has an important role to play on the international stage. As a WTO member, it will participate in international trade negotiations and will be in a position to influence their outcomes. WTO accession will, no doubt, accelerate Russia's integration into the world economy and reinforce its global role. It also opens the door to accession to the OECD, another key international forum.

Finally, the WTO can contribute to better governance in Russia. By inscribing WTO rules into its national legal system, which is a requirement prior to becoming a member, Russia has, in one fell swoop, modernized its trade regulations and customs procedures. Russia undertook to initiate negotiations for membership in the WTO Government Procurement Agreement within four years of its accession. It also committed that, upon accession, its government agencies would award contracts in a transparent manner.

WTO's accession is a significant event both for Russia and for the WTO. Rather than the end of the journey, it marks the beginning of a new adventure. Russia will undoubtedly play an active role in the WTO and demonstrate leadership by helping to shape the multilateral trading system for the benefits of all nations.

Pascal Lamy

Director-General

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# Challenges for the EU Strategy for the Baltic Sea Region

By Tunne Kelam

In 2005, then Members of the European Parliament, Alexander Stubb and Toomas-Henrik Ilves started with the idea of a Baltic Sea Strategy, it grew from the Parliaments Baltic Europe intergroup under the leadership of Christopher Beazley and is now serving as a model for other macro regional strategies.

Already in 2005 the Baltic Sea area had the best competitiveness index based on skilled work force, well-developed infrastructures, and low levels of corruption, strong scientific potential and a unique grass-level network of tens of thousands of direct contacts across the sea.

The central goal for the European parliamentarians was to create added value through better synergy, establish a framework to address with united efforts the problems of ecology, transportation, energy and education. The Baltic Sea region could become one of the most dynamic, innovative and competitive EU regions.

Thanks to the 2009 Swedish presidency, the EUSBSR was officially launched which was the result of good cooperation with the European Commission and all stakeholders. By spring 2012 the EUSBSR had reached its second mid-term review.

## Distancing from the original vision

One of the main concerns having in mind the implementation of the strategy in question is that the original thought of the Baltic Sea Region as the driving force among EU's regions has been somewhat lost in the thickets of different institutions and special interests of Member States. Vertical coordination and interaction seems to be insufficient. The strategy looks like having been carefully squeezed into existing EU policy standards and fixed funding schemes. These developments are not necessarily negative, having their practical value. However, instead of advancing additional measures to boost growth and synergy, the EUSBSR has more comfortably been applying the already existing EU measures on the region. This will certainly not benefit to increase competitiveness and to create added value in order to close the globalization gap with other innovative and dynamic economies. Sometimes the approaches tend to remind of the Soviet plan-economy.

The Commission latest communication on EUSBSR focuses on three priorities - To Save the Sea; To Connect the Region; and To Increase Prosperity. We do not talk anymore about innovation and growth, creating synergies within science and research and development fields, raising the quality of university, instead we focus on student exchanges and rural development. We are not creating anything new, but adapting to existing. This clearly was not the original vision of the EUSBSR.

Questionable is also the rather strong wish from the Commission or Member States to involve Russia in all aspects of implementing the strategy. Russia does play a central role in many areas and should be involved on regional level in common issues on our conditions. Russia is primarily involved through the 'Northern Dimension' neighborhood partnership, where Russia, along with Norway and other countries, takes part on an equal footing with the EU. EUSBSR is an internal EU strategy and should not involve third countries in decision making process.

Having become from one side an unprecedented success story, the EUSBSR looks just a bit more than a conglomerate of national projects among which only a few raise to the macro-regional dimension.

Member States have to rethink their priorities to address first of all regional issues, having in mind increasing the added value and creating synergies. To use fully the existing potentials of the Baltic Sea Region obtains special relevance just now, when the EU is trying to control the debt crisis. This region has demonstrated best resilience to the financial turbulences, mostly due to strict financial

discipline, balanced budgets and the capacity to make radical cuts to overcome the crisis. This is a model that should be exported and promoted around EU and beyond. The Baltic Sea States has nearly all the assets to become the driving force of Europe.

## Coordination and leadership

Since 2009, coordination and leadership have remained problematic issues. The Commission's idea was to lay coordination of implementation in the hands of the eight member states. Is it realistic to expect eight leaders to lead? More and more responsibility has been delegated and this calls for a change.

The Commission is taking the role of the overall coordination according to its last communication on EUSBSR. However, the role of national contact points and their capacity to ensure efficient commitment by their respective governments remains problematic. The Baltic Europe intergroup has proposed a rotating presidency of the EUSBSR between the eight governments.

Another important aspect concerns the dissemination of information. Besides informing the wider public, it is crucial that also civil servants on all levels from local to national are aware of the existence and opportunities of the EUSBSR. It is crucial to raise awareness and to ensure coordination and cooperation especially between and within ministries, local authorities, but also with and among NGOs and other possible stakeholders. Dialogue between different stakeholders should be enhanced by providing interested organisations and local governments with more information and practical chances to connect them to the implementation processes.

## Financing

Lastly, the constant worry about the financing of the strategy with continuous confusions regarding the budget line remains. The EP decided initially for a special budget line. However, it looked rather absurd to discover that this thin budget line was initially used for Northern Dimension and then given to the competence of enlargement and cross- border cooperation. One can agree that the strategy should basically be financed from the already existing funds and budgets. Nevertheless, a macro-regional strategy cannot be taken seriously without some special EU funding. The key issue of overall coordination needs additional money which would cover administration costs and ensure a truly European and macro regional dimension.

Also, more seed money is needed for new projects. Although means are available from the European and Nordic Investment Banks, it is not a common knowledge in the region. The involvement of the private sector and using its resources should be promoted much more. Also EU instruments should provide seed money. The underlying criteria both for public and private funding should be that the projects have a macro regional dimension and include majority of Baltic Sea Region states.

Tunne Kelam

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## The Baltics can move Europe ahead

By Gunnar Hökmark

In the 1980s, the Baltic Sea was a divided and divisive water. On one side, liberal democracy, the rule of law, human rights and relatively free markets creating mass prosperity of an unforeseen magnitude. On the other side was one of the most brutal dictatorships in modern history, keeping its populations in poverty and oppression, denying its citizens any form of dignity or opportunity.

We who resided on the Western shores were scared of the Eastern shores. Stories about Swedish yacht sailors in distress being shot at by Polish or East German navies for coming too close to the coast in search of rescue were many. The Soviet submarine that got stranded in the southern Swedish archipelago in 1981 reminded us all of the invasion threat. Confrontation was of course the underlying subtext of this Cold War hotbed.

At the same time as the other side was threatening, many parts were virtually non-existent. The Baltic States did not show on Swedish maps. When their hockey players, such as Latvian Helmut Balderis, represented the USSR we referred to them as "Russian". East Germany and Poland were seen as Soviet satellite states. The other side was strange and made up of strangers.

Now, the Baltic Sea is a united and uniting water, returning to its historical role as bringing the states surrounding it together, recalling the Hanseatic league. Trade across the sea is ever growing, as is Foreign Direct Investment (FDI).

More importantly perhaps, Estonia, Latvia and Lithuania are free and independent states, Poland is no longer in the Soviet sphere of influence and East Germany is an integral part of the Federal Republic. All but Russia, with its limited coastline, are members of the European Union with its free movement of people, goods, services and capital. Six of the nine countries are NATO members. Culturally, we are getting closer with growing exchanges of people, as tourists or businesspeople. With Russia as the only sad exception, the democracy research and advocacy body Freedom House ranks all countries as politically free.

Furthermore, despite the youth of their democracies, most of the ex-communist Baltic Sea states have recently displayed signs of impressive and inspiring levels of political maturity. Through severe austerity measures, Estonia, Latvia and Lithuania weathered the financial crisis successfully. Its populations were prepared to bear the short-term burden for the medium- and long-term gain. Reforms for increased competitiveness, before, during and after the crisis laid the ground for successful outcomes. In 2011, Estonia enjoyed the highest growth rate of the EU, with eight per cent.

The immensely tragic Smolensky disaster, wiping out a large portion of the Polish political leadership, should not be used for political purposes. It cannot be ignored, however, that such a catastrophe could have led to much more turmoil than was the case. Poland, as a state, as a country and as a people, has shown that despite the fact that its democracy is only two and half decades old, it is in no way questioned, standing firm even when challenged by the most dire circumstances.

Progress has not been limited to the political sphere. Economically, the Baltic Sea is one of the most dynamic parts of the world, probably the fastest growing region of the rich world.

The fundamentals are impressive. In 2010, Germany was the only country in the region with a government debt level exceeding 60 per cent of GDP. As we have seen these last few years, public finances in balance are a prerequisite for stability and thus economic dynamism leading to growth

But while stable public finances are a necessary prerequisite for growth, it is not a sufficient one. Countries also need reforms for increased competitiveness. According to various rankings, excluding Russia, the Baltic Sea states (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland and Sweden) are on average in quite good shape.

The World Economic Forum (WEF) ranks 139 countries in a competitiveness index. The Baltic Sea states fare well. In fact, four out of the ten most competitive economies in the world are found around the Baltic Sea (Sweden 2nd, Germany 5th, Finland 7th and Denmark 9th). On average, the Baltic Sea state is the 22nd most competitive country in the world, better than the EU average, found on the 35th spot.

One of the most important factors of a country's competitiveness is how easy it is to do business there. In its Doing Business index, the World Bank ranks 183 countries according to a number of indices that together make up an overall evaluation of the business climate. The Baltic Sea states do well, ranking on an average 22nd place, compared to the EU average on the 38th spot. In general, it is easier to do business in the countries surrounding the Baltic Sea than it is in the European Union as a whole. In fact, this is the case also if you include Russia, at 120th place, in the Baltic Sea region.

The fact that the overall picture looks pretty good is no reason for complacency, however. There is still need and room for more reforms for growth, jobs and prosperity. In a fast changing world, we must all adapt and be on the edge.

Just as the Baltic Sea was divided, so was the world at large, in the first, second and third worlds. And just as the invisible wall that split the Baltic Sea in two has disappeared, so have many of the barriers that formerly divided the world. A few decades ago, the advanced world economy was made up of around one billion people. Now, four or five billion people are taking part in the globalised economy, competing with us for jobs, growth and competitiveness. Most of the world's growth now takes place in what we used to call the third world.

This calls for Europe as a whole to take measures to increase its growth potential, by opening up markets, making its economies more flexible and dynamic and invest in education and R & D. It is my hope that the Baltic Sea states can and will lead the way for the rest of Europe in facing this challenge.

However, also the Baltic Sea region has some homework left to do. Each nation should improve where it is falling behind. And we should all strive to build upon the cluster that we have created, further enhance the openness between the states, and implement further reforms.

On a different and general note, we can only hope that Russia fundamentally changes its course, and reverses its trend towards ever more authoritarian government and state-led economy. Since a decade or so, the country stands out in the region, distancing itself from the form of state and government the rest of us have, and are striving to improve.

Gunnar Hökmark

Member

*The European Parliament*



# The Baltic Pioneer

By Morten Løkkegaard

In 2009, the European Commission presented its first mega-strategy for the EU Baltic Sea Region. The ambitious strategy, launched five years after the so-called big bang enlargement in 2004, is the first pioneer experiment aiming at fostering greater political cohesion between countries in a particular geographic region. Though initial results are encouraging, the strategy still has to prove its efficiency and secure the necessary involvement of local and regional levels.

## The common Baltic heritage

Inhabited by nearly 100 million people and covering one third of EU's territory, the Baltic Region is a significant player in the EU. Its size alone is perhaps surprising: it takes 36 hours to go by train from Warsaw to Tallinn, and critics might even say that it is impossible to formulate a common strategy across such a vast territory. However, the Baltic countries are facing a lot of common problems to which better regional governance might be the solution to the problems.

The Baltic Sea Region strategy involves - not surprisingly - the countries from the Baltic region, namely the following eight member states: Sweden, Finland, Estonia, Latvia, Lithuania, Poland, Germany and Denmark.

The countries bordering the Baltic Sea have always been trading partners. The Vikings built their trading empire around the sea already during the Middle Ages - using the sea to establish routes. The common heritage of the region stretches over a millennium and provides a base on which we can construct and conduct a strategy that will ensure the success story of the Baltic region - with a future as prosperous and dynamic as it was in the past.

## Key areas and the three no's

Back in 2005, the initiative for the creation of the strategy came from The European Parliament and a resolution calling for the development of a Baltic Sea Region Strategy. In short, the strategy is exploring new ways of working together - ways based neither on money, nor on special laws, nor on new institutions. It involves four main objectives: to promote a sustainable environment, to enhance the region's prosperity, to increase accessibility and attractiveness and to ensure safety and security in the region.

15 priority themes and around 80 flagship projects have been defined in the strategy's action plan to ensure that the full potential of the region will be reached, focusing on more efficient use of the already existing and available resources rather than on new resources. This so-called "three-no concept": no additional funding, no new EU legislation, and no new institutions, is at the very core of the territorial development strategy

In my point of view, better coordination and governance among existing institutions - based upon existing resources - is a paramount and correct approach at a time with EU budgetary and fiscal restraint following the global financial crisis. Especially in areas such as energy security, environmental pollution, combating cross-border crime and upgrading of transport infrastructure it is obvious that the problems can be addressed through common governance in the Baltic Region.

## A pilot that delivers?

Adopted by Council in October 2009, the strategy linking both new and old EU member states together is still at a fairly early stage of implementation, making it hard - not to say unfair - to make any final judgements. However, much is expected from the strategy that has been claimed to be an "experiment", a

"blueprint", and a "pilot" - and the bigger question still remains as to whether or not the strategy will live up to its expectations. I remain optimistic as the initial results of the strategy are positive with many new projects under way, and the establishment of new working methods and networks.

Critics are especially sceptic towards whether or not a new concept with the same actors and no new funding can prove itself efficient. This is a fair argument which leads me to what I believe will determine the success or failure of this strategy. Because of the "three-no concept", it is a matter of extreme importance that the strategy includes not only the member states but also the business environment, NGO's as well as regional and local authorities across the entire region.

Cooperation, business, and trade in the region will of course not alone deliver the solutions to the global crisis, but alongside with the necessary reforms in order to overcome the current recession, the strategy appears to be the correct response to some of the problems that the Baltic Region is facing.

## Scrutiny by the Danish Presidency

Exactly as it should be, the strategy is continuously facing scrutiny by the rotating presidency of the European Council. It was evaluated during the Polish presidency and is currently being evaluated by the ongoing Danish presidency as well.

The Danish Presidency will host a large-scale event "Connecting Europe – Smart and Green Partnerships in the Baltic Sea Region" in Copenhagen in June, bringing together more than 800 stakeholders. The event provides a unique platform for leaders from government, political parties, business, academia and civil society to discuss cooperation possibilities and growth initiatives in the Baltic Sea Region. My hope is that a multi-level governance approach will be one of the main focuses - and that the Danish Presidency will use this opportunity to bring all the different layers into action.

Why? It has been criticized that the strategy has only been dealt with at government level - failing to include NGOs, regions and local authorities. As in most other cases and aspects of life and business, a bottom-up approach is most desired in order to achieve synergy, common objectives and increased leverage effect. Without an organized bottom-up approach we risk losing the problem-solving capacity of the Baltic Region enabled by the fact that the participants avoid aggressive competition between regions but rather foster competition based on complementarities.

I remain to this day optimistic: the concept of macro-regional strategies seems to have awakened interest all over Europe. Hopefully, the pilot experience of the Baltic Sea Region Strategy will open the doors to the adaption of multi-level and multi-actor governance to other areas and regions of the EU and thus help ensure better administrative organisation, more strategic vision and more political commitment across Europe.

Morten Løkkegaard

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## What can Poland gain from hosting Euro 2012?

By Joanna Mucha

**On April 17, 2007 Poland and Ukraine were given the right to host UEFA Euro 2012.** Poland was overwhelmed with euphoria. Soon after UEFA's decision was made public, the media, experts and society started to look at the commercial impact gained in preparing and hosting the competition. What can Poland gain thanks to UEFA Euro 2012? Will hosting the third largest sporting event in the world be profitable for us? Will UEFA Euro 2012 be a massive expenditure for Poland? Or will it be a great investment? Today, with two months before the first kick off, these are issues that public opinion is dealing with to a considerable extent.

It is a question of accelerating the development of highways, expressways, significant transport links in the Host Cities of UEFA Euro 2012 as well as modernization and expansion of railway stations or airports. It is a question of increasing economic productivity and reinforcing the image of Poland on the international arena. It is a question of responding to increasing tourism and a growing number of private as well as foreign investments in the country. These are the most significant benefits that UEFA Euro 2012 will deliver to Poland. They will be transferred into calculable profits for the Polish economy.

### Nearly 28 billion zlotys for the economy

These are the conclusions provided by IMPACT report that analyzed the influence of hosting the UEFA European Football Championships Euro 2012™ on the Polish economy. The report was drawn up by academics – economists from the Warsaw School of Economics, the University of Łódź and Jagiellonian University. The report included three potential scenarios of an estimated amount of influence that UEFA Euro 2012 asserts on the Polish economy – pessimistic, basic – considered the one most likely to occur, and negative. The analysis of the macroeconomic effects of preparations to host UEFA Euro 2012 and the organization of the competition included in the report was conducted on the basis of CGE – Computable General Equilibrium.

According to the report, the UEFA European Football Championship is already significantly influencing Poland's GNP and that tendency is said to stay stable until the year 2020. As said by the basic scenario of the report, which is considered to be the optimal and most likely outcome, the accumulated increase in GNP in the years 2008 -2020, gained in regard to hosting UEFA Euro 2012 in Poland, lies at 2.1%. This percentage, translated into funds, comes out to an additional 27.9 billion zloty to the Polish Economy. Preparations for UEFA Euro 2012 constitute a powerful external impulse that stimulates development in infrastructure, tourism, and foreign investments that will in turn facilitate the economic development of the country. 77.5% of the GNP's accumulated growth comprises the development of transportation (infrastructure), 7.8% comprises direct foreign investments, 7.3% the expansion of tourism, 6.4% stadiums and investments in residential centres and 1% the UEFA budget.

### All of Poland will profit from UEFA Euro 2012

Hosting UEFA Euro 2012 will not only be profitable for Poland in general. Every region in Poland will benefit. In

the basic GNP scenario the growth in the West Pomeranian Voivodship will, in 2008 -2020, increase by 358 million zlotys, in the Pomeranian Voivodship it will increase by 1.4 billion zlotys, in the Lubusz Voivodship by 1.5 billion zlotys, in Greater Poland by 1.15 billion zlotys, in the Kuyavian Pomeranian Voivodship by 2.8 billion zlotys, in Masovia by 5 billion zlotys, in Lower Silesia by 3.2 billion zlotys, in the Łódź Voivodship by 3.6 billion zlotys, in Silesia by 3.5 billion zlotys, in Lesser Poland by 2.8 billion zlotys and in the Podkarpackie Voivodship by 1.8 billion zlotys.

Hosting the UEFA Euro Competition will strengthen our image and international standing. This will have a very positive influence on the growth of foreign tourism in Poland. In 2012–2020 Poland will take in 5 billion zlotys more in income from foreign tourism. Our country will be visited by half a million more foreign tourists every year after having hosted UEFA Euro 2012. During the three weeks of the UEFA European Championships foreign tourists will spend – as stated in the basic scenario from the report – 768 million zlotys. The expenses were calculated on the basis of fixed prices from 2008.

Exceptionally significant in tourism growth, resulting from hosting the UEFA Euro 2012, is the fact that the benefits coming from hosting the event will not only be felt in the Host Cities and their neighbouring regions, but to a lesser or even larger extent across all of Poland. According to the IMPACT report, the years 2013–2020 will bring the following increases in income from tourism: in West Pomerania by 845 million zlotys, in Pomerania by 260 million zlotys, in the Warmian Masurian Voivodship by 159 million zlotys, in the Lubusz Voivodship by 118 million zlotys, in Greater Poland by 218 million zlotys, in Masovia by 622 million zlotys, in Lower Silesia by 466 million zlotys and in Lesser Poland by 820 million zlotys. There is no doubt that UEFA Euro 2012 is a profitable venture for all Poles as well as their country.

The effect of a better image of Poland after organizing Euro 2012 on the international arena will not only significantly influence the development of tourism. It will indeed, with regard to the developed infrastructure, also increase foreign investment. The basic scenario assumes that in 2008–2020 the foreign investments as part of GNP will reach up to 2 billion zlotys.

### We are all hosts – the success of UEFA Euro 2012 depends on every Pole

The UEFA European Championship in Football is the third largest sporting event in the world. Hosting UEFA Euro 2012 and the carrying out the necessary preparations before the event do not only translate into economic profit for Poland. Investments in infrastructure are not being carried out only as a result of the impending competition. The fact that UEFA Euro 2012 is taking place in Poland facilitated the implementation of investments. When it comes to transportation we can talk about accelerating the process by 3 or 4 years and with regard to stadiums, we can easily say they were built at least 6 years in advance. Investments, carried out with regards to hosting UEFA Euro 2012, were planned much earlier and they were vital for the continued economic and social development of the country.

Thanks to Poland hosting UEFA Euro 2012, Poles will have new highways, expressways or expanded airports at their disposal a few years earlier than planned. The stadiums are also an important form of modern sports infrastructure. Together with the experience gained while hosting UEFA Euro 2012 these factors will be excellent assets for Poland when competing to organize other large events in the future.

More, however, has to be said. UEFA Euro 2012 will allow Poland to not only gain valuable know-how when it comes to organizing a major international event, but also when it comes to administering large and complicated projects. Experience and know-how gained during the past 5 years of preparations contributed to making public administration, and the work it carries out, more professional. It also played a part in coordinating large undertakings and sound and effective cooperation in realizing large projects.

The final Impact that UEFA EURO 2012 will have and the profits gained from hosting the competition, including the economic factors, will depend, to a large extent, on every one of us, on every Pole. We all are hosts is the main motto that we adopted at this point of the game. Consequentially, during UEFA Euro 2012, every Pole will

serve as a host to foreign tourists. Their impressions will, to a large extent, determine how the image of Poland, as the hosting country will look. After UEFA Euro 2012 that impression will be propagated on the international scene. The received image of Poland will, according to IMPACT, in turn influence the growth of foreign investment after the competition, as well as development in tourism. UEFA Euro 2012 is without doubt a very profitable long-term investment for Poland. Five years of preparations will come to an end in just a little more than two months at the competition's first kick-off.



*Joanna Mucha*

*Dr., Minister of Sport and Tourism*

*Ministry of Sport and Tourism*

*The Republic of Poland*

# Turkey as a key to Europe's energy diversification

By Egemen Bagis

The objective of EU energy policy is ensuring safe, secure, affordable and sustainable energy supplies for its economy and citizens. Today, the EU imports more than 80% of the oil and more than 60% of the gas it consumes and should the current trends continue, import levels could reach more than 70% of the EU overall energy needs by 2030. Although EU consumption is projected to level out, with expected high growth rates in world demand generated by emerging economies, EU will have to compete with other countries and regions for energy supplies.

Given the heavy reliance on imported natural gas EU policy aims at diversification of sources. In this respect, investments are necessary in both main supplier countries and energy transit infrastructure. One of the key initiatives to diversify EU's energy sources and supply routes is the Southern Corridor. In the TEN-E (Trans European Networks - Energy) context the Natural Gas Route 3 is defined as: "NG.3. Caspian Sea countries – Middle East – European Union: new gas pipeline networks to the European Union from new sources including the Turkey – Greece, Greece – Italy, and Turkey – Austria gas pipelines." The strategic objective of the Southern Corridor is to link the European Union to new sources of gas in the Middle East and the Caspian Sea. As the definition indicates, Turkey is a key to establishing the necessary links, as a quick look at a map will also confirm.

Turkey is not a major energy producer and has similar security of supply issues as the EU, given its dependency on energy and natural gas imports. It is Turkey's priority to satisfy its increasing energy and natural gas demand through diversification of sources thereby decreasing dependency on a single source. On the other hand, Turkey has a unique geographical position and is poised to become an energy hub and a crucial transit country. Turkey is a bridge between major supplier countries and Europe's consumer countries.

As a natural bridge between both East-West and North-South, Turkey is an easy access point to natural and energy resources and to global markets especially including the large markets of the Balkans, Eurasia, the Middle East and North Africa. Some 70% of the energy resources are located in the South and the East of Turkey, while the largest energy consumer, Europe, is located in the West.

Unless someone can come up with a new wireless technology of energy transfer, Turkey's cooperation is a must, for Europe to have access those energy resources.

Turkey is a candidate country for EU membership. Accession negotiations have been initiated in 2005. In the

process Turkey has carried out important reforms and there has been a strong impetus for alignment with the acquis. However, given the political circumstances in some Member States and the negative approach of the Greek Administration in Southern Cyprus the negotiation process has stalled in recent years. Energy, one of the 35 chapters Turkey is negotiating, has not been opened to negotiation. Turkey is technically speaking ready and has a good degree of alignment in this chapter. Following the screening process, it was expected that this chapter would be opened to negotiations without further benchmarks. The screening report which was being discussed in the Council and needs to be approved by all Member States however has apparently been subject to a veto by the Greek Administration in Southern Cyprus. Therefore, no progress can be made regarding negotiations in the energy chapter.

EU-Turkey energy cooperation is a multi-dimensional process and is not fully contingent on accession negotiations. However, opening the energy chapter would definitely facilitate this cooperation. The EU attaches great importance to the implementation of a single regulatory regime regarding the transport of natural gas and would like to see the rules of the internal energy market to be applied within its wider neighborhood countries. Thus the EU promotes the Energy Charter Treaty and the European Energy Community. If Turkey were to be provided with a concrete date for membership and the accession negotiations resumed like they should be, this would facilitate and accelerate the harmonization process, eventually allowing Turkey to become an integral part of the EU internal energy market. Enhanced energy cooperation between Turkey and the EU will also contribute to developments in the realization of the Southern Gas Corridor. Since, in the end, EU's attempt to establish the Southern Corridor does coincide with Turkey's energy policy in general and its objective of becoming a regional energy hub.

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## Turning global into local – distributed bio-based energy production

By Pirkko Mattila

The Baltic Sea is sometimes described as the “sick sea”. Its condition is dependent on the countries surrounding it. Vice versa - we are also in many ways dependent on this internal sea of the EU. This is true especially for Finland. The Baltic Sea is a crucial route for exports and imports and it is of utmost importance to our economy.

Furthermore – we can all enjoy activities, such as fishing and sailing in the Baltic Sea, or just have it as it is. But most of all - we must be aware of the risks threatening the Baltic Sea, such as oil disaster. The already fragile Baltic Sea wouldn't recover very easily from that. Another big problem is pollution.

The success of the Finnish economy is dependent on exports. Energy provided to the industry and its price is crucial. Within the European Union Finland is seen as a cold island behind the Baltic Sea where houses need heating for many months during the year and where the industry is dependent on electricity.

We cannot survive on the globe as oil-dependent forever. We cannot plan an oil-based economy forever. Pollution in the Baltic Sea is partly a result of shipping products like oil by the sea. It must be mentioned that our Government recently made an increase in taxation that in the worst case might increase coal imports to Finland.

During the 1970's we had an oil crisis in Finland because of failed oil regulation in international markets. It caused a lot of harm during those days. This all could happen today, too. Let us also keep in mind that oil is something that has even led to wars.

All Baltic Sea countries are so to say energy-intensive-countries. But could we do something to change this? A solution could be to provide distributed, bio-based energy production. This means that we use bio-based and local energy production – combined heat and power (CHP)

On the market there are already some small plants that use wood to produce energy. Wood is cut into small pieces and then burned in special gas boilers. It burns clearly and can be used in engines. From this process we get electricity, but also heat as a side product that can be utilized for heating houses.

The plant can be located in the backyard. Turn global into local – turn NIMBY to PIMBY (Power In My BackYard) and make thousands of new opportunities for local jobs. This has been discussed in Finland in recent years. In Finnish Parliament the Committee for the Future published last year a survey on the possibilities for bio-energy.

Woodcut is a side-product from our saws but we can also get some energy-wood as we cut our forests to make them grow better. We sometimes hesitate to push wooden heating forward and think that this is too low-value. My opinion is that if we get local energy from wood it is a high-value product.

Agriculture is huge in the Baltic Sea countries. Agricultural waste provides material for making fuel. In

Finland we have studied and improved this in co-operation between Central Ostrobothnia University of Applied Sciences, companies and farmers. This is an interesting way of turning a side-product into a high-level refined product. Both bio-based gas and CHP –technology provide low carbon emitting energy production.

The ideology of distributed energy is the foundation for the bio-economy. It is something that decreases our dependence on oil. It is calculated that one cubic meter of woodcut is worth one hundred liters of oil.

Of course, we must not forget wind as a power source. Unfortunately, it has its limits as has hydro power plants. During severe cold snaps when there is no wind and the water is not running you can always light a match!

In Finland we know how to use our forests sustainably and at the same time honour natural values. We fulfill our Natura 2000 obligations completely although we have a lot of forestry industry. However, environmental protection cannot in all cases happen at the expense of economic growth. I am sure they can go hand in hand and leave room for services of ecological systems.

And which are our forests in a natural state? During the past decades hundreds of our forests have been logged many times. In the beginning our agriculture was based on burning down forests and to use the nutrient-rich soil of the burned land for cultivation. During the 1800's the forests of Northern Finland were cut down to produce tar.

Of course we should not forget other dimensions of the bio-economy. There is currently too much phosphorus running into the Baltic Sea. It should absolutely be recycled and reused. Phosphorus is not renewable and it is crucial for agriculture.

Actually, things are currently too good for us and we do not bother to recycle everything we could and should in our homes. However, phosphorus is running out even faster than oil. Before its sources dry up completely the prices on food markets will increase unless we find other solutions.

To do things locally means local economic growth as well economic growth as nation. In the same time it means smaller carbon footprint and healthier Baltic Sea.

Pirkko Mattila

Member of Parliament

Muhos, Finland



## Development of economic ties of Belarus and EU in the light of relations with Lithuania and Finland

By Vladimir Drazhin

In the spring of 2012 the key theme of Minsk-Brussels relations was the policy of so-called «smart sanctions» towards Belarus. The very first weeks after the implementation of these measures showed that they were not justified and do not lead to a positive result, turning from political instrument into political goal of the European Union.

Let us consider some specific facts of bilateral cooperation with EU countries. In particular, Lithuania – one of Belarus' border states.

In 2011 13.5 million t of Belarusian cargoes passed through Lithuania of which potash fertilizers constituted 50%. Today the possibility of supplying of up to eight million t of potash a year is being considered. In this case the total volume of cargo handled through the port of Klaipeda could reach 20 million t. According to experts' estimates this will amount to 50% of the port's potential.

With regard to commodity turnover in general, I suggest to compare rates of the years 2005-2006 and 2011. In 2005 the trade amounted to \$486 m, in 2011 – \$1 billion (2-fold increase). The volume of services: \$150 m in 2005 compared to 550 m in 2011 (3.5-fold increase). Investments in 2001-2010 constituted on average \$15 m annually while in 2011 this index was \$115 m. A slightly smaller package of investments came from Belarus to Lithuania - \$100 m. The capital movement is characteristic for the areas that allow to produce export oriented products: metal processing, municipal equipment and mini-tractors production, real estate purchase. Lithuanians, for example, are building five plants in Belarus for timber processing, production boards, furniture, adhesives, resins, accessories and packaging materials. The forecast outcome of export is \$200 m per year.

The proposed EU economic sanctions against Belarus can- and so it will in the case of EU's political and economic pressure- force our country, whose exports to the EU countries is 38%, to take adequate measures. The Lithuanian community of experts understands the impact of Brussels' sanctions for the economy of their country. According to the preliminary estimates Lithuania will lose up to \$2 bln if Belarus stops delivery of cargo via Klaipeda.

A similar example exists: Belarus has been already forced to reorient the goods flows from the ports of Latvia which will cause a damage of \$3 billion for the Latvian economy.

Against this background almost all Lithuanian companies are in favor of avoiding penalties. We can see a strong contrast in the views of business and politics. It seems that politicians either do not understand what is happening or do everything contrary to logic to sacrifice the benefits of their country.

Let us turn our attention to the relations between Belarus and Finland. Cooperation with the Republic of Finland is characterized by stable positive dynamics in the whole spectrum of bilateral relations, which contributes to a balanced and pragmatic position of official Helsinki, reinforced by the growing interest of large companies entering the Belarusian market.

I could provide a number of interesting facts and opinions, but the size of this publication requires some

brevity. So I will mention only the most important ones. The opening in Minsk in 2010 of the Department of the Embassy of the Finland to Lithuania and the launch of a full-fledged Belarusian Embassy in Helsinki in late 2011 is the evidence of growing mutual interest.

In 2011 the trade turnover between Belarus and Finland amounted to over \$200 m - an increase by almost 10% compared to 2010. As of January 1, 2011 there were 22 organizations (seven JV and 15 foreign companies) in Belarus created with participation of the Finnish capital. About \$22 m of investments were introduced into the statutory funds of these organizations. In 2002-2010 investments from Finland to Belarus amounted to \$50 m. In 2011- \$33.5 m, of which \$32.6 m are FDI on a net basis.

I would like to specifically emphasize bilateral cooperation in the environmental sphere. Our partners from Finland invested in Belarus 5 m euros (including EU funds) in the context of the Baltic Sea ecology.

Leaving aside the particular, I want to draw attention of the reader to another important aspect of the interweaving of world economic relations. Similar to the European Union Belarus is also an active participant and developer of the former Soviet Union formations. In this context, we can talk about relationships not only within the EU-Belarus frames but in a broader context. Since January 1, 2010 the Customs Union of Belarus, Kazakhstan and Russia operates successfully. Fixed tariff and nontariff barriers in mutual trade have been removed, foreign trade procedures are unified and simplified, coordinated control at internal borders is abolished. All these measures ensure free movement of goods and services. The Customs Union which has become an integral part of the single economic area provides foreign investors with expanded opportunities.

Our Lithuanian and Finnish colleagues are well aware of these benefits. The joint VIII Belarusian-Lithuanian and III Belarusian-Finnish economic forum held in April 2012 in the Belarusian city of Grodno has become a vivid example of progressive build-up of mutually advantageous cooperation. Belarusian land received approximately 150 companies from Lithuania and 50 from Finland. The main purpose of the event was deepening and development of trade and economic, scientific and technical cooperation. And it has proved that no sanctions can withhold the development of profitable economic cooperation.

I would compare what is happening to a river. A water stream always finds a riverbed. However a spontaneous stream affects people living along the banks of the river. In this sense, Belarus would like it to be a civilized rather than wild riverbed.

Vladimir Drazhin

*Ambassador Extraordinary  
and Plenipotentiary of Belarus  
in Lithuania and Finland*



# Changeover to the Euro – the Estonian experience

By Andres Lipstok

In recent years, many euro area countries have had to address various problems stemming from the economic crisis, being forced to adjust to the economic changes and debate about the efficiency of the policies implemented. At the same time, Estonia made a significant effort to accede to the euro area, demonstrating its confidence in the viability of the monetary union. These efforts were finally rewarded on 1 January 2011 when Estonia became the seventeenth member of the Eurosystem.

## The beginnings

Twenty years ago – on 7 February 1992 – the Treaty on the European Union was signed in Maastricht, paving the way to the future single currency, the euro. At the time, Estonia focused on the establishment of its own currency. This was the most pressing issue of economic policy after the restoration of the country's independence on 20 August 1991, as there was no prospect of continuing in the hyperinflationary environment of the Soviet rouble. On 20 May 1992, a law was passed establishing the Estonian kroon as the official currency, which could be freely exchanged with any convertible currency. The changeover was completed a month later, with the exchange rate of the Estonian kroon pegged to the Deutsche Mark (and later the euro) and remaining unchanged for its entire period of circulation.

Had its lifespan been 18 months longer, the Estonian kroon would have celebrated its 20-year anniversary on the 20th of June this year. The Estonian kroon was not merely a currency unit – over the years, it became a symbol of our statehood. Public trust in the kroon remained high, with our people being proud of both the design of our banknotes and the stability of the exchange rate. On the one hand, this obliged the central bank to continue pursuing a responsible monetary policy. On the other, the nation's pride in its currency proved a strong emotional factor in our efforts towards the changeover.

The decision to adopt the euro was unhurried. The changeover was established as the strategic goal of Estonia and its central bank as early as the autumn of 2003, when the people approved the accession to the European Union through a referendum. The decision also served as an indication of the nation's support for the accession to the euro area.

## A smooth changeover

Having become a Member State of the European Union, Estonia joined the exchange rate mechanism ERM2 on 28 June 2004, setting its sights on the fulfilment of the Maastricht criteria, considered to be the primary goal of economic policy. The technical preparation for the changeover started in the committee of experts in 2005, with a lot of help provided by countries of the euro area. A design competition held for the national side of Estonia's euro coins produced a solution depicting Estonia's contour and the word "Eesti".

On 12 May 2010, the European Central Bank and the European Commission published the regular Convergence Report, confirming that Estonia had fulfilled all the criteria established for the adoption of the euro. A month later – on 13 July 2010 – Estonia received the final approval of the EU Economic and Financial Affairs Council (ECOFIN) for

the adoption of the euro on 1 January 2011. The changeover rate remained unchanged, purging any fears of a potential devaluation.

A massive information campaign was launched, with cash handlers trained and information disseminated on various aspects related to the changeover. Many people were surprised by Eesti Pank's commitment to exchange kroons into euros without a commission fee indefinitely. At the official reception held on 19 September 2010, the President of the European Central Bank Jean-Claude Trichet handed over the seventeenth Euro Star to the Governor of Eesti Pank.

The technical transition was smooth; the banking systems operated without failure. Still, the uneventful changeover can only be attributed to the extensive efforts made by banks, money-changers, IT system configuration experts, safety ensurers and countless Estonian enterprises, organisations and residents. The non-materialisation of the inherent risks and the smooth changeover to the euro may be considered the greatest reward for our efforts.

## Enhancement of the tasks of Eesti Pank

The changeover to the euro has heralded a new stage in the Estonian history of economic policy. While the main tasks of Eesti Pank have remained more or less the same, the role of the central bank has been completely transformed. Our main priority still lies in ensuring price stability. However, Estonia is no longer the only country that Eesti Pank is responsible for – together with other euro area central banks, Eesti Pank is now responsible for price stability in the entire euro area. From the beginning of 2011, I have thus had the opportunity, as the Governor of Eesti Pank, to participate in and vote on decisions that affect not only the 1.3 million people in Estonia, but also the 331 million in the euro area. The horizons of the central bank have been significantly enhanced along with its responsibilities.

We continue to ensure financial stability in Estonia, to operate payment and settlement systems, regulate the circulation of currency, manage foreign reserves, produce statistics and advise the government – these daily tasks have not changed with our accession to the euro area. Still, the framework for the routines has changed significantly.

In general, the accession to the euro area has provided the Estonian financial system with a much stronger and steadier framework. However, this does not mean that we can rest on our laurels. For the Eurosystem to function efficiently, all members must contribute. The economic integration of the euro area countries requires close cooperation in the field of economic policy. Eesti Pank, on its behalf, is ready to serve as a responsible member.

*Andres Lipstok*

*Governor of Eesti Pank*

*Member of the Governing Council  
of the European Central Bank*

*Estonia*



## Turku – connecting Baltic Cities

By Minna Arve

Two hundred years ago, in August 1812, Turku was the venue of a major international event. Czar Alexander I of Russia and Crown Prince of Sweden, Marshal Carl Johan Bernadotte, a Frenchman sent to Sweden to follow the childless Karl XIII on the throne, met and discussed their mutual relations and the future of Northern Europe.

After several days of negotiations, the Swedish Crown Prince promised to be part of the coalition against Napoleon – who already had started his invasion of Russia – and to give up Swedish claims to Finland, which it had in 1809 lost to Russia. As a compensation, the Russian czar promised Norway to Sweden.

As history would prove, this Turku summit would also end a long period of animosity and wars between Russia and Sweden. Domestically however, it sealed the czar's decision to move the capital of Finland away from Turku to Helsinki, away from harmful Swedish and Western influences.

This summit meeting in Turku was just one example of how the City's history has been linked with the wider context of the Baltic Sea Region. Indeed, for centuries, Turku has been the gateway of Finland to Scandinavia and the wider world, not only logically but also mentally and culturally. Nomination of Turku as the European Capital of Culture in 2011 was therefore a natural confirmation of a long existing reality.

The year 2011 was a success, whatever measurements are used. Most importantly, it stimulated the inhabitants to take initiatives to develop their own living environment, to make the city livelier and more attractive, for themselves and visitors alike and for businesses.

During the Capital of Culture year, as in all activities of Turku, the Baltic Sea dimension has played an important role. It is our "near abroad", where we want to play a key, positive role in building regional cooperation.

Most of our closest city relations are in the Baltic Sea Region. Next year, 2013, the cities of Turku and St. Petersburg will together celebrate the 60th anniversary of our official twin city relationship – Turku was the first city in the world to establish such relations with the former Russian capital, which has developed into a Russian capital of culture and a true metropolis on the shores of the Baltic Sea. It continues to be the Russian window into Europe – a role familiar also to Turku – and an increasingly important partner in the regional cooperation.

The forthcoming anniversary will be observed in both cities with high profile official, business and cultural events as is emphasized in the newly concluded protocol of cooperation for years 2012-2016. This agreement, which reflects the priorities of our cities, stresses the need of enhanced economic cooperation especially in the fields of modernization and innovation, highlighting the maritime cluster as a very potential sector. Shipyards in Turku and St. Petersburg could, for example, cooperate in the development of new technological solutions needed in exploring and exploiting the potential resources in the Arctic regions.

Both Turku and St. Petersburg have expressed keen interest in a new and ambitious development plan, which is known by its working title "Stockholm-Turku-Helsinki-St. Petersburg growth and development corridor". It is aiming at bringing the old historical "kings route" into the 21st century and enhancing overall regional cooperation in the Northern shores of the Baltic Sea.

The original "kings route" was a postal route in the 14th century, running from the City of Bergen in the Norwegian Atlantic coast over Oslo, Stockholm, Åland Islands, Turku and Viborg on the Carelian isthmus, linking in course of history with cities which emerged later, including Helsinki and St. Petersburg. First aimed at uniting the Western and Eastern parts of Sweden, it developed into a channel between Sweden and Russia, along which both kings and czars travelled and which presents a unique combination of Eastern and Western cultural influences.

The conceptual planning of this "kings road of the 21st century" is only in its beginning, but it offers great perspectives for the concerned cities and regions, together with our national

governments, to develop mutual cooperation through joint action and intensified links.

The City of Turku will actively promote this cooperation, as it links two key directions of our contacts – the East and the West – into a joint process. The Stockholm region, just a few hundreds of kilometers away from Turku over the unique Scandinavian archipelago with its 90 000 islands and islets, is both historically, culturally and economically a natural partner of Turku and Southwest Finland.

Although the links with Stockholm are versatile and close especially in the field of logistics, more could and should be done to develop them, to our mutual benefit. Therefore, the City of Turku is actively promoting these contacts. The full City Board of Turku with leading civil servants visited some time ago Stockholm, learning about their administrative and governance models and recent ambitious city development projects. We are convinced that there is much to learn from each other.

We have been welcoming many Swedish visitors, be they tourists arriving daily by numerous ferry boats or dignitaries, such as Crown Princess Victoria and Prince Daniel in September 2011, and hope that the links between Turku and Stockholm will intensify in the near future. The new development and growth corridor, as well as our participation in pan-Baltic cooperation initiatives will certainly also promote this.

Turku was founding member of the Union of Baltic Cities (UBC) back in 1991, when the present pan-Baltic cooperative structure started to emerge after the end of Cold War. We continue to be an active participant in the UBC and its work. Currently, Turku is holding a vice presidency and the responsibility of strategy development of the UBC, and since many years, we are hosting the Secretariat of UBC Environment Commission. This international team with nearly 20 experts is located in the Baltic Sea House in Turku, working closely with the Centrum Balticum Foundation, Finland's Baltic Sea cooperation forum and think tank.

This work, combined with the Turku process – a cooperative initiative with the cities of St. Petersburg and Hamburg and supported by the European Commission/DG REGIO, to develop concrete cooperation with the Russian partners around the Baltic Sea (see more Mayor Aleksi Randell's article 860 in BRE 5/2011) – has proved very fruitful and already achieved good results and acclaim. But much remains to be done to solve our common problems – and to exploit the full potential of our regional cooperation.

With this in mind, the City of Turku recently joined the Baltic Development Forum (BDF) and actively works with it. This, and emerging closer cooperation between the organizations such as the UBC, the BaltMet network and BDF, are also examples of a consolidation of major BSR stakeholders, for which the EU Strategy for the Baltic Sea Region has created a coherent framework. Turku wants to be a central partner in this process and has offered to host the Baltic Development Forum Summit in June 2014.

We hope that the proposed Turku BDF Summit could be combined with the annual EU Baltic Sea Strategy review conference and – significantly – with the concluding event of the Finnish presidency in the Council of Baltic Sea States (CBCC) on the level of Prime Ministers. Such a "Baltic Sea Week", combined with cultural and popular activities to promote the health of the Baltic Sea, would not only be one of the major Capital of Culture follow-up events locally but undoubtedly also a national and regional highlight, raising the profile and possibilities of cooperation in the Baltic Sea Region – for our common benefit.

Minna Arve

Chairman

City Board of Turku

Finland



## Setting the goals, measuring the progress – HELCOM Baltic Sea Action Plan

By Monika Stankiewicz

The Baltic Sea continues to suffer from numerous environmental problems and major efforts are still needed to restore its marine environment. All countries surrounding our precious sea have taken actions to eliminate or limit the pollution and various sectors have already chosen to cooperate for more sustainable activities in the sea and its catchment.

Due to the special characteristics of the Baltic Sea and its documented sensitivity to human pressures, the preventive and remedy measures must not only continue but need to be sufficient, bold and forward-looking. The Baltic Sea will not be rescued without involvement and support of all who can make a difference.

With the adoption of the Baltic Sea Action Plan (BSAP) in 2007, the coastal countries agreed to take specific measures that will lead to a good environmental status of our common sea by 2021. These measures are designed to fight eutrophication and pollution by hazardous substances, and improve status of biodiversity, and are addressed among others to municipal and industrial sectors, agriculture, fisheries, and shipping.

HELCOM, or Helsinki Commission, is the initiator of the Baltic Sea Action Plan and a body overseeing its implementation. HELCOM members - all nine coastal countries and the European Union, take actions based on a legal treaty signed nearly forty years ago.

The high level of ambition of the Action Plan can be reflected by its innovative pollution reduction scheme to fight eutrophication. It determines maximum allowable nutrient (phosphorus and nitrogen) inputs to the sea reflecting a good status, and the difference between this level and the actual, excessive inputs has been allocated to the countries for reduction. The BSAP reduction scheme is unique worldwide not only due to its advanced scientific foundation, but most of all, as for the first time ever the Baltic Sea countries accepted their share of the pollution in the form of concrete reduction targets.

But the adoption of even the best policy is not a success yet and only the implementation reveals the real commitment. The governments hold the main responsibility for it, however, the BSAP has been largely accepted by other stakeholders as well.

The necessary measures, to be put in place by 2016, are being implemented and include adoption of new regulations and legal instruments, practical measures to reduce pollution and impacts, and improvement of scientific knowledge to better advise policy-makers. Examples are plentiful.

A concrete measure that will bring us closer to the less eutrophied sea is the ban on discharges of untreated sewage from passenger ships operating in the Baltic Sea, jointly proposed and successfully negotiated by the nine HELCOM countries in the International Maritime Organization. Apart from the governments, also ports and passenger shipping industry have been involved in this initiative.

Upgrading of treatment of urban wastewaters to the HELCOM standards, stricter than the EU requirements, is another good example of where HELCOM BSAP makes a difference. St. Petersburg wastewater treatment plant now treats 94% of wastewaters from a population of over five million with enhanced phosphorous removal, with the aim to reach 98% by 2015. There are other good examples in the remaining Baltic Sea countries.

Less progress has been achieved to limit pollution from agriculture, which is a source of around 45 % of eutrophying nutrients reaching the sea. The challenge is that the efficiency of implemented measures in agricultural sector has been so far

fairly low and there is a time lag before the effects of reductions can be seen in the receiving waters.

HELCOM will evaluate the progress towards reaching country-wise nutrient reduction targets in the Ministerial meeting in autumn 2013 in Denmark. The evaluation of the national progress will be based on the reviewed nutrient reduction scheme as well as new and updated data on nutrient inputs from the countries. The principle is that the fulfillment of BSAP targets can only be claimed by a country if the positive trend in pollution loads is confirmed with a required certainty.

Availability of good quality data is thus crucial and HELCOM has intensified efforts to ensure reliable data. For example, HELCOM's BALTHAZAR project focuses on capacity building in environmental monitoring in Russia. The Finnish-Russian research team of this EU-funded project carried out sampling near Luga and Neva rivers last autumn, as a follow up to the alleviated nutrient loads to the Gulf of Finland since 2008 reported by Russia to HELCOM. The joint sampling revealed high phosphorous loads in River Luga close to an industrial area, and as a follow up more intense and regular monitoring has been put in place in cooperation with Russian authorities. In addition, a more targeted sampling has been requested by HELCOM to investigate the potential source of pollution more precisely in order to address it in a cost-efficient way.

The 3.5 million EUR BALTHAZAR project has delivered also other useful results such as manure handling plans developed in six pilot farms in Leningrad and Kaliningrad Oblasts, taking into account both EU and Russian best practices and serving as a model to other farms in North-West Russia. Moreover, the project has improved management of mercury containing waste in several pilot municipalities in Kaliningrad region.

HELCOM does not work in isolation from other international developments, but contributes to global and European frameworks and cooperates with sectors for better effect. Excellent examples are synergies between the Action Plan and the EU Strategy for the Baltic Sea Region as well as HELCOM being a coordinating platform for the regional implementation of the Marine Strategy Framework Directive for the Baltic Sea countries being also EU members. Fisheries and agricultural authorities are engaged in a dialogue on how sustainable fisheries and agriculture can contribute to reaching the BSAP goals within the two HELCOM cross-sectorial forums. Cooperation between HELCOM and VASAB on transboundary maritime spatial planning in a joint working group has already brought some fruit such as adoption of joint broad-scale regional principles for spatial planning at sea.

A lot of work is ahead of us, both with regard to the full implementation of the previously agreed actions, as well as the identification of new and needed measures. Rescuing the Baltic Sea requires a long-term plan and tireless action despite difficulties, but as described above, we already have success stories to tell and examples of concrete outcomes and promising initiatives about the synergistic collaboration towards the same targets.

Monika Stankiewicz

Executive Secretary

Helsinki Commission

Finland



# The Baltic Sea transport corridor – changes ahead?

By Tellervo Kylä-Harakka-Ruonala

The development of the Baltic Sea region will be determined largely by the kind of business environment it offers. The Baltic Sea connects the European Union's internal and external markets. As an EU Member State and a neighbour to Russia, Finland has strong connections to both.

The economic development of the Baltic Sea region requires a functional and efficient transport infrastructure. The main aim should be to improve the preconditions of logistics. Due to Finland's geographic position and the resulting long distances, logistics are even more decisive for Finnish companies than their competitors in many other countries.

The Baltic Sea has traditionally been a primary trading corridor for Finland. For the EU it is both an internal corridor and a connecting route for international trade. A significant share of Russian foreign trade is transported across the Baltic Sea, which also provides a connection from Central Europe to Russia.

Through the straits of Denmark, the Baltic Sea also offers a connection for transoceanic trade both eastwards and westwards. The majority of maritime freight is transported between massive hub ports in containers.

## From the hinterlands to the oceans via the Baltic Sea

Since the Baltic Sea is an internal sea within the EU, transport across the Baltic Sea is part of the EU's internal market. One of the objectives of the EU's transport policy is to develop and promote short sea shipping in order to reduce congestion on roads and the environmental impact of transportation.

Demands on logistics are intensifying as customers expect more precise and reliable deliveries. In order to promote efficient supply chains, it is important to eliminate transport restrictions and bottlenecks in shipping. This requires that logistics chains from the hinterlands to the oceans be examined holistically. It is essential to ensure seamless connections between different modes of transport, a high level of service by ports and uninterrupted shipping in wintertime with the assistance of ice breakers.

The development of short sea shipping also entails that changes in international trade be taken into consideration. In the future, the modes of transportation and routes used for international trade may be subject to considerable changes – including both threats and opportunities. Although the Baltic Sea will most likely continue to be a major transport corridor, its competitiveness could change significantly for a variety of reasons. For example, changes could occur due to the opening of the Arctic Ocean and by improved routes of the Baltics and Russia.

## Increasing cost pressures

Changes to transport routes could also occur as a result of additional logistics costs within the Baltic Sea region. Both the providers of logistics services and their users are facing intensifying international competition in which costs play a vital role.

The single biggest factor that could increase shipping costs is the introduction of sulphur emissions restrictions in the Baltic Sea, North Sea and English Channel. The decision was taken by the International Maritime Organisation (IMO) in 2008, and the EU Sulphur Directive is currently being revised in order to implement the restrictions within the EU. If the decision is implemented in suggested schedule, maritime freight costs could increase by as much as 30 to 50 percent in the Baltic Sea.

Nitrogen emissions restrictions are also being planned for Baltic Sea shipping. In addition, the European Commission is preparing a European-wide emissions trading scheme for shipping.

Regional demands are problematic, as they distort competition and weaken competitiveness in relation to the rest of the world. Furthermore, both the IMO's decision and the EU's Sulphur Directive proposal treat EU Member States unequally.

Instead of regional demands, globally fair conditions should be created and maintained for shipping. All in all, transport policymakers should adopt an approach that improves business conditions and develops operations rather than restricting them and increasing costs.

If shipping costs rise disproportionately, transport will shift to roads – which is counter to the objectives of the EU's transport policy. The increase in costs will have more repercussions for Finland than for other countries, since Finland has no direct land connections to Central Europe.

## Cleantech – the solutions approach

The Confederation of Finnish Industries (EK) has proposed that the IMO's decision on sulphur emissions not be implemented in suggested schedule; instead, a transition period is required for the more stringent restrictions on Northern regions.

A transition period would allow emissions to be reduced by developing alternative means – without being forced to switch to more expensive fuels as the only option. This would alleviate costs while at the same time reducing the distorting effects on competition in relation to other regions both inside and outside the EU.

One means of reducing emissions is to fit ships with so-called sulphur scrubbers. Another possibility over the longer term is to switch to liquefied natural gas (LNG). In this way, a transition period would also promote the development and introduction of emissions reducing technologies and methods.

Finland possesses world class expertise in cleantech, applied also in marine technology. This expertise could be used to solve problems both in the Baltic Sea region and globally. The global adoption of these cleantech solutions would achieve much greater environmental benefits than if emissions were reduced only within Finland or in the local region.

In the future, better coordination is required between transport and environmental policymaking. In order to meet the global demand, we need a parallel approach of solving ecological problems while enhancing the efficiency of supply chains at the same time. This way, the environmental sustainability and logistics competitiveness become mutually supportive goals.

**Tellervo Kylä-Harakka-Ruonala**

Director, Business Infrastructure

Confederation of Finnish  
Industries EK

Finland



# One thousand and one articles on the Baltic Rim Economies

By Kari Liuhto

Since the beginning of 2004, the Pan-European Institute (PEI) has produced the Baltic Rim Economies (BRE) review. By now, 1001 articles dealing with various themes relevant to the Baltic Sea region have been published in this journal. These columns have been written by several EU commissioners, ministers, members of parliaments, regional decision-makers, representatives of international organisations, security institutions, business community, media, academia and many other institutions. You may find all these valuable contributions at the website of the PEI. If you are interested in receiving these reviews free of charge to your email, you may register in the mailing list of the BRE review (<http://info.tse.fi/pei/bremaillist.htm>).

The Baltic Rim Economies quarterly review has perhaps become the most known virtual discussion forum on the Baltic Sea region. The BRE review is distributed to tens of thousands of readers in over 80 countries. It needs to be noted that numerous members of governments and their advisors, ambassadors, businessmen, academics as well as ordinary people interested in the region receive this journal.

In addition to the quarterly reviews, we aim at developing the review further by producing special issues on the topical themes. This year, we will produce at least two special issues; one on Belarus and another one on the shipbuilding industry in the Baltic Sea region.

Until the end of the last year, the review has been produced without any external support or finance, but now we have started to allow sponsors to co-finance the review. The sponsors will not influence in any ways the content of the review, but hopefully, the external finance leads to a wider distribution of the reviews. I wish to use this opportunity to express my deepest gratitude to the City of Turku, the Centrum Balticum, and the Turku Chamber of Commerce for their financial contribution, and at the same time, I welcome new potential sponsors to contact us.

During the past 6 months, the Pan-European Institute has deepened its co-operation with the Centrum Balticum, Finland's information centre on the Baltic Sea region. Together these institutes will produce joint events and conduct projects. As an example, one can mention the national Baltic Sea Forum of Finland, which the Centrum Balticum organises on the 7-8th of June. This annual forum, targeted to the Finnish experts specialising in the Baltic Sea region affairs, focuses this year on the future development of the region. Similarly, the Pan-European Institute's 25-year anniversary conference "Baltic Sea Region 2025", to be held on 25th of October, concentrates on the challenges the Baltic Sea region faces in the future. You may find additional information on the homepages of the relevant institutions (see below).

Currently, the Centrum Balticum and the Pan-European Institute participate together in two projects, one aiming at developing the South-West Finland, and another one with a goal to improve the competitiveness of the Baltic Sea region in general, and the maritime cluster in particular.

The Pan-European Institute continues its active research efforts in the field of energy business, foreign investment, innovation and regional development in the Baltic Sea area and the Arctic region as well. In this

capacity, the researchers of the PEI continue participating in the events organised by the Baltic Development Forum, the Baltic Institute of Finland, and the virtual think tank built by Bernd Henningsen, professor emeritus of the Humboldt University.

Besides research, the PEI is actively involved in education. For instance, the doctoral school of the University of Turku dedicated to the Baltic Sea region studies could be re-created and the PEI may have a co-ordinating role in it. The staff members have also been involved in providing lectures in the "Baltic Sea Region Studies" masters programme organised by the Faculty of Humanities of the University of Turku (<http://balticstudies.utu.fi/>). Moreover, the staff members of the Pan-European Institute produces annually half a dozen courses dealing with the region, such as the courses called "Business in the Baltic Sea Region" and "Managing R&D and Innovation in the Baltic Sea Region".

Albert Einstein once stated that "*every kind of peaceful cooperation among men is primarily based on mutual trust and only secondarily on institutions such as courts of justice and police.*" I believe that open discussion is one of the best ways to build mutual trust around the Baltic Sea region, and hence, I find it meaningful to continue producing the virtual discussion forum called Baltic Rim Economies for several thousand articles more.

Kari Liuhto

*Editor-in-Chief*

*Baltic Rim Economies review*



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## Change the Euro pattern and strategy

By Leszek Jesień

There were times the Eurozone was thought to be a crowning of the European integration process. There were times, the Euro was regarded as a club of the rich and the right. They established the rules of the game (the Maastricht convergence criteria, later the Growth and Stability Pact) and they ruled themselves (the close circle called the Eurogroup). There were times the Euro was trying to become one of the key global currencies with the oil exporters going as far as to abandon the dollar for the Euro as their trading money.

Those times seem gone. There are basic weaknesses of the Euro that slowly emerge from its crisis: mountains of public debt coupled with economic contraction or simply lack of growth, increasing lack of trust and confidence to the Euro governance, unsettling short of leadership to steer it out of crisis, looming internal divergences across the European Union as regards future of its currency.

One of those weaknesses is being tackled by the remedies taken by the Eurozone, namely the six-pack set of directive and regulations and the fiscal compact. Both try to improve and strengthen mainly the preventive side of the story, inducing or even possibly forcing the Euro members to fiscally cautious policies. That is a good development on its own, even regardless whether it is going to contribute to the Euro stability and its ability to survive. Given the global role of financial markets, fiscally sound national and European economic policies seem today a sheer necessity, rather than a matter of ideological choice.

The second weakness stemmed from limited role of the European Central Bank to lend in last resort capacity. This has been tried to circumvent via temporary European Financial Stability Facility and forthcoming permanent European Stability Mechanism (ESM). Also, the ECB provided increased liquidity to the European banks lending them over 1000 billion Euro in 2011/2012. The Euro crisis gets rolled over, while the most affected countries try to get their fiscal houses in order.

Yet, the general weakness of trust in the Euro is much more difficult to deal with. On one side, a broad uncertainty has unnecessarily grown into the Euro following a series of 'last chance' European Council meetings. Ultimately, the EU summiy produced the bail-out scheme of the ESM and the fiscal compact. It remains to be hoped that it gets ratified by at least 12 countries and proves sufficient in time of need when bigger countries might be challenged.

On the other side, the general weakness of Euro was not tackled at all, and it remains present since its very basic design as it was conceived in early 1990s: as a crowning of the integration process, contributing to gradually ever closer union between peoples of Europe, following the customs union and single market. This could well be true, but today it is the core of integration that needs a cure and remedy more than those outside of the pioneering group. In other words – over last couple of years the Euro has gradually lost its leadership appeal and the most recent accession of Estonia has not changed that picture. The very core of thrust of European integration seems seriously in trouble: where and how should the European integration process be now directed therefore? This seems an essential question which pertains to the futures of both the Euro and the EU itself.

Interestingly, the Euro troubles provoked calls to external partners for help, including the IMF. With that turn, the non-Euro EU member states started to participate, even if in a peculiar way outside the EU framework, in providing the cure and remedy for the Euro in trouble. Therefore, gradually we are getting to the point where the future of the Euro depends not only on its membership, but also on those outside of it. Clearly, this remark is not intended to underestimate the need and scope of the efforts by the Euro members, including the biggest ones.

Still, the logic of the variable and flexible integration based on core initiatives like the Euro, does change. If the Euro is no longer the beacon of integration, but still undeniably important for lives of all Europeans, than the Euro scheme does not belong any longer to its narrow group of members only, but to the European Union as a whole. If so, we should return to this past moment of European integration when all was decided by all, even if the decisions were not affecting all taking part in the decision making. This historical point of reference is the December 1990 European Council in Rome when the decision was taken on the future shape of the single currency (still without its name at the time), and it was taken by all 12 members at the time, even if in future both Great Britain and Denmark would have not participated.

From this perspective, the Euro is just another common EU policy, albeit one of the most important. It happens to be in trouble these days, and as such it needs help. The consequence is that one day the Euro may indeed become the all-EU currency, or it may not. The European integration process needs to get back more firmly to its very practical roots when trial and error was possible. The ideas and solutions not practicable were duly abandoned and forgotten, while the overall project took new venues and continued to flourish. The lessons were therefore taken.

This should not be read as advocating to abandon the Euro project. If it proves resilient enough, it should be kept and protected, naturally. But the duty to heal it and make it a strong global currency is on all of us, all the 27 EU member states, not only the Eurozone. Consequently, the Euro governance should go back in hands of all 27 member states, together with its accession and maintenance rules.

Euro managed by all 27 member states is not bound to succeed by default. It would need to find an ingredient of effective leadership it lacks today among 17. This may prove equally difficult as seems to be now. Yet, among 27, there it could find much broader and deeper legitimacy than in limited and narrow group. It would require an overall change of pattern of our thinking about the Euro and its rules. On both sides: among the Euro and non-Euro members.

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## Russia – at the door of WTO

By Leonid Grigoryev and Anna Chaplygina

By the end of 2011 Russia had finally completed the long process of accession to the World Trade Organization (WTO). This process lasted for 18 years for various reasons: due to the continuous changes in Russian trade-related legislation; difficult bargaining with a large number of participants of the Working Party; and a volatile Russian accession strategy. Some tactic of joining or doubting the WTO, accession as Customs Union or as Russia only – all of this surprised Russian experts as well as foreign analysts. And external obstacles for the completion of the accession were considered in Moscow so tiring, that "WTO – fatigue" was a common definition for status of the process for last few years. There were no public debates or major public reports on WTO accession implications for a good five years to our recollection. Meanwhile the main parameters of the accession have been agreed back in 2006. And out of a sudden it is all over – Russia is joining WTO. The final accord in the accession process is to sound up to June 15, 2012. Russia has to complete the internal ratification procedure, then to notify the WTO about it, and in 30 days Russia is enjoying the full rights of WTO membership.

The most simple, obvious and populist-used result of WTO accession for Russia is a change in rates and regime of introducing import duties (first of all, the level of bounding, which are included in the Protocol of Accession). The average Russian import tariff should be reduced from current 10% (as at the end of 2011) to 7.8%. Tariff rates will be reduced gradually, and the transitional period will end in 2013-2020 for various commodity groups.

Of course the fluctuations of the ruble rate to euro and dollar may affect Russian foreign trade much more than 2.2 p.p. of tariffs on the average. Any strengthening of Russian ruble against US dollar is equivalent to reducing the effective rate of import duty by the same amount (adjusted by the share of dollar settlements in Russian foreign trade). Ruble fluctuations were quite perceptible over the past few years: for example, during the first quarter of 2009 ruble fell by more than 15%, and quarterly fluctuations in 2011 were: +8%, +4.3%, -4%, and -6% respectively. Reduced import tariffs as a result of WTO accession will be subtle factor for the most of Russian industries and for the most of countries importing to Russia.

Much more significant consequence of Russia's entering the WTO will be higher level of transparency and stability in terms of access to the Russian market. The inevitable gradual changes in the institutional environment and the effect of reputational factor may help to increase the attractiveness of Russia as a member of the WTO for foreign investors. All these effects are difficult to evaluate (to assess quantitatively), and their impact will be effective only in combination with other measures aimed to the development of civil and state institutions in Russia, but in any case they will definitely be a positive factor for Russia.

The sectoral impact of WTO accession for most of Russian industries (and services sectors) can not be predicted accurately. This is due to the fact that any negative assumption (like "Russian membership in the WTO will be fatal for the X industry") or positive assumption (like "Russian membership in the WTO will definitely be blessing for the Y industry") can be modified with a lot of "but" associated with the interests of Russian consumers,

or the incomes of government budget, or the number of jobs, or the indirect influence from other industries, etc. A lot will be depended on the reaction of firms. The majority of Russian enterprises are only now beginning to view the WTO rules of the game as something inevitable for adaptation.

Some illustration may be given by such a sensitive sector as agriculture. The aggregate measure of domestic support in agriculture was one of the most difficult issues in the negotiations on Russia's accession to WTO. Russia is actively use a wide range of measures for support – starting from quantitative restrictive measures (import quotations for beef, pork, and poultry) and concluding with financial support (interest rates' subsidies for farmers) or discounted fuel prices, and many of these measures not meet the requirements of the WTO. As a result, under the terms of Russian Protocol, the aggregate measure of support is limited to US \$9 bln (which is much higher to the current actual level of AMS), and by 2018 it will be gradually reduced to US \$4.4 bln, which does not look like a disastrous reduction.

Moreover, the WTO rules states that subsidies which are not trade-distorting (they are included in the so-called green box) are unlimited and can be implemented in any amount. Consequently, the opportunities to invest in agricultural development will be more than sufficient. Agriculture will also benefit from the reduction of import duties on agricultural machinery, and consumers of agricultural products will benefit from increased competition in this sector. In general some groups in the politics and business are still tense and express concern about sudden joining, but the most of economists are optimistic "in principle" by belief in the market discipline and a positive impact of WTO accession for other counties.

There have been some serious changes in the Russian trade regime – first of all, new strategy of automotive industry development with the help of an assembly on Russian territory regime. Such changes affected an important article of Russian import of cars, which represents about a quarter of Russian equipment import. It was also a question of growing difficulty to discuss sanitary and phytosanitary issues (especially regarding various kinds of meat), which was viewed from outside as a political tool in past few years.

One of the most important direct consequences of WTO accession for Russia will be the access to the WTO Dispute Settlement Body (DSB) – this, in fact, world trade tribunal, where it is possible to resolve all contentious trade-related disputes fairly and quickly. DSB is dealing with hundreds of disputes which are complex and tinged with a lot of politics, and its decisions are often criticized, but the overall efficiency and effectiveness of this mechanism is beyond doubt.

It is already clear that with the help of DSB mechanism Russia can seek to improve access to some foreign markets – primarily by filing cases against anti-dumping restrictions for Russian export (e.g. to the production of metallurgical and chemical industries). On the other hand, WTO countries will try to qualify as non-compatible with WTO rules some regulations of foreigners' access to Russian market.

The most interesting development with Russian participation may occur in the energy sector, which is only partially covered by the provisions of the WTO agreements. All sides now probably are looking into WTO rules concerning energy relations to other sources of regulations. And Russian companies may look into options with relation to the EU Third Energy Package – concerning market access restrictions for companies from outside the EU.

We suppose that as a WTO member Russia can help this organization to feel the burst of energy and to face some important new issues – it will be a sort of dual challenge for WTO members and for Russia itself. The most obvious sectors of such interest of Russian membership may be the energy trade and transport/transit as well. Now it's time for Russia and all other WTO members to leave in the past the negotiation practice of arguing and move to the search of a "win-win" strategy.

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## Russian way to the World Trade Organization (WTO) – why did it take so long?\*

By Sergei F. Sutyrin

At the end of 2011 negotiations on Russian accession to the WTO came to a successful completion. Decision of the Working Party on the terms of the country's membership made on 10 November and approval of Russia's entry at the 8th Ministerial Conference in Geneva on 16 December constituted two last steps of the process.

Although Soviet Union had been able to become one of the "founding fathers" – contracting parties of the initial General Agreement on Tariffs and Trade (GATT), it due to several reasons had deliberately preferred not to participate. Only as late as 1991 USSR got the observing status to the organization, and thus had no opportunity to develop any actual relations with it. Russia in its turn in June 1993 applied for GATT membership. History doesn't know the conjunction mood, so there is no sense in speculations on scenarios of RF foreign trade development in case of getting this status, and then more or less automatically becoming a member of the WTO after it started to operate from January 1, 1995. Nevertheless, at least two points seem to be relevant here. First one is substantial difference between GATT and WTO. The latter covers by its rules and procedures much wider range of international economic transactions including trade in services, protection of intellectual property rights and certain components of international investments. More than that, the WTO imposes on its members more rigid discipline with respect to implementation of their commitments. All this inevitably influences the way accession to the institution is negotiated.

Secondly, it is interesting to note that for the last years of GATT a total number of its contracting parties increased significantly. During 8 years of Uruguay Round 37 states and separate customs territories joined "the club". Just within the period of second half of 1993 – December 1994 GATT got 17 new members.

In one of his previous publications<sup>1</sup> an author of the present paper merely enumerated several factors due to which the successful completion of negotiations on Russian accession ultimately took more than 18 years and so far happened to be the longest in the history of the WTO enlargement<sup>2</sup>. Here two of these factors will be discussed in more detailed manner. Namely they are: the scope of negotiated issues, and the number of countries participating in the Working Party. Being closely connected with each other both of them nevertheless emphasize different dimensions of the problem.

In particular, in case of the former a key point deals with the size as well as relatively high level of diversification typical for RF economy. Even taking under consideration unprecedented economic slump experienced by the country during the 1990s, Russia continued to be a relatively significant participant of international trading system. In particular, in 2002 Russian Federation accounted for 0.9% of world merchandise import, being the 23d largest importer on the globe. In case of merchandise export the results looked even more impressive – 1.7% share and 17<sup>th</sup> position in the global ranking<sup>3</sup>. During next several years (before 2008-2009 economic crisis hit the country) Russian foreign trade expanded significantly. This type of growth resulted in 2008 in 1.8% share of world merchandise import (16<sup>th</sup> rank) and 2.9% share of world merchandise export (9<sup>th</sup> rank)<sup>4</sup>.

Under the circumstances overall Russian economic regime as well as specific conditions of commercial collaboration in very different individual markets of goods and services were of obvious substantial importance for a large variety of economic agents all around the globe. In their turn Russian negotiators were obliged to take into consideration both often mutually conflicting concerns of domestic stakeholders and possible discrepant repercussions of proposed measures. On this basis they had first to elaborate and then to implement coherent strategy aimed at securing of national interests.

In addition to mentioned above, the number of the Working Party participant *per se* also paid its tribute to making negotiating process lengthy. According to the existing rules each and every member of the WTO is able to enter the group of those who are interested in discussions with the candidate. In Russian case they appeared to be more than 60. Majority of them negotiated Russia's accession from the very beginning of the talks. At the same time, some newly acceded countries (e.g. Ukraine, Saudi Arabia, and Cambodia) joined much later.

Why all that is relevant to the issue under investigation? This is due to the fact that substantial part of negotiations (in particular, on tariffs and trade in goods and trade in services) were carried out in a bilateral regime. From purely technical point of view quite a period of time is needed in order to prepare and sign 57 bilateral agreements on market access for goods and 30 bilateral agreements on market access for services. By the way, one can hardly expect that these figures will ever be surpassed by any future potential WTO member.

To sum up, it seems sensible to argue that 18 years-long negotiations on Russian accession to the World Trade Organization should not be perceived as something really extraordinary. Generally speaking, there are no strict objective quantitative criteria any candidate should conform to. Under the circumstances straightforward consent to meet all Working Party demands and to implement within reasonable period of time respective liberalization measures allows to receive the status of the WTO member fast enough<sup>5</sup>. In case of Russia, membership for the sake of membership never was a goal. Maxim Medvedkov's team rather strived for securing **acceptable conditions of accession**. It won't take that long to see whether they managed to succeed.

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<sup>1</sup> Sergei F. Sutyrin Russia and World Trade Organization (WTO) – end of journey or endless one? Expert article 701. Baltic Rim Economies, 28.2.2011 Quarterly Review 1, 2011.

<sup>2</sup> Out of 26 currently acceding countries Algeria (Working party established in June 1987) will definitely surpass Russian "achievement", while Belarus (Working party established in October 1983) and Sudan (Working party established in October 1994) have all chances to do that.

<sup>3</sup> "World Trade Report 2003. Trade and Development". WTO. Geneva. 2003. P.68.

<sup>4</sup> "World Trade Report 2009. Trade Policy and Contingency Measures". WTO. Geneva. 2009. P.15.

\* The paper was written within a framework of the project "The WTO Chair in St.Petersburg State University"

<sup>5</sup> Kirgizstan after submitting application in February 1996 completed negotiations on accession in July 1998 and became the first former Soviet republic acceding to the WTO.

## Where to look for the Baltic Sea region identity?

By Karina Pētersone

People say that a person is what he eats. Paraphrasing this I would say that a person is what he reads. My childhood bookshelf had books by Andersen, Brothers Grimm, Astrid Lindgren, Latvian and other fairy tales on it. This reading has shaped me as personality with a strong sense of the regional, not only national identity. These two identities have never been in conflict, they have entwined and enriched each other.

The Baltic Sea region has existed as a territory without fixed borders since times immemorial, however, institutionalisation of it as a territorial cohesion initiative has happened only recently. Also, recent historical political changes have added a new dimension to the region and its identity.

The honeymoon feelings which blossomed at the end of the Cold War and during Velvet and other kind of revolutions in the Central and Eastern Europe unfortunately are long since gone. During early 1990ies, the lost diplomatic, economic and cultural ties with neighbours across the Baltic Sea were being actively rebuilt, and aspirations in the newcomers towards the community-based and well-functioning models of the Nordic societies were running high. However, after that the nations around the Baltic Sea returned back to their routines of state building and were busy joining the EU and other influential international nation-clubs.

Currently, the region countries are looking at each other again and are busy shaping a European macro-region - the Baltic Sea Region - the Strategy of which is a political initiative knitting it together within the EU.

Part of it is an attempt to brand the region, and for that matter the question: whether there is a common Baltic Sea Region identity, has been posed and debated over the last 20 years.

Director of the Baltic Development Forum, Hans Brask, in his Foreword to the Identity Report of the BSR of 2011, writes: "...the concept of a common identity in the Baltic Sea Region is the most difficult and the most demanding to apply. To speak about a common identity one has to have strong shared values and a clear sense of belonging. (...) Is it at all possible to speak about a common identity when one of the most striking features of the region is heterogeneity?"<sup>1</sup>

Professor Bernd Henningsen, the author of this Report 2011, in his essay "On Identity – No Identity", asserts that "the Baltic Sea Region is a history of co-operation and conflict" and looks for a common identity in history, landscape and climate, trade, architecture, art and culture, education and science, eating habits, as well as in the presence of the sea, to conclude that to look for a common identity leads one to a trap: "How can a region have something in common – "an identity" – or be regarded as homogeneous, when nine different languages are spoken within it, it contains more than nine ethnicities, uses eight different currencies practices three different forms of Christianity,..., and last but not least, which fosters relatively different political cultures."<sup>2</sup>

He states that "...all previous attempts to understand the Baltic Sea region through its history, culture, language (...) have failed", however he identifies several elements that "...cause people around the Baltic sea to develop a "we-feeling". "The Sea, its coastlines, its weather and climate, seasons, summer vacations, yearnings for freedom, remnants of architecture and culture, city life, (...), let alone first hand or passed down memories of the wars, which people waged against each other."<sup>3</sup> And therefore he suggests that we should refer to this "we-feeling" rather than look for a common identity.

I dare suggest that in our search for a common identity for the region we look for inner and outer denominators. Apart from those that create the "we-feeling" mentioned by B. Henningsen, I propose to look at archetypes. The best place to look for them is the mentioned fairy tales, common to the region, which very seldom have happy endings. The morale is: an individual should

rely on himself and not on some magic, besides – sadness is enlightening and it is advisable that one is compassionate and feels solidarity.

However, if we find it difficult to describe the Baltic Sea Region as identical to itself, which is the case with the multitude of cultures and economic circumstances, then probably we have to use the relative method and look for denominators outside trying to construct the regional identity by method of defining what the region is not in order to see its strengths. A good method is that of juxtaposition:

- 1) BSR vs the South, is Northern – we have the change of seasons, snow, seasonal fruit and vegetables, tourism opportunities; hardships have made the people creative and resourceful;
- 2) BSR vs tyrannies - is democratic, it respects the rule of law, property and human rights;
- 3) vs the East there is lots of green, unspoilt land, educated workforce, financial and legal systems in place that allow for cooperation and even coordination of policies;
- 4) vs countries that experience difficulties in balancing their spending with earnings, the BSR countries have demonstrated resilience, solidarity and discipline.

Here I would like to follow professor Henningsen's thesis that identity often is not itself centre of discussions or programmes, it is a purpose for political, cultural or scientific interests. (p.22) Therefore I suggest that we look for the Baltic Sea Region identity from the angle of the European Union Strategy for the BSR, which is a result of political agreement, expressing the will of all the nations of the region to cooperate, build networks and engage all possible actors for the purpose of enhancing the region's prosperity, increasing its accessibility and attractiveness, as well as enabling a sustainable environment and ensuring safety and security in the region.

Therefore, for political reasons and for the benefit of the peoples who inhabit the region, our identity search has to be forward and not backwards directed, its pivot should be the political will to act in accord, use the rich potential, the above strengths, in order to lessen the differences in living standards, political habits, levels of energy security, infrastructure durability and accessibility of territories within the region by land, air, sea and rail routes.

For branding purposes the BSR can lean on its sectorial priorities, the 5 "e"-s, as emphasised by Former president of the Baltic Development Forum Uffe Elleman Jensen: Economy, Ecology, Energy, Education, Euro. However, the Baltic Sea Region Strategy is an ownership of participation, where the potential lies in 5 "c"-s: Cooperation, Competition, Coordination, Communication and Creativity.

Estonian president Lennart Meri has once added to the debate saying that the axis of the region is the Sea itself.

With the new political commitment the axis of the region has pivoted from the Sea itself to the Strategy itself.

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<sup>1</sup> Identity Report 2011, Baltic Development Forum, p.3.

<sup>2</sup> Identity Report 2011, Baltic Development Forum, p.17.

<sup>3</sup> ibid, p.61.

## The development of the nanotechnology industry in Russia

By Richard Connolly

Since 2007, the development of a competitive nanotechnology industry has been identified as an issue of considerable importance by the Russian government. As part of wider efforts to promote economic modernization in Russia, the government has committed significant resources to support an active industrial policy to help achieve this goal, making Russia one of the world's largest state spenders on the nanotechnology industry. However, Russia's location, far behind the global technological frontier, has hampered state efforts to ignite a wave of activity in this industry, suggesting that state efforts to create high-technology, knowledge-based industries might be inappropriate for a country at Russia's stage of economic development.

While state efforts to develop the nanoindustry in Russia have been, at least in material terms, impressive, there remains much work to be done. There are strengths on which to build. Russia appears relatively strong in theoretical research: it ranked eighth in nanotechnology publications between 1991-2007, behind China and Korea, but ahead of Italy and Switzerland. Public spending on nanotechnology research is currently among the highest in the world. A small but dynamic private sector exists: for example, NT-MDT, which specialises in scanning probe microscopes, is ranked second in terms of sales volumes on the world market. The firm reinvests c. 15-20 per cent of revenues in R&D and has forged a number of associations with foreign companies. In terms of regional distribution, some regions are especially active, with most nanotechnology activity concentrated in Central and North West okrugs (Moscow, St Petersburg, Tomsk, Kaluga, Perm).

However, the weaknesses remain severe. Russia performs badly in the commercialisation of research, ranking 16th in world in number of patents related to nanotechnology – behind Korea and China, a meagre 0.2 per cent of the global total. The industry is overwhelmingly state dominated, with over 80 per cent of all investment in nanotech-related activities in Russia subsidised to some degree by the state. The acceleration of state investment since 2007 means that this tendency is unlikely to be reversed. Of particular importance is the fact that nanoscience infrastructure is – compared to the EU, USA and Japan, at least – extremely underdeveloped. While this remains the case, it is difficult to see Russia making any significant strides as a major nanotechnology actor. This manifests itself in the relatively small number of R&D personnel in fields of nanotechnology and nanoscience: c. 14,500 in 2009 (3.9 per cent of all researchers) compared to c. 150,000 in the USA in 2008.

There are also a number of weaknesses in the specific mix of policies designed to stimulate activity in the nanotechnology industry.

First, it is not clear that the efforts made so far will result in a significant expansion of private sector activity in the Russian nanotechnology industry. The co-financing element of Rosnano's activity – arguably the primary feature of Russia's industrial policy – means that any company will, to some degree, experience partial state ownership. While the state share does not, in most cases, exceed 49 per cent, it is certainly true that Rosnano – a state agency – makes the key decisions on lending. Moreover, it is not clear what role the state will play in those ventures that have been co-financed by Rosnano. The company claims that after 3-5 years, the state will relinquish its share in the co-financed projects. However, it is not clear that Rosnano will be able to relinquish its stake in unsuccessful ventures. If there are no buyers, will the state be prepared to make significant losses? In short, a clear mechanism for 'letting losers go' is required if the policy is not to turn into an open-ended rent-seeking arrangement.

Second, the wider, non-Rosnano related private sector will also need to grow if current policies are to be considered successful. However, while private sector investment in nanotechnology surpasses government financing in most other countries, the opposite is true in Russia. This resulted in a less

privileged position for Russia when its total funding for nanotechnology development was compared with that of other countries. In 2010, there were few private investors in Russia, and foreign capital had shown little interest in high-tech industries such as nanotechnology, presumably due to the poor climate for long-term investment. Investors from developed countries are able to bring important capital to Russia, as well as ideas about corporate management, governance, and reporting and accounting standards – not to mention the fact that joint ventures are perhaps the most effective way of achieving technology transfer. While foreign activity remains subdued, the prospects for private sector development in nanotechnology appear especially bleak.

Third, there is only a muted demand for nanotechnology products in the Russian economy. This low demand is generally correlated with wider high-technology production levels. In Russia, high-tech products account for a small proportion of production and exports, so it should be no surprise that demand for nanotechnology products is correspondingly low. Without significant levels of sustained demand for these products, it is highly unlikely that supply – in the form of production facilities that allow high volume serial production of quality micro-components – will expand. If this continues to be the case the ambitious targets outlined in the 2007 strategy are unlikely to be achieved.

A wider issue – and perhaps the most important one – is whether the sort of industrial policy typified by efforts in the field of nanotechnology is really appropriate for a country like Russia. Russia's level of per capita income relative to the USA and the EU shows that Russia is located some way behind the global 'technological frontier'. Broadly speaking, if a country is, like Russia, located some way behind the frontier, its mix of policies to promote economic modernization should include efforts to upgrade technologically through cooperation with foreign companies (through inward foreign direct investment [FDI], for example) and the import of embodied technology. The effective acquisition, absorption and diffusion of foreign technology requires policies designed to enhance the absorptive capacity of an economy. Public policy should, for example, focus on attracting FDI and then embedding these actors within Russia's domestic economy by integrating FDI and stimulating multiple linkages between foreign and domestic firms. This type of process would be a slower and less grandiose path to modernization; it would also be much more likely to achieve significant results.

Ultimately, then, despite the promise of significant resources being allocated to the likes of energy efficient technology, nuclear technology, space technology and communication, pharmaceuticals, and strategic information technology, the fact that Russian industrial policies are not appropriate for the domestic context means that modernization Putin-style is quite unlikely to result in anything other than, at best, the development of small 'enclaves' of innovation, weakly linked to the wider Russian economy, and too small to generate wide-scale economic modernization.

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## Commercialization as the bridge from Russian science to prosperity

By Mikko Kaarela and Pekka Koponen

Russia has been and will most likely remain one of the key players in scientific research, with internationally recognized achievements in physics, chemistry, materials science etc. Russian scientists have been among the pioneers in discovering materials break-troughs such as carbon nanotubes, atomic layer deposition and inventing industrial manufacturing of silicon carbide semiconductors, to name but few. In all the mentioned areas, however, Russia has lost the scientific and business leadership and also the intellectual property battle. Let us take a look why this has happened - and keeps going on.

Partly as a result of the Soviet legacy Russia has significant problems in turning investment in science into wealth and prosperity. First of all, the tradition of commercializing results of science is still young, due to the fact that private entrepreneurship was practically criminal only two decades ago. Private enterprise is still seen by the system as a "suspicious activity" that must be kept in a short leash, with lots of red tape and mandatory procedures, controls and inspections. Frequently these requirements cause significant additional costs and delays when a private company is trying mind its own business and serve its customers. For example, the common western practice in professional services - sending a letter of proposal and confirming its acceptance - is not enough to ensure that the bank will eventually allow the payment of the invoice. Mandatory contract documentation obviously slows down the business and reduces Russian technology companies' competitiveness in the international market place. Dealing with the Customs is a topic of its own and a major hurdle to start exporting technology products in form of physical goods. As president Medvedev put it: "When I hear talk about the customs, I sometimes have hard time to control myself."

Most senior executives and civil servants in their fifties and beyond are also products of the Soviet era. No wonder that they may find difficult to understand how industrial (as opposed to trade with natural resources) market economy works. The younger generation in turn has limited experience which makes it difficult to build senior level relationships with international partners and customers. On top of that, a career in science is not seen as a particularly attractive option by the younger generation and hence many research teams consist of people beyond the retirement age.

How should Russia achieve better returns on investment in science?

Our experience in dealing with commercialization of technologies shows that the issues to be tackled fall into three broad categories:

- 1) systemic problems such as red tape in many forms and shapes.
- 2) Skill gaps regarding commercialization process as such, plus cross-cultural and language skills and
- 3) lack of international contact networks

The roots of systemic problems are political and so must also be the solutions. Some high-profile projects such as the Nanocenters financed by Rusnano, Skolkovo Foundation or Special Economic Zones tackle the problems in limited scale. It is clearly better option to actually do something and gather experience on new solutions than doing nothing while more fundamental changes are being prepared. At the same time, many Russian start-ups have decided to establish their commercial presence abroad, while keeping the R&D or manufacturing in Russia. This may be the fastest way of getting the product proven in the market and then investing in the volume manufacturing capacity in Russia. The LED-

manufacturer Optogan is an example of a start-up company with Russian roots, initially established in Finland and then acquired by Russian investors Rusnano and Oneximbank. A similar process could become a conventional option for many technology start-ups, with dedicated commercialization support infrastructure built in Russia and e.g. in Finland.

On top of traditional business incubation and acceleration, specific Commercialization Support Centers could render support in market validation of new products and contribute in certain areas of engineering and product design, such as industrial design, IPR management, documentation and product certification. They could also serve as a training ground for the new generation of business professionals who can learn to deal with all aspects of international commercialization.

Given the size of the Russian domestic market, one can ask if the international commercialization is that necessary. In our opinion, the only way to improve international competitiveness is to compete internationally. With the forthcoming WTO membership, the border between domestic and international business will become fluid and there will be less room for protected domestic manufacturers and stimulated demand for less than competitive products.

Finally, the contact networks can only emerge from practical work and interaction with colleagues from other organizations and companies across national borders. The more Russian universities expand their international student exchange and research partnerships, the sooner it becomes natural for professionals to have spells of their academic and business careers in other countries. It is also important that Russia becomes an attractive career option for foreign professionals to work, not only as expatriates in foreign-owned companies, but also in ordinary Russian enterprises.

These changes will not happen overnight and in the meantime investments in speeding up the development are necessary. When investing in innovation infrastructure it is useful to look how the money is used on tangible assets and how much of the investment is directed on acquiring international professional expertise, support of intellectual property management etc. The attitude that buildings and equipment are investments but money spent on expertise is a cost is a sure way to prevent return on investments in science from materializing.

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## Energy security, oil prices and modernization in Russia

By Olga Garanina

Energy security has become a glorious topic in energy debates. Provision of energy security is usually discussed in terms of stable volumes of energy supplies, favourable price conditions and control of hydrocarbons reserves. While energy importing countries are interested in secure and cheap energy supplies, energy exporters are claiming predictable and solvable demand and national control over strategic reserves.

However, while focusing on this debate, we are somehow distancing ourselves from the discussion of country's long-term energy strategy. The latter, from the point of view of a producing country, is to be analyzed in a larger perspective of country's economic strategy. Energy security is determined among other aspects by the degree to which oil and gas exports become the major source of economic growth and contribute to social development.

At present, Russia's international specialization pattern can be at best described by so-called «availability» theory of trade which is stating that a country chooses to export products available in the domestic economy, and which are not available in other countries. Russian foreign trade reflects a situation where energy revenues are translated into increased imports of manufactured products. Up to present, competitive potential of Russian producers has not been revealed. Therefore, gains from international trade remain quite limited, while the economy turns extremely vulnerable to oil price shocks.

The situation in Russia is close to what is described by the "Dutch disease" model. Energy boom hits the economy with currency appreciation and decline of domestic manufacturing. Factors of production (capital and labor) are attracted towards most profitable activities, which are mining industry and provision of services. In this way the economy enters a deindustrialization pattern. At a first glance, Russian economy demonstrates the "Dutch disease" symptoms, in particular ruble appreciation, loss of competitiveness of domestic manufacturers and high growth rates in services going up to 20% per year before the crisis of 2009.

Has Russia really got into a trap of a raw material exporter? In our view, Russian case demonstrates some peculiarities.

At first, Russia's oil and gas sector is facing a challenge of shifting hydrocarbons production areas from exploited zones in Western Siberia to the North and to the East. Giant oil and gas fields in Western Siberia have entered a decline phase a long time ago. On the counterpart, developing new production regions, infrastructures and facilities can lead to positive multiplicative effects for economic growth. In this relation it is important to distinguish between effects of energy price hikes and effects of increasing production volumes. If the latter is taking place, positive effects can be important for connected industries. In particular, in Russia positive effects can be reached given the necessity to develop new production areas. In fact from a long-term analytical perspective energy sector could be analyzed as an industry intensive in technologies and innovations and therefore resource richness can become one of the factors of economic development. At the same time, resource dotation can even be increased via using innovative technologies of exploration and production.

Secondly, from theoretical point of view, "Dutch disease" means accelerated development of service sector (non-tradable goods) to the detriment of manufacturing industries. However, up to the global crisis, most industries including manufacturing registered strong growth rates, which contradicts a deindustrialization model. Moreover, production crisis in some sectors (like light industries or machine-building) can be explained not only by the "Dutch disease" phenomenon but also by weak competitiveness inherited from administered economy. On the contrary, competitive sectors demonstrate strong growth rates. In a similar way, high prices and high growth rates in services can be explained by structural adjustments in a transition economy.

Third, Russian economy has some particular characteristics that influence the propagation of the so-called "Dutch disease". Russia has a diversified economy with a limited degree of economic openness, which attenuates the "Dutch disease" phenomenon. Unemployment and trade protection measures, as well as imperfect resource mobility, constrain the propagation of the Disease.

Finally, the problem of economic vulnerability to oil price shocks can be managed via a wise economic policy aimed at smoothing the economic waves. In particular, this can be achieved via creation of a Stabilization Fund (such Stabilization Fund was created in Russia in 2004). However, while the creation of the Fund is consensually approved, the management of the accumulated funds is a topical debate. In the period before 2008, monetarist approach was dominating. Economic policy measures were aimed mostly at restricting liquidity via accumulation of the resources of Fund labeled in foreign currency, in order to provide for public deficits in low-price periods. After February 2008 the Stabilization Fund was divided into Reserve Fund (aimed to provide for public spending in case of insufficient oil revenues and growing public deficits) and National Welfare Fund (aimed to finance the deficit of the Pension Fund); and investing resources of the Fund for the development goals has seen its beginning. However the economic crisis led to rapid exhaustion of the accumulated funds.

Economic recovery comes with a return of high oil prices after 2010, therefore bringing back to the agenda the issue of using the oil bonanza for the country development goals.

Here it should be stressed that the propagation of the "Dutch disease" depends not only on resource richness per se, but on the quality of the process of oil rent distribution within the state. In this perspective we should take into account a double political renewal in Russia that is the return of Vladimir Putin to the presidency and the civil society uprise occurred in the last months, which could influence the rent distribution process.

Further, on the economic side, increased public spending (in particular given the pre-electoral promises) fits into the Keynesian approach of stimulating demand. However, it is still questionable how the increased internal demand will be transferred into stimuli for *domestic* producers, especially in the period where the WTO membership will impose new policy constraints in terms of external tariffs and prohibition of direct subsidies.

Finally, speaking about the implications for the foreign economic policy, bilateral economic relations based on energy exports should be completed by promoting technological vector of partnership. In particular the cooperation with the EU should be considered as a factor of increasing competitiveness of Russian industries and transfer of technology should be seen as a key characteristic of bilateral projects.

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# Bribe Europe's center, divide the Euro-Atlantic Alliance, and rule the periphery – Putin's grand strategy for a strong Russia

By Alexander Ghaleb

**NOTE:** The views expressed in this paper are those of the author and do not necessarily reflect the official policy or position of the Department of the Army, the Department of Defense, or the U.S. Government. References to this study should include the foregoing statement.

Thousands of troops from several post-Soviet states marched on May 9<sup>th</sup>—Victory Day—on the cobblestones of Moscow's Red Square to commemorate the 1945 defeat of Nazi Germany. On this very symbolic day, and on this very historic landmark, newly inaugurated President Vladimir Putin, with military generals at his side, promised the Russian veterans that he would promote Russia's might on the world stage. This paper forecasts that President Putin can and will accomplish this, despite the decrepit state of the Russian military.

At the grand strategic level, Russia remains very much a major security concern for the United States and its European allies. One would have to be very naïve, however, to believe that President Putin would promote Russia's might through military strength. The Russian military capabilities have been dramatically diminished after the collapse of the Soviet Union, and continued on this downward path during the Putin and Medvedev eras—despite major investments in new military research and development, and despite major increases in the defense budget. This fact is recognized not only by American scholars, but also by much of Russia's own academia and political elite. Talking about the Russian public opinion with regards to Russia's military strength, Vladimir Baranovsky wrote that this downward trend "is by and large considered irreversible." At all levels, the Russian military strength is characterized by helplessness, a fact illustrated particularly by the unprofessionalism of the Russian soldiers, who—even as their salaries have more than doubled in recent years—along with their military commanders continue to generate the bulk of their revenues by selling fuel and equipment, and by working for local enterprises in order to survive.

As Russia remains too weak and too poor to impose its will through military strength, there should be no wonder that energy security and geo-economics rose to occupy the top priorities in Russia's National Security Strategy. According to Alexandre Mansourov, Senior Associate of the Nautilus Institute for Security and Sustainable Development, for President Putin, "the power of gas is more fungible than the power of nuclear weapons." A quick look at the Russia–Ukraine gas disputes, and at the construction of Nord Stream through the Baltic Sea and South Stream through the Black Sea prove that the newly inaugurated Russian President would not hesitate to use this new instrument of state power to put a stop to what the Russian political elite perceives as NATO's expansionism.

President Putin, who recently called NATO a "relic of the Cold War era," and reaffirmed his belief that the U.S. missile defense "is certainly aimed at neutralizing Russia's nuclear missile potential," has a small window of opportunity to stop—or join in—the development of the latter. However, while Russia could use its monopoly of

natural gas to Eastern and Central Europe (ECE) as an instrument of coercion that could slow economic growth in Europe, it is also unlikely to do so in the immediate future. Instead, it will use the same tools it used in Ukraine—in the context of economic and natural gas negotiations—to bribe the West, particularly Germany, France, and Italy; to divide the NATO Alliance; and to rule over its traditional sphere of influence in Eastern and Central Europe.

A first step in Putin's strategy is making Russia indispensable to the West. This will be accomplished by offering NATO a new logistics facility on Russian territory to facilitate transit of military cargo to and from Afghanistan, and by insuring the reluctance of the Western European countries to oppose Russia politically—for fear of losing the short term economic benefits that Russia bribes them with. But this economic relationship between Russia and Europe's core does not diminish the importance of natural gas as an instrument of coercion. The degree of dependence on Russian natural gas varies considerably among EU and NATO member states; with many ECE states being completely dependent of Russian natural gas. This becomes problematic for the North Atlantic Alliance, particularly when we consider that all NATO decisions are made by consensus. Because it takes only one out of 28 NATO member countries to influence NATO's decision making process—and with many members' economies being dependent of the Russian natural gas—Russia can rest assured that NATO will not be able to adopt policies that will negatively affect Russia's grand strategic interests.

While many European and American policymakers see the "Russian threat," they are not willing to risk their political career to take on a fight that is considered by many as too "existentialist." Ultimately, nothing will stop German, French and Italian companies from doing their own deals with Gazprom; and without a common European energy strategy, nothing will stop Russia from controlling the flow of natural gas through its perceived sphere of influence—except maybe a largely unacceptable alternative: the Iran-Turkey-Europe natural gas pipeline. With these facts alone in mind, President Putin can rest assured that nothing will stay in his way of promoting Russia's might on the world stage over the course of the next decade.

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## NDPHS urges for more health on the regional agenda

By Marek Maciejowski and Silvija Juscenko

*The Northern Dimension Partnership in Public Health and Social Well-being (NDPHS) is a cooperative effort of ten governments, the European Commission and eight international organisations. The NDPHS provides a forum for concerted action to tackle challenges to health and social well-being in the Northern Dimension area.*

Health is important both as a human right and as a precondition for economic growth. It is also widely recognized that regional cooperation in health helps to address common challenges by joining forces and avoiding duplication of efforts and resources. Yet, only a few European funding programmes currently operating in the Northern Dimension area have explicitly included health among their priorities. As a result, health-related projects receive considerably less funding compared to other, more visible sectors.

The ongoing discussions about the EU Financial Framework after 2013 provide an opportunity for a change. The Cohesion policy package proposed by the European Commission lists e-health, health infrastructure, inequalities in health and healthy ageing among many other investment priorities. Whether these will be translated into priorities of the funding programmes depends on the EU Member States and their support to the Commission's proposal and on the design of the funding programmes by the programming committees.

With economic and other, more visible issues on the top of the European political agenda, decision makers may postpone prioritizing health. However, the aging of society, the growing epidemic of diabetes and lack of effective antibiotics cannot be postponed. These are only a few concrete examples of growing problems. If we postpone addressing them now, the consequences will affect every member of the society in the forthcoming decades. For example, it is estimated that the number of Europeans aged 65 and over will increase by 45% in the next 20 years. Age-related expenditure will cost the EU 4.7% more of GDP by 2060 as a result of a higher share of retired people and a higher number of people with chronic non-communicable diseases.

By investing in health promotion and optimization of the delivery of health care, the economic gain would be two-fold: (i) healthy people are more likely to stay at the labour market longer and are more productive and (ii) reduced spending on treatment of ill health. In this context, it is of utmost importance to spend money effectively and focus on the right priorities. Regrettably, this is not always the case. For example, even though it is widely known that non-communicable diseases are preventable, only 3% of the health expenditure in the EU is spent on prevention. Furthermore, the potential of e-health in optimizing health care delivery is far from being fully exploited.

Although organisation and delivery of health care is a national competence, investment in regional cooperation in health is advantageous and essential. The main health-related challenges, that the European countries are currently facing, are the same. Consequently, it is only logical to coordinate the responses to common challenges, in order to bridge gaps and speed up innovation processes,

avoid duplication of efforts and limited resources, and allow for well-informed policy and decision making. EU funding programmes are a useful tool in this regard, but it is important that health be visibly exposed among the funding priorities of operational programmes under different objectives of the EU Cohesion Policy.

To that end, on 25 November 2011 the 8th ministerial-level Partnership Annual Conference of the NDPHS adopted the position paper "Post-2013 European Programmes: Raising the Profile of Health and Social Well-being" (available at: <http://ndphs.org/?database,view,paper,67>). The paper contains views of the ten NDPHS Partner Countries and nine Partner Organizations, supported by several other regional stakeholders and it calls for a visible exposure of social well-being and health in the cooperation programmes' priorities. Among the key messages of the paper is that timely investment in health and social well-being is an important precondition for economic growth and containing future health and social care related costs.

Another issue addressed in the position paper is the need to ensure cohesion between European programmes and the EU Strategy for the Baltic Sea Region (EUSBSR), to avoid a fragmented approach by linking funded activities to a common goal rather than funding random activities with limited strategic vision. Furthermore, the NDPHS suggests to engage the EUSBSR Priority Area Coordinators in the development of the respective forthcoming European programmes' priorities to ensure better alignment of funding and coordinated vision in responding to key challenges facing the region.

Surveys indicate that individuals place health among the top priorities in their life and a recent Eurobarometer survey ranks healthcare system among the main concerns of the Europeans. The priorities and concerns of our people should be properly reflected on the regional cooperation agenda. The adopted NDPHS position paper is a basis for our further work, which, we hope, will result in more resources being granted for joint regional activities in the field of health for the benefit of our people and economies.

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## Feared loan – unused opportunity for Estonia

By Meelis Mandel

A look at last year's GDP numbers indicates that Estonia had one of the fastest growth rates in Europe with 7,6%. However, when you begin to look behind those impressive numbers, you can easily see that this growth really was posted owing to a very low basis level. This basis was low already before the global crisis, and it plummeted further during the 2008-2010 recession and never yet regained its pre-recession level.

Estonia's GDP still stands at only about 90 per cent of its pre-crisis peak, which means that the Estonian's living standard currently remains in the year of 2006. It is among the worst indicators in the entire Europe – most other European nations have raised their GDP to pre-crisis levels. This is a ranking the Estonian politicians do not like to talk about.

Now take a look at the other figure - debt-to-GDP ratio. Estonia's government debt rate of 6% to GDP is the absolute lowest in Europe. Now, this is the ranking the Estonian politicians love to talk about.

Here, let us think a while – we stand at 90% of pre-crisis life standard while we also have Europe's lowest dept. Low life standard and low debt level... Is there even a small possibility that increasing the debt level at least by a small amount will raise the life standard? I think yes.

This is especially true, since the banks in Estonia, almost all of them Scandinavian-owned, remain extremely cautious and have refrained from opening their credit. The Estonian entrepreneurs cannot get additional financing neither from stock exchanges nor from the bond market: the local bourse is hardly alive with just ten companies listed while international exchanges are too immense for Estonia's small-time investment-seekers.

The amount of deposits in the Estonian banks is at its historical peak – the people do not dare to consume. One significant financial source for the country, the CO2 emission allowances (that have been mostly invested into renovation of large residential buildings) will decrease from 2012 on, which will hit smaller construction companies. All the Estonian households and 90% of companies will join open energy market in 2013, which will add approximately one third to their electricity bills.

I know that the advice to take a loan sounds lunatic to many ears in today's context. We all know what is happening in Europe and what is the main reason of this disease.

Still, look a bit closer. I am far from talking of loans that would take Estonia even close to the level of Greece level (165% of GDP). I am not even talking of a debt-to-GDP ratio of Finland (49% of GDP). I am talking about government loans which would still leave Estonia in the leader's position in Europe.

The European country with the second lowest state debt level is Bulgaria with 16%. If Estonia took its debt level slightly below that of Bulgaria, it could borrow EUR 1,4 billion and still be the star performer. EUR 1.4 billion would be a huge sum for Estonia to invest into domestic economy. The important thing is to look at loan just as we look at investments, i.e. there must be a proper business plan behind every decision. Borrowed money must go to areas where it creates added value, such as investments into infrastructure and education. I would like to see a real debate over the targets – something we do not currently have in Estonia.

A loan right now would give the Estonian economy a needed acceleration just before the next expected growth wave. Swedbank, the largest lender in the Baltic region, recently raised its 2013 GDP growth forecasts for Estonia to 4,2%, citing a better outlook for global demand.

Moreover, Estonia would be a trusted lender among the international community, and this would mean lower interest rates. Estonia's state CDS is presently trading at 110 basis points, which is for instance better than Netherland's (127 points) and comparative to Finland's (87).

Arguments are heard that the Estonian economy does not need outside help, since the trend is already positive, as indicated – among other things – by the growth in retail sales. The latter indeed took an upturn in Estonia in 2011, but it was precisely outside help that boosted the hike. Estonian northern neighbours Finns increased their spending in Estonia last year by more than one fifth and today bring in almost 15% of all retail sales revenues in Estonia. The Finnish government, which did take loans and increase government spending during the crisis, inadvertently gave a helping hand to the Estonian economy. Just like it directed borrowed money into the Finnish construction sector which employed huge numbers of Estonian workers and companies during the crisis, it now sees its customers help Estonia's retail sector. However, our neighbour Finland is under pressure to reduce expenditures and raise taxes, so this help will likely decrease in the future.

Speaking about tax burden, wouldn't Estonia's economy have more to benefit from lowering taxes than taking loans? Estonia has long since been hailed as the European example for low taxes, so it looks like this Baltic government does not share the fears of its Southern European colleagues.

Not quite so. Estonia has not been as eager to reduce the nation's tax level as presumed. Employers in Estonia pay an average of EUR 40 in taxes for every EUR 100 earned by the worker - this is one of the highest indicators in OECD. The story about Estonian tax paradise is, in essence, a myth. We do have advantages compared to Scandinavia (for example the trade unions are weak, which helped Estonia conduct internal devaluation during the last crisis), but low tax burden is not one of them.

It is important that national politicians never forget their primary goal: to devote their efforts to the well-being of their country and people, and to do that in a foreseeable future.

This will raise a tough question to answer for Estonian politicians – if they are prepared (as they have proven by joining Europe's efforts) to help Greece, a country where salaries and pensions are several times higher than in Estonia, how can they be so reluctant to help raise the living standard of their own nation?

Yes, being a tiny state, Estonia needs to be the teacher's pet child in every international ranking, and the debt-to-GDP ratio no doubt is one of them. But as we saw, it is possible to keep that position even if the country takes a loan. Doing it carefully and investing wisely might just be the trump-card the country has been looking for.

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## What is happening to (foreign) ownership in the Baltic media markets?

By Epp Lauk

"The air is ripe for innovation and development. Investment capital is needed": an American market analyst characterised the opening of media markets in Central and East Europe (CEE) in the early 1990s. Western European and U.S. capital quickly invaded the large Central European markets. By the end of the 1990s, foreign ownership dominated media markets in Bulgaria, Slovakia, Czech Republic and Hungary, the print sector in Poland and broadcasting in Slovenia and Romania. The only country that (until 2001) substantially limited the influx of foreign ownership was Slovenia (to 33% of any media enterprise).

The first investments in the Baltic media markets were made in 1989-1990 by Bonnier Group (SWE) establishing *Dagens Industri*-type business newspapers in all Baltic capitals. Larger foreign investment flows began only after the national markets had consolidated and stabilised - 1995-1997 - and foreign investors considered it safe to invest. They were also encouraged by extremely liberal market policies with no regulations preventing the concentration of media capital, or restricting cross-media ownership or foreign ownership. Only in 2010, did Estonia pass a general anti-monopoly law. Lithuanian law prohibits banks and political parties to be owners of news media.

In Estonia, Schibsted (NOR) has become the major player in the press market. Ownership of the largest of the two leading national media concerns – Eesti Meedia gives Schibsted the leading national daily; six regional dailies; 50 per cent of the magazines' publishing house; the second most popular television channel *Kanal 2* and one third of Estonia's largest commercial radio chain. Schibsted also owns the modern printing enterprise *Kroonpress*. The other national media concern, Ekspress Grupp, is co-owner of some of Eesti Meedia's holdings (some newspapers, magazines and distribution services).

Bonnier's (SWE) largest acquisitions were in Latvia. By 2007, Bonnier controlled the most popular national daily *Diena*, owned a free newspaper in Riga, some popular magazines, one third of regional newspapers, covering altogether more than 40% of potential newspaper audience, and distribution and subscription services and printing facilities.

Unlike Estonia and Latvia, the most influential media companies in Lithuania – Achemos Grupe, Respublikos Leidinių Grupe, UAB Lietuvos Rytas (until 2009), and MG Baltic Media – are nationally owned. Nordic capital briefly entered the market in 2006, when Orkla Media (NOR) purchased the largest regional daily *Kauno Diena* and later *Vilniaus Diena*. When the Mecom Group (UK) acquired Orkla, its media stakes in Lithuania were sold to a local private company.

The departure of Mecom (UK) investments from Lithuania was the beginning of a larger wave of withdrawal of foreign capital from the Baltic and Central European countries. The 2008-2009 economic crisis hastened this development as the advertising market was rapidly shrinking, and each year, some foreign owned media were sold to local entrepreneurs. In 2007-2008, publisher Verlagsgruppe Handelsblatt (GER) withdrew from Bulgaria, Czech Republic and Slovakia and in 2010, the WAZ-Mediegruppe (GER) left the Balkan region, in which it had dominated the print markets.

Bonnier (SWE) sold its businesses in Croatia in 2008 and in Latvia in 2009. In Latvia, entrepreneur Viesturs Koziols, closely linked to the political party ('For a Good Latvia') purchased *Diena* newspaper; and another local entrepreneur bought LNT, the largest Latvian commercial television station, from News Corporation (US). MG Baltic Media, owned by Darius Mockus (LIT) bought LNK, Lithuania's most popular

national television channel. In 2009, Bank Snoras through its newly established subsidiary UAB Snoro Media Investicijos obtained majority ownership in *UAB Lietuvos Rytas*. But when the Government nationalized this bank due to the economic crisis 2009/2010, the State became the owner of the daily *Lietuvos rytas*, TV-station *Lietuvos rytų televizija* and the Internet portal *Lrytas.lt*.

Foreign ownership and subsequent transfers to local owners have diverse consequences for local news media and journalists. While in foreign ownership, news media were relatively independent from governments or political structures, although heavily dependent on market mechanisms. The new national owners in Latvia and Lithuania, as well as in most of the CEE countries, treat their media as a sideline as their main interests lie elsewhere. Aligned to political circles or participating in politics, they use their media outlets for gaining political and economic influence, which becomes especially obvious during election campaigns. Therefore, their media outlets are more subsidized than profitable. As the case of *Diena* demonstrated, political interests of owners outweigh journalistic standards and limit the editorial autonomy and the freedom of expression of journalists. These tendencies are also reflected in the global rankings of press freedom, where Latvia and Lithuania have dropped significantly (Latvia from the 8th position in 2008 to the 50th in 2011 and Lithuania from the 17th to 31st).

The same tendency is not, however, present in Estonia, where banks or other businesses are not owners of news media. Neither have any real media 'tycoons' appeared who would use their media outlets for seeking political profit and public influence. The Estonian owners of *Ekspress Grupp* do however have some sidelines in real estate market, renovation and financial operations. But none of them are politically active.

The influence of foreign ownership is palpable in the improvement of managerial practices and technical facilities, and in the quality of publishing, printing and layout. The technological improvements, however, are accompanied by aggressive commercial policies. Much less is invested in journalistic quality or improvement of journalists' professional and social rights. Foreign owned newspapers and broadcasting channels do not, however, directly serve particular political interests, although they arguably do have some political preferences.

The above-described developments demonstrate that it is not possible to import or copy the western liberal media model with its ideals of independent and fact based journalism, with journalists as 'watchdogs' of those in power and the news media as servants of public interest. Competition, ownership concentration and other global trends combined with the political and economic interests of local elites determine the quality of journalism and characteristics of media systems in each CEE country.

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## For Putin and Russia the moment of truth approaching fast

By Konstantin von Eggert

It took Russia half a year to enter a new stage in its political development. Despite the 64 per cent Vladimir Putin got during March 4<sup>th</sup> presidential elections, his legitimacy is significantly dented by protests in Moscow and a few other big cities in Russia. He expected his third presidential term to be a more or less smooth return to the years 2000-2008, his previous years as head of the Russian state. But one cannot enter the same water twice. An increasing number of people (and by no means only the big city bohemians) is growing tired of the "imitative democracy" which allows for discussions but never for a real political competition; corruption and red tape which have become tools of governance rather than a threat to the government; state monopolies which stifle economic development; weakening social safety net which is not compensated by commensurate freedom to do business, create jobs and be delivered from bureaucratic interference.

The sight of Mr Putin's motorcade driving through completely mopped up streets of Moscow to the Kremlin for his inauguration testified to the fear and uncertainty with which Russia's "new old" president is starting his six years at the helm. Mass protests in Moscow spoiled what was the planned as a triumphant return to power and cast a long shadow over Mr Putin's presidency. It is interesting that even the supposedly loyal civil servants do not believe he'll be running for the presidency again in 2018, although the present day Russian constitution allows it. Palpable weariness of Mr Putin's methods and public persona is setting in and no amount of PR-stunts that he is so good at can remedy this.

The Putin regime has entered a period of decline that seems to be irreversible. His best bet is to start managing this trend in order to ensure a graceful exit for himself by the end of the six-year term. This doesn't seem to enter his mind. The Russian president proved himself to be a good political tactician but not a very perceptive strategist. Putin doesn't know "how to lose a battle to win a war", as the English saying goes. He sees any compromise or show of flexibility as an expression of weakness. And weakness is something he dreads to project at home and abroad. This is what led him on September 24<sup>th</sup> 2011 to commit the fatal mistake of announcing his intention to return to the Kremlin. While even the Kremlin's closest advisors and some moderate well wishers from the moderate liberal camp were telling him about the gathering storm as far back as 2010 he preferred to ignore their warnings of the impending

legitimacy crisis. He insists on not recognizing the validity of the protests even now, when they proved to be not at all a passing phenomenon. Instead of opening up the presidential contest to real competition (in which he was anyway assured of winning albeit possibly with a less impressive results) he lost a chance to renew his regime's legitimacy and remake his own image – something that is too late to do now.

While even in April 2012 many observers in Moscow gave the regime at least 2-3 years before first signs of unravelling show today a much faster and unpredictable scenario becomes increasingly possible. On the one hand, the Kremlin is trying to tighten the screws. Increased police brutality and attempts to muzzle the opposition by amending the laws on the freedom of assembly are proofs of that. On the other under pressure from the opposition gatherings the authorities have liberalised registration rules for political parties and brought back direct elections of regional governors (albeit with certain arcane qualifications in the candidates' selection process). These contradicting trends will clash repeatedly and create more and more tension.

It does seem that Russia is fairly quickly moving towards the "revolutionary" rather than "evolutionary" outcome. Which in the absence of well-formed political parties on the centre-right could give an advantage to left-wingers, especially the growing radical extra-parliamentary opposition. Vladimir Putin's regime is moving dangerously close towards the Egyptian or an earlier Iranian scenario, where president Hosni Mubarak or Shah Mohammad Reza Pahlavi deliberately weakened the sensible opposition in order to put the West in front of a stark choice. It was either they or the radicals. Unfortunately for them, this did not work. Russia still has a chance to avoid this trap but the window may be closing any minute.

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## Russia 2012 – is the glass half full or half empty?

By Konstantin Sonin

By Spring 2012, Russia has finally achieved the same level of GDP per capita that was previously achieved in 2008, the pre-crisis peak. After 9 years of growth averaging 7% per year, the world financial crisis of 2008-09 hit the country hard. The fall in industrial production was the largest among the 20 industrialized countries. The recent survey by the European Bank for Reconstruction and Development showed that 36 percent of Russian households (as compared to 11 percent in Western Europe) have had to reduce their basic consumption because of the crisis.

Coincidentally, the levels of production and consumption of the 2008 peak are roughly the same as the levels of the previous peak achieved in 1990, the last year before the collapse of, subsequently, the Soviet economy, the communist party dictatorship, and then the Soviet Union itself. Granted, a significant part of Soviet GDP was wasted on building up military capacity; that is, the same level of production translates in a higher standard of living in 2012. However, the fact that the 2008 peak was the same as the 1990s peak and that the economy is struggling to break the same ceiling right now is not a coincidence.

Though high prices for oil and natural gas, Russia's primary export, alongside with the conservative macroeconomic policy of early Putin's governments have played a role, the main contributing factor was the low starting point. The high-speed growth of 1999-2008 was based on low-hanging fruit. Now, when there is little unutilized existing capacity, the main source of growth should be increased labor productivity (as of now, it is 15-20 percent of the US productivity in respective sectors).

The political situation is not conducive for any kind of substantive reform. Vladimir Putin, the paramount leader of Russia since 1999 and newly elected as country's president, starts his new six-year term in difficult times. The March 2012 election returns give him barely sufficient legitimacy: though the officially reported vote share was

63%, the more reliable independent estimates give him a slim majority of 52-53%.

Still, there is little doubt that he does not face any real challenges to his leadership in the near future. Fortunately for Putin, the opposition is not organized and cannot settle on any particular leader, platform, or a message. The protest movement of Winter 2011-12 has had a kind of decentralized leadership, featuring a number of prominent literature, art, and entertainment figures in its ranks. It has united a very diverse group of smaller movements, ranging from radical young communists to libertarians. The outcome of March 4, 2012 presidential elections, while ending the myth of a significant "Putin's majority" and even casting doubt on his legitimacy, did not produce a clear path for the opposition as well.

Given that Putin has proved himself extremely rigid in either policy or personnel choice (he would not get rid of close subordinates even if wide-spread corruption allegation would make them a visible drag on his popularity), the new government is not expected to be radically different from the current one, both in terms of personalities and policies. The next few years will witness slow growth amid mild political turmoil. This is a pessimistic scenario for those who hoped for modernization, reform, and fast growth. This is still optimistic for those who remember Russia's 20<sup>th</sup> century.

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## Hamburg and St. Petersburg – two metropolises in the Baltic Sea region

By Gabriele Kötschau

It has been 20 years since the Council of the Baltic Sea States (CBSS) was established, on a Meeting of the Ministers of Foreign Affairs in Copenhagen in 1992, on the initiative of the German and the Danish ministers, Hans-Dietrich Genscher and Uffe Elleman-Jensen. During these 20 years the network in the Baltic Sea Region has been tightened on all levels and in a variety of fields. End of April 2012 a large part of the "Baltic Sea family" met in Berlin on invitation of the German CBSS-presidency, offering a platform for networking, exchanging information and experiences, discussing main subjects from different angles, looking back on what has been achieved and looking forward on how to meet the challenges of tomorrow. In their speeches the newly elected Federal President, Joachim Gauck, and the Minister of Foreign Affairs, Guido Westerwelle, stressed their support for a further close cooperation in the Baltic Sea Region - a model for other regions in Europe.

We are now looking forward to the incoming Russian CBSS-Presidency. In the big countries Russia, Germany and Poland, the active players of Baltic Sea cooperation are mainly the cities and regions located at the Baltic Sea. Not least the big cities, the "metropolises", play an important role in developing the region and acting as an "engine" for innovation and growth. Hamburg and St. Petersburg are excellent examples for a successful cooperation.

Already in the middle of the 13<sup>th</sup> century the Hanseatic League had influenced trading in the Baltic Sea Region up to Novgorod – Russia and Hamburg are connected by a long tradition of economic cooperation. In 1719 the first diplomatic mission of Russia was established in Hamburg. For Hamburg and St. Petersburg this year is a special one, celebrating their 55<sup>th</sup> anniversary as twin-cities. It was first ever official partnership between a – at that time - "Soviet" city and a city in the Federal Republic of Germany. The initiative to establish this partnership came from the Soviet side, particularly from the Party- and State-organs and not from Leningrad itself. However, the circumstances were favourable: diplomatic relations were established in September 1955 between the USSR and the Federal Republic of Germany; the two military and political blocks had elaborated contractual and legal agreements.

Today, after 55 years, the partnership between Hamburg and St. Petersburg is based on a broad network, encompassing companies and schools, organisations, hospitals and NGOs.

In 2011 Russia has become the second largest partner of Hamburg port, after China. The container traffic of Hamburg port with Russia increased by 35% compared to 2010. Also the exchange of goods expanded significantly, especially regarding exports from Hamburg to Russia. After Russia's accession to the WTO which is supposed to be in early summer 2012 after nearly 20 years of negotiations, further increase of economic cooperation is expected. 660 companies from Hamburg are registered in Russia, most of them in and between Moscow and St. Petersburg. The major fields of cooperation between St. Petersburg and Hamburg are logistics and the shipping industry – Hamburg as the "most Western port of the Baltic Sea", St. Petersburg being the "window to the East". The port of Ust Luga, 110 km west of St. Petersburg, has gained importance continuously, due to its location at the open Sea. Another crucial field of activity of enterprises from Hamburg is the service sector, including health cooperation and tourism. 28.000 Russian tourists visited Hamburg in 2003,

already 50.700 in 2010, and the number is increasing. Due to this impressive growth Lufthansa decided to include the route Hamburg – St. Petersburg from 25<sup>th</sup> March onwards into its schedule, to further increase the mobility between the two cities.

In Hamburg are 120 companies of Russian origin, especially from St. Petersburg, working in the fields of logistic, shipping industry and retail. Considered to be the "window to the world", Hamburg is an attractive location for Russian enterprises, and enables successful economic operations on the world markets. Its infrastructure is highly developed; modern logistic and communication make the city even more attractive. In addition, Hamburg offers a considerable Russian-speaking Diaspora, a broad network of Russian-speaking media, associations and organisations as well as German-Russian schools and Kindergarten.

The economic cooperation between Hamburg and St. Petersburg has been highly supported by the Hamburg Chamber of Commerce. The Chamber established a representation in St. Petersburg in 1993. Besides fostering cooperation, business consultancy and organisation of business meetings the Chamber focuses on education and promoting young people. Since 20 years 900 perspective Russian executives have spent an internship of three months in Hamburg. The aim is to deepen their knowledge by gaining new working experiences in a company, the Chamber of Commerce, the Senate or in an organisation, on invitation of the Chamber of Commerce or the Senate of Hamburg.

In order to promote the economic relationship between Hamburg and St. Petersburg, the Hamburg Chamber of Commerce established a course of studies of "economic law" in St. Petersburg. Since ten years Russian students of law, economy and related studies can deepen their knowledge in international economy law, lectured by German professors and practitioners. Both educational programmes are being held in German language. For the third time the legal students got the chance to study an additional semester at the Law University in Hamburg and to get a German LLM-degree.

The graduates have become employees in the German-Russian and the Hamburg Chamber of Commerce representations in St. Petersburg; they have got responsible tasks in German and Russian companies, or established their own business. A good example is Konstantin Nikulin with his IT-company in Hamburg, having received the Otto Wolff von Amerongen-award last year as the best Russian middle class entrepreneur in Germany. Hamburg and St. Petersburg are on a good way by training the next generation - a solid basis for sustainable cooperation.

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## Turku Region – for future success

By Niko Kyynäräinen

Beatle George Harrison starts a concert: "Paul McCartney from Liverpool, opportunity knocks". McCartney starts to play and sing the song everybody knows, Yesterday. He had the idea of the song in a dream, but he first thought that it was an old jazz-song that his father had played to him as a child. He played it to some of he's friends, but nobody knew the melody. And so was created one of the best-selling songs in the World. There is perhaps a lot of notes borrowed in the song, but yet it's a new piece. The same thinking we need in the business life today, courage to make old things in a new format, courage to share your ideas to colleagues and courage just to seize the day and make things happen.

Throughout history, Turku region has been an international Centre for trade, shipbuilding and the food industry. The tradition continues still today, with a number of trade sectors, notably logistics, being located in the region. Shipbuilding skills have evolved into the design and construction of high tech luxury cruise ships and the food industry has concentrated into research and development of functional foods and other life sciences. Other strongly growing business sectors in Turku region include ICT and service industries. Numerous service companies have made their home in the region to be close to the world leading companies that are here.

The backbone of Turku Region has been for a long time versatile business life, and it will stay so in the future. Surely we have our strengths in maritime industry and in life sciences, but when the Business Cycles go up and down, the versatile business life keeps business conditions fairly steady. Starting businesses in Turku Region is in high level, and we offer high standard advice in starting business. What's lacking is the sense of seeking growth. Most of businesses starting are of course small, but too often they stay small. In my opinion, one of the key issues is, that we Finns tend to think, that everything has to be ready until we tell it to others. We are short of selling and marketing ourselves. A good example is our brilliant education system, what we discuss year after year, is that the International comparative studies are made in the wrong basis. Why can't we just be proud of what we have? When you have an idea that you're proud of, make sure that everybody knows it.

With 85 million people living within a 1000 kilometre radius, Turku region is at the heart of a huge market. The good rail and road connections, frequent ferry departures, and short flying times make it easy to reach the entire Baltic Sea area from Turku region.

### THE WORLD'S BEST COUNTRIES

*A Newsweek study of health, education, economy, and politics ranks the globe's top nations*

*Of course, being small and rich is best - witness the continuing success of the Nordic nations. A good, broad-based educational system is crucial - it's very closely linked to future economic prosperity..." (Newsweek 2011)*



If being conveniently and strategically located between the markets of Western Europe, the Scandinavian and Baltic countries, and the huge emerging markets of Russia and Eastern Europe is important to your company, then Turku region is the place to be. With the best logistic connections to Sweden and the rest of Scandinavia, and excellent road and rail links to Russia and the CIS countries, the location is simply superb for doing business in Northern Europe. And for further afield, there are airline services from Finland to the Far East, the USA and to all the major markets of the world.

How can we ensure, that the small businesses grow bigger and bigger? We need investments in Turku region, but I wouldn't be very worried about the issue. We still believe in the same idea, we have to do something better than the others, or simply do something no one else can. The same idea goes inside the Shipbuilding industry, which has struggled in the past years. It may not be the most cheapest to build ships in Turku, but still it's the most effective and innovative. The owner can be assured that the product is high quality. The innovations in Shipbuilding can also be used in other areas. Trafotek is a good example of the companies, which used to be mainly focused on shipbuilding and heavily linked to Shipyard, but has now found new corner stones in business.

The expression "creative destruction" is most associated with Joseph Schumpeter. Schumpeter's idea was that the innovative entry by entrepreneurs was the disruptive force that sustained economic growth. Those who are less innovative destroy in the competition. In Turku region we are strongly supporting innovations. Mainly it happens by investing in social capital. Two Universities and four Universities of Applied Sciences with 45 000 students ensure that we have skilled workforce. Also our vocational schools are top of the Country. Yet there is still lot to be done, but I have strong belief in younger generation. New startups have started to grow from universities and they will follow the footsteps of world-famous products, such as Benecol (Raisio Benecol Ltd), Mirena (Bayer Ltd) and Xylitol (Leaf Ltd), originate from Turku.

The city of Turku is one of the 'smartest' medium-sized cities in Europe, according to the European Smart Cities survey conducted by the Technical University of Vienna and the University of Ljubljana. Cities with populations of between 100 000 and 500 000 were compared using six characteristics: economy, people, governance, mobility, environment, and living. By developing these areas, we build Turku region to be best place for people and companies located here, but also for the newcomers. In 2011 Turku was the European Capital of Culture and the spirit is still very strong. We strongly believe in creativity.

Niko Kyynäräinen

Business Development Director

City of Turku

Finland



Turku Region Development Centre is a public business service organization offering services to 20,000 enterprises in the Region's eleven municipalities.

## Rise, fall and resurgence of the Special Economic Zone of Kaliningrad/Russia

By Stephan Stein

The Special Economic Zone (SEZ) should lead the Kaliningrad region into a "Hong Kong at the Baltic Sea". That was the dream of a leading German banker. By law the Russian region is a Special Economic Zone but never became similar to Hong Kong. Nevertheless the region is interesting for foreign investors. The number of German investments is in no other Russian region higher - except of Moscow and St.Petersburg. The last figures show that 403 businesses with German money registered in Kaliningrad region. Every year during the last ten years the figure rose by 30 new registrations. In 2009, the year of crisis, even 89 new companies were added. The flagships of German business are BMW which started its car production in 1998 and HIPP, which produces baby food for Eastern Europe. But much more business came from Lithuania and from Poland – the two leaders in investing into the Kaliningrad region.

It makes sense to give a special economic status to the Kaliningrad region as compensation for disadvantages. After the decay of the Soviet Union the region became an exclave – about 400 kilometers far from the Russian motherland. By land route you have to pass Lithuania and Belarus reaching Russian soil. Every Russian needs a transit visa because Lithuania belongs to the Schengen agreement. Mostly every non-Russian needs a multivisa for Russia and a transit visa for Belarus. Although all sides do their best to ease the visa procedures - it is a locational disadvantage for Kaliningrad. Managers think that in case of a conflict between Russia and the EU the transit of goods through Lithuania could become a problem. Although this never happened – it is a knock out criteria for many potential investors.

Since 1991 the Russian parliament, the state Duma, changed the law of the SEZ twice. Actually we have the law from 2006. The first two versions of the law offered customs advantages – the actual law, which is valid until 2031, contains tax advantages. If an investor pays about 3,75 mio. Euro (150 mio. Rubles) within 3 years for his project he can become a so called resident of the SEZ. This grants tax holidays for 6 years on behalf of income and property tax. The next 6 years he has to pay 50% of the mentioned taxes. A resident has finally 12 years of tax advantages. Actually we have a little more than 100 residents – but there are rumors that some residents did not pay out their promised sums.

Let us have a look on the German enterprises in Kaliningrad. It shows that the actual law of the Special Zone is not effective enough. More than 400 registered companies invested about 2,6 mio. USD. Even if they would put their investment together they could not become resident of the SEZ because of the barrier of 150 mio. Ruble. The neighbor Lithuania – who registered more than the double of German companies – invested accumulated about 7 mio USD and the other neighbor Poland - who registered as many companies as Germany – invested accumulated about 6 mio. USD. These are the figures of 2010. It becomes clear that Kaliningrad is the field of small and middle sized enterprises (SME). The big investors prefer the logistical advantages of the line St.Petersburg – Moscow or go directly to locations near their customers in the inner of Russia. SME are not able or do not desire to invest 3,75 mio Euro. This is one of the reasons of the permanent lack of the SEZ Kaliningrad.

The Kaliningrad region suffered during the crisis years. Production fell by more than 10%. Import decreased in 2009 by 48% - export by 20%. Trade with Germany – traditional trading partner no. 1 – fell 50%. Unemployment increased to 10%. People blamed high prices for products and lower family income. Kaliningrad saw biggest protest manifestations ever. During the last elections the ruling political party "United Russia" and Mr. Putin himself received less than 50% of the votes which is the worst result in Russia after Moscow and St.Petersburg.

But the economic picture changed since 2010. The retailers report a new boom. Transport companies which sold their

machinery through the years of crisis blame that they have not enough trucks. Port handling increases and the railway company lacks on wagons. Only construction companies suffer and foreign investors seem to wait.

Even through the time of crisis investment into infrastructure of the region never stopped. An "autobahn" from Kaliningrad was built until the coast of the Baltic Sea . If finished it becomes a ring highway connecting the city with the airport, the Baltic coast, the ports of Baltijsk and Svetly, until the so called Berlin highway. In Mamonovo arose a modern border crossing towards Poland and Europe. Money from Moscow flew permanently. Further big investment is the so called Baltic Atomic Power Station which is under construction near the Lithuanian border for 5 bln Euro. In 2016 - 2018 it will deliver 2300 Megawatt. Kaliningrad reconstructs its sewage system partly with the help of the EU and its waste dumps. Two foreign airlines started operation actually in addition to the Polish LOT – Scandinavian SAS and German Air Berlin. In 2018 Kaliningrad wants to host games of the soccer world championship which will be held in Russia. This should give an input for the construction of sport premises and touristic infrastructure including the airport which is an unfinished building now.

In September 2010 came a big political surprise. Then governor Georgy Boos – who wanted to make a second term - was forced to resign. President Medvedev brought the mayor of Gusev (a provincial town in the Kaliningrad region), Mr. Nikolaj Tsukanov. Different to Boos, who took his ministers mostly from Moscow, governor Tsukanov recruited his team from the local elite, many partners from Gusev. Meanwhile the Kaliningrad business openly discusses the incompetence of ministers, the low performance of the governor and the provinciality of the bureaucratic apparatus. Many people see Tsukanov's resignation after the inauguration of president elect Putin. This is the reason why we consider a period of stagnation since autumn 2011.

The local parliament started a discussion together with local experts to improve the image of the region and to attract foreign investors. The ideas are directed into tourism, medical tourism and so on. Proposals from the administration seem to be non-realistic dreams. The proposals of foreign investors are simple: First to reduce the entry sum for the SEZ from 150 mio. Rubles to 20 mio Rubles. Remember that the region is an investment place for SME. Second - to provide infrastructural developed plots of land to attract the construction of new middle-sized factories. The development should be financed by the government. Third – because the management of the SEZ was poor in the past to invite professional managers with experience of Free Zones to manage the zone with an independent administration which has influence to legislators in Moscow and in the region.

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## Baltic Sea region networking – the road ahead?

By Marko Joas

Five years ago I co-authored, together with Kristine Kern and Siv Sandberg, an article for Ambio (Ambio, 2-3 April 2007, 237-242) titled '*Actors and Arenas in Hybrid Networks – Implications for Environmental Policymaking in the Baltic Sea Region*'. The main message in this article was that the multitude of multi-level, active networking structures in the Baltic Sea Region, especially within the political sector of environmental or sustainability governance, should be used and further developed for the benefit of the region and not only within this specific policy sector.

In December 2011 I participated in a conference arranged by the German Presidency 2011-12 of the Council of the Baltic Sea States (CBSS) and Stiftung Wissenschaft und Politik (SWP), titled 'Cooperation in the Baltic Sea Region: A Model for Coherence?' This conference clearly supported the multitude of organisations and networks in the region, but, at the same time, it reached to a main conclusion that there is basically no more need of additional governance structures in the region.

Are these two conclusions in conflict with each other? No, they are not, at least in my mind!

The history of the network structures in the Baltic Sea Region is old, older than the present macro-political situation in the region, even older, regarding particular features like city cooperation, than most present political regimes in the region. It is clear that there are a high number of international governmental organisations (IGOs) and international regimes in the region, some of which also features transnational and hybrid activities. Many of these IGOs have to some extent overlapping functions and goals. During the last two decades, Baltic Sea has turned in practice into an internal Sea within the European Union, with Russia as the only non-member. Russia is, however, a very large, influential and important actor within the region. With nine out of ten countries being EU-members in the Baltic shoreline does, however, mean a political reality that is changing the way to work in the region. The European Union Strategy for the Baltic Sea Region (EUSBSR) can in this light be seen as a natural step further into a direction of coordinating function for the cooperation in the region.

It could even be easy to state that, in relation to everyday EU and Nordic cooperation within the region, that some or even many of the existing IGOs could be replaced with lighter common functions?

This wishful thinking has two obstacles to tackle. Russia, as mentioned above, does clearly require inter governmental solutions with all regional actors. This is understandable in the present macro-political situation in the region and in Europe as a whole. Another obstacle is, perhaps to some extent surprisingly, EU-members internal competition of national interests to promote some of the acting organisations in the region. It is clear that path dependency and organisational inertia does not favour radical changes, nor does radical changes be promoted by nation states that have been creating, even functioning as driving forces, behind some of the regional IGOs. Organisations tend to act in such a way that, even if they in fact operate within a sector with several overlapping actors, they can re-create new tasks and reform their daily working environment.

It is thus highly probable the several of the overlapping, existing network structures, IGOs, continue to exist and further develop their activities towards new goals, this although apart from other organisations and policy goals. One clear development that was visible already a decade ago is the growing number of hybrid networks in the region. It is obvious that inter governmental cooperation does not reach all goals through national policies and politics. National interests among even EU member states, if such interests can be defined at all, vary too much to achieve all sectoral goals presented within the multitude of the regional networks. The regional organisations and networks that want reach actors beyond nation states must be active on all societal levels, cooperating with non-governmental actors as well. In several cases, as shown in our article, hybrid networks are very successful for example in environmental governance.

The borderline between non-governmental organisations (NGOs) and IGOs is very thin today, especially within a Baltic Sea Region and European perspective. Organisations can be observers, even members, in hybrid IGOs, on one hand, and hybrid NGO networks can, on the other hand, have IGOs as members or observers. In some cases, as for example regarding the Union of the Baltic Cities, the organisation as such is a hybrid, an organisation working as NGO and interest organisation based on membership of sub-national local governments.

The hybrid policy networks have, in fact, several features that talk rather for further success instead of a gradual down-sizing and extensive coordination from some other actors, like EU. These kinds of network based institutional structures are, firstly, vested in the cooperative, multi-actor and multi-sector styles that have more potential to influence policymaking across traditional political and administrative borders. Secondly, hybrid networks provide better possibilities to implement soft policies as stakeholders are involved in and committed to the decision making process from the start, lending legitimacy to the process. Thirdly, the multi-actor structure of hybrid networks provides access to different sources of funding, and finally, hybrid networks give access to the resources and expertise of the partners, which creates a good knowledge base necessary for policymaking (Joas et al in Ambio 2-3, 2007, 241-242).

There might be a need, perhaps, to coordinate national action on IGO-level in the Baltic Sea Region, but, if policy results are considered important, hybrid networks will continue to exist, even grow in importance within the region.

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## New opportunities for the Central Baltic maritime cluster through SmartComp project

By Anu Keltaniemi

Maritime sector has always been sensitive for economic changes. During the past years maritime clusters in the Baltic Sea region have faced tightened competition, new requirements of environmental protection, structural changes and weakened competitiveness. Maritime clusters play an important role in different sectors of economy and thus its profitability has wide influences to other sectors of economy, too. In the future competitiveness of the maritime clusters in the Baltic Sea region will be even more depending on how well innovativeness and profitable, continuously renewing business can be combined by the network's operators with the design and production of new technologies and products which are also ecological.

The society of Europe is in transform. Industry and societies need new business and innovations to generate growth. This has been noticed also in the EU where targets for Europe 2020 contain sustainable, smart and inclusive economy. A major problem is that Europe has lower growth compared to its main competitors which is largely due to a productivity gap caused in part by lower levels of investment in re-search and development and innovation, insufficient use of information or communications technologies, and difficult access to innovation in some sections of the society. Markets like Asia and Russia are fast emerging and they are catching up and moving from being imitators to leaders in innovation. They are pursuing strategic approach to creating an innovation-friendly environment. Meanwhile the EU is still struggling with lack of innovations and investments.

There is an urgent need to build competitive consortiums and to produce investments, innovations and competitiveness in the EU. Maritime clusters play an important role in different sectors of economy and their profitability has wide influences to other sectors, too. As other sectors in the EU are in transform, also maritime clusters have faced serious challenges during the past years over Europe. Maritime clusters in the Baltic Sea region are functional but also fragmented and working nationally. They have good cooperation networks but the networks are often national as well as strategies which have been created for maritime clusters in many countries. In order to rise of competition etc. with Asian maritime industry, maritime clusters in Europe have to find new ways to do business.

Marine clusters bring together expertise, services, resources, suppliers and skills with the objective of

stimulating growth and innovation. They are compounded of companies acting in the field of marine industry, transport, resources, services and other operations, as well as public sector, research and tourism and leisure.

Environmental innovations, strong brand of the maritime cluster and business cooperation as well as policy development are in the centre when the developing of competitiveness of the Central Baltic region's maritime cluster is aspired at. In order to back up the development of the maritime clusters in the Central Baltic region, a consortium composed of nine Estonian, Finnish and Latvian universities, cities and foundations has drew up a Central Baltic INTERREG I V A Programme project called SmartComp - Smart competitiveness for the Central Baltic region. SmartComp aims to unite the maritime clusters of the region and to strengthen existing networks as well as to create new ones in order to improve competitiveness of the sector and to create sustainable growth possibilities for the sector through triple helix cooperation. During the project the current situation of the maritime cluster and its future in the Central Baltic region will be analysed, firstly on sectorial level, and secondly, on corporate level. An understanding of the opportunities and challenges faced by the cluster will be created, and based on these future scenarios about the development of the Baltic Sea maritime cluster will be drawn. The overview creates the basis for further research, training and consultation, as well as for branding and policy development. Clean tech will offer many possibilities for region's maritime clusters as it has been predicted that it will boom in the near future. SmartComp aims to contribute maritime clusters to exploit the boom.

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## Russia's Baltic policy – new horizons?

By Alexander Sergunin

The Baltic Sea region (BSR) is not among the highest priorities of Russian foreign policy. Nevertheless, the BSR still has a considerable significance for Russia, particularly because it is the only region where Russia has a common border with the EU and which serves as a natural way for transit of goods, services and people between Russia and Europe.

Russia lacks a special BSR strategy but given Russia's forthcoming CBSS presidency (which starts in July 2012) Moscow has to formulate a more sound Baltic policy. To my mind it is safe to assume that the following areas can be identified as priorities for Russia's policies in the BSR in the mid-term perspective:

- **SEBA.** In June 2011, the CBSS has established a program of modernisation of the South Eastern Baltic Area with special focus on the Kaliningrad region and its neighbourhood. Project development, dialogue with stakeholders and communications are central parts of the Partnership, which has a two-year time-frame and will conclude with a conference in Kaliningrad in 2013. Priority areas include: (a) sustainable development; (b) public-private partnerships; (c) tourism; (d) youth; (e) university cooperation.

Despite the general positive experience of modernisation programs in the SEBA framework they can be a source of some future tensions between Moscow and its European partners. First of all, there are different conceptual approaches to modernisation being developed by Russia and its European counterparts. While Russia mostly insisted on European investment and high-tech transfers under these programs, the European side tried to develop a more general vision of modernisation (including the implementation of profound legal and socio-political reforms).

- **Energy.** Moscow will keep a high profile in the intergovernmental Baltic Sea Energy Cooperation (BASREC) that was established in 1998. Russia supports BASREC's main objective to promote sustainable growth, security and prosperity in the region and backs up therefore the development of projects on energy efficiency and renewable energy and the creation of competitive, efficient and well-functioning energy markets. Russia tries to coordinate BASREC's activities with other multilateral institutions and programs - the EU, Northern Dimension Environmental Partnership and Nordic Council of Ministers.

The main bone of contention in this sphere is Moscow's unwillingness to ratify the European Energy Charter which was signed by Russia under President Yeltsin but later interpreted as discriminatory. The main obstacle to Russia's ratification of the EEC is Moscow's unwillingness to separate production, reprocessing and transportation of gas from each other. In practice, the Charter's requirements mean reorganisation of monopolist companies such as Gazprom, Rosneft, Transneft, etc., and better access by foreign companies to the Russian energy sector, changes that are not acceptable for Moscow.

Moreover, Russia's European neighbours are frustrated by Moscow's plan to build a nuclear plant in the Kaliningrad *oblast* by 2016. This intention runs against the dominant anti-nuclear attitudes that are especially strong in countries like Germany and Italy, which are among the key Russian partners in Europe.

- **Environment protection** is an important priority for Europe-Russia cooperation in the BSR. For instance, the Russian

component of a EU-Russian shared environmental information system has been launched. A seminar on applicability of the Convention on assessment of environmental impact in trans-boundary context (the Espoo Convention) to the Nord Stream gas pipeline and other similar projects has been held. Russia promised to ratify the Espoo and (similar) Aarhus conventions.

Some Russia's new initiatives can be expected:

- New projects on the environment protection in the Peipsi-Pskov lakes' basin.
- Projects on preserving bio-diversity and reproduction of fish stocks in the Baltic Sea basin, including the Kaliningrad, Leningrad and Pskov *oblasts*.
- Creation of an international monitoring system of small rivers in the Baltic Sea basin.
- Building a complex model for preservation of the Baltic Sea basin's riverheads which are located on the Veps upland.
- Restoration and development of the monitoring stations' network in the Gulf of Finland to detect and prevent pollution in the eastern part of the Baltic Sea.
- A program on the protection of birds migrating through the eastern sector of the Gulf of Finland which is a crucial part of the White Sea-Baltic Sea bird migration route.
- Promotion of bio-energy projects.
- **Visa regime liberalisation.** The BSR has become a testing ground for the EU-Russian visa facilitation regime 'exercises'. On 14 December 2011 the Russian-Polish agreement on visa-free regime for the residents of the Kaliningrad *oblast* and two Polish border regions (Warmian-Masurian and Pomeranian *voivodeships*) was signed. Notably, the initial plan was to establish a visa-free regime only within the 30-kilometer area from both sides of the border, but Moscow and Warsaw managed to extend this practice to the entire Kaliningrad *oblast* and the two mentioned Polish *voivodeships*. This agreement is seen by Russian and European experts as a model to be replicated in other border regions.
- In the sphere of **education** the Russian initiatives can be expected with regard to 1) the further development of Eurofaculty at the Pskov State University and 2) establishment of a Baltic Network Institute of Law (suggested by the Kant University in Kaliningrad).
- **Youth policies.** Moscow will likely focus on priorities such as: 1) combating alcoholism and narcomania among the young people; 2) development of an international youth education complex 'The Baltic Artek' and 3) youth festivals and cultural exchanges.
- Russia will continue the work on establishing a better division of labour between regional actors and programs – the EU, CBSS, Northern Dimension, HELCOM, Nordic institutions, etc.

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# Energy policy of Norway and its implications for the Baltic Sea region

By Lidia Puka

Two landmark initiatives for the energy policy of Norway have taken place in the first week of May 2012. The signing of the agreement between Statoil and Rosneft on the exploration of selected fields, showed the will to search for new sources of fossil fuels. The opening of the Mongstad technology center for carbon capture and storage (CCS) expressed the will to develop oil and gas fields in an environmentally friendly manner. The government of Norway had high hopes for both initiatives, calling the former "the feast day for the national industry", and the latter "landing on the moon". The parallel efforts to increase the production of oil and gas, and to make the energy landscape of Norway "greener" will exert influence on the Baltic Sea Region.

## Energy policy developments

The national energy strategies of Norway have global dimension, as the country is the second largest global exporter of gas and the eighth of oil, and the sixth producer of hydroelectricity in the world. In the light of diminishing resources (Norwegian oil production peaked a decade ago) the energy strategy prioritizes the exploration of new fields. Since 2005 it has been also conducted beyond the North Sea area, in the Barents Sea and the Arctic Sea, the so called High North. Last year's discoveries of the oil fields Aldous/Avaldsnes, Skrugard and Havis have proven this policy to be successful. The estimates show that their exploitation can add even as much as an extra 30% to the proven oil reserves of Norway.

Moreover, the 2020 Strategy of Statoil provides for the 2.5% growth of production of hydrocarbons per year, and the additional export capacity of 10-30 bcm of gas in 2020. Plans to develop the renewable sector are more modest. The hydroelectricity potential in Norway has been largely used up, and the development of the other resources, like wind energy, requires stimuli in the form of fiscal incentives.

Last but not least, Norway is a global exporter of investments, also in the energy field, through the Government Pension Fund Global. A recent prognosis of the Norwegian Ministry of Finance provides for an increase of the fund's value by 350 billion EUR by 2020, likely to result in a further expansion of the investment portfolio.

## Norway in the Baltic Sea region

From the perspective of Norway, the Baltic Sea Region represents a mixture of interests in the energy field. It is an important market for the export of hydrocarbons and electricity, a prospective market for the export of pro-environmental technologies, and a field of co-operation between energy producers.

Firstly, the region is home to the biggest European importer of the Norwegian gas, Germany (nearly 44 bln bcm in 2009); to the country with a rising import of gas, Denmark, and to the countries likely to address Norway in search for the diversification of gas imports – the Baltic States, Finland, and Poland. With the operation of the second Nord Stream pipeline, competition between gas exporters to the North European markets will likely increase, thus strengthening the role of Germany as a gas transit country. Denmark is likely to benefit from this situation with the timely completion of the Baltic Pipeline interconnector from Germany, with a planned capacity of 5.5 bcm in 2014. Despite of the South Baltic States plans to build the LNG terminals with a planned capacity from 7.5 to 10 bcm from 2018, Norway is not likely to become the main LNG supplier to the region. Country liquefaction capacity

from the Snoehvit terminal is too small (in 2010 it produced 3.4 bcm out of its 5.75 bcm export capacity). If the current economic conditions, and the drop of the spot gas prices, the LNG development might not be feasible, unless its price is pegged to oil, like in the long term contracts for the pipeline transportation.

Secondly, the Nordics are integrated into the Nord Pool electricity market. The transmission grid of Norway is connected primarily with Sweden (3450 MW), and Denmark (1000 MW). The planned electricity interconnectors will increase the trade between Norway and Sweden (1200-1400 MW), Denmark (700 MW), and Germany (1400 MW), and contribute to the market creation. Along these lines, since 2010, Norway has planned to develop offshore wind energy generation. The system of Green Certificates with Sweden is foreseen to generate in each of the countries additional 13.2 TWh from renewable energy sources by 2020. Norway has also sought to deploy cleantech solutions in the Baltic Sea Region; Poland and Russia are seen as the most attractive markets. The CCS project in the Polish Belchatów is co-financed by EU funds, and the EEA grants. However, large-scale deployment of CCS technology in Poland is doubtful, due to the economic and geological challenges.

Thirdly, Norway seeks to continue the policy of normalization of relations with the neighbouring hydrocarbons producer, Russia. It is a condition *sine qua non* to realize the High North strategy, assure security, and develop the resources in a sustainable manner. The entry into force of the Treaty concerning Maritime Delimitation and Cooperation in the Barents Sea and the Arctic Ocean between the countries on July 7, 2011, paved the way towards the exploitation of minerals on the formerly disputed area of 175,000 km<sup>2</sup>. The Statoil-Rosneft agreement has positive trust-building implications, and can benefit Norwegian geological and seismic data processing companies. Nevertheless, its implications for the High North production should not be overestimated. The agreement covers solely the stage of exploration, and provides for one Barents Sea drilling, in the Russian Perseyevsky field, in 2020. Severe weather conditions are also an obstacle to the development of the field, as it is situated closer to Svalbard, than to the continent.

Everything considered, the energy policy of Norway will continue to influence the security of supplies, and stimulate the gas and electricity markets creation in the Baltic Sea Region. The country will seek to export pro-environmental solutions and technologies to the Baltic Rim states. The importance of Norwegian investments in the energy sector is likely to rise. In a time of economic uncertainty, Norway offers a unique combination of stability, predictability, and budget surplus – features valued highly by all countries in the region.

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# Cultural tourism 2011 – reaching beyond capitals of culture and cultural tourism in the Baltic Sea region

By Maritta Hiltunen and Ain Hinsberg

*Case: Central Baltic INTERREG IV A Project Cultural Tourism 2011 – Developing cultural tourism as a joint network in Capitals of Culture 2011*

## Introduction

When the Cultural Tourism 2011 project was launched by The Centre of Expertise for Tourism and Experience Management (OSKE) by teaming up with Turku Touring (the Lead Partner) and Turku 2011 in Finland and Tallinn 2011 and Tallinn City in Estonia, beside the two European Capitals of Culture (ECOC) in 2011 in the Baltic Sea area and their cultural tourism cooperation it also was obvious, that in a wider context and longer perspective the project and its outcome should be used to build up a permanent Baltic Sea Regional image that has until now been missing due to the undeveloped collaboration of the actors of tourism and culture, lack of product groups as well as customer, marketing and product planning know-how.

Turku and Tallinn aimed to be stronger together and cross-border cooperation was regarded as a pre-condition of success. The target was to take advantage of this unique possibility to unite the cultural re-sources of the two Baltic Sea cities into one interesting, high-class destination and the project created a new kind of interactive model for destination marketing based on culture. Cultural Tourism 2011 was designed to enhance collaboration and the creation of new culture-based quality tourism products and by this to increase the number of foreign tourists in the ECOC2011 regions.

The total project budget spread over the period of September 2009 – August 2012 amounted to €1 019 300 coming from Interreg IVA funding and was divided between 4 content Work Packages - Net-working and Product Development (main outcome – 4 packages combining ECOC2011s – Design & Architecture, Modern Life in Historical Cities, Facing the Sea and Food Culture), Overall Service Chain (surveying of the service chain using as a model the experiences of the tourists), Research and Mapping (collecting background information for the planning and development work and benchmarking) and Innovative Marketing (primary markets Sweden and Germany reached mostly via virtual channels) – and project administration.

## ECOCultural tourism

Often the ECOCs re-discover their own cultural richness and diversity in order to prove their being exceptional and this in turn opens the floodgates of cultural tourism.

Yet again, the brave new age of creative industries has made us re-consider it all from a new angle, as cultural tourism strategies have been supplemented by creative tourism products in many destinations, emphasising intangible and symbolic elements of regional culture (local “buzz”, art “scene”, nightlife, ethnic quarters and local food) and we witness a shift from the passive presentation of past and present by the supply towards the active skill development by the demand.

## Impact

It was obvious that ECOCs 2011 created added value to the project and vice versa, hence combining the tourism and culture sectors was a successful process.

Although the participating companies (about 30) were rather different in size and naturally their expectations also differed, still, they found the cooperation and participation in the project meaningful, as the project created connections between different actors likely to create eventually further business opportunities.

While it is too early to estimate quantitative targets it seems obvious based on the tourism statistics that the project had a positive economic impact and it increased the attractiveness of ECOCs 2011 as tourist destination. Both cities have plenty of potential for cultural tourism and the project has made that potential more visible.

## Reaching beyond

While everything and anything about the project itself can be found soon from the project-related information storage sources (keep your watchful eye on [www.kulmat.fi](http://www.kulmat.fi) and <http://kultuurikatel.org/en/>), we would rather deal here with how the project has already months before its end decided about its follow-up activities.

The project in question was also treated and implemented by its partners not just as the aim in itself, but as a **toolbox instrumental in and for the post-project mission-BSR cultural tourism stakeholder networking**. And the toolbox was intentionally equipped with a manual – The Cultural Tourism Manual – produced by the project to be used to build up a permanent Baltic Sea Regional cultural tourism stake-holder network. The manual can be obtained from Maritta Hiltunen ([maritta.hiltunen@turku.fi](mailto:maritta.hiltunen@turku.fi)).

The above-mentioned toolbox includes the following blueprint of the follow-up activities to be converted into projects to be launched in 2012–2014.

Networking – first of all making proactive preparations during 2012–13 for the EU funding period beginning in 2014, while the networking itself is designed to strengthen cooperation between cultural tourism policymakers in the BSR highlighted annually at BSR cultural tourism forum. Marketing should be focused on global competitiveness of the brand BSR, which relies heavily on heritage, but also needs cultural tourism product database including also flagship attractions and product prioritisation.

Product development is likely to be mostly about developing a Sense of Place and setting up a virtual know-how resource & library.

Entrepreneurship development sustains supporting and generating cultural tourism, arts and craft industry jobs.

## Passing it on

While the ECOC2011 is over and the project in question winds it all up by the autumn of 2012, the next mission BSR ECOC – this time Riga and Umeå 2014 – is getting ready. Hopefully also they can draw on the experiences of the project in question and knowhow described in the mentioned manual. At least the project has already established contacts with Riga and Umeå 2014 for this

purpose and they are invited to the project final conference in 4.-6.6.2012 in Tallinn, which is a purpose-arranged event building up a permanent Baltic Sea Regional cultural tourism stakeholder network.

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## Networks across the Baltic – back to history?

By Christian Krötzl

The Baltic Sea area has experienced profound changes during the last decades. Nearly all countries around the Baltic are now members of the European Union and the Euro, despite of its recent turmoil, is still attractive, with Estonia joining in January 2012. All this might easily lead to the impression that the Baltic Sea is only now losing its dividing character, and the whole area is for the first time becoming an integrated part of Europe.

Throughout history, the Baltic Sea has been much more a connecting and integrating than a separating factor. Periods of political and economic antagonism - as most recently during the Cold War - might appear long but are historically rather short and limited disruptions of deeply rooted, centuries-old networks and exchange structures.

Historiography has been a further hindrance, creating often a distorted picture: many historians, following nationalist and ideological currents, depicted the Baltic not as an open field of communication and exchange, but as an arena for expansion, conquest or fierce antagonism only.

Strong networks over the Baltic existed already during pre-historical times, as recent archaeological and other findings confirm. The Vikings from Sweden and Denmark were not only raiding, looting and killing, but established a dense network of trading outposts and permanent settlements, linking the whole Baltic to a wide network of economic, social and cultural contacts, reaching as far as Constantinople and the Caspian Sea. Hoards of Arab and Byzantine coins are testimonies of a first truly 'global' period in Baltic history.

With the Christianisation, starting in the Southern Baltic from the 9th Century onwards, the Church appeared as a new factor. Whereas the process of Christianisation in Denmark, Sweden and Finland proceeded mostly peacefully, it took in Prussia, Livonia (nowadays Latvia and Estonia) as well as in Lithuania a violent character, with bloody sword-mission by Teutonic and other knights. These initial differences explain to some extent also later disparities in society and politics, but as a whole, the Church, through its powerful administrative and monastic networks, unified the local societies around the Baltic in many ways.

Another unifying factor of utmost importance appeared in the 12th Century with the German merchants, whose stronghold became Lübeck, founded in 1143. They could profit from older trading networks by Scandinavians, Curonians and others but took soon a leading role, aided by technological innovations, as the new and spacious 'Kogge'-type ship. Hanse-associations for mutual protection and help appeared in Gotland (Visby, 1161) and soon afterwards in Novgorod too. Hanse merchants founded Riga in 1201, as well as Tartu (Dorpat) in 1224. The conquest of Tallinn (Reval) in 1219 led soon to an influx of Hanse merchants, transforming it into one of the most important trading places in the Baltic.

With the exception of Visby, the Swedish crown did not allow its towns to join the Hanse-league, but Hanse-merchants and burghers nevertheless dominated trade and town-life in nearly all Swedish and Finnish coastal towns. Low German (Mittelniederdeutsch) was for a long time the main language used in town councils and in court, as can still be seen in the preserved documentation - more than half of all medieval documents from Finland are in Low German. Migrations between towns around the Baltic were common, and members of the same family could live in Åbo (Turku), Tallinn and Gdansk (Danzig), with property and inheritance issues involving often a complicated 'Baltic network'. The Hanse never developed into a strong territorial state, which explains its later fate and disappearance. It was, however, for centuries

a very successful economic and social organization, whose modern and innovative character, with flexible ways of decision-making, recent research has emphasized.

Nearly all towns around the Baltic were multilingual communities. Tallinn or Stockholm had also a considerable Finnish population and coastal peasants from Finland appeared regularly with their small trading vessels in Livonian towns and as far as Lübeck and Danzig. Towns belonging to the Hanse or with a considerable amount of Hanse merchants were not 'foreign islands' in a hostile territory, as often wrongly depicted in older nationalist historiography, but closely integrated into their surrounding. Hanse merchants were pragmatic and knew the value of cultural knowledge, as in the case of a merchant from Danzig, who shortly after 1500 sent his son to the chapter school in Finnish Åbo, in order to learn there Latin, Finnish and Swedish.

Medieval pilgrims, a very important factor of mobility and cultural exchange in the Baltic area, used trading routes too. Pilgrims travelled across the Baltic, from Livonia and Finland to Sweden and Norway, or to pilgrimage sites in Germany, to Wilsnack, Aachen or Köln, as well as to the most important pilgrimage goals in Jerusalem, Rome and Santiago de Compostela. Hanse merchants provided for pilgrim's ships, sailing on a regular base from Lübeck, Danzig or Stockholm to La Coruna, near Santiago de Compostela.

Late medieval Church as well as secular administration needed an ever-growing amount of trained personnel, which led to an increasing number of students from the Baltic area visiting universities Central and Southern Europe - universities in the Northern Baltic area were founded only late, with the first one in 1477 in Uppsala. The University of Prague, founded in 1348, was in the 14th and early 15th Century the most important place of study, where nearly all students from the whole Baltic Sea area gathered. In the 15th Century, the universities of Leipzig, Erfurt, Rostock and Greifswald took over this role. The Baltic elite had thus for many generations a common formation and background.

The Reformation and the building of strong central states meant profound changes to this open field of communication in the Baltic area: trade and travels got controlled more tightly, linguistic, social and cultural contacts were restricted. The Church, divided and subdued to the needs of local rulers, lost its unifying, European role.

Remains and memories of older structures and communication networks across the Baltic have persisted however consciously or unconsciously and reappeared from time to time. We might use them again now, when the Baltic is developing or, seen from a historian's point of view, re-developing into an open field of cultural, social and economic exchange and communication.

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## History of the Baltic Sea region

By Jens E. Olesen

The Baltic Sea is often called the Mediterranean Sea of the North. The Region can be defined by the Baltic Sea drainage basin and includes today some 14 states and almost 90 million inhabitants with a growing political and economical profile within the EU. The contacts and logistics with other parts of Europe are yearly expanding. Among historians the Baltic Sea area was re-invented in the late 1980's as a result of the end of the Cold War. The long divided and bipolar sea was again seen as a unity, an important historical contact zone or as a meeting-place of different cultures and identities.

The term "Baltic world" originally introduced by Professor Matti Klinge brilliantly demonstrates how the Baltic Sea area through the historical epochs served to connect the northern nations and states with other parts of Europe. The "Baltic World" is generally constituted by three characteristic dichotomies such as empire and periphery, city and countryside, German and non-German thus dealing with problems or dynamics of the "longue durée" of the Baltic Sea area. The first dichotomy can be interpreted as a struggle between the freedom of the small states and nations around the Baltic rim and the hegemonic aims of the surrounding great powers. The second dichotomy concerns the problems of the Baltic Sea area as a region of urban centers and with a coherent and consequent extension of the Baltic influences into the hinterlands. The third dichotomy somehow constitutes a tension between a one-nation centric focus and multi-ethnic relations.

Another important characteristic concerning the Baltic Sea Region is the phenomena of changing historical borders and borderlands. Borderland situations occur whenever aspects of different cultural, economic and political systems meet or overlap, whether this occurs in a physical/geographical or cognitive/conceptual space. The borderland concept provides the scope for varied and high quality historical research over longer periods of time.

The Baltic Sea region is characterized by an overlapping of various old cultures and religions, which has brought forth commonalities, differences and cultural intermixing. This means that in addition to the subordinated code systems of the individual cultures, an encompassing common hybrid code system has emerged in the Baltic Sea region as a result of pluralism, syncretism and cultural "creolisation". The repeated political and economic reorganization of the region historically has supported cultural stratification, a layering of ever-changing patterns of identification and delimitation, which has resulted in changes of alliances, the assessment of relations (discontinuation and reestablishment), and identities. On the micro level, numerous transnational and trans-regional networks have been developed in the region, which span different cultural areas and whose members have maintained more or less close contacts over long periods of time.

There is a long tradition for scientific and commercial exchange in the Baltic Sea region since the middle ages, apparent in the emergence of the Hanse and the Dutch trading network, the cooperation of the leading universities in the region – especially Tartu (Dorpat), Riga and Königsberg - as well as in the religious-confessional relations between Germany, Sweden and the Baltic States in the Early Modern Period. These connections encouraged many contacts and mutual accommodation, and have also fostered various modes of individual identification and cultural valence on the micro level.

The impacts of historical developments on the social, cultural, political and economic systems of the states and nations bordering the Baltic Sea make this region a prominent

case study for restructuring processes. The German unification in 1990, the collapse of the Soviet Union in 1991, and the northern and eastward enlargement of the EU in 1995 and 2004 respectively fundamentally altered the nature of the borders between political, national and ideological entities in the region. The multifarious restructuring processes on the macro level initiated by these historical circumstances are still in operation today. With the redrawing of political boundaries in the region and the contraposition of the EU and Russia, the formally distinct cultural region of the North ("Norden") has experienced spatial reattribution, expressed in increased assignation to the West, i.e. EU/Western Europe, NATO/USA. In this respect, the Baltic Sea Region exhibits the on-going configuration, stabilization and dissolution of organizational spaces, whereby the borderlands of these culturally, socially, economically and politically determined organizational forms experience the effects of restructuring most intensely due to their nature as spaces of transit, transfer and crossover.

These restructuring processes have affected both governmental, economic, social and cultural institutions as well as patterns of behavior of individuals. As a consequence of shifting borders (external borders have become internal borders, heavily controlled borders have become permeable borders, alienated borderlands have become integrated borderlands), former borderlands have lost or are losing their dominant function and are becoming transitory parts of the core territorial spaces. In the course of History, territorial and political boundaries in the Baltic Sea region have changed repeatedly since the 15th century due to the rise and fall of regional empires like Denmark, The Holy German Roman Empire, Poland-Lithuania, Sweden and Russia. The blurring of the function of borders in the context to the EU enlargement has not only led to new historical studies on the revitalization of traditional historical-cultural relations, but also to studies on the reorganization of borderland infrastructure and the mutual or unilateral adoption of new institutions. These processes are manifested today in the Baltic Sea region as a venue for a new regionalism and in the search for a specifically Baltic regional identity and mentality.

A common Baltic Sea regional identity has however never existed, but due to the growing importance of the Baltic Sea region within the EU it is not surprising, that historical studies on the Baltic Sea region are becoming more prominent in these years documenting the profiles and the uniqueness of the Baltic Sea region. The decision of the Council of the Baltic Sea states to support the developing and building up of a common trans-national Baltic Sea regional identity must be seen in this perspective. There can be no doubt that the Baltic Sea region also for the future will call for attention and form an important historical laboratory.

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## The Second World War as a problem between the Baltic countries and Russia

By Kari Alenius

Different interpretations of the Second World War continue to cause tensions between the Baltic countries and Russia. The opinion of the Baltic countries and the international research community is that the Soviet Union invaded Estonia, Latvia and Lithuania in June of 1940 and annexed them in August of that same year in violation of international law and by threatening violence. After the period of German occupation (1941-1944) the Soviet Union once again occupied the Baltic countries and held them until 1991. The occupation caused considerable devastation in the Baltic countries, the exact amount which it is difficult to determine. If it is estimated that without the Soviet occupation the Baltic countries would have developed at about the same pace as Finland after the Second World War (with whom Estonia and Latvia were on a similar level in the 1930s), the economic losses caused by the Soviet occupation over nearly 50 years are as a total at least several hundreds of billions of Euros. The value of the population loss caused by the occupation is not included in this estimate.

Russia has declared itself the successor state of the Soviet Union, but its position on the occupation of the Baltic countries is ambiguous. Russia's state leadership has called the secret German-Soviet Non-Aggression Pact "immoral", but on the other hand, the country sharply objects to interpretations according to which the Soviet Union (Stalin, communism) and Germany (Hitler, National Socialism) would be equally responsible for the outbreak of the Second World War. Vladimir Putin has said that Russia has already apologized for the occupation of the Baltic countries, and therefore there is no reason to revisit the subject. On the other hand, Russia's state leadership has consistently given statements according to which the "takeover" of the Baltic countries was sensible preparation for a German attack. Russia's state leadership has also not abandoned its interpretation according to which the Baltic countries themselves "joined" the Soviet Union in 1940 and "separated" from it in 1991, in the same way as the other "Soviet republics".

It is possible that Russia is afraid of possible economic consequences if it openly and unequivocally admits to occupying and annexing the Baltic countries in 1940 and again in 1944. Although the Baltic countries do not demand compensation for the social and economic damages caused by the occupation, individuals and those close to them who were persecuted by the Soviet regime could apply for compensation from Russia. One comparison in this case is Germany, which since the Second World War has paid compensation to victims of the Holocaust and their families. In addition, immediately after the war Germany paid reparations to the victorious states, above all in the form of material goods and the compulsory labor of German prisoners of war. It is unlikely that the types of consequences such as the war reparations paid by Germany would come into question in the case of Russia, but demands for compensation to individuals would perhaps be likely.

However, the greatest obstacle for the likelihood that Russia would really take responsibility for the occupation of the Baltic countries is related to the prevailing perception in

Russia of the country's role in the Second World War in general. In Russia there is a strong perception that the Soviet Union was an almost innocent victim of a German attack and that the war in Eastern Europe generally did not begin until the summer of 1941. At the same time, there has been an active attempt to forget the Soviet alliance with Germany, the attacks of the Soviet Union on Finland and Poland, the territorial conquests in Romania and the occupation of the Baltic countries from 1939 to 1941. Similarly, in Russia it is thought that the Soviet forces only acted as celebrated liberators when they progressed through Eastern Europe in 1944-1945 to Germany, and stayed there (without asking those countries). The victory achieved in the Second World War is the single most important factor sustaining the Russian national identity and self-esteem. The violations of international law, the offensive wars, occupations, mass murders and mass persecution carried out by the Soviet Union do not fit in this picture.

The recognition of one's own totalitarian and aggressive past and the thorough processing of this is not an easy process psychologically. Germany is also an example in this, but without this kind of process it would be difficult to imagine that Germany's relations with its neighboring countries could be on as relatively natural and friendly a level as they are today. However, unraveling history's points of pain are an essential key so that building "normal" neighborliness and cooperation between Russia and the Baltic countries could be possible. The point of view of the international research community is quite clear: the actions of the Soviet Union in the Baltic countries can in their essentials be regarded as equivalent to those of Germany during the Second World War. This is why the dismantling of problems associated with history should come from the direction of Russia, and not from the Baltic countries, which were exposed to its superpower ambitions.

Thus, on the part of positive developments in relations between the Baltic countries and Russia, one can only hope that Russia would have enough courage to begin an open processing of its own history. Some Russian historians and other debaters have already done so. However, the main responsibility for this change lies with Russia's state leadership and more broadly with the political and cultural elite. If an unequivocal overture is made from higher-level Russian quarters, the continuation of the reconciliation process of course requires the ability of the Baltic countries to forgive and compromise on their own strong positions also.

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## The Baltic States – an imagined community turned real

By Kristian Gerner

*"I have understood that history is a verbal fiction and that it is as much invented as it is discovered."*

Estonia, Latvia and Lithuania emerged as national states in the wake of the revolutions in Russia in 1917 and the defeat of Germany in 1918. When he describes these events in his book *A concise History of the Baltic States* (2011) Andrejs Plakans pointedly deploys a line from Horace, *Carpe diem*. The expression means "catch the moment." Plakans does not quote the continuation. It reads *quam minimum credula postero*, "because there might be no tomorrow."

Energetic politicians who emerged in the late nineteenth and early twentieth centuries certainly caught the moment in 1918. Alas, Horace's warning proved to be warranted. When the fallen German and Russian empires were reconstructed in the guises of the Third Empire and the Soviet Union, respectively, the leaders Hitler and Stalin agreed that the three Baltic states be extinguished and "returned" to Russia.

In the interwar period people in Sweden, Finland and Western Europe were inclined to believe that the Baltic states were a counterpart to Scandinavia in terms of historical, cultural, confessional and linguistic affinity between the constituent nations. However, this was not how Estonians, Latvians and Lithuanians perceived of themselves before 1940. They strived to assert themselves as separate individual nations and did not create a close community.

Anyhow, in 1940 the concept of the Baltic States had been reduced to a mere "verbal fiction". The quotation above is from the Estonian concept artist Kristina Norman's comment on the struggle over the move by the authorities of the sculpture "The Bronze Soldier" from the town center to a war cemetery in Tallinn in 2007. Norman made an installation that featured a golden facsimile of the sculpture from 1947. It was shown in Estonia's pavilion at the 53<sup>rd</sup> Biennale in Venice in 2009. The artist also made paintings of official Soviet and civil Russian commemoration ceremonies at the site prior to 2007. Her aim was to demonstrate that people in Estonia identified as Estonians and Russians, respectively, and belonged to two different memory collectives.

Kristina Norman's interpretation of national identifications in Estonia is corroborated by sociological surveys and people's behavior in situations of choice. However, in this short article I will suggest that the most important fact is not that Estonians identify against Russians. The crucial point is that whereas Estonians never identified with Russia in spite of the fifty years long Soviet Russian occupation, they chose to identify not only as Estonians but also as "Baltics" in the politically decisive years of the Singing Revolution in Estonia, Latvia and Lithuania in 1988-1991.

The first Soviet occupation of the three Baltic States in 1940-41, the following Nazi occupation in 1941-1944/45 and the second Soviet occupation were terrible. The second Soviet occupation lasted forty-five years. It was experienced and has been correctly conceptualized as an ordeal. However, the cunning of history was at work. Unobtrusively, a Baltic identification of Estonians, Latvians and Lithuanians was prepared within the confines of the Soviet empire.

In the Soviet empire, the three Baltic nations of Estonians, Latvians and Lithuanians were perceived both by the Soviet leaders and by most other Soviet subjects as one entity. In Russian vernacular the three Baltic Soviet Republics became known not only as *Pribaltika*, the (Russian) Baltic seashore, but also as *nash Zapad*, "our West". In spite of the otherwise

derogatory language about the West in Soviet Cold War rhetoric, in this case "the West" was unanimously used as a word of praise. The Baltic Soviet Republics were seen as more developed and better than the rest.

Over time, both Party leaders and intellectuals inside and outside the Party in Estonia, Latvia and Lithuania came to identify with the concept "Baltic". Whereas people from the three states in the interwar period had lacked an everyday *lingua franca*, they willy-nilly received one during the long Soviet occupation: Russian. On the basis of communication in Russian, an anti-Soviet, anti-Communist and anti-Russian united front emerged from Tallinn via Riga to Vilnius. The uniting bond was found in the perceptions of shared victimhood and of being Western.

The policies of glasnost, perestroika and new thinking in the late 1980s made possible political mobilization from below. In 1988, Party people and independent intellectuals, some of them Soviet dissidents, created Popular Fronts for Perestroika, soon to be renamed Popular Fronts for Independence. The respective leaders not only cooperated in challenging Moscow and the Russian hegemony. They also found an appropriate historical symbol for presenting themselves as constituting a "Baltic" exception from the Soviet order.

On 23 August 1989 the Popular Fronts of Estonia, Latvia and Lithuania organized a "Baltic chain" from Tallinn to Vilnius. It was literally a chain of people joining hands. The historical symbol behind was the three-letter word MRP. It stood for the Molotov-Ribbentrop Pact. The reference was to the infamous Nazi-Soviet Pact of 1939. After the Pact, the leaders of each of the three states succumbed in isolation to Soviet demands of letting Soviet troops be stationed in their countries and in 1940 the countries one by one were engulfed by the Soviet Leviathan.

In 1989, Estonians, Latvians and Lithuanian acted in concert. The three nations and their leaders certainly had nationally specific agendas. Their political actions were not always coordinated. But they managed to give substance to the concept of the Baltic States. They were perceived, treated and behaved as one entity when they became members of NATO in 1999 and of the European Union in 2004.

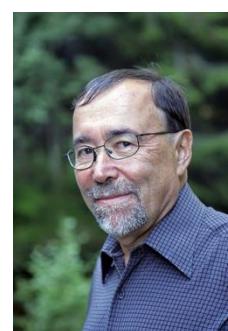
In his book *A History of the Baltic States* (2010) Andras Kasekamp remarks that the three countries are not Baltic states "with a capital 'S', as in the United States". This is true from the perspective of international law. However, for all practical purposes and in ordinary language the cunning of history has transformed the verbal fiction "the Baltic States" into a historical concept in its own right. It makes sense to conceive of their history as a shared history with a common denominator. This is a lasting effect of their forging together under Soviet rule in 1940-1991.

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## Latvia and the U.S. – potential for strengthening energy security

By Ainars Lerhis

Latvia is vitally interested in development of the potential cooperation with the U.S. in economy paying a special attention to the energy issues. In the context of Latvian security the issue of energy independence has fundamental role. The U.S. is concerned about security in the Baltic region and therefore pays a lot of attention to the factors that play an important part in the overall regional security scheme. The U.S., the EU and the Baltic States regard the shale gas and renewable energy resources as part of the solution to high dependency of the Baltic nations on Russian energy resources.

In the framework of Latvian – American relations one of the directions of cooperation is extraction and making use of unconventional hydrocarbons (shale gas) in which field the United States is a world wide leader. During the last twenty years the unconventional gas has created huge changes in gas market of the United States. The technological turning-point in hydraulic breaking and horizontal boring made the unconventional gas not only accessible in broad North American territory, but it became also competitive in sense of both costs for unit and internal return coefficient with conventional natural gas.

At present in Europe a commercial extraction of unconventional gas does not take place yet (such extraction takes place only in USA). However, the initial estimations give evidence that in European entrails of the earth would be up to the 35 trillion cubic meters of such gas, and this amount would be equalized to forty-years-long expenditure of gas in Europe. Approximately 40 American and European companies which are inspired by successes of extraction amounts of unconventional gas in the United States, have began their investigation works in Germany, France, the Great Britain, Hungary, Sweden, Poland, and Austria. The Polish government has already issued 70 permits for drilling of boreholes, in order to investigate a potential of unconventional gas. There are such American companies as *Exxon Mobil*, *Chevron*, *ConocoPhillips*, and *Marathon* among recipients of permits. The Polish government has also included the research of unconventional gas and possible extraction in its Energy strategy and supports these investigations with favourable fiscal regime.

The first estimations on the issue of potential of unconventional gas in Europe have fluctuated from very prudent (because of this investigations are only at their initial stage and investigators have a vague idea of accessible amounts and quality of gas) to very dashing, telling that the potential is so important that in medium or long term it will make gas netto importer-countries even to exporter-countries.

Many experts deal with the opinion that in approximately five years more complete data on unconventional gas amounts in Europe will be available, and in ten years the first commercial extraction and trade of unconventional gas will begin.

Yet, the results will be dependent on group of factors (mentioned below) which weight of influence is difficult to predict:

1) Geological factor – European geology is more complicated and crumpled than in North America. It means that it is not possible to use American technologies in Europe at full extent: adaptations and even technological innovations are necessary, but they require much time and money. Also a gas quality may deceive: if in pumped out gas methane is got mixed with nitrogen, then the separation of these substances may require additional time and financial resources.

2) Accessibility – while entrails of the earth belong to the state, overground is divided among big amount of private owners. Because of this a putting in order of juridical rights may require longer time, and also Europe's relatively big density of population must be taken into account.

3) Environment – the technology of hydraulic breaking consumes a big amount of water. For example, before the extraction of unconventional gas in Poland, at first, serious improvements would be carried out for more effective use of water, in opposite case the drilling of some tens and even hundreds boreholes can cause serious environmental problems. Also it is necessary to take into account seismic changes which may be caused by horizontal boring and hydraulic breaking of rocks.

4) Economy factor – former calculations make evidence that costs of drilling of boreholes in Europe is four times bigger than in North America. Also the *supply chain* is not fully developed in Europe. Also the fiscal regime and legislation basis offered by countries will be of great importance, namely, whether the national governments will consider the investigation and extraction of unconventional gas as sufficiently perspective field which requires also the state support (as it is given in Poland and Germany).

As to Baltic Sea basins, the initial geological estimations in South Sweden and Poland make reference to possible potential of schist gas in the Baltic Sea and on the Western coast of the Baltic States. It would be of Latvia's interest to promote the cooperation with the leading companies of the United States on the subject of corresponding investigation works in the territory of Latvia, in order to clarify whether it is profitable from the economical point of view to try to extract oil and gas from Latvia's schist resources. In this aspect it is profitable for Latvia to make use of experience of Poland. Of course, the investigation works of unconventional gas in Europe is, to the great extent, initiated by U.S. companies with the possible aim to search for new markets to their technologies. Simultaneously, the potential gains for Latvia in spheres of energy security and expenses can give considerable spurt in Latvian economics.

U.S. and Latvian political relations have a solid basis and a very good potential. The current global geopolitical context provides many opportunities for cooperation either on bilateral basis or as part of multilateral settings. With security issues dominating not only the global political theatre, but also being essential for individual countries and smaller regional clusters of states, energy cooperation has gained an enormous importance in both bilateral and multilateral relations. This context is favourable to further development of the U.S. – Latvian energy relations.

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## Does austerity work? Lessons from the Latvian crisis in 2008–2010

By Christer K. Lindholm

When Niccolo Machiavelli, in his most renowned work *The Prince*, stated that a good ruler should inflict pain all at once and hand out favours little by little, the management of economic crises was presumably not what he had in mind. In its policy response to the crisis of 2008–2010, the Latvian government nevertheless decided to heed the advice of the famous political philosopher: the bulk of the austerity measures that Latvia had to accept in exchange for financial assistance from the IMF and the European Commission were implemented in the course of a single year, in 2009.

That the heavy frontloading of these austerity measures inflicted a great deal of pain on the Latvian population is beyond doubt. The sheer magnitude of fiscal consolidation – spending cuts and tax increases totalling 15 per cent of GDP – would have made it painful during the best of times. When implemented in the midst of a deep recession, their effect was nothing short of devastating: the number of central government employees was reduced by 30 per cent, public sector wages were cut by 22 per cent, and 35 hospitals (out of a total of 59) together with around 100 schools were forced to close down.

Austerity did not, however, stop at fiscal consolidation; in addition, the Latvian government had to deal with a huge current account deficit – a staggering 22.5 per cent of GDP at its peak in 2007 – the financing of which had become unsustainable as the inflow of foreign capital dried up in the autumn of 2008. Reducing the current account deficit required, above all, a boost to export competitiveness, which had been eroded by the combination of high inflation and a currency peg against the euro during the boom years preceding the crisis.

The urgent need to boost export competitiveness presented the Latvian government with the choice between two unpleasant alternatives: either to abandon the euro peg and devalue the currency, or to carry out a so-called internal devaluation in the form of substantial wage cuts. Whereas a devaluation would have been a quicker and, at least in the short run, more efficient way of improving the competitiveness of exports, it would greatly have increased the servicing costs of Latvia's foreign debt. From the government's point of view, an even more important objection was that a devaluation would have delayed, or even jeopardised, Latvia's entry into the euro zone. An internal devaluation was thus seen as the better or, at any rate, less evil alternative, even if it would inevitably exacerbate the decline in domestic demand. From the end of 2008 through early 2010, wages in Latvia fell by 13.6 per cent on average.

Over the past year or so, the infliction of pain has gradually given way to the handing out of favours. Having regained access to the international capital market in 2011, Latvia is no longer dependent on external financial support. An equally important achievement is that the country's banking sector, which teetered on the verge of a collapse during the crisis, now seems to have been stabilised. There are also signs, if still inconclusive, of economic recovery. Fuelled by the revival of exports, the Latvian economy grew at a healthy rate of 5 per cent in 2011. Unemployment, according to the most recent figures, is down 5 percentage points from its peak at slightly above 20 per cent in early 2010. The current account has strengthened considerably,

although the impressive surplus of 8 per cent of GDP in 2010 seems to have been as short-lived as it was surprising.

It might be tempting to conclude that the same kind of austerity that is now being imposed on the crisis-stricken countries of the euro zone has worked in the case of Latvia. There are, however, at least three reasons why such a conclusion would be premature.

Firstly, the social costs of Latvia's austerity policy have been extremely high. Despite the attempts to target fiscal adjustment measures so as to minimise the adverse effects on the most vulnerable parts of the population, three years of austerity have left Latvia with one of the highest poverty rates and one of the most inequitable income distributions in Europe. Even the IMF, which frequently has been criticised for ignoring the social consequences of its policy recommendations, has expressed its concern about the problem of widespread poverty, and stressed the importance of strengthening the social safety net.

Secondly, the upswing in exports that has driven Latvia's recent recovery is at least in part attributable to the various structural reforms implemented during the crisis, such as the simplification of the tax code and the reduction of bureaucratic 'red tape' hampering the development of the business sector. The Latvian export industry does not, in other words, owe its recent success exclusively to the internal devaluation.

Thirdly, the export-lead recovery of the Latvian economy still rests on an extremely shaky foundation. The recession in the euro area is already dampening export growth, and with domestic demand still in the doldrums from three years of belt-tightening, Latvia simply has nothing to fall back on if – or rather when – exports grind to a halt. According to IMF estimates, economic growth in Latvia will slow from 5 per cent in 2011 to 1 per cent or even less this year. By the same estimates, it will take at least until 2016 for Latvia's real GDP to reach its pre-crisis level.

Given the extreme fragility of Latvia's recovery, it might even be argued that a smaller dose of austerity would have yielded a better result. A less extreme austerity policy would not only have alleviated the decline in output during the recession; it would also have left domestic demand in a much better shape than it is today, thus allowing for a more broad-based and sustainable recovery. This, in its turn, would have greatly reduced the pain that will be inflicted on the already hard-suffering Latvians when exports start feeling the pinch from the euro area recession in earnest.

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## The Baltic Sea and the quest for authentic leadership

By Tiina Ritvala

Water is fundamental for our survival: up to 60 percent of the human body is water and we can survive only days without it. A growing number of corporations and policy makers are confident that those who can save, clean and manage water will prosper as reflected in the *Fortune* business magazine's story asking the question "*Is water the gold of the 21st century?*" The global water challenge has also encouraged actors in the Baltic Sea region (BSR) to invest in water technology, which is among the fastest growing industries worldwide.

Water is borderless. Oceans, lakes and rivers bring countries, regions and ultimately the whole world economy together. This common global interest is reflected in events such as the UN World Water Day celebrated yearly. Indeed, most countries are interested in cooperating to protect the water even when there are frictions surrounding other issues. This was also the case concerning the collaboration between the coastal states in BSR: the protection of severely polluted Baltic Sea was among the very first topics of wide cross-border collaboration between countries when the region was still divided by the Iron Curtain. But why after forty years of dedication to save our common sea we still have so much to accomplish?

The answers are numerous, interdependent and complex, not least because of the wide catchment area of the Baltic Sea, which is about four times larger than the sea itself. One fundamental challenge is that most meaningful solutions require cognitive, normative and often regulative changes and, therefore, also the participation of many public and private stakeholders. Creation and management of such fundamental change to solve the societal issue require dedicated and visionary leaders and authentic leadership. Authentic leaders have the ability to consider multiple sides of the issue and they have positive psychological capacities of confidence and optimism even when they face insurmountable hurdles. They are truthful to their inner motivations and lead using both their head and heart. This makes others to trust them and follow their paths and inspiration. On the other hand, leaders must also be willing to disbelieve their realities when new evidence emerges or circumstance change – they are brave enough to say I was wrong.

Authentic leaders are determined – they adhere to long term commitments rather than to fads and fashions. For instance, it took three versions to get Windows right from Bill Gates, an often cited authentic leader. More recently Gates started to tackle the global health and education issues, while still driving a business agenda. A corresponding figure in the Baltic Sea context is Juha Nurminen, a fourth-generation entrepreneur and dedicated fosterer of maritime history and the maritime environment. Concrete results have materialized to rescue the Baltic Sea. Today, St. Petersburg cleans its municipal wastewater better than what the EU wastewater directive requires – something that few could have believed ten years ago. This was enabled by the established cooperation between the countries, the pioneering work done by the John Nurminen Foundation and the progressive and authentic leadership of General Director of the local water utility Vodokanal Felix Karmazinov, who after initial hesitation was to become the local spokesman of environmental issues. Says Mr.

Karmazinov, "*We, Vodokanal St. Petersburg, have a dream: we want the XXI century to go down in history as the epoch of ecological well-being. However, it would only be achievable if people give up their consumer-type attitude to the environment and change it for the attitude of respect and care.*" The example of Mr. Karmazinov and St. Petersburg for other regions is of great importance if the positive trend is to continue. What is possible in the biggest city at the Baltic Sea must be possible elsewhere as well.

The Baltic Sea countries, Finland among others, are in a need for discovering new cornerstones to enhance the state of their economics. There seems to be much more room for harnessing the challenges of the Baltic Sea to create global solutions and shared value for both businesses and world oceans. Given often touted cleantech boom and Global Competitiveness Index, which ranks four BSR countries among the top ten most innovative countries in the world, this should not be an unreachable goal. More inclusive and entrepreneurship-friendly innovation ecosystems together with more tolerance for uncertainty and failure would support such aspirations. Besides technological excellence, authentic leaders that are able to create common ground despite of differences in doctrine are sorely needed. The high level Baltic Sea Action Summit process initiated by Dr. Ilkka Herlin exemplifies an attempt to bridge the divide between different sectors of the society and countries to save the sea.

Authentic leadership needs to thrive across sectors and levels in order to produce ecologically, economically and politically reasonable solutions. While some heads of state and government have already done more for the Baltic Sea than their official positions require, further and more ambitious measures are needed. This echoes the recent call made by previous Danish Minister Uffe Ellemann-Jensen for more courage, higher ambitions, and clearer goals for regional cooperation enabled by the EU Strategy for the Baltic Sea Region. Efficient use of resources and real, measurable results have to be reached through the commitments of political and business leaders across the sea.

The utterance of Sir Winston Churchill: "*A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty*" reflects well opportunity driven authentic individuals. Time is ripe for more such individuals able to lead joint course on the waves of the Baltic Sea.

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## Quality of life in urban-rural interference

By Petri Kahila

Quality of life is important to the people and influences their decisions over, for instance, where to live and work. This does not necessarily however have a direct relationship to current living conditions but focuses rather on enabling people to attain their goals and to choose their ideal lifestyle. Therefore, the interest to improve the individual quality of life is an important motivation and focus of attention for planners. However, planners and developers often lack influential approaches, methods and measures to operationalize quality of life in planning processes.

Urban and rural areas are not only connected in numerous ways such as labour market, provision of services or recreational activities. They also share common challenges such as migration, urban sprawl and climate change. Interlinks between urban and rural areas confronts also the purpose and usefulness of administrative borders. Addressing quality of life in urban-rural interaction is appropriate as it connects to the overall attractiveness of a region and touches the individual preferences of the people living in the region.

However, we have to bear in mind that quality of life is not a straightforward process within regional planning and development. There is a requirement to put quality of life into broader perspective within the framework of urban-rural interaction. When quality of life considers the individual preferences of the people residing in the region, this approach is also connected to the overall attractiveness of a region.

Thus far, the various efforts undertaken and the methods used in respect of the management of quality of life in the framework of urban-rural interaction have been rather limited. The challenge for planners and policy makers remains to link micro-level interactions to macro-level changes. There is then a clear need to understand the various dimensions of quality of life. However, exploring the spatial aspects of quality of life in relation to urban-rural interaction on the basis of quantitative methods alone would be inadequate. Qualitative approaches are required in order to properly consider individual choices based on preferences and values.

Enhancing quality of life is implicitly and explicitly defined as a policy goal in various EU and Baltic Sea development programmes. Gothenburg Strategy, Territorial Agenda for the European Union 2020 underline the importance of quality of life related issues. Also various Baltic Sea Region actors and processes such as CBSS/Baltic 21, VASAB and Union of the Baltic Cities stress interaction between urban and rural areas and individual dimensions of quality of life. Especially they highlight the importance of quality of life in consideration to common planning processes. Although the concept of quality of life found its way into policies and strategies, the approach to implementing certain measures has not yet been sufficiently considered.

The different policy and planning documents lack an integrated approach to managing quality of life related questions. With the intention to attain the target of improved quality of life, individual level related standpoints have to be taken into account. There is a clear need for local, more bottom-up approaches to the quality of life issue in planning processes and in development strategies. Approaches have to span across and beyond administrative borders.

Crucial question is how individual viewpoints and perceptions can be comprised in and corresponded with policy ambitions and objectives in spatial planning. Quality of life does form an attractive concept for planners and developers because it includes a wide-ranging and also pre-emptive approach to local action and circumstances.

There is a possibility to shift towards a quality of life based approach in planning processes and development work. It will be possible for planners and developers to initiate new measures and processes and attain improved quality of life for people living in particular area. This approach is attractive for policy makers in the era of sustainable development and smart growth. There is also direct connection to peoples' concern about air quality, public safety, peaceful neighbourhood etc.

Producing a policy founded on quality of life related aspirations draws upon issues as efficiency and equity. It is obvious that the setting of objectives unavoidably differs between regions. However, it should be conceivable to for regions to generate their own approach to quality of life related issues in planning and development processes. Crucial factor here is to have a sufficient policy capacity to deliver such policies. The critical element in respect of appropriate capacity is the quality of local policy cultures.

The future of such challenges most obviously depends on the development of more specifically political factors. At some occasions, attempts to establish more relevant approaches to quality of life require harmonious planning and development system. The attempts also depend on an integrated approach to quality of life between the European, national, regional and local levels, and the existence of stronger involvement of individuals in planning processes.

We may say that the most significant issues on political and institutional aspects in approaching quality of life are the development of right conditions for individual involvement. There is also a clear need for promoting a climate of political confidence and a political and institutional commitment to promoting quality of life.

Quality of life originates from miscellaneous standpoints interwoven together in various frameworks of urban-rural interaction. However, we have to bear in mind that diversifying aspects are applicable only in specific conditions. It means that none of them offers a valid and credible framework on its own. Any attempt to approach quality of life on the basis of particular, single factor or dimension is misleading and inadequate. There is a necessity to outline a comprehensive list of questions and arguments that may enable us to investigate limits and possibilities of quality of life in planning and development processes.

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## The development and potential of financial co-operatives in Estonia

By Panu Kalmi and Andro Roos

Banking is an industry where foreign-owned enterprises produce an extraordinarily high share of total output in transition economies. This is nowhere as true as in Estonia, where the share of foreign-owned banks from total assets has been very close to 100% throughout the late 2000s and early 2010s. The one Estonian success story in banking, Hansapank, was sold to Swedbank in 2005. This dominance of foreign-owned banks is in marked contrast to retail banking in the "old" Europe, where the market leaders are typically large domestic banks, often structured as co-operative or savings banks. In fact, retail banking has been regarded as one of the least internationally integrated parts of the financial markets within the European Union, despite the fact that there have been many international mergers and acquisitions within banking during the past twenty years.

Foreign ownership of banks in transitional economies has a clear economic rationale. During the 1990s when the financial sectors were rebuilt, there was a lack of know-how in operating a modern financial system, a necessity of make investments in new technology, and a mistrust by consumers that was not helped by frequent crises in the banking sector. Under these circumstances foreign banks could offer both knowledge transfer, investments in technology, and generate trust in the market. Estonia was especially lucrative for foreign direct investment by banks, due to its relatively high level of institutional development and good growth prospects. However, an exclusive reliance on foreign banks, especially if they are few in number, may also mean that the domestic financial sector becomes a captive of a few actors that may have limited commitment to the long-term sustainability of the financial sector. This has become an issue especially during the financial crisis when banks emphasize their position in their home markets.

Newly established domestic joint-stock banks, when they are successful, are at the risk of being acquired by multinational banks. This was witnessed in Estonia in the case of Hansapank. Financial co-operatives are potentially more stable in ownership because their shares are not freely transferable, and the voting rights are dispersed evenly among the members. Hence financial co-operatives appear to be a promising way to develop sustainable domestic ownership in banking.

Unfortunately, the entry barriers of financial co-operatives are often higher than they are for other banks, and developing their successful operations often takes many years or even decades. In most Western European countries, financial co-operatives have existed for 100 – 150 years, and they have been able to react to the evolving market structure. Estonia was part of this Pan-European development in the early part of the 20th century, when credit co-operatives were spread throughout the country and they commanded over 50 % of the market share in banking. However, they were banned during the Soviet era. As in other East European countries, the credit co-operative movement had to be rebuilt from scratch. In Estonian case, some financial co-operatives were created in the early 1990s, based on the assets of dissolved collective farms. However, their development was hindered by the lack of suitable legislative framework, outside support and central institution. For these reasons,

the Estonian movement has remained small and fragmented. At the end of 2011, there were 18 financial co-operatives (credit unions) in Estonia and only 10 of them were working actively. They mostly operate in small local areas and large areas of the country are completely uncovered. The market share of credit unions in financial services is only around 0.1%.

Successful financial co-operatives need a central organization that can help in clearing payments, maintaining liquidity, providing support functions such as ICT and training, and represent the movement to outsiders both for marketing and lobbying purposes. The Estonian financial co-operatives are organized within an association that unfortunately has remained relatively weak. The case of Estonia can be contrasted to Lithuania, where the first financial co-operative (credit union) was formed as late as 1995, but where the number of credit unions is currently over 80, the market shares in loans and deposits is around 2% overall, but around 20% in rural areas. The Lithuanian movement has benefited from both outside technical support, a supporting legislative framework and a strong central organization.

In recent years, there has been some promising development in the Estonian credit union sector. Tartu Credit Union was re-established in 2006 (being originally established by Jaan Tõnisson in 1902), is growing fast and also expanding to a wider set of services than other credit unions in Estonia. There have also been plans to establish a central co-operative bank for Estonia. If successful, this initiative would certainly improve the outlook for the development of financial co-operatives in Estonia.

The financial crisis has increased interest towards financial co-operatives, as they have proven to be more stable in the crisis than profit-maximizing banks. They would certainly benefit Estonian financial markets by increasing diversity of providers of financial services and thereby enhancing competition.

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## Baltic M&A studies suggest trends for the future

By Luis Felipe Mohando and Toomas Prangli

After fast-paced development years that fostered many mergers and acquisitions (M&A), the Baltic States experienced a sharp decline during the 2008-2010 crisis, from where they have started to recover recently. Two studies conducted by SORAINEN and other Baltic law firms in 2009 and 2011<sup>1</sup> show interesting trends in the M&A practice and give practical advice for upcoming years.

In 2009 on the initiative of Toomas Prangli, partner with SORAINEN, the first ever Baltic M&A Deal Point Study was conducted together with other leading Baltic law firms. The intention was having a glimpse into what deal terms were used in the Baltic M&A, analysing transactions closed in 2007-2008. In 2011, the second study was carried out, analysing transactions completed in 2009-2011. The studies provide valuable insights into M&A transactional practices in the Baltics. Furthermore, having both allows to uniquely compare practices in booming (2007-2008), leaner (2009-2010) and recovery years (2010-2011), and may also be used in assessing further trends in the market.

What do these analyses tell? Firstly, after M&A activity was on the rise in 2007-2008 both in transaction volume and value, 2009 saw a sharp decrease in both counts, and late 2010 and early 2011 ushered in recovery with larger volumes but generally lower transaction values. The trend shows some incidence of the "buyer's market" (the crisis increasing buyers' relative negotiating power); the buyer's draft was the basis of the final agreement in 75% of transactions. However, some data seems to run in the opposite direction.

The industry sectors that saw most M&A activity during 2009-2011 were IT and food & agriculture. In 2007-2008, IT was also one of the most active sectors, together with retail & wholesale. It is tempting to infer that after consolidation in the retail sector, the wave continued in its vertically related food & agriculture industry. Interestingly, the battered sector of Construction & Real Estate was also active in 2009-2011, probably speaking of consolidation on a changing market.

In both studies, more than 70% of sellers were from the Baltic States, but in 2009-2011 the proportion of Baltic buyers increased significantly from 27% to 46%, showing mostly same-country consolidation but also some pan-Baltic expansions. The global scale of the crisis reflected in the region with less multinational transactions with Baltic elements and fewer investors from outside the neighbouring regions. Most buyers in 2007-2008 were strategic (acquired targets not as financial investments but to develop the business) and continued to be so in 2009-2011.

Meanwhile, the value of the typical transaction in the crisis years was in the EUR 1-5 million bracket. That is much lower than the median range of 2007-2008 transactions, which was EUR 5-25 million. Due to the relative low value of Baltic M&A transactions and the limited number of buyers, very few competitive auctions were carried out in 2009-2011.

As regards payment terms, in both periods the preferred means of payment was overwhelmingly cash instead of

shares, similar to other European economies with concentrated ownership. However, in contrast to the 2007-2008, the lump-sum payment was the most used payment term in the 2009-2011 analysed transactions, with around 80% of them including a lump-sum payment at closing (up from 28%). This seems to run contrary to the buyer's market hypothesis. However, lower transaction prices, which make alternative payment strategies less necessary, and the general uncertainty, which makes deferrals or other payments dependent on future events riskier, may explain the trend.

To conclude, we could say that during 2009-2011, Baltic M&A transactions showed consolidation in dynamic sectors like IT and integrations, either to complement previous acquisitions or to face changing or declining business. We expect this trend to continue. Typical transactions became more local and lowered in value, reflecting the global nature of the crisis. This affected also transaction processes and deal characteristics: Buyers gained in negotiating power and agreements became simpler and less dependent on future events. Hence, as the Baltic economies recover and become more attractive we expect this to revert to the trend observed in 2007-2008, with higher values, more international buyers and deal terms use more in line with continental Europe. However, this will be affected by the situation in the wider EU market. In the end, the Baltic economies size will probably rule out completely assimilating M&A practises from other developed economies. Deal terms will likely remain simpler, and the practice, unique.

(The Baltic M&A Deal Points Studies 2011 and 2009 are available from the SORAINEN website, [www.sorainen.com](http://www.sorainen.com).)

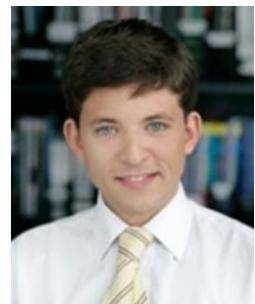
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<sup>1</sup> The law firms participating in the Studies included SORAINEN, Raidla Lejins & Norcous, Tark Grunte Sutkiene, LAWIN, Borenius, Glimstedt and Tamme Otsmann Ruus Vabamets.

## When the focus is on international students, Finland can do better!

By Mekhail Mustak

It was three years ago, in 2009. Looking through the shining windows of a multinational company, in those small gaps between different tasks, I was wondering: "where should I go for higher studies? Which countries offer the best combinations of education quality, affordability, non-bureaucratic visa procedure, future career opportunities? USA? Canada? Australia?" Finland is the last name that comes to a potential international student's mind.

So, I went back to internet. Called a few friends and relatives in those English-speaking countries. Spoke with some foreign study counselors and agencies. And within a few days, it became clear to me that Finland is my destination. Highest quality education, no tuition fee, study in English, free health care and a pleasant and vibrant culture; what more an international student could ask for? In August 2009, I arrived in Finland.

And how wonderful three years it has been since then! In the graduation ceremony this January (2012), when I was receiving the grant for being one of the best graduates in Autumn, 2011, I was remembering how well this university and this country have treated me. And I believe it's true for every international student in Finland. Here, you are surrounded by the highly knowledgeable professors, intelligent and friendly students, always smiling staff members, best facilities, libraries with rich collections as well as state-of-the-art computer labs. Life outside the university is even more exiting – sports, student associations, cultural programs, parties – you name it, you get it!

Few days after the graduation ceremony, in my free times, I continued to think and study on the Finnish higher education system and its internationalization dimension. And I understood that from the internationalization perspective, one very important question is: "Does this country attract the most talented international degree students?" The concern is *quality*, not *quantity*. I sincerely believe that with all the opportunities available, Finland should become one of the most attractive countries to foreign students. At the same time, it deserves the best international students – the very best! Therefore, with my utmost respect to the current international students, sincere and logical answer to the above mentioned questions is – there are rooms for improvements when it comes to attracting higher quality international students.

There are two interconnected issues. First, Finland needs skilled and knowledgeable workforce. Second, each year the country is admitting hundreds (if not thousands) of foreign students, each of whom costs thousands of Euros to the Finnish taxpayers (more than 14,000 foreign students are studying in different degree programs at the moment). Now, these expenses on foreign students can be considered from two standpoints – (a) without much long-term orientation, the money can be spent on the regular international students the country is receiving at present (current admission requirements for foreign students are much less demanding in Finnish universities compared to the other developed countries), or (b) attract the 'best talents', educate them, and if possible, retain and integrate them into the society. The society as a whole will gain much more if the second option is selected – the objective of internationalization of the universities will be achieved, and a part of the 'skilled workforce problem' will be solved.

So, here is the trick. Finland needs to do something special to attract the 'best potentials'. A few informative and user friendly websites are certainly not enough. Hence, the following measures should be considered to achieve the goal. The list is not inclusive, but certainly can help.

1. The first level of change can appear at the policy level, especially the approach towards attracting foreign students. Not much to be satisfied with improvements in numbers, that is, quantity of international applications received or how many international students are admitted. Rather, emphasis needs to be placed on quality improvement, which should be followed by appropriate actions. These could include, for example, allocation of funds for international promotion of the Finnish universities, ease of insurance requirements (having health insurance is mandatory

for all Non-EU students, but they cannot buy insurances from Finnish insurance companies), decrease bureaucracy in residence permit issuance and renewal procedure etc. Nevertheless, important to note here is, the success of attracting the best international students will not only depend on policy makers' aspirations. Rather, dynamic strategies of the individual universities and polytechnics also need to be combined.

2. More direct promotions to the prospective students should be introduced. It may include attending international education fairs and seminars and arranging face-to-face contacts between the university representatives and the potential students. Attention need to be paid to the very details, for instance, writing informative and appealing program descriptions, communicating the excellence of education in the Finnish universities, and the unique country specific advantages – no tuition fee, free healthcare in student hospitals, subsidized student meals and reduced fares in public transports, just to name a few. In addition, communication channels should be selected according to the country of origin from where the students are coming. For example, 86.89% of the Finnish population use internet. The ratio is 34.30% in China, 28.43% in Nigeria, 7.50% in India, 6.78% in Nepal and 0.75% in Ethiopia, all of which are in the top ten list of country of origin from where students are coming to Finland. Clearly, what works in Finland does not necessarily work in those countries.

3. Stronger networks should be established with selected foreign universities that can supply talented students, and then attract students from those universities. Because contrary to Finland, especially in the developing countries from where a large portions of the students are coming, quality and 'output' can vary to a large extent depending on the university. Therefore, careful selections need to be made when selecting universities to establish networks.

4. Launching semi-formal or informal student networks by engaging both Finnish and international students can be another useful tool. Whereas the international students can employ their personal networks in their home countries to promote Finland further, the Finnish students can also act as a source of practical and personal level information to the potential candidates. In addition, using the unconventional modes of promotion, for example, writing blogs or writing articles in the 'study/student pages' in newspapers in the foreign countries can help. This method is already widely used by the American/British/Australian/Canadian universities. Again the existing international students can be of support, as they can promote Finland through contributing in their home countries' mainstream/alternative media and mass-communication channels. Wise use of social networks might also be very useful.

The task of attracting international students is a highly competitive one, so careful strategic planning and execution at both the policy and the application level are important. Hundreds of international students each year. Thousands of Euros for each one of them. It need to be spent it a bit more wisely – by attracting the very best. After all, this is an investment for the future of Finland!

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## How Belarus could gain of the Eurasian economic integration and of the WTO membership?\*

By Ilkka Räisänen

**Russia's accession to the World Trade Organization has raised expectations that Belarus would also activate its application made in 1993 to then GATT. What could be the pros and cons of WTO membership for Belarus, already participating in the Eurasian economic integration?**

Belarus is in Customs Union (CU) with Russia and Kazakhstan. Last year the leaders of this troika of countries signed treaties providing for a gradual transition to the free movement of goods, services, capital and labor. The aim is to form a Common/Single Economic Space (CES/SES) within the Eurasian Economic Community (EurAsEC, which also has Kyrgyzstan, Tajikistan and Uzbekistan as members). Together the CU and the SES would create an Eurasian Economic Union (EEU) by 2015.

The already established CU/EurAsEC integration structure reminds to some extent that of the European Union: On the top there is the Interstate Council at the level of the heads of state and government in charge of integration's strategic development. The EurAsEC Commission acts as an executive body. The disputes unresolved by the Commission will be heard by the EurAsEC Court in Minsk. The Court will review appeals and inquiries filed by governments, companies and businessmen concerning the application of the international treaties, trade discrimination, competition law and unfair business cases.

**For companies operating in Belarus the Eurasian economic integration creates a common market of some 170 million people. Indirectly, Belarus is already going to receive benefits and face some challenges by the WTO:**

Last November Belarus ratified a law based on the agreement ensuring the functioning of the Customs Union in case one or more of its members joins the WTO.<sup>1</sup> The agreement on functioning of the Customs Union within the multilateral trade system framework establishes the priority of the WTO obligations over the Customs Union obligations. As the WTO obligations become also part of the legal system of the Customs Union, Russia's membership obligations,<sup>2</sup> terms and conditions will become equally applicable to Belarus and Kazakhstan in the Customs Union. WTO accession commitments concern, for instance, maximum rates for import and export tariffs, tariff quota applications, state support levels in agriculture and access to service markets.

Russia has also made systemic commitments to ensure the conformity of economic legislation and enforcement practices with the WTO's multilateral agreements and additionally individual commitments reflecting concerns of other WTO members. Once put in place, these commitments can be expected to improve possibilities for

economic development and business climate in the whole Customs Union, including Belarus. **Following the highest international trade standards and practices would convey a positive message from Belarus for investors**, who would become more willing to provide foreign capital and know-how. Those are needed to modernise manufacture and service sectors to compete internationally.

**After Russia's WTO membership its market can become more accessible to Belarusian agricultural products:** As the Russian technical, sanitary and phytosanitary import regulation becomes WTO-compliant it can become more relevant, transparent, predictable and effective. In case of denial of import permit the exporter would be entitled to receive detailed information about the reasons for denial and make an appeal about the decision.

As the **Belarusian consumers would benefit for lower prices of imported goods and improved quality** of all products that can sustain the increased competition in the local market, there could be some causes for concern at first, too. It has been noted that reducing import tariffs and other protective measures for less competitive industries as well as opening up banking and insurance sectors to foreign competition could first lead to job-losses. However, in the long run the Belarusian economy would become more productive, diversified and efficient to provide better living standards.

### How to make it?

In a recent study (Mazol 2012, 38-39) Belarusian foreign trade was described basically as consisting of two vectors: The EU countries buy from Belarus materials (mainly petroleum products and potassium fertilizers) and certain manufactured goods and sell higher value added industrial products to Belarus. The CIS countries buy processed Belarusian goods (e.g., trucks, tractors, and agricultural products) and sell raw materials to Belarus.

The analysis<sup>3</sup> suggests that to improve trade balance **Belarus needs to introduce more efficient and energy-saving technologies**, find cheaper energy sources and diversify supply. The Single Economic Space between Russia, Belarus and Kazakhstan could provide high economic stimulus for Belarus, for instance, if Belarus could get access to oil and gas transportation systems between EurAsEC countries.

Deeper economic integration with EU would, however, provide significant economic gains to Belarus only if it launches deep and broad economic restructuring to improve competitiveness, and allows **EU companies to participate fully in the privatisation process**. Belarus' eventual WTO membership would open up a way to negotiate a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU including liberalisation of

<sup>1</sup> Беларусь ратифицировала функционирование многосторонней торговой системы в рамках ТС, [http://naviny.by/rubrics/economic/2011/11/08/ic\\_news\\_113\\_380153/](http://naviny.by/rubrics/economic/2011/11/08/ic_news_113_380153/)

<sup>2</sup> See available documents on WTO accession of Russia: [http://docsone.wto.org/imrd/gen\\_searchResult.asp?RN=0&sarchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCA%FC%CRUS%FC%2A%29+&language=1](http://docsone.wto.org/imrd/gen_searchResult.asp?RN=0&sarchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCA%FC%CRUS%FC%2A%29+&language=1)

<sup>3</sup> Mazol, Sergey 2012: Trade Policy of Belarus in the CIS region: specific model or country specific trade policy for a small open economy. Berlin Working Papers on Money, Finance, Trade and Development No. 01/2012. [http://daadpartnership.hrw-berlin.de/fileadmin/working\\_paper\\_series/wp\\_01\\_2012\\_Mazol\\_Trade-policy-of-Belarus-in-the-CIS-region.pdf](http://daadpartnership.hrw-berlin.de/fileadmin/working_paper_series/wp_01_2012_Mazol_Trade-policy-of-Belarus-in-the-CIS-region.pdf)

trade in all areas, harmonisation of the trade-related legislation with EU standards and the *acquis communautaire*.

The IMF Belarus Country Report (No. 12/114, May 2012, 12-13) suggests that prices of goods and services should be liberalised immediately to remove price distortions and to facilitate trade:<sup>4</sup>

Competition in Belarus' market would be strengthened by removing non-tariff barriers in regional and international trade. Belarus should strive to restore eligibility to the Generalized System of Preferences and to change the status of the country to that of a market economy. This would facilitate the WTO accession. The Report suggests that **targeted social assistance could be used to mitigate the effects of the price liberalisation on the poor.**

Last year, the Finnish MFA supported a UNDP publication about Belarus: The Human Development Implications of Trade Policy.<sup>5</sup> In the conclusions Belarus is encouraged to diversify exports by promoting specialisation in medium and high technology goods.

To receive the foreign direct investments (FDIs) needed, **priority treatment should be given to investments transferring new technologies and know-how**, maximising spillover effects, promoting productivity growth and creating a new platform for exports.

Strengthening absorption capacity and training in Belarusian firms, improving the financial system, legal framework and property right protection is needed to attract FDIs in high value added sectors. FDI promotion programme should be linked to a privatisation programme.

**Partnerships between Belarusian manufacturers and international producers and marketers could help entering the international markets and value chains.**

(Case proving the point: Belarusian ICT sector - about 16.000 software developers, web designers, network administrators, and other technical personnel working in 650 companies engage in customised development of high-end software services for international clients that require low cost but highly skilled technology resources.)<sup>6</sup>

**Accession to the WTO** would also help integration to the world economy. Institutional environment for foreign trade and trade promotion policies should be strengthened by reducing formalities, facilitating finance and logistics. Food processing and light industries should be treated with special attention in Belarus.

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Photo: A. Matyushkov

\* This article does not represent official position of the MFA of Finland and the views presented here reflect only the opinions of the author.

<sup>4</sup> Republic of Belarus: Selected Issues.  
<http://www.imf.org/external/pubs/ft/scr/2012/cr12114.pdf>

<sup>5</sup> UNDP 2011: Belarus: The Human Development Implications of Trade Policy, 85-86,  
[http://www.unece.org/fileadmin/DAM/trade/ct/ct\\_2011/AFT\\_Belarus-ENG.pdf](http://www.unece.org/fileadmin/DAM/trade/ct/ct_2011/AFT_Belarus-ENG.pdf)

<sup>6</sup> See Belarusian IT Industry, <http://www.development.by/it/>

## Belarus – back to mother Russia?

By David R. Marples

The past one and a half years in Belarus have been a time of harsh crackdowns on opposition and NGOs, economic turmoil, and regime consolidation through the mechanism of the security forces. President Alyaksandr Lukashenka introduced the extreme measures following a large protest in Independence Square after the 2010 presidential elections. At that time some 700 arrests were made and seven of the nine alternative presidential candidates were in KGB isolation cells on 19 and 20 December. One of them, Mikalay Statkevich, remained in a penal colony at the time of writing. Another, Ales Mikhalevich, fled abroad and provided accounts of being tortured while under detention by the KGB.

The crackdown came as a surprise to many observers because the election campaign had taken place without major incidents and with more concessions to opposition campaigns than at any time since the first presidential elections of 1994. Lukashenka had been cooperating with the European Union (EU) since 2008, at which time the regime had released most political prisoners and allowed two opposition newspapers—*Narodnaya Volya* and *Nasha Niva*—to be sold openly at vending outlets. In 2009, the country formally joined the EU's Eastern Partnership Project. But after the elections, the Lukashenka regime appeared to abandon its European initiatives, particularly after the EU responded to the repressions by reapplying sanctions, including an extensive travel ban on the Lukashenka regime and its main supporters in government and the courts.

Several other events heightened the tension. On 11 April 2011, an explosion occurred inside the Kastrichnitskaya Metro Station in central Minsk, killing 15 people and injuring over 200 others. This so-called terrorist attack led to an investigation and the arrest of several people. Two suspects—Dzmitry Kanavalau and Uladzislau Kavalou, both from Vitsebsk—ultimately were convicted of the crime and rapidly executed. Yet the trial was far from convincing in establishing their guilt and the hasty application of the death penalty drew further criticisms in Western countries toward the regime.

Between 2009 and 2011, Belarus also experienced some economic shocks, particularly rampant inflation (it was around 120% in 2011), a run on hard currency, shortages in stores, and factors related to higher gas and oil prices. The regime was able to circumvent the worst of the crisis by twice devaluing the national currency, which is now worth some 400% less than it was in real terms than when Lukashenka became president. The exchange of Belarusian rubles to the dollar has risen to over 8,000, as compared to 3,100 in May 2011.

The economic crisis added fuel to the political turmoil, and there were numerous small but significant anti-government protests in 2011, to which the authorities responded with further arrests and arbitrary violence. The dilemma drew new attention to Belarus' difficult relationship with its Russian neighbor and provided some opportunities for the Medvedev-Putin administration to augment its economic control over Belarus in a number of areas.

Before highlighting some of these, it is worth recalling that the bilateral relationship had been quite difficult since the early 21<sup>st</sup> century. Belarus has responded positively to joint security measures and military exercises, but quite negatively to direct attempt to integrate the republic into Russian-led structures, such as the Collective Security Treaty Organization (CSTO), the Commonwealth of Independent States (CIS), the Russia-Belarus Union (RBU), and the Eurasian Economic Community (EuEC), which includes the Common Economic Area (CEA), comprised of Russia, Belarus, and Kazakhstan. The two countries disputed rules for imported dairy products, duties imposed on imported gas and oil to Belarus, and even the number of flights that the respective national airlines could undertake between Minsk and Moscow. Belarus has also declined to recognize, despite Russian

pressure, the two breakaway Georgian republics South Ossetia and Abkhazia, formed after the Russian-Georgian war of 2008.

The situation began to change after a meeting in Moscow on 9 December 2010 between Lukashenka and Medvedev, which addressed some of these issues and resulted in Russia supporting the reelection of Lukashenka. The return of Vladimir Putin to the presidency effective May 2012, combined with Belarus' continuing tensions with the EU, has further solidified the current trend toward cooperation with Russia. But will this policy result in further integration, perhaps threatening the independence of the small republic of just 9.5 million people?

Here the key question is one of economic dependence. Through the period of financial crisis, exacerbated by Belarus' lack of foreign currency reserves, the main outlet has been loans from Russia, or from the Russian-led Eurasian Economic Community. Last year, the latter entity agreed to loan Belarus \$3.5 billion over three years, but conditional upon the privatization—and potential sale to Russian companies—of some \$7.5 billion worth of national assets, described in one report as equivalent to selling off the family silver.

One major prize has already been ceded to Russia, namely ownership of the valuable transit company for Russian gas flowing to Europe, Beltranshaz. The Russian state-owned enterprise Gazprom had already gained 50% ownership by 2011 as a result of previous loans. Today it has full control of the company. Feelers have been extended for mergers of Russian and Belarus trucking and mobile phone companies. Currently on the market is the prize asset of Belaruskali, the world's third largest potash company, now a target of the Urals Potash Company. Lukashenka has valued it at over \$30 billion, a price tag sufficient to make the potential buyers hesitate. But the pattern seems clear: Belarus will avert a political and economic crisis by mass sales of assets. The Russian entrepreneurs to date have had a monopoly in terms of rights to purchase.

Added to the above has been the key issue of energy and longstanding disputes with Russia over prices for oil and gas since 2006. Until the early years of the 21<sup>st</sup> century such prices were heavily subsidized. Today, energy has become a major political weapon for Russia in its quest to integrate its neighbors. Lukashenka adopted a realistic way out of energy shortages by deciding to build a domestic nuclear power plant, scheduled to be on line by 2017. There are plans to add a second plant in the near future. But the builders, fuel suppliers, and financial sponsors of the station, to be built at Astravets in Hrodna region, close to the Lithuanian border, are all from Russia.

Thus mid-2012 sees the situation in flux. Lukashenka remains firmly in power, with a regime that is increasingly authoritarian. He has not closed the doors to Europe, but there remain significant tensions that have been in place for 18 months; meanwhile the door to Russia is open, and slowly but surely Belarus appears to be heading for its entrance. The president, known for his political skills in extricating himself from tight situations, appears to have run out of options and ideas.

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## The “ambassador war” – lessons learned from a recent episode in European–Belarusian relations

By Alexander Brakel

So finally, they are back. After a two-month absence, the European ambassadors returned to Minsk in the first week of May. Thus, a further tightening of the already rough relationship between Belarus and the European Union had come to an end.

In spite of Lukashenko's dictatorial government and his distaste of human rights, the EU back in 2009 had initiated a dialogue with its Eastern neighbour. By offering Minsk to join the Eastern Partnership, Brussels hoped to change the country's internal conditions to the better. However, the rigged Presidential elections on December 19<sup>th</sup>, 2010, and the brutal crack-down of the protests that followed, proofed this assumption wrong. As a reaction, the European Union reinforced the visa-ban for high-ranking Belarusian officials. Step by step, it was enlarged with members of the law enforcement authorities, taking part in the prosecution of the Belarusian opposition and the civil society.

In order to hit the Lukashenko regime more efficiently, in February 2012, Brussels for the first time announced its will to put some crucial Belarusian businessmen, who are believed to act as the dictator's financiers, on the visa-ban list. This did not happen due to Slovakian and Latvian resistance. However, even the discussion was enough to provoke a harsh Belarusian reaction. The Foreign Ministry told the Polish ambassador and the EU representative to leave the country. As an act of solidarity, all EU member states withdrew their own ambassadors immediately. Lukashenko, who had been quite successful in playing individual EU-member states against each other, was taken by surprise. For the first time, Europe had shown a decisive and joint stance towards Belarus. And it adhered to it: The Slovakian and Latvian government gave up its former resistance against economic sanctions. Although they still feared negative consequences for their own economies, which are closely linked with Belarus, they agreed to add two of the most crucial Belarusian businessman to the visa-ban-list.

For Minsk, the conflict was badly timed. In the last four years the country had been severely hit by an economic crisis twice: First in 2008 by the worldwide financial crisis, second 2011 by a currency default. And while the reasons for the 2008 downturn lay outside the Belarusian borders, the 2011 economic breakdown was home-made. In order to finance his social promises made before the Presidential election, Lukashenko ordered to loosen the strict fiscal policy he had been adhering in the aftermath of the 2008 events. This led to an inflation of more than 100 percent in 2011, the Belarusian ruble defaulted several times., gross foreign debts amounted to over 65 percent of GDP. Belarus was practically bankrupt and relied on external creditors. After the IMF refused further credit tranches due to the lack of structural economic reforms, Russia remained as the only potential lender. This increased the Belarusian dependence on his eastern neighbour, who in turn demanded not only political, but also economical concessions, first of all favourite conditions for Russian investors at the privatization of Belarusian state firms.

Thus, Lukashenko for obvious reason wanted to re-establish ties with the European Unions, and therefore tried to settle the conflict around the ambassadors. Besides

inviting the Polish and EU ambassadors back to Minsk, the most decisive step was the freeing of the political prisoners Andrei Sannikov und Dmitri Bondarenko. Both had been in prison since the Presidential elections. Western politicians had constantly demanded their release. On April 14<sup>th</sup> and 15<sup>th</sup>, they were finally allowed to leave prison. Although this was not the direct reason for the following ambassodors' return, it surely paved the way.

However, Lukashenko did everything to avoid the impression, as if Sannikov's and Bondarenko's release had been the result of political pressure by the West. He continued to express his willingness to come to terms with western governments, but at the same time stressing that Belarus would not accept any precondition for this. Therefore the ambassadors' return so far only marked the end of a further hardening in the mutual relations, but not the beginning of a new détente.

To sum up, what lessons can be drawn from this episode:

1. Belarus is still interested in a dialogue with the West, mainly to counter Russian influence on its economy. This may result in certain concessions by Minsk.
2. Joint and decisive action against Belarus allows the European Union a certain degree of influence on Belarusian politics. Other humanitarian relaxation in Belarus, like the release of the remaining political prisoners might be achieved this way, although Minsk might expect something concrete in return. This would make it necessary to supplement the stock by the carrot.
3. However, Western influence is limited. Lukashenko will not allow any compromise, which may pose only the slightest risk to his own power. The events following December 19<sup>th</sup>, 2010 and the failure of the Eastern Partnership towards Belarus proofed everyone naïve, who believed in a real change by dialogue. Any su
4. Thus, the European Union might face a tough decision: It can either take onto a policy that aims to a change in power, which would probably provoke Minsk to retaliation against the Belarusian civil society. Or the EU could make concessions towards the dictatorial regime to achieve some humanitarian concessions, but in the same time supporting Lukashenko's inhuman reign.
5. Anyhow, the worst European politicians could probably do, would be to return to their former muddling through policy. It is high time for a joint and concise European Belarus policy.

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## Lost chances of the EU for cooperation with Belarus

By Sergey A. Kizima

The European Union twice had chances to play much more important role in the internal and foreign policy of Belarus. First period was from dissolution of the USSR up to July, 1994, second from August 2008 up to December 2010. During both periods nothing substantial was done from the side of the EU to make incentives for Belarus to think that the EU vector could be important. Both times Belarus needed quite simple things from the EU: 1) providing new channels to get natural gas which is 99% coming only from one country; 2) diversifying oil deliveries because it is not secure to have just one channel to import oil; 3) free trade zone; 4) cancellation of visas to create free movement of workforce; 5) investment into economy. During first period, Belarus hadn't got any proposal on membership in the European Union or cancellation of visas that was in striking contrast with the EU policy in relations to Baltic countries or Poland. Nothing was done from the side of the EU to help and with other problems. As a result Belarus started her Union State with Russia. During 2008-2010 period the EU promised that "one day" free trade zone and visa cancellation could occur (while Belarusian economy could not develop on «one day» expectations), and did nothing to help with oil, gas and investment problems. As a result Belarus become one of leaders of Eurasian integration with post soviet countries and preferred to get not «one day», but "at once" free trade zone with Russia and Kazakhstan, cheap oil and gas from Moscow (with price 3-4 billion USD less a year than in 2010) and prospects of rich investment from China and Russia.

Reasonable foreign policy should be made on the basis of national interests of the country. Main part of national interests of every country is based on the economy needs. We could see that pro-Russian and multi-vector development program was the best strategy for economic development of Belarus during 1994-2010, compared with the permanent pro-EU strategy of Ukraine, Lithuania and Latvia. The EU could not demonstrate in its own members (Lithuania and Latvia), in the Ukraine as well as in the other post-USSR countries the ability to improve substantially level of life and economic development. The level of economic development of Lithuania and Latvia is very close to Belarusian one. At the same time their external debt is 3-6 times higher per capita and level of unemployment is shocking. According to opinion of experts of IMF «Belarus achieved impressive economic growth during the past decade, averaging 7.5 percent per year. To compare with the others CIS countries, growth performance in Belarus has also been less volatile. The benefits from the recent growth appeared to be fairly shared by the population, as the poverty rate declined from 47 % in 1999 to 6 % in 2008, and moderate disparity remained» (IMF, 2010, p. 13). We will not compare development of Belarus with Russia and Poland, while these two countries are also neighbors of Belarus, due to next reasons: Russia owns tremendous amount of natural resources and Poland has common border with Germany, biggest economy of the EU. As a result their steady economic development doesn't depend much on the efforts of the national governments – abovementioned successful factors made most work for them. Russia could resolve any economic troubles by selling natural resources abroad; development of Poland depends on success of Germany

that always needed cheap workforce from Poland and the place for investment of enormous German financial and technological assets.

The level of the Ukrainian GDP that started its independence with its rich recourses now is two times less than Belarusian one – and this is the clear result of the pro-EU development. In all three EU and pro-EU countries most valuable assets are privatized and social risks could leave the governments without necessary recourses. In Belarus all valuable assets are in the possession of state. «Belaruskali», one of the state enterprises, costs 20-30 billion dollars that is nearly the sum of all Belarusian external debt. There are also about more than 2000 other mostly state-owned industrial enterprises; some of them export the goods to 60-70 countries. The state is also owner of hundreds million square meters of realty. The cost of state-owned arable lands is about 36 billion dollars, if compare with the price of arable land in Poland, because arable land is restricted for sale in Belarus (Tarasov, 2010). Most of such valuable assets in Ukraine, Latvia, and Lithuania that were as in Belarus in state disposal now belong to the close circle of owners that often invest the profit abroad. And these assets were privatized for 1-2 % of it nowadays price. As noted experts in IMF Country Report No. 10/16 in overview of growth factors "Since independence, Belarus has managed to avoid the large-scale asset stripping that took place in other CIS countries, and has increased its capital stock by keeping high investment ratios" (IMF, 2010, p. 14). It is not surprisingly that the Ukraine has come to the idea that pro-EU orientation was a big mistake, and new government from 2010 made numerous steps to follow Belarusian model of development – returning friendship with Russia, coming to China for investment, asking for oil production in Venezuela and in Iran for industrial cooperation.

Providing nothing for Belarus, EU strictly insists on numerous changes in political, economic, and social life. But Belarus has its own national interests. EU wasn't able to create from Lithuania, Latvia and Ukraine attractive model. Belarusian state do not want looks like Latvia and Lithuania with shocking unemployment, deindustrialization and tremendous external debt; or like Ukraine with the level of GDP that Belarus had 5 years ago. These both alternatives look unattractive. Fairy tales that so called «democratization» of Belarus will provide the economic successes that Poland, Hungary, Slovakia, Slovenia or Czech Republic have, look absolutely incredible for Belarusian economists who understand that success of Visegrad countries and Slovenia is mainly the result of their geographical neighborhood with the most effective and powerful countries of EU, first of all Germany and France. Problematic development of more remote from economic, financial, and technological EU center Rumania, Bulgaria, Latvia, Estonia and Lithuania is the evidence of that clear fact.

During the first honeymoon with the West in 1992-1994 economy of Belarus was nearly destroyed – there was no the necessary help came from EU to collapsing economy. The Union with Russia saved the situation. During the second honeymoon in 2008-2010 Russia was the main

investor<sup>1</sup> and the main perspective investor for 2011-2015 will be China that proposed to invest 30 billion dollars into Belarus during several years (by building «Chinese-Belarusian Industrial Park» with 600000 working places at 80 square kilometers). Both Russia and China don't have any ultimatum demands to Belarusian government. The EU has a lot of them without providing real benefits for cooperation like China and Russia do. The Eastern Partnership is a dead-born project with unclear perspectives for reanimation.

The EU lost its second chance to play important role into Belarusian life due to its own inability to provide substantial reasons for Belarus to act in that direction. What are the reasons for such ineffective foreign policy is not interesting; much more important question is what could be done with EU-Belarusian relations in future? New and new sanctions that the EU is introducing against Belarus look mostly as a disappointment in its own ineffective policy into previous years. This is a best way to ensure Belarusian leaders that choice for Eurasian integration had no alternative. While the EU policy is such aggressive unlikely new window of opportunities for the EU

will be opened in the nearest years. Belarus becoming of outpost of Eurasian integration and will strengthen its role at post soviet space. New EU policy is needed that will deal with Belarus not as with alone state, but as an outpost of new Eurasian alliance. European and Eurasian integration should seek connections to gain more profit from cooperation, not cold war. The most interesting question is how soon the EU will understand that Belarus is not more a prodigal son that should one time join «European family», but outpost of powerful Eurasian alliance which has its own dynamics and logic of development.

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<sup>1</sup> Foreign investment into Belarus for 2010: 9,085 billions, 72,1% of them are from Russia.

## The EU strategy on Belarus – in need of ‘smart pragmatism’

By Kataryna Wolczuk

Most analyses of EU–Belarus relations bemoan the ineffectiveness of sanctions used by EU against its eastern neighbour. With the Partnership and Cooperation Agreement (PCA) never ratified, there is no legal basis for conducting relations, as it is an essential component for EU's interactions with any third state, the result of which is that the EU has almost no leverage at its disposal. The result is relations have once been put ‘on hold’ in the aftermath of the violent crackdown against the opposition by the Belarusian authorities in December 2010.

Belarus' participation in the Eastern Partnership (EaP) offers an only recent innovation in EU's relations with the country. The inclusion of Belarus in the multilateral track of the (EaP) – which fosters technical engagement – stands in stark contrast to the exclusion of Belarus from Euronest, the EaP gathering of parliamentarians, which by definition, is more political. Despite some disquiet in Minsk regarding this exclusion, Belarusian bureaucrats have eagerly participated in the technical discussions, making the best of the limited channels for interacting with the EU. In other words, a sense of pragmatism has entered relations, with a clear willingness on both sides to cooperate on technical matters, when it is in the common interests of both parties to do so. Yet the multilateral format has been the weakest dimension of the EaP, insofar as it reflects only the narrow band of common interests linking the six countries which are members of the EaP. In light of the fact that the primary benefits from the EaP accrue from bilateral track, from which Belarus is excluded, the level of engagement between the EU and Belarus is *de facto* within a very thin institutional platform. This, more than anything, highlights the EU's lack of EU strategy on Belarus, particularly when other regional developments are taken into account.

For example, Belarus is rapidly integrating with the Eurasian Customs Union (ECU) of Russia, Belarus and Kazakhstan – a new form of regional economic integration in the post-Soviet space. Notwithstanding its weak economic rationale, the ECU is institutionalised more robustly than any of its predecessors, with a full set of institutions, often modelled on the EU itself. Despite a range of transitional problems, the ECU is actually being implemented. This is because of its future-oriented corpus of regulation utilising modern international norms, consistent with the WTO regime. Crucially, owing to its effective institutional structure, it is already having an impact on the functioning of member states (Dragneva and Wolczuk, 2012). At the same time, the ECU is clearly seen by Russia as a vehicle for reintegrating the post-Soviet space, including the countries that fall within the EU's neighbourhood sphere. The design and implementation of the ECU has unavoidably sparked a debate within Belarus on the economic cost-benefits case for economic integration with Russia and Kazakhstan.

However, any cost-benefit analysis is contentious. Belarus has a small and open economy which is highly dependent on foreign trade, with the EU being its biggest trading partner (39% of Belarus exports went to the EU in 2011, with Russia accounting for 34%). At the same time, Russia provides Belarus a financial lifeline, without which it would be bankrupt. In practice this means that Russia is underwriting President Lukashenka's grip on power allowing his to sustain the political and economic model based on rents and clientelism. However, this support comes at a price: Belarus is expected to pay Russia ‘in kind’, i.e. by releasing Belarusian state-owned assets into the hands of Russian companies. At the same time, the ECU provides Lukashenka with moral support by speaking out against the EU's criticisms of, and sanctions against, Belarus. All of these factors lock Belarus into an ever tighter political and economic embrace with Russia.

Yet, being small and open the Belarusian economy is in a position to benefit from improved economic relations with the EU. Various studies show that Belarus already “overtrades” with the CIS/Russia by more than 200%. A preliminary study of the economic effects of the ECU using various scenarios consistently support the conclusion that, as an arrangement, the ECU is ‘a

GDP-reducing framework wherein the negative trade-diversion effects clearly overwhelm any positive trade-creation effects’ (DeSouza, 2010). The ECU further locks Belarus into trade with Russia using a ‘tax wedge’. At the same time, the country's economy desperately needs modernisation, something Russia has not been able to provide, notwithstanding an internationalisation of the legal regime of the ECU. Despite the decline, the EU remains an important market export for Belarusian products. Developing economic relations would help to save the country from economic meltdown and prevent Russian companies from dominating the Belarusian economy.

Using Belarus as a *cause célèbre* of its pro-democracy stance, the EU has been reluctant to review its policy towards Belarus, thereby remaining locked into an ineffective policy, despite a shifting regional context which is increasingly exposing the dearth of strategic thinking on Belarus in the EU. This can be rectified by broadening the range of instruments to influence Belarus in recognition of the ever-clearer predicament of Belarus i.e. an economic crisis, dependence on exports and the ostensible difficulty presented by formation of the ECU for the long-term trajectory of the country. While ‘smart’ economic and visa sanctions can be maintained to exert pressure on the ruling elites, the EU could simultaneously engage more closely with the state apparatus in a number of ways. First, the EaP provides an important platform for interfacing with state officials. Nurturing knowledge of, and contacts with, the EU means building a constituency within state structures that is not only pro-EU but also ready to and capable of embarking on structural reforms in the post-Lukashenka's era. (Incidentally, Belarusian bureaucracy is more efficient with a stronger professional ethic than in Ukraine, for example, meaning that it is in a stronger position to benefit from EU assistance when the moment arrives). Second, visa facilitation with Belarus should be given a higher priority. This is because, as it is, the visa regime reinforces and legitimises the discourse that ‘Belarus has nowhere to go but Russia’.

EU's relations with Belarus have not been, and will not be easy while the current political climate prevails, but the EU can and should create a more viable strategy, which promotes ‘smart pragmatism’ utilising a wider and more effective range of instruments.

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## EU–Belarus relations – which way out of the vicious circle?

By Anaïs Marin

For 18 months now EU–Belarus relations have been bogged down in the same lose-lose status quo. Brussels' isolation policy towards Alexander Lukashenka's regime is pushing the latter further into Russia's embrace, as illustrated by Belarus' accelerating integration within the Russia-led Customs Union. Yet normalizing the EU's relations with official Minsk would be morally wrong, as it would amount to trading political prisoners. Although two of them – Andrei Sannikov and Dmitri Bondarenko – were released from prison in mid-April, in merely "pardoning" them Lukashenka still fails to meet Western requests for "the unconditional release and rehabilitation of all political prisoners".

The fact that the EU does not compromise on its own principles – as evidenced by the unity the 27 displayed during the EU–Belarus diplomatic row in February–March – is good news. The risk is growing however for the EU of either getting entrapped in its own coercive diplomacy, or being fooled again by Lukashenka's goodwill gestures once he will resolve to set the remaining political prisoners free.

How can Brussels find a way out of this vicious circle? Firstly, the EU must devise a real strategy on Belarus, one that is not subject to external pressures. Secondly, to avoid falling in the same trap again, EU decision-makers should be warned against Lukashenka's blackmailing.

The EU's sanctions policy has become a substitute to a proactive, long-term strategy on Belarus. With regards to this particular neighbour though, the end-result of the "more for more" approach enticed in the new European Neighbourhood Policy (more EU support for countries that perform better in terms of democratization) means "less for less", a paradigm that will ultimately lead the EU to "losing" Belarus altogether. Indeed, Belarus has little chance of ranking high on the EU's agenda in the near future: the EU, more divided than ever, is desperately fire-fighting a severe debt crisis at home. As for foreign policy priorities, a majority of EU countries is concerned more with the course of post-authoritarian transition in the Southern than in the Eastern neighbourhood.

Meanwhile, the acting Belarusian regime is consolidating. In late 2011 it secured material support from the Kremlin in the form of renewed Russian subsidies to Belarus' command economy. Lukashenka even convinced Vladimir Putin to commit Russia to defending Belarus' "development model" against what they claim is Western "interference in domestic affairs". This relative thaw in Belarus–Russia relations implies that Alexander Lukashenka might not need to court the West for loans in the coming months. He can confidently reject the EU's calls for political liberalisation and refrain from introducing even cosmetic improvements in the Belarusian electoral legislation. Henceforth, there is no reason for the West to expect that the upcoming parliamentary elections, due to be held on 23 September at the latest, will be less undemocratic than they have been over the past 17 years.

Lukashenka's current honeymoon with Moscow will not last forever though: even if Russia's own neighbourhood policy is now focusing on Ukraine, which Putin would like to see join the Customs Unions, by the start of the heating season next autumn the Kremlin might well resume pressures for Lukashenka to launch a long-promised economic liberalisation. This will automatically prompt Minsk to turn to Brussels support, thereby confronting the EU to the same old dilemma: how to encourage the democratisation of Belarus without dealing with a regime which can only pretend to be democratising?

Signs came recently that the EU was searching a way out of the vicious circle. This came in the form of what represents

a paradigm shift away from the traditional "two-track policy" of sanctioning the regime while at the same time supporting political opposition and civil society in Belarus – a stance perceived as an attempt at instigating a "colour revolution" in Belarus, and to which Lukashenka responded so far by toughening the crackdown against the democratic forces he claims constitute a "fifth column" in his country.

On 29 March 2012, EU Commissioner Stefan Füle announced the launching of a "European Dialogue on Modernisation" with Belarus. This initiative builds up on the "modernization package" proposed earlier this year by Poland in a non-paper advocating the opening of a "third" track for relating with Belarus. The main innovation is that the dialogue, a prerequisite for dragging Belarus back into a "partnership" with the EU – whereas the country is, now, virtually (self-)excluded from the EU's Eastern Partnership – should be renewed with *representatives of the Belarusian authorities* as well.

As pro-democratic think tanks and NGOs rightly reminded, the conditions for dialoguing with Belarusian civil servants are not there yet. Given the highly centralised features of the power pyramid in Belarus, no bureaucrat is free to make any move towards complying with EU conditions and standards on his own free will. Yet envisaging a post-Lukashenka future for Belarus indeed requires finding ways to associate the reform-minded segments of the ruling elite to the drafting of roadmaps for negotiated reforms.

Stepping up support for civil society and working towards making Belarus a more attractive, pragmatic partnership offer should remain a priority for the EU. Meanwhile, the Belarusian regime is not giving Brussels any valid reason to ease, or less so lift the sanctions. However limited, the sanctions are currently the only tool capable of pushing Lukashenka to comply with the conditions attached to them (rehabilitation of all political prisoners). Yet, EU leaders should be warned against picking the wrong target. Pressuring the International Ice Hockey Federation to deprive Belarus of its right to host the 2014 World Championship for example is counter-productive: it can but push the country further into isolation, thus fuelling Lukashenka's anti-Western propaganda and degrading the EU's image in the eyes of the Belarusian population.

Another of the regime's "ritual" celebrations deserves boycotting however: the upcoming parliamentary elections. By refraining from sending election observers to monitor the predictable electoral fraud, the EU would signify its readiness to break the vicious circle Lukashenka has put EU–Belarus relations into. Ignoring this umpteenth electoral masquerade would also give Brussels a chance to focus instead on the elections scheduled simultaneously in Ukraine and Georgia, two Eastern Partners where the threat of authoritarian backsliding represent a bigger challenge for the EU's democracy-promotion efforts than it does in Belarus.

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## Belarus – expect no free lunches

By Torbjörn Becker

Money is rarely given away in large quantities without any strings attached, or as economists like to say, there are no free lunches. In a bank, loans come with an interest; at the IMF, loans come with conditions that are largely explicit and focus on macroeconomic stability and structural reforms; the EU typically requires both economic and political reforms; and when a country gives money (or goods, commodities, etc) to another country it is more often than not with the expectations of some type of political "favor" or less transparent business deal that would not have been provided without the money transfer.

Over the years, Belarus has received sizable economic transfers from Russia. Before 2007 this largely came in the form of subsidized oil and gas. Cheap energy not only reduced the bill for households and the government directly. It also provided many industries with a competitive edge that contributed to the country's high growth rate prior to the crisis. The high growth rates and increasing incomes were in turn part of the social contract the leadership had with the population and an important part of maintaining political legitimacy despite limited democratic freedoms.

However, in 2007 Russia made significant changes to the pricing of oil and gas going to Belarus. As detailed in a report issued by SITE in 2007, this was at the time projected to have a significant and long-lasting impact on the current account of Belarus. The impact of this terms-of-trade shock was estimated to be in the order of 3 to 6 percent of GDP. The SITE report concluded that a long-run sustainable policy response required both immediate short-run actions to secure external funding but also significant structural reforms to create a long-term sustainable development model for Belarus that was not dependent on oil and gas subsidies from Russia.

The report highlighted structural reforms that included a private sector led growth strategy with privatization of state enterprises; reduced subsidies; and the emergence of a financial sector that allocated funding to financially viable companies and projects. However, the report was not very optimistic that Belarus would take the path of substantial structural reforms, suggesting that it may instead seek short-term funding fixes with a large Russian component. The only question was if Belarus would focus the funding efforts on issuing external debt or selling state assets and if other external partners would be invited to participate in this process.

In late 2008, the funding strains in combination with the global financial crisis led Belarus to initiate discussions with the IMF that eventually led to a 15-month, SDR1.6 billion IMF program in January 2009. The conditions for the loans included many of the structural reforms that had been discussed in the SITE report while providing up-front funding to avoid an excessive tightening in the short run. This initially gave rise to some optimism that Belarus was moving in the right direction politically and economically. The IMF program was successful in stabilizing the economy in the short-run. However, Belarus failed to implement many of the reforms that could help the country foster long-term sustainable growth.

As for the trade-off between debt financing and selling assets, Belarus has done both in significant amounts. The country's external debt has gone from barely 20 percent of GDP in 2007 to over 60 percent in 2012. In addition, Gazprom has in two steps acquired all of Beltransgaz and its pipelines for around \$5 billion. This was a very strategic asset that Belarus has now lost control over. Not only will the country lose the revenues from this in the future, it also lost an important bargaining chip when it comes to striking gas deals with Russia's Gazprom. In other parts of the economy, Russian banks have acquired stakes in the banking sector, while Turkish and Austrian companies have bought into the telecom sector. Many of these deals have not been made in an open and transparent manner and it is likely that Belarus has missed some of the benefits that can come with FDI if the most efficient and competitive buyer has not been chosen in this process.

Despite all the borrowing, asset sales, and an initial 25 percent devaluation at the start of the IMF program, the currency came under renewed pressure in 2010, and in 2011 the exchange rate fell from around 3000 to 8000 Belarus ruble to the US dollar. Compared to 2008, the currency has lost three quarters of its value compared with the dollar and inflation is running at 100 percent in 2012.

With parliamentary elections coming up in the fall, the government will be looking for fresh money to distribute to voters to avoid having an election that reflects an inability to contain domestic prices and protect real incomes and instead provide a sense of a growing economy. In the past, election related wage and pension increases have been an important ingredient to secure desired election outcomes. However, the same wage and pension increases have contributed to the unstable macroeconomic environment and constant need for external funding.

The question is then, where will the money come from and what will be the price for obtaining this money? Looking at the source and "price" of money in the recent past may be useful when making predictions about the future. In sum Belarus has enjoyed subsidized gas and oil from Russia. The not so explicit "price" for this was for Belarus to provide Russia with political support on foreign policy issues and regional economic and political integration. When Belarus did not live up to this, Russia increased the pressure by reducing subsidies. When the IMF and EU provided support, the "price" was structural economic and political reforms. Belarus failed to deliver on the political reforms and then instead faced sanctions from the EU, pushing the government back to Russia for loans and assets sales. The "price" is again economic and political (and not so explicit), but Belarus is now part of a common economic zone with Russia and Kazakhstan; owes Russia substantial amounts of money in the form of external debt and just received a new loan when Russia's president Putin visited Minsk; and has Russian companies control strategic assets in the energy and financial sectors.

Looking forward, Belarus would have to make significant upfront concessions on the political front to receive any financial support from the EU (or the IMF, even if this will not be an explicit condition of an IMF program). This seems unlikely and the more probable outcome is renewed loans from Russia combined with significant asset sales. Subsidized gas also re-entered the bargaining with Russia in the crisis. After the steady increases between 2006-2011, the price paid to Gazprom fell around 40 percent between 2011 and 2012, amounting to several percent of GDP. However, this could be a temporary phenomenon linked to the sale of Beltransgaz to Gazprom and further subsidies will come at a price.

Again, there are no free lunches, and everyone in Belarus will pay for this money with more of the country's political and economic independence going to Russia, regardless of who wins the elections in Belarus this fall.

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## Belarusian economy after the balance of payments crisis – time to change the model

By Alexander Chubrik

In 2011, Belarus passed through severe balance of payments crisis resulted in significant depreciation of national currency, 3-digit inflation, increase of poverty and other dramatic changes. After macroeconomic stabilization of the late-2011 – early 2012 it seems that external imbalances that led to the crisis are removed (in 2012Q1 current account has a surplus after more than 20% of GDP deficit in 2011Q1), but medium-term development prospects are uncertain.

First, this macroeconomic stabilization largely relies on external debt accumulation that helped to increase reserve assets of the monetary authorities. However, within the last five years gross external debt increased five times to more than 70% of GDP<sup>1</sup>. Total payments related to servicing and repayment of the external public debt between 2012–2014 are expected at about US\$ 3 bn a year – and the remained part of balance of payments will also generate a deficit (Chubrik, Shymanovich, Zaretsky (2012)). According to the IMF (2011) estimates, financing gap for 2012–2016 will vary from 4.7 to 6.3% of GDP per year. Thus, existing macroeconomic stability is too fragile.

Second, economic growth of the previous years was fuelled by domestic demand enhancing policies that were partially financed via external debt accumulation and partially through quasi-fiscal operations of the government such as state investment programmes financed via state-owned banks. Both of these sources of domestic demand growth are exhausted (Chubrik, Shymanovich, Zaretsky (2012)), while artificial pre-crisis "credit boom" led to accumulation of systemic risks in the banking sector, making it vulnerable for possible negative shocks (Kruk (2012)). Analysis of potential GDP also shows that its growth rate fell from some 8% a year few years ago to 4–4.5% a year in 2011 (Chubrik, Shymanovich, Zaretsky (2012)). Thus, both short- and long-term growth perspectives are quite loose.

What does it mean for medium-term development prospects? On the one hand, it is clear that within the "old" model the economy will grow slowly or stagnate – which means that the income gap between Belarus and its neighbours that increased in 2011 persist. This will push migration of the most skilled labour, further undermining growth potential of the country. On top of this, even responsible macroeconomic policy will not eliminate external imbalances related to previously accumulated debt, as more fundamental factors of these imbalances such as large and heavily subsidized state sector have not been removed. On the other hand, any attempts of artificial boost of domestic demand will fail too soon to have any meaningful effect on growth and incomes: volatility of real GDP cyclical component has increased, while phases of the cycle have become shorter. Thus, the only option for sustainable future development is to implement comprehensive structural reform aimed at removing fundamental imbalances of the Belarusian economy, as it was shown in IMF (2012 a, b).

Theoretically, implementation of comprehensive reform program within stand-by arrangement with the IMF is a perfect solution, as it (i) provides funds for refinancing of debt and (ii) does this upon strict conditions, creating additional incentives for authorities to implement reforms suggested by a programme. However, in practice governments of the CEE countries that have incentives to reform (e.g. because of their willingness to access the EU) did not use IMF funds, while

many governments that asked the IMF about exceptional financing failed either to meet the programmes conditions or to achieve sustainable results. On the other hand, the IMF itself does not always follow conditionality principle (see Antczak, Markiewicz and Radziwill (2001)). Historical data shows that there has been no strong will of the Belarusian government to implement market reforms (Belarus is one of the outsiders in terms of EBRD transition indicators), while the IMF was not able to ensure sustainability of macroeconomic stabilisation upon completion of the 2009–2010 programme. Now the IMF imposes more strict conditions even at the stage of launching negotiations about the new programme (IMF (2011), IMF (2012a)), so there is a chance that conditionality will work this time. Alas, many other fundamental obstacles for reforms exist – from bad demographic situation to negative social consequences and overall decision-making system. So if Belarus steps to the reform path, it will not be an easy one, but no other way will lead the country to sustainable development.

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<sup>1</sup> GDP counted at market exchange rate (source: IPM Research Centre, <http://research.by/>).

## Currency crisis in Belarus – social impact and redistributive effects

By Kateryna Bornukova

In 2011 Belarus experienced a severe balance of payments crisis. After expansionary fiscal and monetary policies in 2010, which excessively stimulated the economy and domestic demand before the presidential elections, trade balance worsened substantially, and the liquid foreign reserves quickly evaporated. As a result, Belarus had to abandon the pegged exchange rate regime and to conduct two major devaluations in May and October of 2011. In January 2011, before the crisis, one US dollar cost 3011 Belarusian rubles; after the crisis and two devaluations, in December 2011, one US dollar already cost 8470 Belarusian rubles. GDP growth slowed down substantially as the government started implementing contractionary monetary policy to stop devaluation. If in the first two quarters of 2011 GDP growth was 10% and 11% versus the corresponding periods a year ago; in the second half of the year the growth rate was already only 1%. This tendency continues in 2012 – the first quarter showed GDP growth of 2.9%, a low figure for a fast-developing economy of Belarus.

However the population mostly suffered not from the low growth rates, but from high inflation. In 2011, despite the government's efforts to fix prices administratively, consumer prices more than doubled with official CPI equal to 208% (December to December). Prices for the imported consumption goods sky-rocketed, often growing faster than the exchange rate, as the importers ensured against exchange rate risks. As a result of high inflation, real incomes declined and savings in Belarusian rubles lost value.

The evolution of real wages and real pensions is depicted on Figure 1. The first quarter of 2011 was a period of relative stability. But a quick decline started in the second quarter, and in October-November wages and pensions reached the trough of the cycle. Real pensions contracted the most, declining by 29% in November 2011 versus January 2011. As for the real wages, their development was uneven with highest decline in the government sectors (education and health). As can be seen from the figure, average wages recuperated in the first quarter of 2012, while pensions are still lagging behind the level of January 2011.

On average, real incomes in the Q4 of 2011 were 10.9% lower than in the Q1 of 2011. The currency crisis also had a significant redistributive effect: the middle class (top deciles in income) lost more than 20% of their real incomes (see Figure 2). People in the top 10% of income in the first quarter (d10) lost 30% of their income in Q4 versus Q1 of 2011. To give you some perspective, to get into the top 10% in income in the Q4 of 2011 it was enough to earn 340 USD a month.

Two factors have contributed to this unusual pattern of changes in real incomes. First one is the government regulation of the labor market – during the crisis the minimal wage was growing faster than the prices, contributing to the real income gains among those with low income. However, the indexation of the wages above minimal were only partial. Second factor is the decline in real government expenditure, which contributed to the

steep decline of wages in the budget sector. As the budget sector was among the highest-paid sectors in Belarus before crisis (because of the high level of education of those employed), those who were highly paid before the crisis lost more. Evidence for this explanation is the fact that on average people with university degrees lost 19.5% in real incomes (Q4 versus Q1 in 2011).

Redistributive effects of the crisis led to the decline in inequality. Gini coefficient declined from 24.8% in the first quarter of 2011 to 23.9% in the fourth quarter. However, some socially vulnerable groups still suffered from the crisis more than others. For example, real incomes of retirees declined 16.7%. Absolute poverty rate (percentage of individuals with income below official subsistence level) increased from 4.7% in the first quarter of 2011 to 10.1% in the fourth quarter.

The average decline in real incomes measured with the use of official inflation rate does not seem to paint a proper picture of the social change in Belarus. First, incomes do not capture the devaluation of savings and do not reflect changes in the welfare completely. Second, there are doubts about the official measure of inflation which focuses excessively on the regulated "social" prices. The dynamics of the food share paint a better picture about the welfare changes during crisis.

As can be seen from Figure 3, food share, important welfare indicator, declined to the level of 2005 in the 4<sup>th</sup> quarter of 2011. It supports the view that 10.9% average decline in real incomes is not a complete measure of the decline in welfare of Belarusian households.

The currency crisis of 2011 had a huge impact on the living standards of Belarusians, and it also had important redistributive effect. The redistributive effect consisted in more severe income losses for people with higher initial incomes. And although the real incomes on average declined only 10.9%, the behavior of the food share suggests that there was a larger decline in the living standards of Belarusians, and that the emerging middle class was technically extinguished. What's ahead? In the first quarter of 2012 the situation is starting to improve, but again, the numbers calculated with official inflation are not very informative. And there are no indicators of the reversal of the redistributive effects of the crisis. All these factors together with the cuts in budget spending create powerful pushing factors for migration of the qualified labor force, which may further worsen the macroeconomic situation in Belarus in the long run.

Kateryna Bornukova

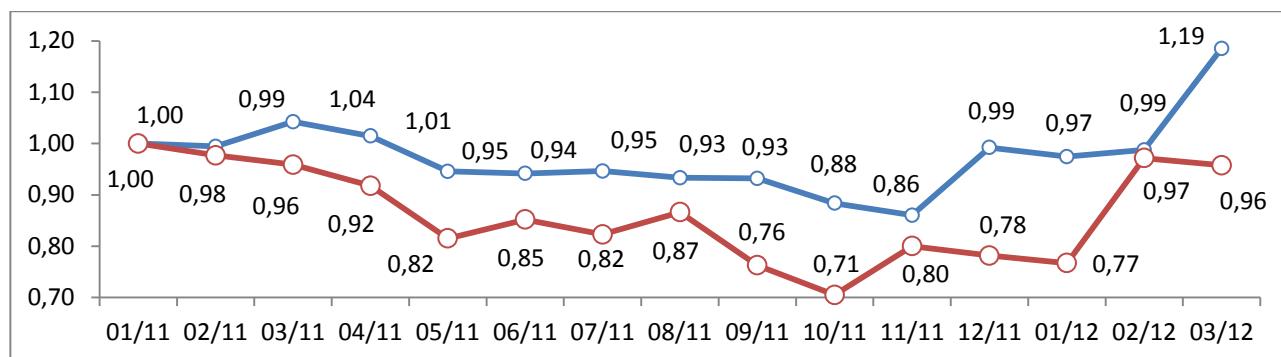
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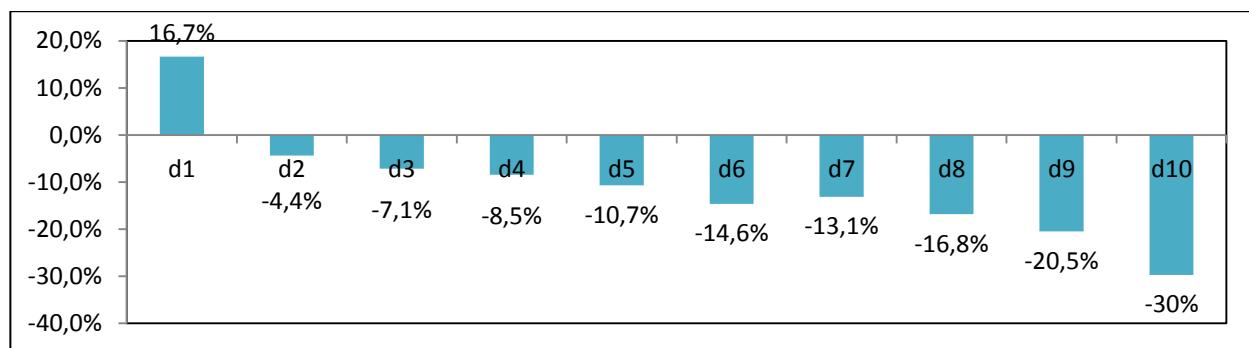
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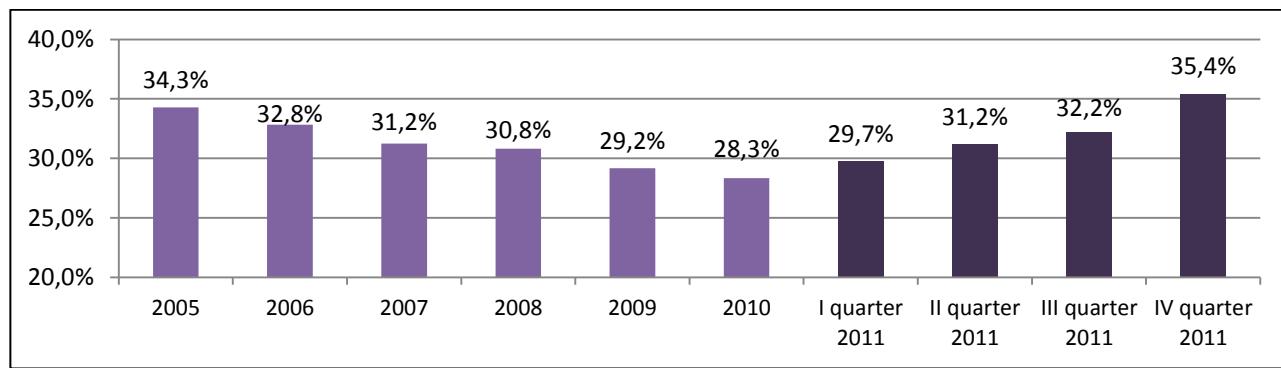
**Figure 1 Real wages (in blue) and real pensions (in red); in relative quantities (January 2011 = 1.00)**



**Figure 2 Change in real incomes (Q42011 vs. Q12011) for different income deciles**



**Figure 3 Share of food expenditure in total household expenditure (2005-2011)**



## Budget deficit in Belarus, ways of reducing

By Irina Yeremeyeva

One of the major economic indicators of any country is a condition of national finances. It is very difficult to ensure budget balance in transition economies. Most countries are faced with acute shortage of financial resources for economic restructuring, implementation of socio-economic programs which leads to the formation of the budget deficit. Belarus is clearly facing a new situation in respect to the conduct of fiscal policy. If no action is taken soon, there is a risk of high budget deficit. During the period of Independent Belarus the budget deficit wasn't so high.

From 1995 government budget deficit didn't exceed the maximum allowable level of 3% of GDP. Some years were filled with a surplus. Over the recent years the distinguishing feature of the Belarusian budget system has been a significant hidden deficit financed by the quasi-fiscal operations of the National Bank and the state banks. But in the near future the situation can change. In terms of making payments on external state debt in normal mode and ensuring the financial stability in the country in general, it is essential to have the budget surplus condition or deficit-free budget.

The problem of reducing the budget deficit can't be solved immediately. It's necessary to develop a program, which will be based on the concept of deficit-free budget. The concept of deficit reduction should be based on the following thesis: without dynamism and efficiency in the economy it's impossible to achieve financial stability of the state, improvement of the state budget, which would be progressive measures are not applied.

The list of specific actions to reduce the budget deficit should include those which, on the one hand, would encourage the funds inflow into the budget, on the other contribute to the reduction of public spending.

This program should be directed to:

- improving the effectiveness of social reproduction, which will contribute to the growth of financial resources - the main source of increased revenues;
- further development and strengthening of market economy, deregulation and privatization of state property, development of market reforms to improve the investment climate in the country for

attracting FDI, promoting the process of creating new businesses and expansion based on the number of taxpayers;

- expanding the range of taxpayers and improving tax legislation in order to make tax laws more transparent, increasing the tax base, reducing tax rates. With the development of market relations tax rates must ensure stable economic prospects and at the same time create the possibility of healthy competition, encourage enterprises to improve productivity, efficient use of material and financial resources, finding reserves increase the efficiency of production - the basis of increased revenues;
- optimization and restructuring of state budget expenditures. It is necessary to stop providing subsidies to unprofitable state enterprises, reasonably make new social programs that require significant budget financing, reduce for example, military spending;
- budgeting for multivariate basis in order to create the optimal structure of revenue and expenditures;
- controling the public debt;
- developing the government securities market, which will finance the government spending without increasing the money supply in circulation and some others.

In order to achieve real result and reduce the budget deficit, these measures should be considered in their unity and applied together. Only through the rational combination the government will reduce the budget deficit.

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## The consolidated budget of the Republic of Belarus

By Olga Malashenkova

In order to improve the budget process and perfect the management of public finances the Republic of Belarus has taken a number of measures in recent years, namely:

codification of budget legislation (in 2009 the Budget Code of Belarus was enacted);

adjustment of budget classification of the Republic of Belarus closer to the international standard;

phased implementation of program-target method of budget planning, results-orienting and medium term planning into the budget process.

According to the Budget Code the fiscal system of the Republic of Belarus consists of two levels: national budget and local budgets, which together constitute the consolidated budget of the Republic of Belarus. The function of the state social insurance (including pensions) performs the state non-budget fund of social protection. The consolidated budget of the Republic of Belarus and the budget of the state non-budget fund of social protection constitute the consolidated budget of the government.

Belarus closely cooperates with international financial organizations. In particular, the country is a member of the International Monetary Fund and World Bank since 1992. In 2009-2010 the Republic of Belarus has successfully implemented a «Stand-By» program, which resulted in the IMF approval of an increase in the level of access to its resources.

In order to improve the efficiency of state resources management technical and advisory assistance projects are implemented in the republic. In cooperation with the World Bank a method of calculating the equalization of inter-budgetary transfers has been developed. The assessment of the effectiveness of debt management has been accomplished (World Bank, DeMPA). - The IMF provides technical assistance for transition to medium-term budget planning and program budgeting.

World Bank assessment of public expenditure and financial accountability carried out in 2008-2009 showed that the state financial system of the republic works sustainably and in line with the best practice in Europe and Central Asia (ECA). Belarus has a rating higher than the average for five of the six parameters in comparison with 13 countries in the region, as well as above average rating for the same parameters as compared to the 17 countries with upper middle income. The Republic has a good record for accuracy, completeness and transparency of the budget, the budget preparation process of ordering and reliability of the system of internal control, predictability, accounting and reporting, control and audit.

The results of additional World Bank mission for the assessment of public expenditure and financial accountability in February 2010 confirmed the effectiveness of public financial management.

In order to maintain fiscal balance and promote economic activity in the context of global financial crisis the Republic of Belarus implemented an anti-crisis package of fiscal policy. In particular, the tax burden on manufacturers is being gradually reduced in order to maintain their financial stability, ensure wage restraint in the public sector and reduce capital costs.

Belarus' fiscal policy is sufficiently stringent and the consolidated government budget has been consistently executed with a surplus or with minimal deficit over the

years (its size in 2005 - 2008 averaged 0.6 percent of GDP).

As a result of 2011 consolidated budget surplus amounted to U.S. \$ 1.3 billion (2.3 percent of GDP) surplus in general government budget reached 1.8 billion U.S. dollars, or 3.1 percent of GDP.

The public debt on January 1, 2012 amounted to 26.8 per cent of GDP, including the external public debt amounted to 21.6 per cent of GDP (11.8 billion U.S. dollars).

Consolidated budget surplus of 2011 amounted to U.S. \$ 1.3 billion (2.3 percent of GDP), surplus in general government budget reached 1.8 billion U.S. dollars or 3.1 percent of GDP.

The public debt amounted to 26.8 per cent of GDP as of January 1, 2012, including the external public debt which amounted to 21.6 per cent of GDP (11.8 billion U.S. dollars).

Processes which have been unfolding in the Belarusian economy in recent years have seriously affected the situation in public finances. In 2007-2011 because of the negative balance of payments the country would take the money into debt. In 2012 the time has come to pay these debts. If in 2011 the repayment and servicing of external debt have been at the level of around 630 million dollars, in the coming year they will comprise more than 1.6 billion dollars.

In addition, at the background of a sharp rise in inflation in the past year interest rates rose in the financial market, and it also led to an increase in treasury expenditures. The state budget is partially due to repay the interest on loans to enterprises in the state programs (more than 52% of the total consolidated budget expenditures). These reasons led to the fact that the operational costs associated with servicing commitments have become prevalent in the budget on social investment. Even in 2008 the budget part released on the budgetary investment in the development of social sectors was significantly higher than today.

It is obvious that the most urgent issue for Belarus is the change of priorities of budget financing. In particular, the content of the today's size of the army, police departments, state apparatus, as well as some other programs, is economically unreasonable. Another line of work, which would reduce the burden on the budget – the reform of economic structure. In 2012 the state will allocate 25.6 trillion Br. rub. (18% of total consolidated budget expenditures) for the financing of the national economy. Although a huge portion of this amount (11 trillion. Rub.) will be assigned for interest rate subsidies.

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## Investment advantages of the Republic of Belarus in connection with its participation in the Eurasian integration

By Andrei Rusakovich

Since the mid-1990s Belarus is implementing a number of projects of economic integration with the CIS countries, first of all with Russia. In 1995 the two countries signed the Agreement on Customs Union, which principles were further developed in the 1999 treaty establishing the Union State. Belarus also participated in multilateral agreements within the CIS, which were aimed at creating the Customs Union. In 2000 the Russian authorities on the basis of agreement on the Customs Union of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan initiated the establishment of the Eurasian Economic Community, in which the three countries: Belarus, Kazakhstan and Russia are the creation of the Customs Union and Common Economic Space. In the years 2007-2010 these countries have finally agreed on approaches to the formation of the CU.

Customs Union of Belarus, Kazakhstan and Russia provides for the creation of a single customs territory, within which common measures are used to regulate foreign trade with third countries, and the procedure for enrollment and distribution of customs duties, taxes and fees are established. In January 2009 the Customs Union Commission has been launched.

In the development of integration in December 2010 Belarus, Kazakhstan and Russia signed 17 agreements on creation of the Single Economic Space (SES), which were immediately ratified the Belarusian side.

The SES project is being implemented starting from January 2012. The agreements will run at full extent in July 2012. The main principle of the functioning of the SES is the free movement of goods, services, finance and human resources within the member states. The first in the CIS countries supranational body - the Eurasian Economic Commission for Europe, was formed within the frames of the Single Economic Space project which will replace the Commission of the Customs Union.

In 2011 in the startup period of the implementation of provisions of the CU Belarus faced a number of challenges. Belarusian economy is sensitive to issues related to oil and gas supplies from Russia, which were resolved on a bilateral basis outside the provisions of the Customs Union and Single Economic Space. After difficult negotiations at the end of 2011 Russia and Belarus have come to agreements in the supply of gas and oil, allowing the country, according to various estimates, the benefit of \$ 3 to \$ 4 billion U.S. for 2012.

As a whole the year 2011 has been extremely difficult for the economy of Belarus. Financial and currency crisis in 2011 weakened the competitive ability of Belarusian economy, resulting in more than 100% annual inflation rate. There has been a serious deterioration of political relations with the EU and the U.S., which inflicted a negative impact on economic cooperation in a more extreme way than expected, and revealed some negative aspects of the Customs Union. In particular, the increase in customs duty on cars has led to export from the country more than U.S. \$ 1 billion.

On the other hand the Customs Union and the Common Economic Space of Belarus, Kazakhstan and Russia offer new prospects for foreign investors in Belarus.

By participating in the integration processes, Belarus becomes «the Western Gate» for foreign businesses. Foreign investors now have the possibility to work not only within the 10-million market of Belarus, but also with the promising 170-million market of the three States. The Common Economic Space provides equal conditions for business entities, free movement of goods, services, capital and workforce.

The participating states have adopted common rules and procedures in technical regulation and application of the sanitary, veterinary and phytosanitary measures, removed internal customs duties and all forms of state control on the internal borders of the Common Economic Space. This means that manufacturers do not have to adapt to the requirements of each and every market.

Another advantage for investors is exemption from customs duties on the imports of the equipment, materials and supplies for the realization of the investment projects. Tariff preferences are introduced for the goods imported from the third countries as the contribution into the statutory fund of an enterprise.

The legal and treaty basis of the Customs Union is formed in compliance with the norms of the WTO.

Together with the advantages from the membership in the Customs Union and the Common Economic Space, Belarus offers foreign investors additional attractive features and incentives. These are advantageous economic, geographical and geopolitical position, favorable natural and climatic conditions, high scientific, technical, industrial and export potential, highly qualified and relatively inexpensive manpower.

The Republic of Belarus is the only CIS state, which has doubled its GDP within the last fifteen years despite the two financial crises of 1998 and 2009. Being a medium-sized European country, the Republic of Belarus produces 1/3 of the world's share of the dump trucks and 8 percent of the agricultural tractors. Belarus holds the first position among the CIS countries in per capita manufacturing of meat and milk. Over 90 percent of the foodstuffs consumed by the population are home-manufactured quality products.

The Republic of Belarus is an important transport and communications center. The country is located at the crossing of railroads and highways, communication systems, gas and oil pipelines, water and air routes between economically developed Western Europe and Asia, rich in natural resources.

Two Pan-European transport corridors cross the country, insuring direct access to major consumer markets in Europe and the CIS: II ("West-East") and IX ("North-South") with an "IXB" branch. Each year more than 100 million tons of European cargoes are transported through the territory of Belarus, about 90 percent of them moving between the European Union and Russia.

By choosing Belarus as a place for exploring new promising CIS markets investors can considerably optimize their logistics.

The investment legislation in Belarus received high assessment by the International Financial Corporation, which performs analysis of investment climate in different countries. By the ease of doing business Belarus occupies 68<sup>th</sup> position among 183 countries analyzed by the World

Bank in its "Doing Business-2011" report, which is almost 50 positions higher than 2 years before (Russia occupies 123<sup>th</sup> position, the Ukraine – 145<sup>th</sup>). The Belarusian government has set an ambitious goal: Belarus should be in the top thirty states with the most favorable business environment. The authors of the report consider the Republic of Belarus as one of the leading reforming states in the last 5 years and one of top three countries in the world by the combined improvement from the liberalization of business environment.

The encouragement of business activities is realized through extensive government support. Thus the residents of 6 free trade areas are exempt from real estate tax and corporate income tax from sales of own production for 5 years. The residents of High-Tech Park are exempt from all corporate taxes and any other payments to the state. Companies which operate in the rural area and in small towns also enjoy a number of special tax incentives.

Belarus has completely simplified the procedure of registering new company. According to the World Bank "Investing Across Borders 2010" report the Republic occupies the 6<sup>th</sup> position (7 days) among 87 countries of the world in the time needed for starting a foreign business.

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## Russian investments in the economy of the Republic of Belarus

By Helen Semak

According to official statistics, in 2012 total FDI inflows (including debt for goods, works and services) from the Russian Federation to the Republic of Belarus amounted to 9440.3 million U.S. dollars, of which direct investment comprised 7206.4 million.

Foreign direct investment from Russia on a net basis in the economy of Belarus have totaled to \$ 2697.4 million.

Against the background of insufficient investment attractiveness of Belarus the unity of the CIS economies (e.g., energy industry and pipeline transport), the use of the existing cooperative relationships, developed business practices, common infrastructure were of great importance for the Russian business. In particular, it was a key factor for investment companies of fuel and raw materials sector. Thus, the development of Russian-Belarusian investment cooperation was determined not so much by the process of regional economic integration, as by the prevailing from Soviet times closer economic relations between enterprises and sectors of the economies of these countries.

For the last three years the investment activity of Russian business has grown and remains consistent. This is reflected in the creation of joint ventures, or the gradual absorption of the Belarusian competitors in the market of the Customs Union.

Russian investors are also active in the field of portfolio investment.

It should be noted that the Belarusian government has pursued a consistent line to bring Russian investments into the national economy.

The activities aimed at the attraction of the investments and advanced technologies from the Russian Federation are conducted on a continuous basis. Forums and events carried out in Russia have been actively used for the presentation of investment projects and investment climate in the Republic of Belarus. Search for companies interested in representing Belarus in investors' environment (to serve as investment agents) has given a tangible positive result. In this context JSC «Sberbank of Russia», JSC «VTB», JSC «Gazprombank» and «Alfa-Bank» have expressed interest in cooperation. According to the Resolution of the Council of Ministers of November 17, 2011 № 1539, the status of an investment agent of Belarus has been granted to JSC «SAT-Global» (a subsidiary of JSC «BPS-Savings» of Russia).

Among the most significant initiatives in terms of national security strengthening, the project of the Belarusian nuclear power plant construction should be noted. The first Belarusian nuclear power plant will be built according to the Russian NPP-2006 project, which is characterized by upgraded levels of nuclear, radiological, technical and ecological safety, as well as advanced technical and economic indicators. Nuclear power plant construction will be financed mainly by Russian state export credit worth up to U.S. \$ 10 billion for 25 years to fund 90% of the value of each contract between the Russian «Atomstroyexport» and the Belarusian governmental entity «Directorate for Nuclear Power Plant Construction».

Another major investment project is the National Science and Technology Park «BelBiograd» in the sphere of pharmaceuticals, nano-and biotechnologies. The total amount of BelBiograd residents' investment is estimated at

the level of \$8 billion in 2012-2019, and the forecasted cost of the building of the Park itself is \$3 billion.

The investment project on creation of «Tatneft» fuel stations in Belarus is being implemented. The total investment will amount to 1.4 billion Russian rubles (46.9 million U.S. dollars). The construction of filling stations and complexes in Belarus is also carried out by Russian company «Star of Moscow Area». The company signed the relevant investment agreements with Vitebsk and Gomel Regional executive for the amount of 20.2 million U.S. dollars.

A significant role in terms of removal of an acute traffic problem plays the investment project for the production and repair of rail freight rolling stock on the basis of Osipovichi wagon depot. The project is implemented by the Russian company «Grand Express». The volume of investments in accordance with the signed investment agreement with the Ministry of Transport and Communications of Belarus will reach \$131.0 million.

One of the largest manufacturers of pumping equipment for oil and gas industry in Russia – «Gidromashservis» started to implement the project of modernization of production of foundry and machine assembly of JSC «Bobruisk Machine Building Plant». This followed the acquisition of shares of the enterprise (57%) in 2011. The amount of investment is 12.5 million U.S. dollars.

A number of investment projects in Belarus (housing, commercial and hotel complex, soccer fields, hotels) are carried out by St.Petersburg's factory «Polimerstroymaterialy». The expected total investment is about \$150 million.

Currently an investment proposal of «Russian coppers» company (Skolkovo technopark) is under consideration. The goal of the project is the deployment of energy-saving technology of infrared flameless combustion (used in production of household burners and boilers) in the Republic of Belarus. The project can be regarded as investments in energy saving technologies.

According to expert estimates, Russian investments in Belarus will remain ascendant in the short term period. However, they can be gradually «caught up» by investments not only from neighboring EU countries, but also from Central Europe and the oil-producing countries, including the investment of the «oil-and- gas» states of the South Caucasus and Central Asia. This is due to the fact that Belarus has a developed energy infrastructure industries for processing of energy resources, a favorable geographical location and relatively low labor costs.

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## Belarusian–Chinese trade and economic cooperation

By Pavel Shvedko

The high level of political relations between Belarus and China creates favorable conditions for dynamic development of bilateral economic and trade ties.

The development of bilateral economic cooperation have been fostered by the visits of the Head of the Republic of Belarus to the People's Republic of China in 2005, 2008, 2010 as well as by the high-level bilateral meeting in Minsk in 2007, 2010 and 2011.

Today China is one of the most important trade partners of Belarus, ranking fourth among non-CIS countries in terms of commodities turnover, seventh in terms of the volume of Belarusian exports to China, and second as to the volume of imports to Belarus.

In 2011 the volume of trade in goods and services of Belarus and China (including Hong Kong, Macao and Taiwan) increased as compared to 2010 by 29% and reached a record high of \$ 3.3 billion. Export of Belarusian goods and services in China (including Hong Kong, Macao and Taiwan) reached 830 million dollars, an increase of 29% compared to 2010.

Main Belarusian exports to China include potash fertilizers, caprolactam, rock haulers «BelAZ», grain harvester combines, polyamides, tractors, electronics products.

Being opened for trade with China Belarus creates favorable conditions for the supply of modern Chinese equipment and components, especially within the frames of investment projects implementations. In turn, Belarus is interested in increasing exports of its products in China. This applies both to traditional export items and products of engineering, agricultural and food industries, which are still underrepresented in the Chinese market.

At present Belarus emphasizes the increase of the share of complex machinery and equipment (dump trucks, combines and tractors) in the structure of the Belarusian export. In order to achieve this goal three joint ventures have been created in recent years in China.

The development of relations between Belarus and China in the credit and investment sphere has also acquired a large-scale and dynamic nature. An impetus to its development has been attached by the bilateral high-level meeting on August 7, 2008 when the Belarusian Head of state invited Chinese partners to accomplish a «big arrival» to Belarus and to demonstrate Chinese investment opportunities in Europe.

The results of this policy can be seen in the successful implementation of the project on creating a mobile operator

«Best» and in the completion of the project of modernization of Minsk thermal heat plant-2.

In 2011 the implementation of projects of Lukoml Bereza hydropower station construction, and freight locomotives supply began. Credit agreements for financing of construction projects of advanced transport system in Minsk and regional roads were signed. At present, China's government and banks financing joint investment projects in Belarus opened lines of credit amounting to 16 billion US dollars.

An important condition for attracting Chinese investments in Belarus is a significant improvement of investment climate that emerged after the creation of competitive advantages by the Customs Union of Belarus, Russia and Kazakhstan.

It is fundamentally important for Chinese businessmen that the President and the Government of the Republic of Belarus declared guarantees of safety of Chinese investments and provision of the most favorable business environment for Chinese companies.

The signing in September 2011 of the intergovernmental agreement on the foundation of a Chinese-Belarusian industrial park has become an important event in the development of bilateral credit and investment relations between the two countries.

The development of direct Chinese investments in Belarus has already been initiated. In 2008 JSC «Horizon» and «Midea Group» corporation created a Joint Venture «Midea-Horizont»; in 2010 the Belarusian JSC «MWTP» and the Chinese company «Sanjiang» set up a joint venture «Volat-Sanjiang». The implementation of construction projects of a housing estate and hotel «Beijing» in Minsk has begun.

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## Energy sector of the Republic of Belarus

By Aleksandra Hiachai

Energy sector in Belarus is one of the leading and fastest growing. Its stable and effective work aimed at ensuring reliable and uninterrupted power supply secures all other sectors of the economy.

The power of Belarusian power grid as of January 1, 2012 accounts for 8445.4 MW and meets the requirements of the country in electricity.

The republic has 35 thermal power plants (936.8 MW), 22 small hydroelectric power plants (9.4 MW), a wind energy plant (1.5 MW) and a cluster of industrial plants (497.7 MW).

The Belarusian power industry is a vertically integrated structure. The republican power system comprises six regional energy systems that correspond to the administrative-territorial structure of the country. Each of the regional power grid is the basis for an energy production association which includes sets of power stations, networks, repairs and other process units. The energy production associations perform the functions of generation, transmission, distribution and sale of energy.

Belarusian power sector is managed by the Ministry of Energy and by the subordinate to it State Electricity Production Association «Belenergo». The latter is composed of construction and assembly complex organizations capable of providing services for the implementation of construction, installation, commissioning and maintenance work as part of the power projects implemented both domestically and abroad.

In order to enhance national energy security and reduce the consumption of imported energy resources a number of documents have been adopted at the governmental level providing for accelerated development of energy sector and diversification of energy balance through the most appropriate use of local fuels.

At present the industry is actively working to modernize thermal power plants, electrical and heating systems, as well as to prepare and construct nuclear power sources. Issues of the diversification of traditional energy sources supply are being worked out. The development of power transmission lines between Belarus and neighboring countries are on the agenda.

In addition, the task of the most advanced technologies in production and distribution of electricity and heat for maximum savings of energy and financial resources of the country is under scrutiny.

In 2006-2010 about 750 MW of electric power has been put into operation, a number of projects involving the use of local fuels has been implemented, the essential volume of construction and reconstruction of more than 14 thousand km. electrical networks has been fulfilled.

More than 2000 MW of new high-performance facilities will be commissioned within the Belarusian power system until 2016. This will require significant investments including foreign funds. Herewith it is planned to decommission over 1,800 MW of inefficient and physically worn out and obsolete facilities.

At the present time the implementation of a number of investment projects on construction of hydroelectric power stations in the cities of Rechitsa, Shklou, Mogilev on the Dnieper River and Nemnovskaya HPS on the river Neman is being prepared. This has become possible due to the

conclusion of investment agreements on terms of direct investments.

Peat Industry of the Ministry of Energy of the Republic of Belarus incorporates 25 organizations engaged in mining and processing of peat and 3 machine-building plants. 19 organizations produce fuel briquettes. There is also Research and Design Institute «Belniitoppoek» which operates as part of the Ministry of Energy. In total, the industry employs about 7 thousand people.

Today Belarus is the third largest producer in terms of extraction of peat in Europe (in 2011 - 3.2 million tons), behind only Finland and Ireland. By 2020 it is planned to increase production of peat up to 5.1 million tons.

The total geological reserves of peat in the country is estimated at 4 billion tons, of which 600-800 million tons are recoverable reserves.

Traditionally briquettes are the principal type of products, which are mainly used by household consumers of the republic. Part of it (300-400 thousand tons per year) is exported to the EU countries

In 2011 there were produced 1 million 362 thousand tons of fuel briquettes. By 2020 this figure will be increased up to 1.4 million tons.

About 50 tons of high-moor peat, 20-25 tons of sod peat, 200-250 tons of peat to make compost and 3-4 tons of peat soils are produced annually.

Organization of the peat industry are actively working on the modernization of briquetting plants and plants for the production of peat products for agricultural purposes.

The country hosts the production of the entire complex of equipment for peat extraction and production of peat products, including peat-harvesting machines, narrow-gauge wagons, peat presses, stacking, agitators and specialized loaders.

At present Belarus is carrying out an active search of foreign partners willing to participate in the modernization of existing and construction of new generating capacities, as well as creating joint ventures for the production of power generating equipment. Taking into account the entry of Belarus into the Customs union with Russia and Kazakhstan, the creation of enterprises on the territory of the republic offers the prospects of production development with the outlook to the energy markets of the country's Eastern neighbors.

The emergence of the problem of ensuring the energy security of the country in connection with a number of evident factors (rise in hydrocarbon production, lack of internal reserves of hydrocarbons in the absence of breakthrough technical solutions to replace it with another energy source, increase of the cost of hydrocarbons and their delivery to the places of consumption, tightening of environmental requirements, narrow range of suppliers of hydrocarbons) put on the agenda the need to revise the country's energy policy.

It should be noted that this is not just a challenge of an absolute lack of energy resources necessary for maintaining economic growth, but their potential shortage, based on the ratio of the proposed price and solvent demand of the country at the background of absence of opportunities to rapidly find an appropriate alternative.

Alongside with the increasing volume of imports of energy resources in the country there is a constant

increase in the deficit in foreign trade in energy resources, particularly, natural gas. For the Belarusian power plants gas is in fact the only non-alternative fuel (constitutes 95-96%). Continuously deteriorating trade balance is funded by the Republic of Belarus due to the inflow of credit resources, which leads to a significant increase in foreign debt.

There is a danger that if the current situation regarding energy supply and consumption remains, the energy crisis could turn into a real nationwide problem with all the negative economic, social and political consequences. Besides the crisis may be exacerbated by the political circumstances of the international order.

In appreciation of imported energy resources, reduce of material and energy production for the majority of Belarusian enterprises becomes a matter of paramount importance that determines their fate, as well as prospects for the economy as a whole. Higher prices for natural resources will inevitably put the Belarusian economy on the path of minimizing and folding up of some energy and resource industries, primarily construction materials industry, where the largest share in energy consumption accounted for by natural gas (98.3%) is preserved, as well as chemical, petrochemical and metallurgical industry.

Continued growth in natural gas prices will lead to the changes of organization of the Belarusian wholesale

electricity market. There will be separate business entities: generation companies, National Grid Company, the regional distribution and sales companies, the regional heat supply companies. In this context the commissioning of the national nuclear plant could greatly improve the situation in the energy supply. It is assumed that by 2020 the total installed capacity of all the stations will be equal to not less than 11 000 MW. The nuclear plant commissioning will increase the reserve and thus enhance export capacity of the Belarusian energy system.

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## Belarus at a crossroads

By Hanna Smith

Belarus is arguably the least known country in Europe. The EU has included Belarus in its neighborhood policy and yet there is a general confusion as to what to do with Belarusian president Lukashenka whose policies have become more and more authoritarian year after year. One question that the EU member countries have had to ask from themselves in recent years is: what happened to the 1990s promise of democracy and a better future on the EU's Eastern borders?

Belarus' relationship with Russia is one of the main factors ensuring that president Lukashenka has been able to maintain his power since 1994. It is a well known "secret" that presidents Putin and Lukashenka are not close friends but since the economic situation in Belarus is difficult and the relationship with the West at an all time low, Lukashenka's friends have to be found on any terms. The relationship between Belarus and Russia is not a cooperation between equals. But it is a marriage of convenience for both. Lukashenka needs Russia to keep the Belarusian economy going while looking for alternatives from China, Vietnam, Syria or Venezuela. For Russia and particularly for president Putin Belarus as an integral part of Russia, would suit well to his vision of a functioning Eurasian Union under Russian leadership. Putin's first foreign visit in his renewed presidency was to Belarus. He complimented the Belarusian leadership for economic successes and movement in the right direction. During his short visit Putin announced that Belarus would be granted the third part of the stabilizing loan from the Eurasian Economic Community (EAEC) and agreement was reached for the construction of a Belarusian nuclear power station by Russians. President Putin also reminded Lukashenka of some facts. While in 2011 Belarus paid about \$ 280 per 1000 m<sup>3</sup> of gas, in 2012 the price equals \$ 165.5. Russian financial help to Belarus is substantial and this has consequences also for the future development of Belarus.

Hand in hand with the economic downturn actions reminiscent of a police state have increased in Belarus. Since the presidential elections at the end of 2010, clamping down on any anti-Lukashenka movement has been a growing trend. Arresting people who come onto the streets to demonstrate is more of a norm than an exception. One of the very common causes for a short-term prison sentence in Belarus is hooliganism. Hooliganism was a common reason to be sent into prison in the Soviet Union. To be charged with hooliganism was the state's way of punishing anything it interpreted as incorrect conduct. Short sentences were seen as an efficient way to "teach the people a lesson" and act as a warning signal to others. The Belarusian prison sentence politics carry an echo from the past. For example on June 1<sup>st</sup> 2012 the Academic Director of the Belarusian Institute for Strategic Studies (BISS) Aliaksei Pilulik was sentenced by a court of the Central district of Minsk city to 5 days imprisonment on account of "hooliganism", and for the same reason an activist of the Govori Pravdu campaign Mikhas Pashkevich received 7 days of administrative arrest following the decision of a court in Svetlahorsk, Homiel region.

Another growing trend in the Belarusian political landscape is civil activism. People are ready to go on strike if they feel there is unfair treatment of workers, a local referendum is requested over the construction of a pulp bleaching plant, or activists organise a demonstration with a clear political agenda. Numbers are small but actions should not be dismissed because of that. One of the greatest legitimating myths in authoritarian states is that the leaders are popular with the majority anyway. This is the way Vladimir Putin's regime in Russia has been legitimized – "more than 50 per cent would have given their vote to Putin". The same argument has also been used in the Belarusian case – "Lukashenka is still popular with the majority of the people". This argument is easy to buy but tells in the end nothing in a society where the media is state controlled and fear factors have been used. Most polls that are not taken on behalf of the power structures tell that in both the Russian and Belarusian cases people would like to see change and they do believe that things

have become worse in recent years. One explanation for this is economic performance. The Belarusian economic miracle has not happened. If Lukashenka's regime would collapse without a proper alternative and strategy, things would get even worse for the average Belarusian. Belarusians fear unrest and disorder more than Lukashenka's regime. The fundamental changes in a society like Belarus will happen when the people are more desperate about the situation than are the leaders. At the moment it is still the other way round. The leading elite is more desperate to hang on to power.

The Belarusian ruling elite is however old compared to many of its neighbors. At the end of last year the Belarusian independent weekly newspaper *Nasha Niva* surveyed 60 top officials and it turned out that the average age was 54.4. There are a few around who are in their 40s, like the minister of culture, deputy prime minister and minister of economy. All of these three men have been labeled as liberal in Belarus. The oldest is the head of the upper chamber of the Belarusian parliament, aged 72 and known for his Stalinist political views. The hope for a better future for Belarus lies, as in many other post-Soviet countries, in the new generation that uses the Internet, free from censorship, and is able to travel and have contacts outside of Belarus. This is the dilemma Lukashenka has to deal with, his support among the elite and population lies with the older generation. He has also ruled Belarus for 18 years under the democratic banner without really respecting it. Both of these factors are now shaking his leadership, the supporting generation is decreasing, while talking about democracy without providing it is making the younger generation of Belarusians disillusioned.

The big test for both the opposition and the regime will be the September parliamentary elections. In the 2008 parliamentary elections the opposition lost its sharpest edge by arguing among themselves what is the strategy, to boycott the elections, pull out altogether or propose conditions for state officials. It will not be an easy task for the Belarusian opposition to present credible candidates and build up trust with a large population in the current political landscape. Election times have, ever since Belarus became independent, provided an opportunity to express discontent. The pre-election time has also traditionally been a period when Lukashenka has reached a rapprochement with the West. Prior to the presidential elections in 2010 this was very evident. Polls show that as many Belarusian favor closer ties with the EU as with Russia. This is a force Lukashenka has to take into account somehow. If president Putin is providing for his Belarusian colleague a lifeline in the form of economic aid, the Russian protest movement against Putin's presidency can act as an encouragement for its Belarusian counterpart. The parliament in Belarus is seen as a toothless institution without real power but the election process could have the effect of waking the silent majority into active seekers of change. The parliamentary elections should be a window of opportunity both for those Belarusians wanting change and for the EU to open up more towards Belarus. The wind of change that is blowing in and around many post-Soviet countries can also blow across Belarus, but change for what remains still to be seen.

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# The paradoxes of Alyaksandr Lukashenka's foreign policy

By Kamil Klysinski

Belarusian foreign policy has been based on two major ideological guidelines for years. Firstly, it is oriented towards strategic partnership with Russia as a country with which it has much in common in terms of history and culture and at the same time is an important trade partner and an almost exclusive supplier of oil and gas. Secondly, serious differences between the Western system of values and the so-called Belarusian specifics are often emphasised. In effect, Minsk's official rhetoric is full of assurances of endless friendship with Moscow and at the same time includes numerous words of criticism pointed at the West, including the EU. However, despite the increasingly close co-operation with Russia, President Alyaksandr Lukashenka is still blocking access for Russian investors to the Belarusian industry. In turn, the extremely bad relations with the European Union have not been able to halt the unprecedented increase in Belarusian exports to EU markets. Thus the Belarusian foreign policy is turning into a set of paradoxes and contradictions, which may surprise but also at the same time explain the survival of Alyaksandr Lukashenka's authoritarian regime.

## A fraternity full of distrust

Since the beginning of Alyaksandr Lukashenka's rule as president of Belarus (i.e. since 1994) he has emphasised that he sees no alternative to close co-operation with Russia. Lukashenka has been aware of the fact that, given his country's dependence on supplies of Russian oil and gas, the strong bonds based on collaboration of the industries of the two countries and the fact that Russia is the key outlet for Belarusian manufacturers, there is no other way to guarantee the functioning and stable development of the Belarusian state. However, when Vladimir Putin became the president of the Russian Federation in 2000, Lukashenka understood that increasingly close co-operation with Russia was not only a guarantee of existence for Belarus but also a threat to its sovereignty. Growing pressure from the Kremlin, which was making attempts to take over Belarus's strategic petrochemical, machine-building, metallurgical and food plants was giving rise to ever stronger distrust in Minsk. Similar feelings also appeared in Moscow, which expected the Belarusian government to compensate for the trade privileges, financial support and preferential conditions of oil and gas supplies it had been offered for years. As a result, the integration process came to a standstill and a series of recurring crises began, during which the Russian government made attempts to force the Belarusian regime to make concessions in the areas it was interested in.

## The conflict of the values, with business in the background

The authoritarian regime created by Alyaksandr Lukashenka has been criticised from the very beginning of his rule by the governments of EU member states. It is also due to his regime that sanctions have been gradually imposed on Belarus – mainly concerning visas, but also in the area of economy since 2011. Alyaksandr Lukashenka, more and more isolated by the international community, in retaliation frequently accused the EU of attempts to overthrow the 'legitimate' government of Belarus, of the use

of double standards and of adopting an unconstructive approach. Although at times, when the tension in relations with Moscow was particularly strong, Minsk did seek for a compromise with the EU and then softened its rhetoric, but this did not change its generally negative attitude to the West. At the same time, bad relations with the EU, did not prevent profitable exports of Belarusian petroleum products to EU markets. As a consequence, these markets saved the Belarusian foreign trade balance from a complete collapse, which was under a heavy burden of payments for the supplies of Russian oil and gas.

## Lukashenka's risky game

On 19 December 2010, Belarusian law enforcement troops cracked down on the demonstration held by the opposition on the day of presidential election in Belarus. In response to these repressions, the EU re-imposed and expanded the visa sanctions on representatives of the Belarusian government, and then additionally imposed economic restrictions on several companies, which are the financial base of the regime. On the other hand, Russia intensified its pressure on Belarus, offering economic privileges in exchange for the sale of strategic companies and support for the integration process aimed at creating the Eurasian Economic Community. However, despite the very bad political relations with the EU in 2011, sales to EU markets accounted for 39 percent of Belarusian exports, and the continuing growth of sales in the first quarter of 2012 resulted in a positive balance in foreign trade at US\$700 million. On the other hand, Alyaksandr Lukashenka – although he relinquished total control of the gas pipeline system to Gazprom at the end of last year and signed all the integration agreements required by the Kremlin – still does not intend to become totally dependent on Russia. On 8 May 2012, in his annual address he made it clear that he did not envisage a mass privatisation of state-controlled companies and would not make decisions under dictation from foreign (including Russian) investors.

Alyaksandr Lukashenka, who has been skilfully playing with the paradoxes as outlined above, has been able to derive the highest possible benefits from relations with both the EU and Russia. However, the risk inherent in this game is becoming ever higher. When Russia decides to finally enforce a full payment for its support or when the irritation of EU member states reaches such a high level that they decide to block exports of Belarusian petroleum products, Belarus may be forced to pay with its sovereignty in this game.

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## Opposition strategies for the 2012 elections in Belarus

By Matthew Frear

In the wake of President Lukashenko's harsh crackdown after the presidential poll in December 2010, the Belarusian opposition is preparing for parliamentary elections in September 2012. Although Lukashenko's popularity slumped in 2011 due to a deepening economic crisis, there has been no significant increase in support for his current opponents. Belarus has a diverse political and civic opposition. They include a range of political parties, from the nationalist Belarusian Popular Front (BPF) to the communist Belarusian United Left Party (BULP), from the market liberal United Civic Party (UCP) to various social democratic parties. These are joined by non-party actors, such as high-profile civic initiatives (e.g. Movement for Freedom, Tell the Truth, European Belarus), pro-democracy NGOs and youth organisations.

As Lukashenko has consolidated his hold on power over the past 18 years, the regime has repressed the opposition through various means. At its worst, it has been accused of sanctioning the disappearance and presumed murder of several opponents in 1999 and 2000. Elections such as the 2010 poll see electoral fraud tactics common to the region such as ballot box stuffing and a lack of transparency in vote counting which provides the opportunity to inflate turnout and the margin of victory. Protests by thousands on election night in 2010 were brutally broken up and hundreds detained. Leading opposition figures were tried and imprisoned. While some have since been released, there are still over a dozen political prisoners in Belarus. Claims have been made of torture while in custody. The threat of dismissal from places of work or study can hang over activists. Others have opted to leave the country. State coercive capacity hampers the ability of the opposition to function effectively and discourages potential supporters from rallying to their cause.

The format of the opposition's participation in the 2012 election has been the subject of much debate, as it was in 2008 and to a lesser extent in 2004. The parliament wields little real power and is a rubber stamp institution. There has been no real opposition representation in parliament since 2004 and almost all its 110 deputies are pro-regime 'independents' with no party affiliation. The state apparatus exploits administrative resources in the run up to elections, and amends the constitution, electoral laws and other legislation to outmanoeuvre and marginalise opposition groups, independent media and NGOs. Alternative candidates might stand in elections, but there is a hopelessly uneven playing field. The deck is stacked against opponents in terms of registering as candidates, campaigning in elections, fair access to state media and representation on electoral commissions. Advocates for limited participation in this year's poll claim that using the chance to legally campaign, even in unfair elections, can raise the opposition's profile and serve as a training ground for activists. Supporters of a boycott argue that it is immoral to lend legitimacy to the regime by standing in pseudo-elections when there are still political prisoners and instead there should be a campaign of pickets and leaflets to encourage the electorate not to vote.

While the opposition is united in opposing Lukashenko, they are traditionally divided on many other issues. Numerous coalitions have formed in the run up to national elections, only to disintegrate soon afterwards. Attempts to portray a united front by the Belarusian opposition are undermined by well-known and deep seated differences of opinion in areas such as historical legacy, economic reforms, language issues and, in particular, geopolitical orientation. Personal ambitions, generational differences and mutual mistrust hamper

consolidation. The opposition can exert as much effort infighting (both figuratively and at times literally) as they do opposing the regime. The latest attempt at unity is the Coalition of the Six, established to agree a joint plan of action for the 2012 poll.

With the official election campaign due to begin in June, no common strategy or platform has in fact been agreed beyond joint election observation. The BULP intends to contest the election; the BPF will put forward candidates but will withdraw them before polling day if all political prisoners have not been released; the UCP will campaign but unconditionally withdraw candidates at the last minute; the Tell the Truth leadership advocated not standing, but some activists in the regions have decided to nonetheless; the Movement for Freedom will support other candidates with whom they sympathise; and the Belarusian Christian Democrats plan a full boycott. Beyond the ranks of the Coalition of the Six it appears some representatives from the social democrats may stand. European Belarus and its allies will promote their own boycott, as they did in 2008. Eight youth organisations and the Revolution through Social Networks online campaign (which came to prominence organising silent or clapping protests in spring 2011) have launched their own action called Ignore-2012. None of the groups planning full or limited participation in the poll have the capacity to propose candidates for more than a third of the seats and there is no guarantee the authorities will not find excuses to prevent some of them from standing.

Independent polling shows public dissatisfaction with both the regime and the current opposition. There appears to be very low interest in a boycott. Between a quarter and a third of voters declare they would support a hypothetical, non-regime, 'change' candidate in the elections, but far fewer see the traditional opposition offering an appealing alternative. Much of the electorate is indifferent to the opposition's emphasis on election laws, political prisoners and democracy when they are more concerned about their own declining social-economic circumstances. The opposition is increasingly sidelined in a democratic ghetto and reduced to online, virtual politics. Their focus can often be on sympathetic foreign advocates and supporters rather than potential voters in the regions with whom they have little in common. With a disunited opposition going into the election campaign, ordinary Belarusians are unlikely to be motivated to take the risk of oppression by the authorities and actively support and defend the current opposition. The Coalition of the Six, like its predecessors, is likely to collapse after the poll and the cycle of division and consolidation along the usual cleavages within the opposition will begin again as Belarus heads towards the 2015 presidential elections.

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## The future of Belarus

By Anna Maria Dyner

### Economy – stability means stagnation

One year ago, the outlook for Belarus seemed bleak. A high rate of inflation (during 2011 it reached about 108%), combined with massive devaluation of the Belarusian ruble (it was devalued almost three-fold against a basket of currencies) were signs of serious economic crisis. The authorities were afraid of social unrest and combat it in two ways. On one hand, they increased salaries for workers at the most important enterprises, such as the Minsk Automobile Plant (MAZ). On the other hand, the militia put down every kind of demonstration, including silent protests in city centres. Moreover, Belarus remained in self-imposed isolation and relations with the EU and with Russia were in a terrible condition.

The situation improved in November 2011, when the Russian gas company Gazprom bought 50% of shares in Beltransgaz and became the sole owner of one of the most profitable Belarusian companies. The Belarusian government used the \$2.5 billion it received for Beltransgaz, to balance foreign exchange reserves, which helped to stop inflation. What is more, high rate of devaluation of the currency gave Belarusian exporters an opportunity to develop trade relations. As a result, Belarus decreased its negative balance in foreign trade. But still no serious reform took place, which means that the Belarusian economy will have the same kind of problems – inefficiency and lack of flexibility and foreign investments - in the future. What is more, Belarus will have to return a total of \$6 billion to foreign creditors in 2013-2014. This means that Belarusian authorities will have to cooperate with the International Monetary Fund – for restructuring previous loans and balancing foreign exchange reserves. Credit from the IMF (most likely combined with the second stand-by program) is not only much cheaper than that from the Eurasian Economic Community's anti-crisis fund, but in contrast to conditions imposed by Russia, the IMF doesn't force Belarusian authorities to conduct painful privatisation.

A lack of economic reforms will also mean that the Belarusian authorities will have to sell some of their most profitable enterprises, such as refineries and manufacturers of fertilisers. Moreover, it also is very possible that Minsk Automobile Plant MAZ, which produces buses and trucks, will be merged with Russian truck manufacturer KAMAZ, and that some money from the sale will be transferred to the state budget. But there is also a serious problem with such activities. For the government in Minsk, selling key Belarusian enterprises will mean that the authorities will no longer be able to shift funds from profitable enterprises to those with losses (so-called "cross-subsidisation"). Selling the most profitable enterprises to Russian investors will also mean that Belarus will deepen its economical dependency on its eastern neighbour.

### Politics – there will be no colourful revolution in Belarus.

Without doubt, we can predict that everything will be stable on the political scene. Parliamentary elections will be held on at the same scenario as those in 2004 and 2008 – effectively preventing any opposition party, or even a single independent candidate, from winning a seat in the new parliament. On the other hand, the Belarusian authorities do not want to create a party of power (such as United Russia), and this means that the presidential palace will remain the political centre of

Belarus. Moreover, no "colourful" revolution can be expected in the near future. Russia will remain the most important player on the Belarusian political scene, and Moscow wants to maintain the status quo in Belarus, especially given that the Kremlin is interested in the reintegration of the former Soviet region, and in projects such as Common Economic Space and the Eurasian Union that are strongly supported by Belarusian President Alexander Lukashenka. Moreover, the Russian authorities will not accept a pro-European revolution in a country that is tied to it not only politically and economically but also militarily. This means that Russian support for political change in Belarus should not be expected, at least while Lukashenka remains useful as president.

There will be no revolution also because of the weakness of the opposition, which after the presidential election of 2010 became even more divided than before and still has no charismatic leader. Even Andrei Sannikau, who was released from prison, could be imprisoned once again if he takes part in any kind of political activity, which means that he and his family remain hostages of Lukashenka. Moreover, the opposition in Belarus is not in favour of radical, pro-European changes. What is more, internal divisions and accusations, an absence of clear leaders, weak sources of funding and a lack of consolidation among opposition groups are not their only problems. The opposition as such has no political and economic programme that could offer a realistic response to the deteriorating economic situation of the country or that could give it a chance to heighten awareness among Belarusian society. Moreover, it is expected that a large number of young people will emigrate, out of fear of reprisals from the authorities. What makes the position of the Belarusian opposition worse is fact that, in Belarus, there are no entrepreneurs who represent the middle class and who might support opposition candidates and finance their campaigns.

There will be no revolution because, unlike the North African countries, Belarus is not conducive to demographic change since it is an aging society. Moreover, the priorities of ordinary Belarusians lie in finding jobs so that they can feed their families – not in engaging in political activity. Further, the revolution is not so much a question of police brutality or economic crisis, as it is a change in the people's way of thinking. Until they are ready to change their way of thinking, everything will remain as it is. Without economic reform and support from the European Union, this also means increasing Belarusian dependence on Russia in both economic and political terms. It seems that it is impossible to predict the future of Belarus with any confidence, as long as this state continues to live in the past.

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## Belarusian identity

By Grigory Ioffe

Two well-defined perspectives on what it means to be a Belarusian exist. According to one of these perspectives, Belarus is an heir to the Great Duchy of Lithuania and Rzeczpospolita, consistently European entities that waged wars with barbaric and Asiatic Russia. Consequently, to be a Belarusian means to enunciate resistance to Russian colonialism and to elevate every difference between Belarusians and Russians. It also means using Belarusian as the primary communication medium and paying allegiance to such national symbols as the white-red-white flag and the emblem Pahonia (Pursuit) depicting a rider on a horse – i. e., the symbols that reflect the legacy of the Great Duchy.

According to the second perspective, Belarus is merely a distinctive part of Russia's cultural realm. Both Russia and Belarus are largely Eastern Orthodox communities, both are largely populated by Eastern Slavs, both use Russian as the preferred language of everyday communication, and both oppose cultural and political expansion of the culturally alien West. Also, Belarusians, Ukrainians, and (Great) Russians have a common origin.

It has been tradition to affix the label of nationalism only to the first of the above two perspectives. Indeed, for Belarus – which for more than two centuries existed within one polity with Russia and was dominated by and even identified with it – the first perspective comes across as nationalist since it exudes an anti-colonial spirit; whereas the second perspective emphasizes closeness to the former colonial master. Ironically, it was the second perspective on Belarus's roots, not the first, that laid the foundation for Belarusian nationalism. Specifically, the very first descriptions of Belarus's cultural distinctiveness were a product of a school of thought known as West-Rusism. In the 1860s the proponents of this school studied Belarusians as a community for the first time and mapped Belarusian vernaculars. More specifically, the very first recognition of Belarusians as a self-styled group was part-and-parcel of the Russian nationalist reaction to the Polish uprising of 1863. West-Rusists were bent on fighting Polish cultural influences in Belarus. To them, to uncover the true nature of Belarus was to de-Polonize it. By the same token, the Westernizing strand of the "Belarusian idea" that appeared later (in the 1880s) was bent on the de-Russification of Belarus, i. e., on fighting Russian cultural influences.

For a long time most ordinary Belarusians were not affected by the ensuing ideological battles between West-Rusists and Westernizers (the self-proclaimed heirs of the Great Duchy) and did not embrace a collective identity. Most were peasants, and they used to introduce themselves to the outsiders as *tuteishiya* (locals). When they migrated to cities and/or partook in upward social mobility, they disposed of their vernacular, mastered either Russian or Polish, and embraced Russian or Polish national causes.

Two circumstances encouraged this sort of development. First, up until the 1940s, ethnic Belarusians were a minority within cities of Belarus, which were dominated by Jews, Russians, and Poles. Only after World War 2 did Belarusians become a majority in "their" cities. Second, the area where Belarusian vernaculars were spoken was and is located between two well-established national cores, that of Russia and that of Poland. Poles and Russians are linguistic cousins, and their languages are farther apart from each other than either is from the Belarusian vernaculars. Thus, geopolitically and linguistically, the proto-Belarusian national niche was vastly different from those of Lithuanians or Latvians, not to mention Estonians. Baltic peoples speak languages that are not Slavic; and therefore assimilation of, say, Lithuanian or Latvian peasants in linguistically alien cities would not be as effortless as that of Belarusians. As Timothy Snyder put it, "no one missed Belarusian as people missed Lithuanian" (Snyder 2003). As a result, in the perception of many ethnic Belarusians, the Belarusian vernaculars bespoke low social stratum, a rustic peasant language, and were often considered a sort of stigma. These feelings lingered even after Belarusian was codified as a fully-fledged language in 1918. Today, only 11% of Belarusian

urbanites use Belarusian on every-day basis, and even this proportion may be an exaggeration. In other words, in Belarus, native language does not forge identity the way it does in most Old-World countries.

Perhaps the most phenomenal feature of Belarusians has been the long-lasting absence of a geographical name that would be perceived as the token of their collective identity. The words 'Belarus' and 'Belarusian' were embraced by most indigenous people of the area only in the wake of the formation of the Belarusian Soviet Socialist Republic (BSSR). Among other things, this essentially means that the Soviet period was the longest time span of Belarusians' nationally conscious existence. Under the BSSR, Belarusian became one of the official languages. Also, 'Belarus' and 'Belarusian' became part of the republic's national emblem and anthem as well as the words circulated widely in regional print media and state documents, including, above all, internal passports initially issued for urban residents and residents of border regions. These personal IDs included not only the mention of Belarus as the holder's place of residence but also the person's *natsional'nost'* or ethnicity. This observation fleshes out Francine Hirsh's view, according to which Belarus's national identity was "assembled by bureaucrats" (2005), i.e., from above. In addition, it is widely believed that Soviet Belarus was the brainchild of realpolitik, that it was founded as a buffer state to enable the Soviet Union to claim territories from Poland (Wilson 2011).

After the breakup of the Soviet Union, the Westernizing national platform briefly prevailed, but most Belarusians continued to speak either Russian or Trasianka, a mixed Belarusian-Russian lingo; and they did not develop emotional attachments to either the white-red-white flag or the national emblem Pahonia, both introduced as national symbols of Belarus in 1992. Soon after the election of Alexander Lukashenka as president of Belarus (1994), these insignia were replaced by slightly modified Soviet-era symbols, and 83% of Belarusians endorsed this change in a 1995 referendum.

Belarusians remain a people without a cohesive identity. This deficiency imperils Belarus's statehood much more than do economic dependency on Russia or authoritarian rule – two features of Belarus that are discussed more frequently today than the issue of identity. A lack of cohesive identity implies that there is no unity among Belarusians in regard to Belarus's antecedents and beginnings as well as in regard to national symbols and myths. Consequently, national consolidation remains a crucial unaccomplished task facing Belarusians.

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# Belarus – stuck between the nation and state building processes

By Jovita Neliupšienė

In recent years the issue of identity formation was brought back from the margins of international relations to the analysis mainstream. Belarus is one of the cases to be examined in this context. Considering the Belarusian case, scholars try to answer the question why there is no process of nation-building in today's Belarusian territory, why national identity is so fragmented, why Belarus is called a denationalized state. There are numerous competing theories explaining this situation. In this article several aspects of the Belarusian identity, nation and state-building processes are analyzed. Firstly, several difficulties of describing "Belarusian nation" will be touched upon. Secondly, some problematic aspects of building loyalty to the state will be discussed. Finally, I will conclude with the evaluation the success of self-understanding of the Belarusian population.

## Identity or process of identification?

While analyzing existing academic works and research papers on identity the biggest problem is theoretical specialization: different authors choose to study one or two separate aspects of identity (e.g. history, culture, language, religion) ignoring the rest of possible aspects (e.g. economic ties, social mobility, external influence). This normative decision is taken in order to escape the broadness of the identity concept. This leads to a narrow analysis or specialization on one or two aspects of identity, which makes it difficult to compare different cases and leads to the relativist conclusion that the context is the decisive factor.

Brubaker, Bugrova, Smith and others propose to analyze not identity as the concept, but the process of identity formation. Brubaker and Cooper use the concept of identification. This process could be influenced by a number of factors, which, on one hand, could be common for several countries in one region, on the other hand, would not let underestimate the influence of the combination of several factors.

The process of identification as a tool of analysis has its shortcomings because of the need to decide the time framework, what as well could make any conclusions very biased. The case of Belarus is exemplar.

## Nation-building in Belarus: Nation? Building?

Contemplation on what concrete factors in the context are the most influential in creating a sense of unity of an ethnic group, especially if this becomes the dominating discourse in the public consciousness, or active policy making decisions on ethnic policy can be considered as a process of identity formation or nation-building. In general majority of the factors of the identity formation are withdrawn from the whole range of nationalism literature: cultural, political, geographical, legal, economic and military. On one hand, culture and tradition developed within certain boundaries can help strengthen the sense of unity, attribution of members of the community to the same tradition, trace back the same historical roots. On the other hand, an influence of foreign culture, especially popular culture nowadays could help to blur boundaries between two communities and create difficulties for the formation of sense of unity. This is a usual framework of analysis of identity formation in the case of Belarus.

As Kuzio notes, the formation of a new national identity that unites populations is impossible without recourse to some myth making (Kuzio, 2002: 246). In states re-emerging after the collapse of the Soviet Union the myths of an honorable past and the golden era of a country or nation were extremely popular. Those historical myths were supposed to help promote state and nation building, ensure the links of society/ community with the states. The most important aspect the historical myth making process is to legitimize the independence of a newly created state and to help differentiate the new state from the former "elder brother".

For example, Lithuania emphasized its long-lasting statehood in the Preamble to the Constitution basing it on the Statutes of the Grand Duchy of Lithuania as well as on the constitutional acts of the inter war period. This is not applicable for Belarus. The majority of the Belarusians cannot remember life before the Soviet Union

due to losses during the World War II or the Soviet ethnic policies. Even if a part of the generation survived and kept family history for 70 or more years this is not enough to create a viable background for public memory. Events and heroes of the Grand Duchy of Lithuania or short time of independence of Western Belarus are a distance and unknown for the majority of the Belarusian society. That is why it is very easy for a ruling regime to construct national unity on Soviet stereotypes, talking and teaching about the golden age during the times of the Soviet Union.

Some authors believe that there were momentums in the most recent history of Belarus to change the general discourse of their history and to foster an identification process not related to sovietization. As Shevtsov notices, the identity of Belarus is built on disasters (Shevtsov, 2005) – losses during World War II (partisan movement) and after it (story of Kurapaty is one of them) as well as the disaster of Chernobyl. In any of those cases the building of national consciousness could be based on creating the distance with former Soviet rule, Soviet stories, and Soviet history myths due to the fact that the Soviet government was not in capacity or in no will to protect Belarusian people (even if formally looking the Soviets – for the first time in history – created an autonomous Belarusian administration of their own life).

Contested interpretations of history do not help to build an identification process based on language. During the different periods of history Belarusian language has gone through various stages of popularity. In the period of the Grand Duchy of Lithuania old Belarusian language was used as a written state and chancellery language. But this meant not a development of a common spoken unity, but a development a tool of communication for the elite. The end of the 19 century was a spring for the national awakening for all the ethnic groups of the region, but not the Belarusian. There were people striving to foster the unity of the Belarusians, but after a long period (starting after the partition of the Common Polish – Lithuanian Republic) of different influences - Polish in the West and Russian in the East – it was difficult to find a common denominator.

Paradoxically, but the Soviets gave a positive input for language development. Due to the policies of the korenizatsia and ethnic federalization policy later encouraged the growth of Belarusian language schools as well as its appearance on TV and radio air. But anyway this did not create a permanent link between language and identity. Polls made after Belarus got independence in 1991 showed that the Belarusian Republic is among the most homogeneous societies (78 per cent) – thinking about themselves as Belarusians but not speaking their own language. Even now most of the Belarusian opposition media writes and speaks in Russian, even the Belarusian European humanities universities in exile (at the moment opened in Lithuania) teaches the most of the subjects in Russian. Language is not the deciding identity formation factor in Belarus.

A similar conclusion can be made about the religion affiliation. The 16-17 centuries when the Unite church was founded this could be a important back stone for the identification for the people living in modern territory of Belarus. On one hand, the centers of the most active believers and promoters were located in Belarusian territory. On the other, religious differences could help to differentiate themselves from the Poles as well as from the Russians. Wilson note the reformation as well could be a chance for the locals (Wilson, 2011: 49). But after the partition of the Commonwealth language as well as religion became a target for russification under czarist rule. The Unite church was assimilated to Russian Orthodox under the Moscow patriarch. Unlike the Western part of Ukraine, where the orthodoxy manages to keep the patrimony of Constantinople and to balance the russification process.

The western part of Belarus has remained under the influence of the Catholic Church, northern – under Protestantism. It can be noted that religious affiliation in the recent environment cannot be separated from ethnic association: majority of Belarusians, who are Catholics can easily trace back their roots to Poland or

Lithuania. But in both cases skeptics of the identification process through language, history or religion can argue that Belarusians do not have a sense of ethnic unity due to geopolitical reasons. Separate parts of the country at the same time have been ruled or under the influence of different cultures, different authorities. This leads to the formation of local identities, which are tied to the living space. Localness or *tuteishach* has been described as a Belarusian identity back stone since the beginning of the 20th century, when the prominent Belarusian write Kupala published his drama script "Tuteishy".

### One or two state building processes?

It is difficult to deny that in modern Belarusian territory society's mood and thinking about itself is quite flexible depending on different political and economic contexts. Notable that answer if the state ensures personal needs and moods of identification depends more on age, education, occupation and family traditions than on locality, with some exceptions of course. The only obvious geographic base factor of identification is Chernobyl. Several authors, Shevtsov among them, note that *Chernobyltsy* is a quite developed and built-in concept in Belarus and accepted within society as personal description criterion. One third of Belarusian territory has been contaminated, at least a million have been resettled, the number of radiation related diseases has risen dramatically, and thousands of Belarusians have been left to cope with the consequences of the disaster.

Nonetheless Kupala has a different understanding of the local identity when he spoke about the Belarusian people. One of his ideas behind the lines of his fiction was that people living in today's Belarus territory living on the crossroad of different cultures have been very open to the change of rules and authority in their territory. They change their linguistic or religious or common traditions depending on who has been in power. This argument leads to assumption that in Belarus it would be easier to build a sense of unity not based on ethnicity, but on loyalty to state. Successful state-building process could be an answer for building a strong and long lasting sense of shared values and shared networks of communication and shared legal and economic system as this happened a century ago in France or Switzerland and in some other European states. In other words, Belarusians have more chances to success if they concentrate on building a political nation.

But there have been several obstacles for a successful state-building process. First, the Belarusian people didn't have to fight for their independence in the 90's. The Belovezh agreement has dissolved the USSR peacefully and there has not been any active involvement of the society.

Secondly, first three years of independence have been attributed to rapid belarusification without much discussion within society. Due to 70 years of successful sovietization the promotion of Belarusian language, culture, and history of the Grand Duchy of Lithuania has been met with doubts, reluctantly, and in some cases with rejection. This can be explained in two different directions: first of all, before the Soviets came Belarusian territories were rural, with no overwhelming economic ties within the whole territory; this territory has almost never been under one ruler. People of Belarus were not ready for the top-down approach in building their sense of unity, moreover this identity building process was followed by changes in all spheres of nation's life - political, social, economic, - and this probably was acceptable for the political leadership, but too rapid for a big part of the population.

Thirdly, differently than in the Baltic States, in Belarus the Soviet Union is not considered as an empire of destruction. Soviets are understood as givers of material wellbeing or at least givers of an opportunity. For the first time in history Belarus got the territory where at least formally the Belarusians became responsible for their own lives - economic, political, and social. Belarusians had been among 15 lucky nations to get their own republic. In material terms, the Soviets gave even more to Belarus - rapid urbanization, education of the population, and all possible benefits from industrialization of the country, which for centuries has been rural.

The answer to the question why Belarusians still believe that their life would be less worth living without the Soviet Union is

obvious. The Soviets had been quite successful in the quasi-state building process not only in terms of the formal territorial integration under one name, but also quite successful in the process of building loyalty to Soviet Belarus via promotion of Belarusian culture and traditions in certain sphere of life (culture and arts, primary education, radio broadcasting, etc.). The soviet government was even more successful in constructing a soviet citizen - humble and grateful for all the good he or she gets, not critical to what is going around and "striving for peace". All this leads to what was needed for the Soviet government - loyalty to state, based on one of the most prominent feature of Belarusian character laid out in a saying "jak by nebylo voiny" (hopefully there is no war anymore).

This kind of thinking was in hand for such a leader as Alexander Lukashenka, who looked for power, but not for the wellbeing of the newly created state. The person-state relations built on the saying "Jak by nebylo voiny" actually is a downplaying of the personal initiative, activity of the people and the need for change. The part of the Belarusian people believing in that are loyal to the recent regime, because they are happy about the minimum they have - minimal wages, scarce level of the social services (medicine, welfare, education), minimal need for any kind of liberties and rights. Through state propaganda tools - media and direct harassment of population - the ruling elite has been able to persuade society at the moment Belarus is living in the conditions of utopian future, i.e. all goals for happy life are already achieved and only slight corrections are needed.

This created a population which is loyal not only to the state, but to the ruling regime. A photograph of this typical Belarusian citizen could be described as older than 50, very low to middle income, living in rural areas or small regional towns, not travelling abroad or travelling only to Russia and Ukraine. More than half of the Belarusian population falls under this description. For Lukashenka this means a utopian future is being realized and nothing should be changed. Change would equal to chaos or "voina".

There is, of course, another part of the society, which still strives to build different ties between the state and the citizen. This part of the Belarusian population is not afraid of the soviet style prediction of change as chaos. This part in general is called the Belarusian opposition, although it is not really a correct term. Not all Belarusians, who mistrust recent regime, are politically active. Ideal representative of this part of the population can be described as younger than 40-35, middle income, living in one of five largest cities, travelling abroad or the member of ethnical non-Russian minority.

According to public opinion polls (which for sure are not exact), around 30 percent of population could fit to this description. Worth adding is that this ideal member of the Belarusian opposition actually spends much more time on analyzing and looking for the unity of all the Belarusian society, its roots and common identity. Belarusian language, religion, promotion of local tradition is the values which help to show the difference between them and the regime. On political level those issues usually come high on the election agenda. But when the questions of state - population relations are affected in almost all situations members of political opposition feel persecuted and talk about losses. Belarusian opposition is divided on what the state's future should be - to go East or West, equivalent to democracy or "strong hand rule". The only uniform public message is "Lukashenka is to blame for everything".

This creates an ambiguous situation, where there can be two possible interpretations of the actions of opposition in the context of the state building process. On one hand, there is no a clear alternative for Lukashenka's state building model. Loyalty to the state is not considered as important factor in building Belarusian nation, because Belarusian opposition - be it the political active or the passive part - see state as the regime and vice versa. This does not help to consolidate society under their leadership, and definitely does not help to build links among members of the society and the state. On the other hand, Belarusian opposition is trying to play its part in state building process. At least politically the active part of the opposition is promoting ideas of the importance of the independence of the Belarusian state, about the need to keep up its economy, security, and other forms of state life, although this has to be done under a different regime. In

democratic societies the links between people and the state are built more or less in consent with majority of the population mood, tradition and sense of unity. In the case of Belarus it is difficult to evaluate how will the political opposition act if they have a second chance to implement ethnic policy, how they will avoid radical belarusification and avoid the same mistakes done in early 90's.

#### **Conclusions: self-understanding or self misunderstanding**

Looking from the theoretical perspective, Belarusians lack commonness for building national unity on ethnicity. Religion, language and even history interpretation are the factors, which divide the people more than unite them. Although the view from the inside is different – Belarus is among the most homogeneous states in all post soviet territory. Neither language, neither religion nor history are deciding factors to define someone as Belarusian. The question of self-understanding and self-description is the most important. One can speak Belarusian and be a catholic to name himself a member of Belarusian nation and to feel a sense of unity, sense of amity to your co-nationals. But you can speak Russian, believe in the Soviet story and still sense of being a member of Belarusian nation. Even more – one can speak Russian and think about the Grand Duchy of Lithuania as a golden age for the formation of Belarusian nation. An example is the European Humanities University in exile. The command language is Russian, although one of the aims of this university is to promote Belarusian culture and to foster intellectual life of the nation.

The question for the analyst in this case is how long-lasting is this choice to attribute oneself to Belarusian nation. Meanwhile it is difficult to answer. At the end of the day the future of the ethnic nation depends a lot the role of the state. As in Belarus there is either no active and developed civil society or the part which is active has no common aims in the nation-building process (promotes parallel values) and thus none of the ethnic policies can be effective or even valid. The same can be said about the building of political nation – the ruling regime and opposition aims to the opposite direction – one side aims to building loyalty to the state, which correspond to regime. But this loyalty is built on an unconscious fear of change.

The other side treats this kind of self-description more as self-misunderstanding. Belarusian opposition aims for change, but does not have an exact program what this change should be and whether, for example, the ethnic policy would not be as radical as it had been during the first years of independence. At the moment

the ruling regime is winning in making its state building discourse more acceptable, due to propaganda, administrative tools, and of course through harassing and marginalizing the opposition. Dominating the discourse does not mean the state building process is successful in Belarus. The answers to the question "What is more important to you, economic improvement or national independence?" in Belarus are quite obvious – 62 per cent favor economic wealth to 25 per cent for independence (NISEPI, 2008). Even among those who support the opposition and not Lukashenka 51.4 per cent favor life improvement to independence (Ioffe, 2007).

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## Nationalism in modern Belarus

By Per A. Rudling

Belarusian nationalism was a latecomer among European nationalisms. Poverty, underdevelopment, relative socioeconomic backwardness, illiteracy, religious division, an absence of intellectual and political elites in combination with political repression delayed and retarded the development of Belarusian nationalism. Whereas sociopolitical agendas were articulated in national terms in the Belarusian language by Kastus' Kalinowski during the time of the January 1863 uprising, only the relative liberalization in the years following the 1905 revolution made it possible to produce Belarusian language publications on a regular basis.

During World War I much of Belarus was occupied by Germany. Following rumors spread by the tsarist authorities about German atrocities, a mass exodus of Orthodox believers preceded the arrival of German troops. As a result, the western "boundary" of the Belarusian ethnographic territories moved eastward, and much of its intelligentsia fled. The German occupation was, however, mild, and the development of a Belarusian national consciousness underwritten by the occupation authorities. In March, 1918 a short-lived, and largely symbolic Belarusian state, the Belarusian National Republic (BNR), was proclaimed, and tolerated by the German authorities. The collapse of the Central Powers saw the return of Soviet, and Polish troops, and the eventual partition of the Belarusian lands between the two powers. In January 1919 the Soviets established a Belarusian Soviet republic (BSSR), which, in 1922 became a founding member of the USSR. The majority population, still illiterate by 1920, as a result of the political, religious and physical division developed three literary standards in two alphabets, Cyrillic and Latin. The two parts of Belarus developed differently; a decade of intense nation-building in the BSSR was followed by an equally intense terror in the republic, in which 90% of the intellectual elite was repressed. West of the sealed border, Poland pursued a repressive policy of assimilation and suppression of Belarusian cultural and political activities. If the Stalinist terror was particularly brutal in the BSSR, and required hundreds of thousands of victims, it paled in comparison with the excesses of the German occupation during which over a fourth of its population perished, including the bulk of its sizable Jewish minority, murdered during the Holocaust. Stalinist terror had disproportionately targeted Poles; following the war many Poles were "transferred" to Poland. With the treaty of Yalta essentially permanentizing the Soviet western border of the Molotov-Ribbentrop treaty, Belarus was now largely unified as a national Soviet republic. Culturally, the regime premiered the Russian language from the mid-1930s onwards. The processes of Sovietization were particularly thorough in the BSSR. Three factors are often given as an explanation: the thorough Stalinist terror of the 1930s, which destroyed the Belarusian-language elites, the massive devastation during World War II, the end of which was perceived as a genuine liberation by large sections of the population, brought to power the former Soviet partisan resistance fighters with a certain legitimacy to the republican leadership. Last, but not least, the post-war era was accompanied by a rapid and much delayed urbanization in the republic, as one of the last areas of Europe. The peasants who flooded the Belarusian cities overwhelmingly adopted the Russian language, with which the new, Soviet modernity was associated. It was not perceived as foreign, and the Belarusian language, in turn, not always perceived as a separate language, but a variation of Russian. Significant material improvements for the majority population

gave the Soviet system a significant legitimacy in the republic. Opposition to the system was limited. When dissent became tolerated under Gorbachev the opposition was heterogeneous. Two rivaling modern founding myths had developed; that of the BNR and the BSSR. Linguistically, the overwhelming majority of the republic spoke Russian. Moreover, many of those who actually used the Belarusian language as the default language of communication was a rural population with limited political and ambiguous national consciousness; a majority of Belarusians self-identified as Soviet. Unlike its neighbors, Belarus lacked an diaspora of any influence. Yet, at the first and to date only free elections after independence, unlike Ukraine and Russia, a non-nomenklatura candidate, Aliaksandr Lukashenka was elected on an anti-corruption platform with strong undertones of Soviet nostalgia. Lukashenka was able to articulate popular concerns in a language which resonated with much of the population. He did, and does so in Russian, the language of the vast majority of the population. The opposition was and remains fractured, utilizing the Belarusian language and identifies with traditions, symbols, and historical myths with which but a minority elite of the population identifies. From 1996 onwards, Lukashenka has carried through a number of constitutional changes, permanenting his power and effectively turning the country to a one-man autocracy without any alternative sources of power. The opposition has been sidelined, discriminated, and repressed. This development escalated during the first decade of the 21<sup>st</sup> century. Protests against the contested 2010, which observers dismissed as rigged were violently cracked down upon by the regime, opposition leaders jailed.

During his first decade in power, Lukashenka relied heavily on Soviet rhetoric and symbolism, with lofty promises of working to restore the Soviet union. With Putin in the Kremlin this line became unworkable, and from 2002 onwards Lukashenka has made concerted efforts to appropriate the symbolism of the opposition, emphasizing values like national independence and made some attempts to appropriate the language and imagery of the opposition. The BNR, the legacy of the Polish-Lithuanian Commonwealth, campaigns with slogans like "For Belarus!" have been used to strengthen loyalty with the state and the regime, against a hostile world.

Belarus remains an unconsolidated, but nationalizing state, where nationalist imagery and myths are being used as political capital for the regime and opposition alike. Lukashenka has been the proprietor of Soviet traditions; his increased attention on rivaling historical myths may foreshadow an increased use of non-Soviet nationalist myths and imagery.

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## Belarus in our minds – a point of view from the level of the civil society

By Jussi Seppälä

The road to Belarus goes usually through the media. We learn to know the country to be a certain kind, but does it correspond to reality? And to which reality? I visited Belarus for the first time on August 2001, a little before the presidential elections. My destination was naturally Minsk, which most people know as the capital of Belarus. And most people, as well, can point Belarus on the map. However, this is not as it is. People rarely see Belarus in relation to its neighboring countries, for example when it comes to geography. It is easy to propose an opinion on Belarus, because Belarus is made to feel to be so close to us, in fact it could be hard to remain silent. The media is not silent, but reports regularly about happenings in Belarus. My aim in this writing is to handle some things the media perhaps doesn't speak of.

The largest cities in Belarus are its capital Minsk, Vitebsk, Mogilev, Gomel, Brest and Grodno. In Minsk there are some 1.8 million inhabitants, in Gomel 500 000, and in the others over 300 000. The total number of inhabitants is about 10 million. The surrounding countries are Latvia, Lithuania, Poland, Ukraine and Russia. In the historical times Belarus has been a part of large political unions. During the Second World War Belarus was bombed to the ground. On 1986 the fallout from the Chernobyl nuclear catastrophe transformed a considerable part of the land into danger zones. On 1994 the current president came into power, and has been re-elected several times. The people have remained the same, they are still Belarusians. Or has something changed?

My personal experience of Belarus is from the last 10 years. During that time I have visited Belarus many times, mostly in the role of a leader of the trips of the Finland-Belarus Society, which was founded on 2002. The society started to organize trips to its members to Belarus on 2007. I don't speak Russian or Belarusian, so often I have needed to bother some of our passengers to take a role of a translator. Usually, however, the locals have organized a translator, and of course many Belarusians speak English better than us Finns. The most important thing is to get close to the sense and feel of things, the language is of secondary importance.

Besides getting to know Belarus, I have lived in Estonia and Latvia about five years, just before Latvia became a member of the EU during 2003. In a sense, my personal point of view has thus been a little bit different than had I oriented to Belarus directly from Finland. Maybe this reference point has affected me so that I have tried to see the state of things as it is – the current state of things, a sort of an outer layer of some other things. The deeper currents of life usually have their own ways and are staying almost untouched by this outer layer. Traveling to Belarus has always felt somehow exciting – in a good way – for a common traveler. One can be sure to experience something exotic, and the framework has provided expectations of something unexpected. When we have encountered the Belarusian people, we have, however, encountered ourselves. The basics of life are the same. And even if this is a cliché, let it be said anyway: the minds of Finnish and Belarusian people work in pretty similar ways.

On May 2010, our society performed a Victory Day trip, during which we accomplished something remarkable. We

visited Soligorsk, where we were treated as guests by the staff of the Belaruskali factory. We were transported more than 400 m underground, to the working salt mines. A trip of this kind wouldn't have been possible without contacts on a high level – and we have them. A group of approximately 25 Finnish women and men changed their clothes into those of a real miner. We were made to change absolutely all of our clothes into coveralls, helmets and emergency oxygen tanks. When the vice director of the factory showed how an oxygen tank works, the unfortunate tank broke up in the rough handling, and nuts and bolts were flying around. Maybe we wouldn't need the precautions – let the journey to the center of Belarus begin! First, a group of workers came up from the mines, and we were packed into the elevator which took us down. We were seated to large vehicles which reminded giant Hummer cars, and we were transported few kilometers further in the mines, towards giant drilling machines, which were at work drilling the minerals. We were allowed to stay very close to the machines, which were put to work, dust and noise guaranteed. We were impressed by the show and got an English translation from the translator of the factory. I thought that this is it – we could never dig any deeper in Belarus. When back on the ground level, we went to sauna and swam in a pool of cold water, just like the real miners do. Our visit culminated in a luxurious dinner that took place in a hall in the administrative section of the factory. The table was long, catered by Belarusian culinary dishes, not forgetting the drinks. An accordionist, who belonged to our group, played and sang a Belarusian song "Belorussia", made famous by the group Pesnjary during the 1970's. The vice director of the factory was moved to the tears, fetched a large bottle of vodka from the kitchen, and gave it to our accordionist. The dinner went along in the full scope of feelings. Our group sang traditional Finnish songs, in order to deepen the feeling of our common traditions. But, did something go wrong with this?

Our Victory Day trip continued for a break to Slutsk, which is a small town on a way to Minsk. We stepped out of the bus near the main square, where we found a stage that belonged to the festivities. Some of us, including the accordionist, went to the stage, and performed some Finnish songs and dances. Then we headed for the nearest beer tent, which was on the side of the square. Soon we made acquaintances with the locals and found a common tune, singing together traditional Russian songs. The beer was cold, and the locals started to lose the first tension caused by meeting with strange foreigners. From time to time, I have still received text messages from Slutsk, either greetings, or just questions about life in general. But, did something go wrong with this? I forgot to tell, that one of the secretaries of the Belarusian embassy was with us, looking desperate, when we started to have fun together with the locals. This is what we always do on our trips, try to behave nicely. If someone keeps an eye on us, then fine. I also forgot to tell, that when we earlier crossed the border to Belarus, two of the secretaries drove in a car before our bus, so that we passed the customs relatively quickly. Not so bad service. When getting back from Slutsk to Minsk, we visited the Belarusian Society for Friendship. In the end of the meeting our accordionist played the same song as in

Soligorsk, this time with a grand piano, and the result was almost the same. A radio journalist happened to be there, asking could the song be played again so she could record it and play on the radio. We heard later, that probably millions of Belarusians must have heard the performance on the radio. But, did something go wrong with this?

I would like to make some kind of a short summary of our society's trips to Belarus. We have visited some special places. We have met with many kinds of people. We have heard Belarusian language spoken to us. We have learnt to notice the nuances of things. We have been taken care of. In a way we have gotten the feeling of how the life proceeds. Perhaps a lot remains unknown. But, did something go wrong with this? I could tell a lot more, about our brigade's adventures through Belarus, sometimes acting to be a business delegation, other times a cultural delegation. Maybe we have forgotten what our role was supposed to be by now. In the midst of everything, have we been something else than what we have seemed to be? Have we been simply tourists? Have the people we have met been something else than what they have seemed to be? Where is your brother, as it was asked a long times before. I believe that we have transformed ourselves as being simply travelers. During our trips we have also been representing our association, which is a normal Finnish NGO, politically and otherwise independent friendship society. In Finland there are thousands of associations – every Finn being a member of several of them. An association doesn't have to have a clear outer objective,

relevant is some common sense. In this case, the subject matter lies in the field of friendship, and its different dimensions.

I want to tell one more story. In 2011 we happened to be again in Minsk during the Victory Day. For some strange reason, we ended up participating in the great parade, walking along the main avenue. We were offered some cardboard hats, and some flags, which carried the colors of some local association. We didn't know about this organization, but we put the hats on, and waved the flags. But, did something go wrong with this? I don't know. In fact, I have wanted to ask, did something go right with this? I would like to answer "yes". But what, about that I have no idea. Visit Belarus, the real questions and answers lie there.

*Jussi Seppälä*

*Chairman*

*Finland-Belarus Society*

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# Employment and social development in the EU and in particular in the Baltic Sea region

By László Andor

From the employment and social cohesion viewpoint, the first point to note about the EU's member countries on the Baltic is the diversity of their employment and risk-of-poverty rates in this fifth year of the financial and economic crisis. This diversity must be measured against the ambitious headline targets that the European Union has set itself under the Europe 2020 Strategy for increasing employment and reducing poverty and social exclusion by 2020. Setting those targets in the midst of such a severe crisis may seem a wager, to be measured against the Member States' individual and collective sense of realism and determination.

Cohesion policy and the Structural Funds, and in particular the European Social Fund (ESF), are crucial to meeting the Europe 2020 targets of 75% employment and reducing the number of those at risk of poverty and social exclusion by 20 million. As access to employment is often seen as the best route out of poverty and social exclusion, support for employment, training and skills can help reduce disparities in prosperity and living standards across the Member States and regions and thus bolster economic and social cohesion. In the Baltic Sea region the ESF tackles unemployment and the social consequences of the crisis by promoting the inclusion of groups excluded from the job market, keeping employees in their jobs and promoting adaptability, lifelong learning and training, especially for young people.

The national employment targets set by the EU's Baltic Member States range from lows of 71% to 73% (in Latvia, Lithuania and Poland) to 76-78% (in Finland, Germany and Estonia) and to 80% (in Sweden and Denmark). Compared with the same quarter a year earlier, employment in the second quarter of 2012 was up in all the Baltic Member States, except Denmark.

Unemployment ranges from 5.5% in Germany (July 2012) to 15.9% in Latvia (June 2012), with the other Baltic member countries in intermediate positions, Sweden, Finland and Denmark being at the lower end (between 7.5% and 7.9%), with Poland and Estonia at around 10% and Lithuania at 13.0%. But the unemployment rate for the other member countries also shows great disparity: for the EU as a whole, it stands at 10.4%, with the Baltic Sea range being exceeded at the lower end solely by Austria and the Netherlands (at 4.5% and 5.3% respectively), and at the higher end, by Portugal (15.7%) and the two outliers Spain and Greece, at 25.1% and 24.4% (June 2012) respectively. It is worth noting that, compared with a year earlier, unemployment was down in 10 Member States, three of which are on the Baltic (Lithuania, Latvia and Estonia), which are also the countries where the gap between the target and estimated growth is widest.

Diversity is also a feature of the risk of poverty or social exclusion in the Baltic Member States: in 2010 it was 13.1% in Finland, 21.7% in Estonia, 38.1% in Latvia and 33.4% in Lithuania. The EU average was 23.4%, with around 116 million Europeans living either at risk of poverty or in social exclusion, i.e. in severe material deprivation or in very low work-intensity households. The current crisis has had a severe impact on reducing standards of living and increasing the number of people at risk of poverty and exclusion. It has affected vulnerable groups disproportionately, with new sections of the population falling into poverty.

Under the European Semester arrangements for governance, policy coordination and guidance and reform commitments, national performances are monitored and country-specific recommendations issued. The July 2012 European Council's recommendations to the Member States covered the need for better targeting and greater efficiency of social transfers and better access to quality social services in Bulgaria, Estonia, Spain, Lithuania and Latvia; greater

employability for certain vulnerable groups in Denmark, France, Hungary, Spain, Lithuania, the Netherlands, Sweden and the UK; and incentives to work and other activation measures in Lithuania and Latvia.

To encourage the Member States to improve their performances and stay on track to meeting their targets, the European Commission continues to adopt further policy proposals. In April 2012 it issued an Employment Package of proposals for a job-rich recovery. These look at the demand-side of job creation and include encouraging the Member States to shift tax from labour to other, less-growth-distortive sources of finance, bring wages into line with productivity developments, provide adequate training, removes obstacles to women's labour-market participation, extend working life and support business start-ups. They also point to the green economy, health services and ICT as the areas with the biggest job potential for the future.

In 2009 the Commission presented an EU Strategy for the Baltic Sea Region to assist the eight EU Baltic member countries in coping with common challenges in the areas of the economy, labour markets and population change. The first such macro-regional strategy in Europe, it seeks to safeguard the sea, connect the region and increase prosperity by coordinating action by the Member States, regions and municipalities, the EU, pan-Baltic organisations, financial institutions and NGOs for more effective development of the Region. The Strategy was reviewed in 2012, and the June 2012 General Affairs Council conclusions confirm the importance of bolstering prosperity in the Region.

Set up as part of the Action Plan of the Baltic Strategy during the Baltic Sea Labour Network conference, the Baltic Sea Labour Forum is an open tripartite platform that acts as a network for cooperation between employer and trade-union confederations, governmental and parliamentary institutions and organisations. It aims to promote cooperation, social dialogue and tripartite structures as crucial to sustainable economic growth and social development in the region, and to improve the management of common labour-market issues based on joint transnational strategies. The Forum pays due attention to population change and migration and focuses for 2012-13 on labour mobility and youth employment. Cooperation between public employment services, a flagship project of the EU Strategy for the Baltic Sea Region, involves improving information on job offers and working and residence conditions in the Region through better use of EURES, the European portal for job mobility<sup>1</sup>.

The EU Baltic Sea Member States' success in coping with the challenges in the country-specific recommendations will depend on many factors, including strong political determination and decisive action, but the quality of their human resources, their organisational capacity and the vigour of their economies give every reason for optimism. The European Commission will continue to follow and monitor the situation closely, in particular through the European Semester.

László Andor

Commissioner

European Commission

<sup>1</sup> <http://ec.europa.eu/eures/home.jsp>.

# Why Eastern Partnership still matters?

By Edgars Rinkēvičs

For several decades Europe remained separated by "the iron curtain", which, however, was not able to erase hopes that one day Europe would be united again. Europe "whole and free", without dividing lines was an ideal for the oppressed nations of Central and Eastern Europe during the Cold war. And these hopes became reality. Twenty years have passed and we should be proud of Europe and ourselves, of what has been accomplished during these two decades. Namely, Poland, the Czech Republic, Hungary, Slovakia, the Baltic States and other countries have returned to where they always belonged.

The process of European integration is gradually embracing the Balkans. I am confident that the membership of Croatia in the European Union will serve as a strong impulse for other applicant countries – Albania, Montenegro, Serbia, FYROM, Kosovo, Turkey, and Bosnia and Herzegovina to put more efforts into achieving membership in the European Union. With these countries included in the system of European values and co-operation, one might say that we have come to a "natural goal" of Europe "whole and free". But is it really so?

## EU eastern neighbours

The saying goes that neighbours are not chosen, they are just there by God's will. The European Union has two natural neighbouring areas – in the East and in the South. While these regions clearly differ in terms of culture, mentality and religion, there is one striking similarity: both areas are in need of reforms and both regions, while presenting a number of opportunities for the EU, present also numerous challenges. And the challenges are multifaceted – migration risks, unstable economies, unemployment, poverty, weak state and civil institutions etc. So it is only natural that the priority of the European Union should be the strengthening of links with these adjacent areas in order to ensure stability along its borders.

Looking in the direction of eastern neighbours or the Eastern Partnership, we see six states – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – which:

- All are former parts of the Soviet Union and have experienced the totalitarian past.
- All are geographically a part of Europe, five of them, except Belarus, being members of the Council of Europe.
- All six are willing to have relationship with the European Union, ranging from a membership perspective for Georgia and Moldova to "strategic partnership" in case of Azerbaijan.
- All are part of the same EU policy, called Eastern Partnership, which remains the only instrument of structured co-operation between the European Union and the six countries in question.
- All of them to a bigger or lesser degree experience problems with state-building and observance of democratic and human rights.

## Why these six countries matter?

The history of Europe clearly shows that areas of instability in our continent have usually appeared in those regions which have been situated in the "backyard" of the continent. The conflicting interests of superpowers in the Balkans sparked World War One. The collapse of Yugoslavia revived these negative memories once again and still serves us as a bitter reminder of the first genocide in Europe carried out after the World War Two, namely, Srebrenica. And today you will not find many analysts who would counter the argument that the only realistic long-term peace perspective for some of the

Balkan states lies exclusively within the project of European integration.

If we are clear about the Balkans, what about the six countries situated in the even more distant periphery?

These countries clearly matter because:

- They are neighbouring the EU with physical borders, thus being important economic partners to the European Union. For example, around 40% of Ukrainian trade is linked with the EU, and trade figures for other partners are even higher.
- People-to-people contacts with neighbours, especially in case of Belarus, Ukraine and Moldova, are being actively developed.
- These countries are either important energy producers (Azerbaijan) or transit countries (Belarus, Georgia, Ukraine).
- Four frozen conflicts are located in the area, with the potential of thawing, in the Caucasus in particular.

## What should be the EU approach?

### Stable and secure borders

The European Union should clearly wish for stability and predictability along our eastern borders, which indirectly implies our support to political and economic reforms in the six countries by facilitating the creation of viable political and economic systems.

### Common values

The European Union has always been clear that the level of dialogue between the partners and the European Union depends on how the former are observing those principles which are important to every citizen of Europe. The more partners with the same understanding of values, the better for Europe.

### Economic links

The European Union as one of the most important global economic players is constantly looking for new markets and new opportunities worldwide. It has long been acknowledged by economic theorists that neighbours usually tend to trade with each other more intensively. And the Eastern Partnership is again the area where we should strive for the development of those principles we are observing in our intra-European trade, based on the rule of law, fight against corruption and free trade without impediments. I am absolutely sure that the creation of a free trade area in a longer perspective with the countries of Eastern Partnership would greatly benefit the European Union, as much as a visa free regime with these countries. More trade and people-to-people contacts better for Europe.

### Reliable energy sources

The European Union is interested in predictable and transparent global energy trade rules. The countries of the Eastern Partnership have a lot to offer in this regard. Azerbaijan has already emerged as a reliable source of energy for the European Union, willing to expand the existing co-operation. Georgia and Ukraine serve as important transit countries of energy resources.

### Partners in the international arena

The Eastern partners have developed a high level of expertise on regional issues, which might be of interest for the European Union. The Caucasian countries are situated in the region

close to Iran and the Middle East. It is important for us to have these partners on board and use their experience when developing our own positions.

#### **Instruments at our disposal**

Latvia has always stood for the cause of further strengthening of our relationship with the Eastern partners; however, not at the expense of our southern neighbours. More than that, Latvia has always firmly believed that the European Union should be interested in fostering dialogue with those countries if they are willing to reciprocate, willing to observe the same values and standards shared by the European Union. But strict conditionality is a prerequisite for the enhancement of the dialogue.

There are currently two major issues standing out – free trade and free travel. Latvia is clearly in favour of moving towards fulfilment of these aims if the partners are ready to work in these directions.

#### **Individual approach**

It is important to note that all six partners of the European Union are different when it comes to their historical memories, levels of political and economic development, and human rights records. It is difficult to impose upon, and demand the same observance of conditions from every partner. And equally not all the six countries share the same level of ambition with regard to the European Union. Moldova and Georgia have long been recognised as "champions of the European cause". Azerbaijan would rather stick to strong partnership with the European Union with a particular emphasis on energy co-operation. Belarus is still falling behind even the most elementary principles of democracy and human rights. And signing of the Association Agreement with Ukraine is still pending due to the imprisonment of the former Prime Minister Yulia Timoshenko.

The European Union should take into account these differences and develop an individual strategy with every individual partner. *More for more*, i.e., more progress in every partner state means closer relations with the European Union, – this should be our guiding principle.

#### **What could we expect and what should we do?**

**Belarus** – the relationship between the European Union and Belarus has been passive for the last 15 years and will remain so as long as the Government of Belarus does not change its approach with regard to democratic values and human rights. The situation over there has not been changing and it is not showing any signs of change. The growing integration of Belarus with Russia might mean that Belarus will not be seeking membership within the European Union and will prefer some kind of partnership.

The European Union should stand ready to increase the frequency of contacts and upgrade the level of relationship as soon as Belarus is ready to take into account EU concerns in the field of human rights.

**Armenia, Azerbaijan** – both countries have not been successful in carrying through meaningful democratic reforms. The conflict of Nagorno Karabakh will be demanding maximum efforts on both sides in the coming years. The recent release by Hungarian authorities of Azerbaijani officer Ramil Safarov who was convicted for the murder of an Armenian officer and the subsequent response in the two countries reveal once again the complexity and the emotional background of the issue.

There will be an interest in developing partnership with the European Union, with Azerbaijan favouring closer ties in the field of energy co-operation.

The European Union should base its relationship with Armenia and Azerbaijan on clear Action plans aimed at strengthening the bilateral dialogue as long as the two partners are willing to work in the directions set jointly by the European Union and Armenia and Azerbaijan.

**Georgia, Moldova** – both countries are having better human rights records but still considerable work is to be done. The two strategically have announced their aim to join the European Union in foreseeable future. We might expect the fulfilment of the Action Plans with the European Union and moving towards closer partnership with Georgia and Moldova.

If the current Action Plans are fulfilled, the European Union should offer new benefits and opportunities for Georgia and Moldova in the form of new contractual relationship, aimed at cementing domestic progress in Georgia and Moldova and building closer ties between the EU and the two partners.

**Ukraine** – the country will remain the key actor in the Eastern Partnership due to its size, population and geographical location. Ukraine has historically found itself squeezed in between its neighbours, between East and West, which has hampered its development as a nation state. Ukraine is facing challenging times and the agenda point of European integration we might have reached by now – the signing of the Association Agreement – is still on hold. Ukraine is moving towards "making a choice", and this is not a choice about geopolitics, this is the choice about values and where Ukraine sees itself. One part of the history of Europe has taught us many times that in case of choices you must play it wisely; the dark side of the European history has equally taught us that by making the wrong choice, there is no choice any more at one moment.

The European Union should closely watch the domestic situation in Ukraine and sign the Association Agreement with Ukraine as soon as the country fully observes European norms, principles and practices. Notwithstanding the difficulties Ukraine currently is facing the European Union should continue its level of engagement with the country at different levels with special emphasis on people-to-people contacts.

#### **Conclusion**

The European Union must have an ambitious and strategically guided policy towards its Eastern neighbours. We must have a fresh look at the six with an aim of further stabilizing and democratizing this area. By neglecting or ignoring our closest neighbours the European Union might find itself in a situation when we will be facing much greater challenges. And these challenges could be of political and economic nature. By pursuing relationship and partnership with the six we would greatly enhance the global position of the European Union, stability and predictability with our Eastern neighbours, prosperity for both the EU and the Eastern Partnership countries.

*Edgars Rinkēvičs*

*Minister of Foreign Affairs*

*Latvia*



## East-West pipelines – integrating Europe

By Edit Herczog

There are certain foreseeable challenges in the field of energy security, as the global population is expected to reach nine billion by 2050 and the global energy demand will be doubled by then. Although the EU Member States are energy producers, the produced sources are only enough to cover 40% of their consumption. Moreover, Member States are inhomogeneous regarding both their needs in energy consumption and their capacities in energy production, especially in the Central- and Eastern-European region. The EU already spends 400 billion euro annually on energy import. Becoming increasingly dependent on imports makes the EU vulnerable to external suppliers and transit countries.

Safe, secure and competitive supply of energy is, therefore, a priority of the EU, in order to decrease its 60% dependence on imported oil and 40% dependence on imported gas. Moreover, in the process of building a digital economy in Europe, it is inevitable to secure constant and affordable energy supply to the whole region. In addition, the satisfaction of the energy demand has a strong social dimension as well. In Central- and Eastern-Europe the increasing costs of energy can easily create an “eating or heating” situation. As a result, there are two crucial questions to be solved: how to provide the energy and how to keep the prices down. I wish to lay emphasis here on the fact that by intensifying integration and by promoting diversification of energy sources, this seemingly desperate situation could be turned into the advantage of the region, for instance, by acting on our considerable power as a major purchaser on global energy markets.

### Diversification is the key

Not only does the EU depend on energy import, but also its dependence of certain suppliers might indicate concerns. Russian gas accounts for 24% of gas consumed EU-wide, but it accounts for between 48% and 100% in 12 of the 27 Member States. Additionally, the balance between Russia and the Eastern Partners of the EU is constantly fragile, enough to remember the gas crisis in 2009 or the Russian threat to Moldova in September 2012. Consequently, it is not enough to diversify the routes of energy supply, but the sources of energy must be also multiplied. For these reasons, the Nabucco project would constitute strategic importance for the EU, as it would be able to reduce the dependence on Russian gas sources by transporting gas from the Caspian Sea to Europe.

However, Nabucco is not the only new infrastructural investment that could be brought to life, since Russia has declared its will to build alternative routes (South Stream and North Stream) to satisfy gas demands within Europe. Although North Stream and South Stream could be solutions for the diversification of supply routes, it would not be able to serve the need for diversifying the sources of gas, so the dependence on Russian import would not decline. In order to diversify both suppliers and routes, EU decision-making should take into account the priority energy infrastructure corridors, especially those aimed at creating a real competitive market for gas. The creation of new transit corridors (Southern Corridor and the Mediterranean Basin) should be accelerated and supplemented with the reinforcement of existing corridors (Eastern Corridor) and with the increase of EU's share of LNG. This way real competition could be created among sources of gas supply.

The diversification of energy sources might also be increased by opening the EU market globally and improving

overseas connections by reaching out to new and remote suppliers (e.g. oil sands and shale gas from Canada, the United States, Australia, Qatar, Brazil and Argentina, energy exploration in the Arctic region, and further exploitations in Iraq, Venezuela and Africa).

### How deep integration is needed in the energy market of Europe?

The Lisbon Treaty laid emphasis on the energy policy by constituting a chapter for it, however, the energy policy within the EU is still far from being a common policy. For this reason, the provisions applied for the internal market, competition and environmental policies are crucial in the field of energy, although, these provisions are not able to represent entirely the interests of the energy sector.

As Member States are becoming increasingly interconnected, the efforts to ensure security of supply exclusively at national level have proved to be unable to safeguard the long-term interests of all Member States. As a result, political coordination among Member States in negotiating with powerful energy suppliers in third countries is essential. The creation and connection of cross-border energy infrastructure within the Union also require strong coordination between Member States' policies and solidarity in the field of external energy policy and energy security.

Consequently, it is high time for the EU to define itself in this regard and act as a real union (instead of acting as 27 individual actors), as great infrastructural investments such as Nabucco could not be accomplished without the strong and undivided support of all the Member States. It must be also mentioned that in order to achieve the necessary infrastructural developments, investments are much needed both from the public and the private sector and both at the level of the EU and Member States. In this regard the Multiannual Financial Framework and the Connecting Europe Facility could serve as significant sources for the Member States, not to mention the proposed new financial instrument, project bonds that could encourage private investments.

Connecting the routes of the energy supplies is, however, useless without creating a binding regulatory framework for the region, which would set common rules, regarding competition, export and import, third parties' access, unbundling and information share between Member States. The proper functioning of the internal market requires that the energy imported into the Union, once on EU territory, is fully governed by internal energy market rules. The EU should also aim for regulatory convergence with neighbour countries willing to embrace its internal energy market rules; in this regard the role of the Energy Community is inevitable.

To summarize, it must be emphasised that dependence on imported energy source should be decreased by the diversification of supply routes and sources, supplemented with an enhanced integration of the European energy market.

Edit Herczog

Member of the European Parliament

## Controversial real estate ownership

By Marjo Matikainen-Kallström

Since the end of the wars between Finland and Russia, the ownership of real estates in the area of the ceded Karelia has been under discussion. The related legislation has changed on both sides of the border during these years, so have the attitudes. Along the years there have been fierce debates and more friendly talks. Also the expertise of those involved in the discussion has varied largely.

Russia has not in general restricted foreign real estate ownership with new regulations. Foreigners are allowed to own real estates in almost every other area besides the border zone. In Russia, the border zone is very wide compared to other countries. The state has a land border of more than 14,000 kilometres and the width of the border zone varies from 5 to 50 kilometres, depending on the area.

The legislation on restricting the land ownership by foreigners on the long border zone of the country entered into force on 25 October 2001. Ten years later, on 9 January 2011, President of the Russian Federation Dmitri Medvedev accepted a decree containing an exact list of areas in which foreigners are not allowed to own land.

The Finns have actively commented on the decree since its entry into force and tried to have an influence on that the Finns could buy real estates in Russia, also in the entire territory of the ceded Karelia. Our former president Tarja Halonen repeatedly brought the issue forward in talks with the Russian leaders.

According to the above list of areas, only the districts of Käkisalmi (Priozersk), Pitkäranta, Terijoki (Zelenogorsk) and a part of the district of Sortavala in the ceded Karelia are outside the border zone. In all other areas the land ownership has become unlawful and it has to be renounced. The final date for voluntary renunciation was 9 January 2012, one year after the decree was given.

After the above date, the land property may be sold by compulsory auction or expropriated by the state. In both cases the sales price is forwarded to the owner. If a foreigner owns buildings on those lands, he or she has the right to lease the land property on which the buildings stand, with certain exceptions.

Thus the right to lease land on the border zone is still possible. Russia has however strict regulations on land use. For example, land intended for agriculture may not be used for other purposes. Forests are owned by the state and cannot be bought at all.

### Reciprocity

In Finland, discussions on the issue have often brought forward the idea of reciprocity between the countries. Either the Russian land ownership in Finland should be prohibited or the Finns should be given the right to buy land in the area of the ceded Karelia. The basic principles are the same: a foreigner may purchase land in both countries. The mismatch concerns the border zone areas, which is problematic for the Finns.

In Finland the border zone is much narrower than in Russia: in Southern Finland it is only a few hundred metres and in Northern Finland only a few kilometres. There are no restrictions of real estate purchase on the border zone. There is however restrictions of movement and construction applied to every person in that area.

Since 1 January 2000, foreigners have been entitled to buy and own real estates freely in Finland. The present estimation of the Russian-owned real estates in Finland is from 5,000 to 7,000. It covers about 0.2 per cent of all the estates and plots of land in our country. The Finns, for their part, own only a few

dozens of real estates behind the eastern border. In Russia, there is a register on foreign land owning, but it is not public and the exact number is hard to estimate.

For facilitating the communication, it has been proposed that a real estate agency system be created for foreign real estate owners in Finland. It means that all the foreign real estate owners should have an agent who would be in charge of managing all the payments and other obligations relating to the real estate. It has however been considered so far that the system would not be of great assistance as to the availability of the owner, which is one of the problems. The system would also get quite expensive for the state, because not all the costs could be collected from its users.

### The way forward

At present it seems evident that no amendments will be made in the Russian legislation on land owning. The only factor having an effect on the lands in the area of ceded Karelia is the width of the area defined as a border zone in Russia. Now the width of it against the Finnish border is dozens of kilometres.

The recently elected President of Finland Sauli Niinistö and President of the Russian Federation Vladimir Putin discussed the land owning problem, of which the Finns are concerned, during their first meeting. President Putin stated that the Finns, just like any other foreigners, may purchase land in Russia freely; it is prohibited only in the border zone. He promised however to find out what could be done with the issue.

The land ownership was also discussed with Russian Foreign Minister Sergei Lavrov, who visited Finland in August. The state leaders talked about the land trade of the Finns in Russia, too. Foreign Minister Lavrov said that one of the issues was whether the border zone against Finland could be narrower in future. This was considered as good continuation to the talks between the Presidents in future.

Co-operation between the Finns and the Russians living in the area of Karelia has significantly improved during the past decades. There are also several co-operation projects underway at the moment involving both local and Finnish actors. Co-operation between individuals and associations is active.

Now that Russia is a member of WTO - which is supposed to benefit the Finnish companies in the form of lower customs fees and gradual stabilisation of the entrepreneurial climate - it is hoped that business activities across the border will also increase. Negotiations on visa free entry with the EU, development projects of the border crossing points and eventual starting of passenger railway traffic from Petrozavodsk to Oulu and Joensuu are also projects that make our eastern border lower than before. Narrowing the border zone and allowing the foreign land ownership in the area of the ceded Karelia would be important to the Finns. The process will continue.

Marjo Matikainen-Kallström

DI, eMBA, Member of Parliament  
Parliament of Finland

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# A view on the German Presidency of the Council of the Baltic Sea States

By Christel Happach-Kasan

Ever since the time of the Hanseatic League, the history of Northern Germany is strongly interconnected with the Baltic Sea States. Although during the last centuries the region lost its global importance, the interest for its political development is still outstanding. Until the time of the Perestroika in the Soviet Union, the Baltic Sea was divided by the Iron Curtain and threatened because of the Cold War. Therefore, with the fall of the Berlin Wall and the German Reunification, the political situation for the Baltic Sea States changed drastically. The next major step was the so-called "Singing Revolution" in the three Baltic States, which led the three nations to regain their independence by establishing a parliamentarian democracy. In 1991 Germany took up diplomatic connections to the Baltic States and in 2004 Poland and the Baltic States became members of the EU and the NATO.

The German Bundestag maintains contact with members of democratically elected parliaments worldwide, and has formed 54 friendship groups. The German-Baltic friendship group was founded in 1991. From its very beginning, it has attracted many members of the Bundestag, which underlines our concern for this region and its development. Our friendship with the members of the three Baltic parliaments is marked by mutual cordiality.

This year, the Council of the Baltic Sea States (CBSS) has celebrated its 20<sup>th</sup> anniversary. In 1992, together with his Danish counterpart Uffe Ellemann-Jensen, the German Minister for Foreign Affairs Hans-Dietrich Genscher, who is often called "the architect of the German Reunification", founded the Council. Having witnessed the effects of the Cold War, their common goal was now "to create a genuine democratic community around the Baltic Sea". Today, all of the eleven immanent neighboring countries are member states of the CBSS, and ten more have observer status. In 2011/2012, Germany has had the presidency of the Council of the Baltic Sea States for the second time. During the German presidency, the friendship groups of Scandinavia, Poland, Russia and the Baltic States organized a meeting of parliamentarians, in which the goals of the German Presidency were discussed with our colleagues and with different NGOs from the region of the Baltic Sea.

In order to ensure the development of the Baltic Sea States, the CBSS has signed a contract, stating its long-term goals, focusing on five major issues: economic development, environment, energy, civil security and the human dimension, as well as education and culture. Already in 1974, seven coastal Baltic Sea States had signed the Helsinki Convention, which came into effect in 1980. The new political situation led to the foundation of the Helsinki Commission, short HELCOM, which works to achieve a balanced, ecologically healthy ecosystem in the Baltic Sea. Although there is still much to be done, for example in waste water clarification especially in the new EU member States and Russia, it can be said that the

states have been quite successful. The Baltic Sea, which is by nature in a difficult ecological situation due to its exceptionally low salt concentration, has had a positive development regarding biodiversity and habitats.

During his presidency in 2011/2012, the German Minister for Foreign Affairs, Dr. Guido Westerwelle, has strived to continue this legacy by adding two more vital points to the agenda: energy security and the initiative for a common Baltic Sea History Book. The importance of the latter initiative became obvious in the discussions between parliamentarians and members of different NGOs. Also, during our last delegation's journey of the German-Baltic friendship group this year to Estonia and Latvia, we learned that there is a demand for a common view on our common history. We met Estonian and Russian students who had formed a group called "Open Republic" and whose goal is to support a better mutual understanding. Talking to these young people was very impressive. Their experience had been that for the process of integration of Russians in Estonia, the different views on their common history were a higher obstacle than the different languages they spoke. Thus, these students made a point why a common history book for the Baltic Sea States is so important for its future. Knowing where we come from will help us to decide where we want to go. The work on the book will open the eyes for different views on the history, help strengthen the multilateral cooperation and build a common identity. In a globalized world it is important that people feel connected to the area in which they live. Together with France and Poland, Germany has already worked on common history books as one requirement to build a common future. The European Union has welcomed this initiative and guaranteed to support the history book for the Baltic Sea states with 134.000 €. The educational institution Academia Baltica e.V. in Lübeck will coordinate this project.

Looking back on its history and development today, the "genuine democratic community around the Baltic Sea", intended and initiated by Genscher and Ellemann-Jensen, has advanced well. Due to its progress, the Baltic Sea States is now considered a model region in the EU.

*Christel Happach-Kasan*

*Dr., MP*

*Chairwoman of the  
German-Baltic Friendship  
Group*

*The German Bundestag*

*Germany*



## Minorities around the Baltic Sea

By Mikaela Nylander

The Baltic Sea is a natural border between the countries surrounding it, but over the centuries it has also been an element connecting and linking the countries to each other. The most prominent example of this is probably the Hanseatic League, the trade- and defence union established in the 13<sup>th</sup> century between the port cities along the cost of the Baltic Sea. During the centuries the peoples of the different countries have intermingled and intermixed, and the movement across the sea resulted in colonies or communities of people settling down in foreign countries. These communities make up most part of the so called national minorities in the countries in the Baltic Sea region. Of course there was movement across land borders as well, but the sea has still been an important way of connecting with each other and a main origin of the minorities of today.

The different countries have different stances on the issue of national minorities and minority languages. In Finland, for example, the Swedish-speaking minority has very far-stretched rights while language minorities in e.g. the Baltic states are less fortunate regarding the possibility to use their own language when contacting the authorities. Even if the minority policies are varying between the countries around the Baltic Sea, and even within a country depending on which minority is in question, the countries have a few things in common: First of all, all of the countries (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia and Sweden) have ratified the European Framework Convention for the Protection of National Minorities, and it has entered into force in all ten countries. Also, all countries but Denmark have multiple national minority groups of different sizes, ranging from 0,03 % of the population (like the Sámi-speakers in Finland) to nearly 30 % of the population (as the Russian minority in Latvia).

Some of the minorities are considered autochthonous (a people native to a region, a distinct community that has been settled in the area for many generations) while others are not, and the legislation considering both the national language(s) and the minority languages differ a great deal between the countries. It appears obvious that a collective policy for minorities for all ten countries is out of the question. That is, however, still the goal we should aim for. It is clear that it is not realistic to think the goal could be achieved any time soon, but in the long run we would all benefit from a coordination of the minority policies and the policies regarding minority languages between the Baltic Sea states. This should nevertheless be a progress of

many stages. First and foremost all countries should strive to fulfil their international obligations under the European Framework Convention for the Protection of National Minorities.

Secondly, there needs to be a common understanding of which the national minorities considered are. Some countries have stated very clearly which minorities are considered to be national minorities or which minorities are covered by the European Framework Convention for the Protection of National Minorities. An example of this is Denmark, which decided that the Framework Convention is only applicable to the German minority in South Jutland. Other countries, like Lithuania, have not drawn any guidelines, which has been interpreted in the way that the Framework Convention is applicable to all minorities.

As it becomes clear above, the level of the minority policies is different from country to country. I still believe that we could, and should, honour our common cultural history and the connection the Baltic Sea brought and still brings us. If a common policy is to be made, there needs to be a uniform understanding of at least a minimum of rights for the minority languages. This could perhaps be a task for the already existing cooperation between the Baltic Sea states. There needs to be a discussion about the signing and ratifying the European Charter for Regional or Minority Languages, which is not in force in all Baltic Sea countries. There are very complicated historical issues behind the Baltic states' unwillingness towards signing the Charter, and this is not the forum to go deeper into that and I am not going to take a clear stance on the issue. Nevertheless, there needs to be an enhanced dialogue on the matter. No matter how difficult a question, we should still be able to talk about it.

I do believe all countries around the Baltic Sea have something to gain from working together to defend and strengthen the multitude of languages and cultures along our shores.

*Mikaela Nylander*

*Member of Parliament*

*Parliament of Finland*

*Finland*



## Building sustainable growth in the Baltic Sea region

By Kimmo Tiilikainen

One of the favorite sentences repeated by the politicians is: "We have to build sustainable growth".

It sounds safe but what does it mean? What is the purpose of that sentence? Does it refer to growth that is going on year after year? Or does it really mean that the growth must be ecologically sustainable as well?

For some years I thought that many politicians meant the ecological sustainability. World leaders were worried about the global warming and it all was to be tackled in Copenhagen. The purpose of the meeting was to build a global agreement to mitigate the climate change and help all the countries to adapt to the changes in front of us.

That did not succeed. Since then we have taken only minor steps towards the target. One of the reasons was money. It was estimated that we would need about 100 billion annual investments in mitigation and adaptation to keep the warming within two degrees. That amount accounted for both public and private investments added together worldwide.

After Copenhagen the economic crisis attacked Europe. To restrict it, we have spent more than 100 billion euros each year, just to maintain the stability of the euro zone.

So, 100 billion a year was too much to save the world for future generations but it has not been too much to spend to keep a single country along in the common currency. I admit that the comparison is somehow unfair, but it clearly tells about the values of the political system; money talks. Shame for us, politicians.

I have studied both economics and ecology at the university. Which one is stronger science? Is it economy that is drawing the limits to ecology or is it ecology that is drawing the limits to economy?

In my opinion, ecology is stronger than economy. The amount of natural resources and annual yield of renewable resources are finally setting the limits of human economies. Even now we are exceeding the annual yield in many ways. How about tomorrow when the world's population is growing? Besides of the economic debt crisis we have an ecological debt crisis at the same time.

Is there anything we can do? We cannot create a new globe; this is the only one we have. Should we cut the standard of living? Oh yes, if someone else is carrying the load. Debt crisis has shown how difficult it is to cut salaries, pensions, other benefits or public services in order to balance state budgets. Would it be easier for nature's sake? Perhaps not.

The only solution is that we have to be smarter than today, much smarter.

The things you can measure can be improved. It is impossible to say which is the exact level of environmental load that the nature can sustainably carry, but it is easy to determine whether our performance is better or worse compared to previous year or decade.

Decoupling of economic growth and environmental load is a necessity. The success in decoupling is something that can be measured, too.

We have four indicators of ecologically sustainable growth. First one is cutting emissions and effluents, even at times when the economy is growing. Second is material efficiency. Third is energy efficiency. Fourth and the most important indicator of all is biodiversity.

The global speed of losing the biodiversity is shocking. The estimated loss of species before the end of this century is about 30 percent. That means that globally one third of all living species will disappear forever during your grandchildren's lifetime. That tells us how far from sustainable development we really are.

The Baltic Sea region could be an excellent laboratory of sustainable growth.

The average welfare around the Baltic Sea is at the top level in the world. We have democracy. We have high class education and scientific level. We have good technological level to improve material and energy efficiency. And not just improve a little; during the next decades we will have to take some serious measures.

We are rich in renewable resources around the Baltic Sea and the production potential of biomass is even growing. We have good opportunities to convert our fossil-based economy to a real bioeconomy.

In November 2007 all the countries around the Baltic Sea adopted a Warsaw Helcom Baltic Sea Action Plan, BSAP. The main goal was to return the good ecological state of the Baltic Sea. Besides just objectives, we have agreed on the means as well. The implementation is going on in each country and is regularly followed up and reported in Helcom meetings.

Eutrophication is the main problem of our common sea. After BSAP agreement we have taken good steps forward in waste water management. The effects of radically improved phosphorous cleaning in St. Petersburg's waste water plant are already visible in the Gulf of Finland. Unfortunately we have also seen backward steps, such as the huge phosphorous load of fertilizer plant that showed up recently. Luckily, it seems that these newly shown up effluents can be controlled.

Other means to improve the condition of the Baltic Sea are cutting down toxic chemical effluents and decreasing hazard of oil spills and improving the capacity of potential oil spill treatment.

The biodiversity of the Baltic Sea needs some special measures, but is also the final indicator that shows our performance in the implementation of BSAP.

We have to succeed in returning the good ecological state of the Baltic Sea. The world needs encouraging examples. If we are unable to give those examples at our own doorstep, how can we believe that sustainable growth could succeed elsewhere in the world?

*Kimmo Tiilikainen*

*Chairman*

*The Finnish Centre Party  
Parliamentary Group*



*Member of Parliament*

*Parliament of Finland*

*Finland*

## The EU strategy for the Baltic Sea region – the next phase of the strategy

By Walter Deffaa

The EU Member States reached a consensus in calling for a strategy for the Baltic Sea region in 2009 and adopted the strategy on the basis of Commission's proposal. This was the first macro-regional strategy of EU, followed two years later by the EU Strategy for the Danube Region. Preparation of the strategy brought together many, if not most, of the stakeholders in the region, who could point to on-going activities or gaps where action was urgently needed.

As a result of this wide consultation, the strategy identified four main pillars of actions dealing with environmental issues, prosperity and attractiveness, accessibility, safety and security. These reflect the common challenges of the eight EU countries that make up the Baltic Sea Region (Sweden, Denmark, Estonia, Finland, Germany, Latvia, Lithuania and Poland).

However, an even broader cooperation with neighbouring countries is needed to take up these challenges. The Northern Dimension, a common policy of the EU, Russia, Norway and Iceland, (as well as the Council of Baltic Sea States (CBSS) which becomes more and more active in this process) provides the basis for external cooperation on the Strategy.

The lessons we have learnt from this first phase include the realization of the enormous interest in a common approach, the existence of serious challenges but also the potential of the people in the region to meet those challenges. The Commission stepped into a field ripe to bring together the good will to overcome environmental problems of the Baltic Sea, to connect better the region and its people and to use the existing potential to increase prosperity.

Fast forward to 2012, and the strategy has been set on a new strategic foundation, outlining clearly the three main objectives of the strategy:

- 1) to Save the Sea
- 2) to Connect the Region, and
- 3) to Increase Prosperity

This new foundation is now translated into a renewed Action Plan clearly specifying indicators and targets for each objective and the Commission intends to use these agreed targets to discuss with Member States how to deploy the 2014-2020 EU funding to ensure results. While the policy objectives have been agreed, the Commission now wants to see Member States contributing substantive resources to achieving the common goals. The strategy does not have a wallet of its own, its aim is to bring

together financing from all possible sources, be they EU, national, regional or private. We have already identified over a hundred different funding instruments active in the region and only a few of them are actively used for the EU Strategy for the Baltic Sea Region. We think therefore that rather than looking for an additional budget line, the existing sources could be better employed for the purposes of the Strategy.

This has a lot to do with improved communication and information dissemination which is another cross-cutting area of work. Better communication tools, better access to information already available, better possibilities to network and exchange of information will empower the stakeholders in the region to push forward with their projects.

It can be said that the exciting days for launching the Strategy are over, we are now in a long phase of working daily on projects, planning and funding issues. Without this, there would be no big achievements to report to our heads of government. Nevertheless, political, high-level support will be still very necessary to ensure the projects that support the objectives of the Strategy get financed and carried out. Without support on all levels, important projects such as Rail Baltic would not be able to proceed.

The end of this year and next year will be crucial to discuss and adjust the priorities of the Baltic Sea Region Member-States' policies for the next programming period, in accordance with the priorities and objectives of the Baltic Sea Strategy, so that both can reinforce mutually and be supported by European, national and regional programmes and instruments.

It will be the responsibility of the Member-States to make sure that the overall political framework that has been agreed delivers results. The Commission can help ensure coherence and facilitate a smooth implementation of those priorities.

The Commission will draw on its experiences with implementing the EU Strategy for the Baltic Sea Region when drafting the evaluation of the macro-regional approach requested by the European Council for June 2013. In this sense, the Region is playing a unique role as a pioneer for the wider EU.

*Walter Deffaa*

*Director-General  
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*European Commission*

## Updated European Union Strategy for the Baltic Sea region

By Pauliina Haijanen

The implementation of the European Union Strategy for the Baltic Sea Region has been ongoing for three years. The member states, regional and local actors and various communities have been actively involved in forging a common purpose and political will across the countries around the Baltic Sea to promote sustainable development, prosperity and accessibility of the region and to increase its attractiveness and security. The EU Strategy for the Baltic Sea Region is a piloting strategy serving as a model for a new kind of macro-regional cooperation, emphasising the commitment of players at different levels of government, and coordinated action.

The measures to update the EU Strategy for the Baltic Sea Region, proposed in the Commission's communication submitted last March, constitute a step in the right direction. Improvements to the strategic focus, alignment of policies and funding, clarification of responsibilities of different actors and better communication all support the implementation of the Strategy. Still, financing of the actions is one of the most crucial questions of effective implementation of the strategy.

Three important aspects should be highlighted: first, the linking of the EU Strategy for the Baltic Sea Region to the implementation of the Europe 2020 Strategy; second, the growing importance of the Strategy's external dimension; and third, the pivotal role of local and regional levels in the advancement of the Strategy's objectives. The three objectives for cooperation in the Baltic Sea Region set out in the communication — to save the sea, to connect the region and to increase prosperity — are in line with the objectives of the Europe 2020 Strategy. For the achievement of the goals of smart, sustainable and inclusive growth, it is of fundamental importance to step up cooperation in the area of innovation in the Baltic Sea region. An effective way to accomplish this is to promote regional smart specialisation through network cooperation between research institutes and universities, and authorities and citizens throughout the large Baltic Sea region.

In addition to smart growth, it is important to promote inclusive growth in order to reduce disparities between parts of the Baltic Sea region. The improvement of environmental status and sustainable growth will be the central themes also in the future. It is also essential to provide industry and enterprises with opportunities to participate more actively in the strategy work, as economic competitiveness depends on strong links between research, innovations and actors in industry.

The EU Strategy for the Baltic Sea Region has offered new opportunities for the member states and local and regional authorities to strengthen the region's competitiveness, innovation and smart specialisation especially by means of European regional cooperation and its financial instruments. The Strategy has also increased the interest of local and regional actors in, and their commitment to, cooperation in the Baltic Sea region.

While the Strategy for the Baltic Sea Region is internal to the EU, it is widely acknowledged that cooperation with countries outside the EU, especially with Russia, is very important for the Strategy's success. In the conclusions it adopted in June 2012, the Council of Europe welcomed the progress in cooperation with Russia and emphasised the need to further strengthen cooperation. It is interesting to see, how the presidency of the Council of the Baltic Sea States, which Russia has for the moment, will advance cooperation in the Baltic Sea Region.

The role of local and regional communities is paramount in the implementation of the Strategy's external dimension. The European Union and other actors in the region should look for ways to reinforce the Strategy's external dimension to make the implementation of the Baltic Sea Strategy more effective. A good example of such bottom up activity is what is known as the Turku Process, a shared initiative launched by the city of Turku and the Regional Council of Southwest Finland in 2010. The idea was that the European Union Strategy for the Baltic Sea Region cannot be implemented effectively without the involvement of Russia, and that the cooperation needs to be informal and practical. Such cooperation was naturally based on the long term, close relationships between the cities of Turku and St. Petersburg and the city of Hamburg. The European Commission has given its support to this Process from the very beginning. The participants of the Process include chambers of commerce and industry, universities, research institutes, water utilities and civic organisations as well as local and regional authorities. The Process is now reaching a practical phase through joint projects, which for the moment are being prepared under different (environment, work force, education, innovation) working groups. Under discussions is the widening of the Process to the Baltic countries, and the different possibilities to finance the projects. It would be of great importance if also Moscow would commit to the financing of the strategy.

Another good example of the commitment displayed by local and regional actors to regional cooperation and to the implementation of the Baltic Sea Strategy is the Baltic Sea Region InnoReg project in 2009 – 2011. Altogether 18 local and regional authorities and development organisations from six countries in the Baltic Sea region participated in it. The main themes of the project were open and user-driven innovations, innovative financial instruments and promotion of creativity. The project raised regional decision-makers' awareness about the possibilities offered by innovative cooperation in the Baltic Sea region and about ways to target resources regionally so as to maintain and strengthen the region's competitiveness in the long run. Therefore, it is necessary to continue to secure broad commitment from local and regional level actors to the implementation of the Strategy for the Baltic Sea Region.

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\*This article is based on the opening speech held Mrs. Haijanen in July in Brussels at the meeting of Committee of the Regions, Commission for Territorial Cohesion (COTER).

## The City of Porvoo in Baltic area cooperation

By Jukka-Pekka Ujula

The second oldest city in Finland, Porvoo is located on the Baltic coast 50 km east of Helsinki. Besides its Old Town dating back to the Middle Ages, the city is characterised by a wide-ranging archipelago and the largest concentration of chemical industries in the Nordic countries with extensive docks. The Baltic Sea and its influence have shaped the history, culture and economy of the city for centuries and the Baltic is thus also an important element in the future of Porvoo.

In recent years the Baltic area has become one of the most important oil transport routes in the world. The sea serves as the major maritime export route for Russian oil, with annual oil shipments reaching approximately 150 million tonnes last year.

As part of Baltic area cooperation, the Eastern-Uusimaa Regional Emergency Services, part of the City of Porvoo, has been involved in developing readiness for oil pollution control, working with the various authorities in the Baltic area and companies operating in the field of oil spill prevention. This widespread cooperation between the different authorities and companies originated in the need to improve the preparedness of authorities and various actors in the event of a large-scale oil disaster.

In order to improve national oil spill prevention and preparedness on the part of emergency services, the Eastern-Uusimaa Regional Emergency Services, HAAGA-HELIA University of Applied Sciences, Lamor Corporation Ab, a company that offers solutions for optimal oil spill response and recovery around the world, and Neste Oil Oy Ab, an international refining company with a production focus on premium-quality, lower-emission traffic fuels, launched a training project, on the initiative of the Eastern-Uusimaa Regional Emergency Services, which over the past three years has trained approximately 120 oil spill prevention experts. Those attending the training are from various authorities and companies in the sector. This training was funded by the Finnish Ministry of the Environment's Oil Pollution Compensation Fund.

Expanding cooperation to the authorities of neighbouring countries and to all those bodies responsible for organising oil spill prevention in their own areas was brought up in the context of national oil spill prevention leadership training. As part of international cooperation on oil pollution control, the Eastern-Uusimaa Regional Emergency Services and the Committee of Nature Use,

Environmental Protection and Ecological Safety – City of St. Petersburg agreed on mutual cooperation in 2007 and through the Committee, this partnership has also been joined by the bodies active in environmental protection in the area: SUE "PILARN", SUE "ECOSTROY" and the body responsible for emergency services in the area: EMERCOM.

Cooperation on oil spill prevention has also been entered into with the equivalent Swedish body, the Swedish Civil Contingencies Agency (MSB) and with the body responsible for the Estonian emergency services, the Estonian Rescue Board. The goal of the authorities participating in this cooperation is to forge relationships between all the different parties, to draw on each other's know-how and best practice and to practise working together in the event of a major oil spill incident in the Gulf of Finland and the Baltic Sea.

At a practical level this cooperation has been carried out in the context of EU projects. The currently running "EnSaCo Oil Spill" EU project has the goal of developing forms of cooperation between different authorities in the event of a major cross-border oil spill. This project also supports the aims of the Helsinki Commission in developing oil spill prevention capabilities on or in the vicinity of the coast. This project's partners are the bodies responsible for oil spill prevention in Finland, Sweden and Estonia, with representatives of the Committee of Nature Use, Environmental Protection and Ecological Safety – City of St. Petersburg as a separate additional partner. Oil spill prevention and work towards it bind the countries and cities of the Baltic coast together. For its part, the City of Porvoo aims to further this cooperation while also seeking to identify new forms of cooperation wherever possible.

Jukka-Pekka Ujula

Mayor

City of Porvoo

Finland



# University business cooperation in education

By Ricardo Carvalho Bruno Ferreira

Universities<sup>1</sup> and Businesses should be natural partners in providing education. The former provide qualifications. These should correspond to competences that the later demand in the graduates they employ. If Businesses are the end users of the Universities' product, the graduates, it is of the most common sense they should shape it closely together!

Normally seen as research oriented, University Business Cooperation (UBC) should occur at least as naturally in education related aspects. On the one side by a better coordination towards defining the competences that graduates should possess. On the other side, by coordinating activities towards delivery of such competences. Such coordination will lead to more fluid knowledge exchanges in both directions. Ultimately this will allow not only for graduates more in line with the needs of a highly competitive world businesses, but also for triggering new innovation practices in both ends.

A recent study<sup>2</sup> ordered by the European Commission allowed for a characterization of the state of the art of the University Business Cooperation in Europe, as seen from academia. In it a massive survey to Higher Education Institutions took place for mapping the existing elements of cooperation. The authors propose a classification of this cooperation into eight categories. To understand those is probably the first step to comprehend how UBC may allow both ends tackling with some of their problems while triggering new innovation processes. Those not research oriented are the following:

- **Mobility of academics:**

These should be understood as mobility of staff. Two individuals, one in the academia and the other in business, though working on the same discipline and tackling similar or complimentary problems from two different perspectives, do not speak the same language. Not only the jargon is different but their views on the same problem are also different due to their different perspectives. Why don't we exchange the professor with the engineer for a few months?

Mobility may take several forms. In one or in both directions; to assume the tasks normally associated with the new role or to assume new tasks clearly associated to the mobility project itself. But the simple fact of having one temporarily viewing things from the other glasses would allow both institutions to understand two different faces of the same issues.

Furthermore, mobility of people leads to new personal relations. With time it allows for a greater openness of institutions to frequent cooperation with each other.

- **Mobility of students:**

Students will become graduates and will work in businesses. To ensure their employability they should grasp the business environment. By having students directly involved with/in companies their competences increase in what concerns understanding the business perspective. Furthermore, their comprehension of the subjects learnt in an academic environment also increase for experiencing the applicability of different concepts and knowledge.

- **Curriculum development and delivery:**

The definition of curricula should be done with the involvement of business representatives, without ever jeopardising quality and excellence. This should allow for a better matching of the learning outcomes with the competences required for employability. Furthermore this could lead to a faster adaptability of universities to a fast changing world.

Also in the processes of delivering curricula much positive examples of UBC may be found. Cooperation of business people in classes; problem based learning; classes held within the business are good examples. On top of this apprenticeships included in the curricula are also an important way of embedding two different perspectives of the same problems.

- **Lifelong Learning (LLL):**

In an evermore globalised world obsolescence of some knowledge and competences individuals acquire in their initial education is frequent. All types of businesses need to update their staff's with lifelong learning. However, it is too frequent that they do not search universities as source for such type of training. This seems incoherent. Being HEI by nature the source of new knowledge they should be the firsts to be asked by businesses for upgrading competences.

- **Entrepreneurship:**

This quite large expression includes ability to create new business but also to take the initiative and innovate in old businesses or institutions. If graduates are coming out of universities with the most up-to-date sets of knowledge they should be capable to identify and implement new solutions or products with value added for the markets. The capacity to implement those requires a business orientation that can be promoted with UBC.

- **Governance:**

In general terms UBC depends on strategically approaches from one set of institutions to the other. Involvement of individuals from business in universities management bodies and vice-versa is one of the strong ways to ensure that orientation towards the other becomes natural.

It is also interesting to note for the readers that among the good practices currently listed in Education and Culture's webpage within the Europa portal<sup>3</sup> we can find the cases of *The Baltic University* and of *The University of Turku*.

Ricardo Carvalho Bruno Ferreira

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Education and Culture



<sup>1</sup>Throughout this article, the term '*Universities*' refers to all types of Higher Education Institutions.

<sup>2</sup>[http://ec.europa.eu/education/higher-education/doc/studies/munster\\_en.pdf](http://ec.europa.eu/education/higher-education/doc/studies/munster_en.pdf)

<sup>3</sup>[http://ec.europa.eu/education/higher-education/business\\_studies\\_en.htm](http://ec.europa.eu/education/higher-education/business_studies_en.htm)

## Use the “today” to shape the “tomorrow” or the impact of 2007– 2013 on 2014 – 2020

By Philipp Schwartz

On and around 21 September 2012, for the first time ever, the so-called European Cooperation Day was celebrated joining a vast number of funding programmes in the EU to celebrate and promote the benefits of territorial cooperation – territorial cooperation as a full-fledged objective (the third one) of Cohesion Policy. The Central Baltic INTERREG IV A Programme 2007-2013 is one of these funding programmes having used this unique opportunity to show what projects co-financed by this programme are bringing to our region through cross-border activities. And there is more to show in the coming years. But, to ask provocatively, why to look back at what has been achieved? Why not rather look forward with the next programme period 2014-2020 starting in a bit more than one year from now?

With the discussions ongoing on the upcoming programme period 2014-2020 one gets easily carried away from the present reality. It is of course understandable that everyone concerned is very much interested in shaping the future. And it is high time now to do it on the various levels. But at the same time, one should not forget that the present programme period is still lasting for at least one year and with closing projects and programmes it will still take at least until 2015. To some extent, one could say that we are just half-way-through as only now a relevant mass of co-financed projects are reaching the critical mass of results. Meaning, in fact only this and the coming one to two years, one can really evaluate if this programme period was really a success. At the same time, it is now that future programmes are shaped.

If one wants the future to be built on the presence and present achievements respectively, it is now time to show what has been so far achieved. And this is a task for all stakeholders involved. Let it be the cooperators (projects) themselves, but also those who provide financial or organizational support by lifting project results on a bigger stage, enabling them to share their experiences beyond their own cooperation partnership and area. For funding programmes like the Central Baltic INTERREG IV A Programme 2007-2013, this is a crucial task realized this year with various events like the Central Baltic Project Open Days during which from 17 September until 14 October more than 20 projects organised some event for the public in Estonia, Finland, Sweden, Latvia and on Åland ranging from concert to exhibition, from a seminar on innovative technology in elderly care to a tour to a pilot plant for biogas production. Or a photo exhibition was set-up at the AHAA Science Center in the very city center of Tallinn providing a visual impression of what it means to cooperate across borders. Or the bus tour the programme organised for stakeholders dealing with regional development ranging from ministry and embassy representatives, representatives from county governments and administrations, EUSBSR National Contact Point and media to project people presenting their activities.

The latter (exhibition and bus tour) actually being conducted within the framework of the European Cooperation Day, an initiative launched by the European Commission and realized by INTERACT for the very first time in 2012. This Europe-wide event joined over 280 events organised by 72 European Territorial Cooperation funding programmes to promote the added-value of cooperation between European regions on respectively around one day in September in almost 40 countries. The variety of activities was immense and impressive. With the timeframe limited to (around) one day, this joint activity in many cases created synergies and added value. In a few cases unfortunately it also caused a slight competition for attention (e.g. by media) and participants.

This kind of competition for attention and participants raises of course the more general question, why or rather what to promote on such occasion as the European Cooperation Day? Is it important that so and so many funding programmes organize some event to promote their projects? Or would the true sense of cooperation not be better realized by joint promotional activities beyond programme borders? If e.g. programmes in certain regions would rather organize joint events than dozens of funding programmes trying to organize something on their own, even if under the bigger umbrella of the European Cooperation Day? At the same time, it should not be forgotten to whom the benefits of territorial cooperation should be promoted – the general public, those who normally do not know about it and want to know what is in it for them. And this target group might be better reached with a high number of rather local activities simultaneously all over Europe than a few bigger activities at selected places.

Therefore, it should be considered in the future to instead of just combining a variety of events by various actors on or around one day, rather to develop the concept of the European Cooperation Day further and to consider joint events not by each and every one, but by a certain number of actors, let it be thematically or geographically chosen – still keeping such activities on the local level to reach the general public. Real added value by true cooperation, by promoting results and achievements together – results and achievements not only of one's own organization, but results and achievements in and for the benefit of everyone's own region, and finally for Europe as a whole.

*Philipp Schwartz*

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*Central Baltic INTERREG IV A Programme 2007-2013*

*[www.centralbaltic.eu](http://www.centralbaltic.eu)*

# Territorial cooperation in the Baltic Sea region and the supportive role of INTERACT Point Turku

By Gabriel Alvarez

The breakout of the financial crisis a few years ago, the aggravated lack of natural resources, the rapidly growing impact of global warming and the ageing population trend exemplify a few of the hot topics on the European Union's agenda for the upcoming years.

In a global context, territorial cooperation stands out as a key element to efficiently address common challenges. The joint efforts of working together unconditionally bring a series of valuable upgrades which territories can benefit from.

Overcoming borders reinforces the added value of territorial cooperation and helps better address similar threats as well as promote more balanced development. In this respect, it is strongly recognised that joining forces also contributes to fostering integration and inclusion as well as avoiding duplication of efforts and resources.

Regardless of the evident territorial diversity in the Baltic Sea region, some common features affect this large area surrounded by an array of different countries. Hence cooperation between the territories involved facilitates coordinated strategic responses to mutual challenges.

A considerable number of EU bodies specialised in the field of territorial cooperation as well as other funding instruments actively participate in the task of strengthening the ties across the countries in this area. This is done through implementation of projects, organisation of events, dissemination of information etc.

Cross-border and transnational projects in the Baltic Sea region are carried out in the fields of transport, innovation, agriculture, energy, health, education and many more. The efficient implementation of the projects is conducive to effective results which consequently help ensure a sustainable environment and optimal economic and social development within the region.

## ETC and ENPI programmes

In particular European Territorial Cooperation (ETC) programmes, financed by EU Structural funds, strongly contribute in this respect by primarily providing a framework for cooperation and experience sharing between stakeholders of different countries.

In order to streamline, simplify and increase the efficiency of the management process for ETC programmes which spread all over Europe, the INTERACT Programme was established in 2003. One of the four INTERACT Points is located in Turku, Finland, and assists ETC programmes in the north-east part of the continent.

INTERACT Point Turku provides forums for discussions, exchange of knowledge and dissemination of best practices. It offers Europe-wide trainings and seminars as well as tailor-made services delivering practical support and advice in response to specific needs of ETC programmes. The expertise addresses management techniques, financial issues, regulatory frameworks,

communication, strategic orientation and policy development.

Additionally, specific knowledge on cross-border cooperation with the EU neighbouring countries is also offered by INTERACT Point Turku. In particular, support and advisory services on all aspects of programme management and implementation are provided to thirteen ENPI CBC (European Neighbourhood and Partnership Instrument Cross Border Cooperation) programmes.

## EU Strategy for the Baltic Sea Region

In order to fortify the links within the Baltic Sea area, the European Council adopted in 2009 the EUSBSR (European Union Strategy for the Baltic Sea Region) as the first macro-regional strategy in Europe. In relation to this, the recent approval of the three objectives of the EUSBSR benchmarks a focused action on the pollution of the Baltic Sea, the level of prosperity and the accessibility conditions.

This initiative highlights the significance of territorial cooperation on a wider scale by bringing together stakeholders and ensuring visibility of macro-regional projects. In this respect, INTERACT Point Turku acts as a bridging organisation by facilitating and supporting the effective implementation of the Strategy e.g. promoting and managing networks, disseminating information and, more importantly, fostering territorial cooperation.

Territorial cooperation in the Baltic Sea region has become a valuable asset to identify needs, seek the necessary resources and apply the adequate policies so as to enable citizens to have better living standards. Against this background, the added value of territorial cooperation in the Baltic Sea region is often highlighted and considered as a proven tool for boosting prosperity as well as contributing to the overall objectives of the EU2020 Strategy in order to grow smart, sustainable and inclusive.

Lastly, the ownership of territorial cooperation lies on citizens whose active involvement and participation in daily life mutual support enhance the attractiveness of the Baltic Sea region.

More information can be found at the following websites:

[www.interact-eu.net](http://www.interact-eu.net)  
[www.balticsea-region-strategy.eu](http://www.balticsea-region-strategy.eu)

Gabriel Alvarez

Communication Officer

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## **Oil spill risks can be reduced through concrete cooperation**

By Kai Paananen

The risk of a large oil spill in the Baltic Sea, particularly in the Gulf of Finland, has elevated significantly due to the increased number of Russian oil transports. The Finnish SET Group is committed to boosting cooperation in order to reduce and control the risk of such accidents.

### **Marine Traffic Significantly Growing in the Gulf of Finland**

During the past years, marine traffic in the Baltic Sea, and especially in the Gulf of Finland, has increased significantly. Furthermore, it is expected to continue to grow in the coming years. It is estimated that the Gulf of Finland constantly carries 300–400 cargo ships, tankers and/or passenger ships in traffic. During the summer season the respective figure exceeds 500 ships. In the entire Baltic Sea there are over 2000 ships in traffic at all times. According to The HELCOM AIS database 65% of the traffic in the Gulf of Finland consists of cargo ships and 20% of tankers.

The number of oil transports in the Gulf of Finland has multiplied significantly in just two decades. In 1997 oil products transported were less than 20 million tons. In 2007 this figure was approximately 150 and this year something short of 200 million tons. This figure is estimated to be 250 million tons by the year 2015. Already today, the Primorsk Oil terminal produces and ships a yearly amount of 80 million tons in oil products.

In the following years the production capacity of the enormous Port of Ust-Luga is expected to increase up to 120 million tons per year, of which oil products make up to 80 million tons. When completed, Ust-Luga will be Europe's largest harbor. As a comparison it will have 12 times the capacity of Finland's largest port, Helsinki's Vuosaari.

When looking at the rate at which the terminal capacity in the Gulf of Finland is growing, it is obvious that the risk of serious marine accidents and especially oil spills will increase substantially.

The winter conditions in the Gulf of Finland make the prevention of these accidents even more challenging. Marine traffic conditions become more hazardous, and the oil spill response operations, in case of an eventual accident, face serious hardships.

### **Russia Starting to Enhance its Oil Spill Response Alert**

Finland has set a target by which it can by year 2015, together with other neighboring coastal nations, collect 30,000 tons of oil from the Gulf of Finland in three days during open sea conditions and in ten days during icy conditions.

In order to reach this rather modest target, five more 1,000 cubic meter oil spill response vessels are needed. While Russian oil spill prevention and cleaning capacity is rather limited compared to Finland and the increased accident risk is due to Russian oil transportation growth, it is natural and justified to look in Russia's direction for more oil spill response capacity.

In the past Russia has not paid much attention to oil spill response for historical, geographical and financial reasons. However, Russia's more active role in the global economy has increased its pressure for participation in global environmental protection, a direct result of its WTO membership among other reasons. This view is increasingly shared among Russian political and economic decision-makers and marine community.

In 2009, SET Group, for which I represent, investigated the oil spill response capacity of the eastern part of the Gulf of Finland. The report revealed, with specific reference to "the capacity to cover a winter-time accident", that resources were

completely insufficient. As a result SET Group provided the report results to Russian political and economic decision-makers with the proposition that Russia should quickly strengthen its oil spill prevention readiness.

This effort proved to be a success and in the summer of 2009 SET Group agreed on a project to develop a multipurpose icebreaker and oil spill response vessel for the Russian Government. The vessel would be first of its kind in Russia's Gulf of Finland presence.

The project was confirmed in Lappeenranta, Finland, in May 2010, when a Memorandum of Understanding on the construction was signed in the presence of the Prime Ministers of both Russia and Finland. The parties of the contract are Rosmorport, Sovcomflot, STX Finland, Aker Arctic and SET Group. The actual contract for the delivery of the ship was made in November 2011. The vessel, which is scheduled to be completed 2013, is currently being built as a cooperation of Arctech Helsinki and USC Kaliningrad shipyards.

The multipurpose vessel under construction is significant enough as a single delivery and technological innovation, but it also opens the possibility for the enhancement of the Gulf of Finland oil spill prevention readiness in the form of new ship deliveries. In addition to this, the project has brought new cooperation between Finnish shipbuilding knowledge and Russian shipyard industry. The vessel will operate at the area of Ust-Luga Port.

This successful project to increase Russian oil spill response alert shows that environmental awareness and practical measures to implement the related responsibilities are also increasing in Russia. One cannot take part in global trade and interaction without being liable for the environmental effects of one's actions – both nationally and internationally.

I am confident that this concrete cooperation for increased readiness for oil spill response in the Gulf of Finland will trigger more positive projects and actions in the future.

### **SET Group works for increased oil spill prevention capacity**

The Finnish SET Group consists of Southeast Trading Ltd., SET Engineering Ltd. and SET Petrochemicals Ltd., which is a notable distributor of Russian oil and gas products in the Nordic and the Baltic Countries. In 2011, the Group's sales exceeded 200 m€.

In February 2010, SET Group joined an important Baltic Sea protection program, the Baltic Sea Action Group. SET Group is committed to work for a cleaner Baltic Sea in terms of boosting Finnish–Russian cooperation. The intermediate target of this commitment will soon be reached, when the multipurpose vessel will be completed next year.

The work for a cleaner and safer Baltic Sea continues.

Kai Paananen

CEO

SET Petrochemicals Oy  
/SET Group

Finland



## Development of oil transportation in the Gulf of Finland

By Olli-Pekka Brunila

In 2010, almost 290 Mt (million tonnes) of oil and oil products were transported in the Baltic Sea, of which more than 55% via the Gulf of Finland. Every day more than 2,000 ships sail in the Baltic Sea, approximately 25% of which are tankers. Almost 15% of the world's maritime transportation is carried out in the Baltic Sea. The economic recession had a negative effect on transportation and on demand for goods; however, the volume of transported oil did not decrease during the recession. The demand for oil products and Russia's new oil terminals in the Eastern part of the Gulf of Finland are the main reasons for the growth of maritime oil transportation in the Baltic Sea area.

The volume of oil transported in the Gulf of Finland was 43.7 Mt in 2000, and it increased to 157.9 Mt in 2010. In other words, oil transportation volumes have nearly quadrupled in the past ten years. In spring 2012, the New Baltic Pipeline System 2 was connected to the port of Ust-Luga, and the first tanker was loaded in the port in March 2012. It is expected that the transported oil volumes in Ust-Luga will increase at the first stage to 10–15 million tonnes, and later the volumes will be upgraded to 25–30 Mt annually. The capacity of the new oil terminal is around 30–38 Mt per year. In the next few years, oil transportation volumes in the Gulf of Finland will increase to nearly 200 Mt annually.

### What is the future of oil transportation in the Gulf of Finland in 2020 and 2030?

The risks of maritime oil transportation in the Baltic Sea and in the Gulf of Finland were studied in the project Minimizing risks of maritime oil transport by holistic safety strategies (MIMIC). The project produced three alternative scenarios for oil transportation in the Gulf of Finland in 2020 and 2030. These scenarios are based on energy, political, and economical strategies and other future transportation scenarios. The scenarios for 2020 are the *Slow development 2020 scenario* – the economy will not grow, and the EU's climate and energy package will have failed to fulfil its aims; the *Average development 2020 scenario* - the development of population, economy, technology and transportation will continue similarly to today in the future, and investments will be made both in green technologies in Europe and in oil production technology in Russia; and the *Strong development 2020 scenario* - investments in oil production and transportation infrastructure in Russia will be made following the most ambitious plans, and green technologies and energy sources will not be able to replace oil as an energy source.

The scenarios for 2030 follow the same logic as the 2020 scenarios, but the time period is longer, adding to the uncertainty of the scenarios. In the *Stagnating development 2030 scenario*, the main driver will be the lack of investments and economic growth. Environmental goals will not have been achieved because political efforts will have been concentrated on balancing the economy. In the *Towards a greener society 2030 scenario*, energy and climate strategies will have succeeded and Europe will be moving towards a decarbonised society. However, fossil fuels will still remain the main energy source despite the development of new innovative green technologies. The EU will have implemented strict environmental policies in the *Decarbonised society 2030 scenario*. Demand for oil products will have decreased, and the share of bio fuels and renewable energy sources will have increased.

### Oil transportation volumes will only increase moderately in the Gulf of Finland by 2020 and 2030

Based on these scenarios, a group of experts were asked to give three estimations of the oil volumes to be transported in each scenario: the most probable volume of oil transportation, the minimum volume (a volume that will at least be transported) and the maximum volume (a volume that will not be exceeded). According to the expert evaluations, the oil transportation volumes will only increase moderately in the Gulf of Finland by 2020 and 2030.

In the *Slow development 2020 scenario*, the minimum and maximum volumes vary between 151–187 Mt. The most probable value is 170 Mt, which would include the oil volumes from the port of Ust-Luga if oil transportation there starts as planned. In the *Average development 2020 scenario*, the minimum and maximum volumes of transported oil vary between 169–207 Mt and the expected volume is 187 Mt. In the *Strong development 2020 scenario*, the minimum volume of transported oil in the Gulf of Finland is 177 Mt and the probable volume is 201 Mt. In this scenario, the maximum volume is 218Mt.

In the *Stagnating development 2030 scenario*, the expected oil volume (165 Mt) will have decreased by 3% compared to the *Slow development 2020* and increased by 5% from the current volume. The minimum and maximum volumes are 148–177 Mt. In the scenario *Towards greener society 2030*, the most probable volume will grow by 12.4% compared to the 2010 volumes and by 7.5% compared to the *Stagnating development 2030 scenario* (177.5 Mt). In this scenario the minimum and the maximum vary between 156–192 Mt. In the *Decarbonised society 2030 scenario*, the volumes of oil transported will be the same (165.5 Mt) as in the *Stagnated development 2030 scenario*, but the minimum and maximum volumes (153–190 Mt) are almost the same as in the *Towards a greener society scenario*. The future oil transportation volumes in the Gulf of Finland will depend on many factors. One major factor will be Russia's policy and development, but the EU will also be moving towards a greener society after having solved its economical problems.

This article is based on the report "Oil transportation in the Gulf of Finland 2020 and 2030", published by the Centre for Maritime Studies at the University of Turku. The publication is part of the project "Minimizing risks of maritime oil transport by holistic safety strategies" (MIMIC). For more information on this project, visit [www.merikotka.fi/mimic](http://www.merikotka.fi/mimic)

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## Russia's future reforms

By Anders Åslund

For Russia, the period 1999-2008 offered the highest growth in its history, no less than an average of 7 percent a year. The global financial crisis came as a great shock with a GDP drop of no less than 8 percent in 2009. For the time being, Russia's economy has stabilized at a growth rate of 3-4 percent a year, not bad but hardly satisfactory. The question that is being raised today is whether Russia has entered a so-called middle-income trap of low or moderate growth.

The sources of Russia's great growth spurt were essentially three. First, the arduous market economic reforms of the 1990s were finally completed with the Russian financial crash of 1998, which forced the authorities to cut state subsidies and level the playing field. Second, because of the decade-long economic decline, Russia had plenty of free capacity. Third, Russia has been a major beneficiary of the global energy boom.

Now these three sources of growth appear to be exhausted, but two other sources are apparent. Russia's most obvious asset is its great human capital with an ever larger share of the population receiving higher education. The other source of growth is increasing international economic integration, notably through Russia's accession to the World Trade Organization. Sensibly, Russia is also aiming at an early accession to the Organization of Economic Cooperation and Development and it should attempt a free trade agreement with the European Union, though its membership of the Customs Union is a serious impediment.

Russia's big drawback, however, is its poor governance. This is often identified as an energy curse. The Russian state receives about half of its revenues from oil and gas. The key question in most economic policy debates is whether Russia's energy curse can be broken.

Suddenly, such an opportunity has arisen. The shale gas revolution in the United States has made that country self-sufficient in natural gas, and much of the liquefied natural gas designed for that market is instead destined to the European market. As a consequence, European gas prices have fallen by up to half, and they are likely to stay close to that level. Such prices would eliminate Gazprom's profits and land that corporation in serious financial crisis. Given that Gazprom is the mainstay of Russia's state capitalism and energy curse, its crisis may be pivotal for new Russian reforms.

Russia has most resources needed for substantial economic reforms. Since the Gaidar government in the early 1990s, it has a large and intellectually strong economic policy group both in the government (the Ministry of Finance, the Central Bank, the Ministry of Economic Development, and the Presidential Administration) and the key academic institutions (the Higher School of Economics, the New Economic School, and the Academy of the National Economy).

This group has repeatedly elaborated sound economic reform programs – the Gref program in 2000, Russia 2020 in 2008, which they updated in 2012. These programs are substantial and quite detailed. Moreover, a broad public

consensus has evolved around these ideas, not least because hundreds of Moscow economists have been engaged in their development for years. Intellectually, Russia is ready for sound market economic reforms.

Russia's current dilemma is that most liberal economic policymakers are convinced that few of the needed economic reforms are possible without a democratic breakthrough. The key question is therefore how such a breakthrough can come about.

The dominant view is that the lower the oil price becomes, the weaker state capitalism and its rent-seeking elite will be, and the more democratic and economic reform the country is likely to carry out, which in turn will boost future growth rates. Gazprom's crisis opens such an opportunity. More broadly, according to this view, economic crisis facilitates democratic reforms, which open the door to economic reforms.

An alternative, or complimentary view, is that the growth and strength of the middle class is critical for the success of democratic reform. This view draws on the modernization theory of Seymour Martin Lipset from the 1950s. It can be summarized that Russia is too wealthy, well-educated and open to be so authoritarian and corrupt. The large demonstrations in Russia after the parliamentary and presidential elections in 2011 and 2012 support such a view.

In the summer of 2011, Dmitri Muratov, the editor of *Novaya gazeta*, said that Russia had two parties. One was the television party, which consisted of two-thirds of the population and whose leader was Vladimir Putin. The other party was the Internet party with the remaining one-third of the population. Dmitri Medvedev as a member of the Internet party, but it had no leader.

At present, no less than 51 percent of Russia's youth complete higher education, to compare with only 36 percent in the United States. This is one reflection of the steady growth of the Internet party or the modern middle class. Also, at present oil and gas contribute 19 percent of GDP. Since energy production is pretty stagnant, its share of GDP is set to fall.

The question is hardly if or even how Russia will reform, but when.

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## Russia after Putin?

By Kari Liuhto

Some experts argue that the power structures of the siloviki, the persons raised by the power ministries, are already crumbling during **Vladimir Putin's** current presidency. Personally I do not believe that the current power system is about to collapse quite yet, although Russia, at least in part, is living in a state of quasi stability.

If, against all probability, Putin were to have to abandon his presidency before the elections in spring 2018 due to sudden ill-health or an accident, **Dmitry Medvedev**, as Russia's prime minister, would become Russia's next leader. Were this to happen, however, Medvedev, as acting president, would be unlikely to gain enough of a lead over his opponents before the next presidential election. Were Putin to renounce the presidency at the end of his current term, former deputy prime minister **Igor Sechin** would be more likely to inherit Putin's mantle than Medvedev.

The most likely scenario at the moment is for Putin to continue as president until 2024, unless his star wanes completely in the eyes of the siloviki before the spring 2018 elections. Putin will not be deposed from his throne, even by plummeting popularity, as long as Putin's backers see themselves as safe. In the game for power, the most important thing is neither popular support nor even Putin's future, but the destiny of the power elite behind him. The siloviki will not suddenly sacrifice Putin even if his popularity plummets, as a sudden and unplanned change of power would lead to a power struggle between the siloviki. Such a power struggle is to be avoided for as long as possible, as it could cause the existing power structures to crumble, thus endangering the future of all the siloviki.

To avoid a battle for power, the siloviki are attempting to find a mutually acceptable successor to Putin for 2024. It is possible that Putin's current trusted ally Igor Sechin, born in 1960, will be too old by 2024 to accede to the Russian presidency. In this context it is appropriate to note that by 2024 advisors to the Russian president and prime minister could well include key people born after the break-up of the Soviet Union.

Although the Russian president has a significant influence on the future direction of the country, evaluating the future of Russia as a whole is more important than speculating about the future president. In the light of recent events, it appears that Russia is unintentionally drifting towards stagnation. To avoid stagnation, the country's leadership is attempting to introduce whirlwind reforms. Examples of these include Russia's membership of the World Trade Organization (WTO), privatisation plans, a modernisation programme, changing the way regional leaders are elected, making it easier to register new political parties and lowering the election threshold for the State Duma.

I fear that the above reforms will not be fully implemented and will partly be merely superficial. For example, the Eurasian Union being built around Russia could become an alliance that will isolate Russia from the global economy more than its WTO membership will open

it up. The experiences of earlier privatisation programmes tell the sorry tale of ambitious plans being watered down at the implementation stage. The real focus in modernising Russia lies in improving its industrial competitiveness and in improving the capability of the army, not in wide-ranging social reform.

Several Russian experts see regional electoral reform as a cosmetic operation, leaving the Kremlin a free hand to continue to arrange the selection of regional leaders in any way it pleases on into the future. The lowering of the registration threshold for political parties too may lead to an even more fragmented opposition than is currently the case, resulting in no genuine opposition party emerging capable of meeting even the State Duma's new lowered election threshold. Even more important than lowering the threshold for the State Duma is liberating the media from the custody of the Kremlin.

If no genuine political opposition is formed, civil society will fail to gain strength and there will be no increase in open discussion of society in the media; Russia lacks a pressure valve mechanism capable of relieving social pressures. This defect in the system will, in time, lead to an increase in social pressure and finally to social unrest.

Social instability will not be immediately followed by the strengthening of the democratic system. Instead it is more likely that power will become concentrated in the hands of the ultra-conservative siloviki. Social turmoil may even be followed by the declaration of a state of emergency, which could in turn lead to an economic crisis and finally to a national revolt. To prevent an uprising, Russia's leadership might consider there to be a need for an internal, or even an external enemy, to mask popular dissatisfaction.

Preparing for the worst is not wasted effort, even were the stagnation scenario not to be fully realised in Russia. In my opinion it is wiser to prepare for the worst than to be rudely awakened from Sleeping Beauty's slumber. We have time enough, but we do not have time to waste, as Putin's successor could be less reform-minded than his predecessor.

*"Better be despised for too anxious apprehensions, than ruined by too confident security"*, as Edmund Burke, an Irish/British philosopher and politician, stated over two centuries ago.

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## Good-bye, poverty – Russia's quiet social revolution

By Mikhail Dmitriev and Svetlana Misikhina

Since the end of 1990-s Russian society was transforming rapidly. One of the most conspicuous aspects this change was the emergence of the new mass urban middle class which may soon outnumber any other social group (it already comprises more than 1/3 of adult population and over 50% of the residents of Russia's cities). Lifestyles, attitudes and values of this new middle class are converging with its peers in advanced economies. It now claims to play a stronger role in Russian politics and has made its wishes known in open street protests.

However, other major developments, less theatrical than the emergence of the new middle class and affecting low income social groups, remained by and large overlooked. Fast economic growth of the last decade allowed incomes per capita to increase 2.5 times and wages 3 times in real terms whereas income differentials remained almost unchanged. Between 2000 and to 2011 Gini coefficient increased by just 0.02 - from 0.4 to 0.42. This means that the benefits of fast growth were distributed evenly across the society. Russia's poor were affected by this growth in an even more dramatic way than the middle class. During last decade poverty headcount measured by Russia's national criteria of late 1990s declined 2.5 times and continued to decrease even during the last economic crisis. More importantly, Russia's poor almost entirely exited from absolute poverty. By international criteria, Russia's poor are no longer considered poor but overwhelmingly belong to the low middle class. In 2001 0.9% of Russians were living on 1.25 \$US on PPP a day. Since 2008 this group is no longer observable in household surveys. 6% of Russians in 2006 were living on less than 2 \$US on PPP a day. By 2009 there share declined more than 100 times – to just 0.05%. Practically all Russian poor now belong to the low middle class by the World Bank definition (daily incomes between 2 and 13 \$US a day). Even if measured by the US poverty threshold (15.5 \$US a day in 2010) Russian poverty headcount declined from 64.4% in 1999 to just 30.6% in 2010 (and to about 25% if equivalence scale is taken into account).

Being poor in Russia no longer means absolute deprivation. Vast majority of Russian poor can afford a certain degree of non-substantial consumption and in many ways the gap between them and the middle class is shrinking. In 2005-2010 the gap between 1-2nd and 5-9th income deciles in car ownership declined from 2.5 times to 1.9 times and in computer ownership – from 3.3 to 1.5 times. Almost 15% of Russian poor now own plasma or LCD TV sets (26.6% among non-poor) and over 35% - refrigerators with no-frost system (46.5% among non-poor).

Rapid advancement of modern retail chains, telecommunications, and financial services facilitates consumption convergence between poor and non-poor. Retail and hotels were for many years the fastest growing sector of Russian economy and its share in GDP is now 8 percentage points higher than in Germany, France, Canada, and Japan. Like the newly emerging department stores in the XIX century Western Europe and North America facilitated top bottom diffusion of lifestyles and consumer preferences of the upper middle classes, retail chains in modern Russia become the melting pots where Russian poor imitate consumption models of Russia's

middle class. Consumer credit is no longer a privilege of high income groups. In 2011-2012 share of loans in consumer spending increased from 15 to 22% and they are accessible even to poor households facilitating access to consumer durables. Cell phone ownership is omnipresent – Russia has over 160 cell phone subscribers per 100 of population - 70% above the levels of France, USA and Japan.

The significance of this shift could be understood through the changes in social expectations and political attitudes. Here, once again we observe a convergence of the poor towards the middle class. Earlier surveys indicated that in the beginning of the last decade traditional survival values, dependency culture, leftist redistributive political populism, and ethnic nationalism prevailed among the non-middle class Russians. But the large-scale sociological survey carried out by the Center for Strategic Research in spring 2012 revealed that both the middle class and other social groups are now expressing a homogenous, non-ideological and pragmatic demand for change focused on a narrow range of priorities. These priorities are related to human development (in particular, healthcare and education), personal security, the rule of law, and the quality of infrastructure services (especially in housing and utilities). Russian public is no longer as responsive as it used to be to unrealistic promises of leftist populists. It values fiscal prudence and rejects any forms of political aggression including radical nationalism. The demands that unite all mass social groups currently prevail over those that divide them. Due to this change - more than to anything else - Russia is becoming a modern and politically mature society, ready for more opened and accountable political system and capable to identify and support politically responsible leaders in a competitive electoral process.

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## Russia's budget priorities shaped by the leadership, and the outcome by an uneven inflation landscape

By Vesa Korhonen

With most of the recession behind, Russia's leadership has set the stage for further increases in government expenditures, in line with the projected GDP (currently the expenditures are at 37–38 % of the GDP). Like in earlier years, president Putin and prime minister Medvedev are also stressing the need to maintain a budget balance. Yet, reconciling the two goals is not self-evident as the outlook for budget revenues, unlike in most earlier years, is constrained by expectations of a non-rising oil price, stalling oil production and diminishing exports of oil products (taxes on oil production and exports bring 25–30 % of all revenues of the federal, regional and local budgets and the state's social funds).

The leaders have been advocating two areas as the main expenditure priorities. The first concern is social, to look after the income level of those left behind. Political stability and economic stimulus also matter – pensions & public sector wages cover over one half of eligible voters, and all social spending & the wages around one fifth of the GDP. They account for more than one half all budget expenditures, and are no on-off expenditures. That has been confirmed by Mr. Putin during the past several years in his repeated emphasis on the need to maintain the pension/wage ratio rather unchanged (still an admittedly low 30 to 35 %, despite earlier hikes) and on no need to raise the retirement age (55 years for females and 60 years for males, generally). More recently, his promises during the presidential campaign and his orders signed immediately upon taking office in May call for large wage hikes for certain professional groups of the public sector in 2012–18.

Second, on another front left behind, Russia's armament programme 2011–20, announced by the then-president and now prime minister Medvedev, tabled a sizeable amount of budget funds. President Putin has reiterated the funds are headed for spending (even if doubts linger among observers as to whether all of it will be used). For a more recent concern, the leadership has in the past several months alluded to allocating more budget funds to education and health care (both crucial sectors for Russia's future development). Russia's fresh economic forecast and government budget plans for 2013–15 estimate that total government budget expenditures (of all the levels) will grow 10 % p.a. nominally (as will expenditures if the oil price is around 100\$, which will create a slight budget deficit). Defence expenditures will grow fastest, almost 20 % p.a., followed by education, pensions & social benefits, and health care, which will all grow around 10 % p.a., as will public wages overall.

The real outcome will be shaped by the inflation landscape as it will probably stay uneven. Pensions, social benefits and public wages basically go to private consumption, and will increase by several per cent p.a. in real terms. All other budget expenditures will grow more slowly in real terms as far as inflation relating to public consumption and investments remains much faster than consumer price inflation, like it has stubbornly done for many years. In fact, the plans note that public investments will decline in real terms in 2012–13 and rise only slightly in 2014 (despite the arms programme), and further imply that budget spending in transport and roads (which need plenty of investments) will, after this year's boost, rather decline than rise in real terms in 2013–15.

For a possible setup further ahead, calculations until 2020 suggest the pressure to choose between prioritizing expenditures and departing from a budget balance may grow. Based on the 2013–15 budget plans, one upward revenue adjustment (oil price at the current 115\$) and rather moderate assumptions for 2016–20 (oil sector production and exports as in Russia's economic forecasts, 3 % GDP growth, the arms spending proceeding, and growth of wage and social expenditures in line with GDP growth and consumer prices and the number of pensioners in line with the number of pension-aged), it looks that all other expenditures except wages, social spending, arms, and interest on debt can be raised back from their low share of GDP in 2015 to their 2011–12 share by allowing the budget deficit to rise to over 2,5 % of GDP by 2020. If president Putin's orders to raise wages in individual public sector segments to the average wage level in the economy created the same rise of wages in the entire public sector by 2020, raising back the GDP share of the other expenditures would require the budget deficit to exceed 5 % of GDP.

The perspective does not necessarily look drastic on the surface. However, growth of all the other expenditures in nominal terms – in the deficit calculations, over 10 % p.a. in 2016–20 – will yield very slow, if any, growth in real terms unless the rapid public consumption & investment inflation is restrained. The deficits, for their part, might be reasonably financed for a while as the government would be free of net debt till late 2010s. But even a balance could be a risk in case the oil price fell, and a deficit a weak position to enter the next decade when the number of pensioners will continue to grow (unless the retirement age rose by then).

Russia's efforts to seek relief from the tightening setup appear gradually, because the big means for relief may hamper growth and also prove unpopular. On the revenue front, budget planning for 2013–15 has focused on raising smaller taxes (excise taxes and gas production taxes) and activating privatization. Pondering on larger revenue sources such as the VAT (18 %), corporate profit tax (20 %), social taxes (30 %) and labour income tax (flat 13 %) remain for the time beyond 2015. On the expenditure side, the continual goal is efficiency, while e.g. plans published so far to reduce the number of employees in the administration only cover a small segment of the public sector. Another aim is to make budget-funded organizations, i.a. in education and health care, obtain more funding from other sources, which would basically mean that firms and households pay more.

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## BI Norwegian Business School and its activities in the Baltic Sea region

By Tom Colbjørnsen

The relationship between Norway and Lithuania is of a special kind, since the two countries belong to a greater Nordic-Baltic region with strong cultural, political, and not at least economic relationship for centuries (*Scandinavian Journal of History* 2003, 38 (3/4), Special Issue on the Baltic States). After the end of the communist period in the Baltic countries, which set back the economic cooperation between the Baltic and the Nordic countries, the economic links are closer than ever. After the fall of the Soviet Union Nordic companies have invested heavily in Lithuania as well as in other Baltic nations (Törnroos and Nieminen 1999). Today, companies from the Nordic countries are dominating as top foreign investors in Lithuania.

One of the first Norwegian investments in Lithuania after independence was made to increase competence in Lithuania. The former Soviet republic of 10 million inhabitants was in need of a new generation of leaders with an understanding of basic market economy to speed on the Lithuanian economy. In 1991 BI Norwegian Business School began to offer courses in business administration in Kaunas. The initiative was taken by Professor Arne Jon Isachsen at BI and made possible by a donation of \$ 15,000 by William Wurster, a businessman from Pennsylvania, USA. During the first years the courses were taught by Norwegian students (Aftenposten 1992-05-23). These courses led to the establishment of the Business Training Centre in 1995, and to the establishment of International School of Management (ISM) in 1999 as the first private Lithuanian government-accredited business school with BI and The Norwegian Industrial and Regional Development Fund (SND) as the main owners. The aim of ISM was offering innovative, qualitative studies and training of management and economics for creative, ambitious young persons and already experienced business managers. The University was also the first in Lithuania to respond to the global call for business schools and academic associations to advance corporate social responsibility worldwide.

One motive for BI's activities in Lithuania was idealistic. Another was, as the former President of BI, Peter Lorange, said, 'to follow Norwegian business abroad' (Aftenposten 1992-05-23). The fact that the Norwegian public investment fund, SND, supported the initiative also reflects an optimistic attitude concerning investing in the Baltic states in the early 1990s, since one of SND's tasks were to support Norwegian businesses investing abroad and to enable cross-national transfer of knowledge.

Today ISM has campuses in Vilnius and Kaunas and offers programs from bachelor to doctoral level as well as executive programs ([www.ism.lt](http://www.ism.lt)), and the ISM today has over 2,000 students. The capital attracts young professionals, and not just from Eastern Europe, who see in Vilnius a rising star in business and appreciate all that the extensive cultural scene in

the little capital has to offer. The employment level among the graduates is 94 percent.

It was ranked number one out of all public and private Lithuanian universities in 2011. The Central and East European Management Development Association (CEEMAN) awarded ISM with the International Quality Accreditation (IQA) in 2006, certifying that ISM belongs to universities that offer the most advanced business studies in the region. ISM has also established itself among the Top 200 business schools by being ranked in EDUVERSALS global ranking since 2007.

The accomplishments reflect ISMs well-founded ambitions, huge motivation, and the ability to see itself in a broader international context. Knowledge and the constant search for new ways to apply it are among the key factors to change. ISM has a vision to maintain its position as a contributor to this, by being a dynamic and modern European university of management and economics, serving the lifelong educational needs of individuals, business and society in general.

BIs contributions today are three-fold. We are administratively involved through board representation. Secondly, our faculty is engaged in supervision and counseling of students, and thirdly we offer a double-degree program at master's level allowing BI and ISM students to spend the second year of their Master course in respectively Lithuania and Norway. As for the double-degree collaboration, the motivation for both institutions has been advancing internationalization, broadening educational offerings, strengthening research collaboration and firmly embedding international experience into the students study programs. The collaboration also has enabled fruitful cross-country conversation about best practices and trends.

ISM has developed into an independent university of high quality ran by their own faculty. BIs contributions are in large linked to our governance based on board representation and chairmanship. Since its foundation in 1999, ISM has experienced a vast growth and proved itself a successful education institution. The university is equipped with the necessary motivation and assets to compete in the global market for management education and to continue to inspire people to learn.

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## The limits of Eurasian integration

By Agata Wierzbowska-Miazga

The Eurasian integration project, proposed by Russia, is primarily a process of tightening economic ties in the post-Soviet area. Moreover, it is found on the Customs Union of Russia, Kazakhstan and Belarus established in 2010 – a structure strictly committed to the commercial cooperation of the member states. However the culmination of the process is to set up the Eurasian Economic Union in 2015. The framework of this structure is not yet clarified, but it is known that it assumes a very deep level of integration – going beyond just economic cooperation. This integration should result not only in economic interests and political drive, but it should also be based on shared values, sense of community both in terms of culture and ideology, similar to the European Union, which is to be a model for the creation of the Eurasian Union. In the manifesto-article of Eurasian integration published in the daily *Izvestia* in October 2011 Vladimir Putin also refers to common values.

Russia still has a fairly wide variety of instruments on which it could build a sense of community in the post-Soviet region. This could be based on existing heritage of the USSR which is still visible in government-society relations, in political and legal culture and in the mentality of societies in the region. Also, Russia still has powerful opinion-forming tools such as media and cinema. An important channel of communication with the people of the region is the Russian language. In many post-Soviet countries the Orthodox Church can also play a significant role. One can argue how effective Russian instruments of potential influence could be. The problem is that in starting the process of integration Russia has not even tried to use them. As in previous integration projects, Russia's building of Eurasian Economic Union is not committed to true integration of states, but instead to create a sustainable system of region's dependency on Russia, giving Russia the ability to have control over region's states. Hence Eurasian integration largely comes down to the implementation of Russian solutions and standards in the member states. It is worth noting that among the participants and potential members of integration there are countries which are pushed to rapprochement with Russia by economic dependence on it and on which Russia has sufficiently strong tools of pressure. Countries in the region that have been able to build a stronger position are not in the slightest interested in Russia's integration initiative. This means that Russia, despite having a quite big potential in this area, has not created an attractive model for neighboring countries, which could cause them to accept norms and standards proposed by Russia. As a consequence, if Russia wants to implement its standards and norms it needs to force them on the countries in the region.

In effect, even those countries which are currently participating in the process are beginning to distance themselves from integration. President of Kazakhstan,

Nursultan Nazarbayev, is considered himself co-creator of the idea of Eurasian integration – he has been promoting such a process since 1994. This makes Kazakhstan the most ideologically engaged member of integration. However, even from Astana signals of dissatisfaction with the process flow. The Kazakhstan's highest state officials have charged the integration process with falling inequality. Kazakhs also denied the Russian concept of establishing the Eurasian parliament, recognizing that it threatens their sovereignty. There are some reservations even about the simplest, technical aspects of economic integration. Both Kazakhstan and Belarus co-founders of the Customs Union and the Common Economic Space with Russia, claim to be dissatisfied with the process. Lukashenka even suggests that the integration process can stop at the stage of the Common Economic Space, and there is no need to further enhance integration. Dissatisfaction of the integration's participants and lack of attractive offer from Moscow for them prevented the signing of the agreement on the establishment the Eurasian Economic Union, scheduled for March 2012.

It seems that Russia has sufficient instruments of pressure to create the Eurasian Union, if it so desires. One can also assume that due to the tools of pressure and promises of economic preferences Russia will be able to attract to the integration process some other countries. Using incentives in the form of prospects for access to low-cost energy resources, access to the Russian market and opening up the labor market together with the threat of trade restrictions or the refusal to negotiate the conditions of raw material supplies it can definitely push Kyrgyzstan and Tajikistan to integrate and probably to some extent Ukraine. However, such integration, without obtaining elites and societies of the integrating states support will not have stable basis. States integrated by force will have a natural tendency to distance themselves from the process, dragging negotiations and boycotting the decisions already made. Created in such a way, the Eurasian Economic Union will not be a structure permanently bonding the post-Soviet area, despite the fact that some of its economic components will certainly work.

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## The Baltic Sea region and business – a model for European macro regions?

By Filip Hamro-Drotz

The Employers' Group within the European Economic and Social Committee (EESC) met in Helsinki and Stockholm on 14 - 15 June 2012 to discuss both the business community's views on the Baltic Sea Region cooperation and the EU Strategy on the Baltic Sea Region (EUSBSR). In recent years, the EESC has been closely involved in matters relative to the Baltic Sea Region (BSR).

In many respects, the different national economies in the BSR complement each other well. This, in addition to their geographical proximity to one another, good neighbourly relations and a liberal market access policy, has facilitated sustainable economic growth, competitiveness, employment and welfare in the region. The BSR is a stable and homogenous region. It can today be noted as the most prosperous region in the EU.

Since the foundation of the EU, also the BSR has benefitted from the successes of it: the neighbourhood policy, the single market, the trade policy and Common Agriculture and Fisheries' Policy.

The BSR is a key part of Europe. In this respect, it is contributing to the growth of the whole EU, promoting good practices and deepening cooperation with the other European regions. The BSR is, as well the pioneer of the EU macro-regional policy, which can provide best practice examples during the development of the other macro-regional strategies in the EU (Black Sea, Danube, also others are considered).

The EU's Strategy for the BSR, together with its Action Plan and its Programme for 2007-2013, are on the right track; nevertheless the implementation of the objectives has in past years been quite fragmented. Focus upon business environment, growth and economy has been weak.

There are three new priorities of the EUSBSR Strategy and Programme for 2014-2020 which will be in business' mind of crucial importance:

- **"Connect the Region"**: all efforts to develop and link up infrastructure and the transportation of goods, people, energy and information between the countries in the region, as well as between the region and other parts of Europe, should be given first priority.  
Cooperation in information and communications technology (ICT) should be enhanced in this context. EU's Trans-European Networks and the "Connecting Europe" program for the coming years should take due account of the efforts and need to connect the infrastructure in BSR, such as the Rail Baltic project.
- **"Increase Prosperity"** aiming to secure a 15 % increase in the volume of intra-regional trade and cross-border services by 2020: it is highly important that the EU internal market is completed and its functioning strengthened further. However, trade and economic cooperation with neighbouring Russia should also be actively facilitated through the further harmonisation of laws, regulations, customs and other procedures to spur cross-border economic activity. Stimulating entrepreneurship and SMEs is an important aspect here.
- **"Save the Sea"**: increased cooperation between the maritime surveillance authorities of all the states

concerned should be prioritised, as maritime transport in the Baltic Sea is growing rapidly and the risk of a maritime man-made catastrophe is growing by the day. Serious attention must also be directed to securing the competitiveness of BSR maritime transportation and industries relying on maritime transportation. This is of urgency for instance in the implementation of EU's sulphur emission directive.

There are two additional issues, which the Baltic Sea Region Programme should focus on, in coming years:

- Efforts to strengthen cooperation on innovation, research and development between the countries. The "Baltic Science Link" project, already established, is a dynamic platform for strengthening networks between industry, universities and research institutes.
- The region is good at implementing sustainable development policy in many sectors, but there is considerable room – in terms of both performance and perception – to do more to credibly position the BSR as a green region and a global frontrunner in the 'green' sectors, thus facilitating investment in 'cleantech' and renewable energies.

European business firmly believes that the EUSBSR should aim at reinforcing the strength and competitiveness of the countries concerned in order to improve welfare in the region and at continuing its contribution to the European integration process. BSR can serve as an example for the other macro-regions, but is also able to contribute to the success of the European common policies, such as: single market, energy, sustainable development, SMEs, social cohesion, trade, transportation and neighbourhood policy.

Business supports the conclusions of the 9th Baltic Sea States Summit (in Stralsund, May 2012) which underline the vision that BSR has the potential to become one of the most prosperous, innovative and competitive regions in the world. This would require above all purposeful further efforts to complete the internal market in the region (above all through harmonisation of rules and regulations) even in case this would not be achievable with the same speed in whole EU. Also the participation by all countries in the region on equal terms in the BSR further cooperation would be a prerequisite for a prosperous outcome.

*Filip Hamro-Drotz*

*Senior Advisor*

*Confederation of Finnish  
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## Pohjola's growing interest in the Baltic markets

By Jorma Alanne

Pohjola Bank plc is a Finnish financial services group which provides its customers with banking, non-life insurance and asset management services. Its Banking segment serves corporate customers in Finland and on an international scale by providing an extensive range of financing, investment and cash management services. Pohjola is Finland's second largest corporate lender with a market share of 20.7 per cent. Pohjola is part of OP-Pohjola Group, the leading financial services group in Finland with more than four million customers.

### Continued economic recovery in the Baltic countries

The three Baltic countries are quite similar with respect to their economic development in recent years and the outlook for the next few years. The countries plunged into difficulties because of overheating economies before the global financial crisis of 2008–09. The financial crisis deepened their slump significantly, considering that their total output fell by almost a fifth. They had to fix their economies through internal devaluation, which meant cuts in labour costs and redundancies in order to improve productivity.

The Baltic countries began to make better progress in their recovery in 2011 and the recovery will continue in the next few years although the sluggish global economy and the European sovereign debt crisis, in particular, will slow their economic growth. This recovery is mainly based on exports boosted by improved competitiveness. In all of the three countries, export volumes have already exceeded their level prevailing before the slump. Consumption and especially fixed investments, or domestic demand, are nevertheless much below their level before the slump. Although unemployment has decreased, it is still high. That government debt is small by international standards and national budgets are almost balanced give more economic policy leeway in all of the three Baltic countries.

### Much growth potential in the banking sector

Major Nordic banks dominate the banking sector in all of the Baltic countries. Following the dissolution of the Soviet Union, banks channelled financing to the Baltic region and increased their lending quickly and more than would have been possible with local resources. This also helped the development of the local banking sector.

The Baltic nations were also hit by the global financial crisis in late 2000s. Customers' financial difficulties caused big loan losses, making the banking sector plunge into a loss during 2008–10. However, Nordic parent companies were able to continue to provide local banks with financing and the countries did not actually see any run on banks. On the whole, the banking sector held up pretty well and, for example, Parex Bank in Latvia, a local bank lacking the support of a strong parent company, was the only bank that needed government aid.

Later on, banks have cleaned up their loan portfolios and moved into profit after 2010. They have tightened their lending criteria and enhanced their risk management. The time of the heaviest losses is over and customers' financial standing has improved. Selective lending has seen a revival although total

loans as a whole have decreased for several years in a row. Nordic banks boast good credit ratings and have had access to funding in international financial markets almost throughout the crisis period and have also been able to channel these funds to the Baltic region. In the meantime, local banks hinge on deposited funds in their financing. Banks under pressure to make profit have also cut costs by, for example, reducing their staff.

The Banking sector in the Baltic countries is still small on a European scale in relation to the size of their economies. The sector has still a lot of growth potential as the economy grows and people become more prosperous. Considering that the European debt crisis is, however, slowing down growth in the Baltic region too, developments in the banking sector will largely depend on the world economic situation.

### Pohjola in the Baltic countries

Trade and dealings between Finland and the Baltic countries have increased year by year. An increasing number of Finnish companies are looking for new business opportunities and are expanding their business in the region. For example, more than 4,000 Finnish companies are currently operating in Estonia and some 300 in Latvia.

Pohjola will respond to customer needs by extending its branch and service network in the region. Knowing our customers' needs and finding optimum solutions for them – plus being close to customer – form an integral part of the way we do business. Pohjola has already operated in the Baltic region for almost two decades through non-life insurance company Seesam. As a result of the acquisition of K-Finance corporate financing business in 2008, Pohjola began to provide finance lease services. Pohjola's Estonian branch office launched its customer services in 2011 and its business is growing strongly thanks to brisk demand for payment services in particular. In September 2012, we opened a branch office for corporate customers in Riga and we have a plan to do the same in Lithuania.

The Baltic countries play an important role in our strategy and in the improvement in international service capabilities in the years to come too. These countries form a vital and interesting region in economic and cultural terms. Even if the region looks homogeneous through the eyes of an outsider, nuanced cultural differences and differences in the markets occasionally present challenges to management. Finding the right professionals and their recruitment will be at the core of building our branch network.

Jorma Alanne

Executive Vice President  
Baltic Banking

Pohjola Bank plc

Finland



## Why some companies succeed

By Keijo Koskinen

Businesses have three central objectives. First and foremost, they must be profitable, i.e. they must produce sufficient resources for their owners to enable further business development. Second, they must produce quality products and services for their customers. And finally, the third objective of any company must be to function as a nurturing social community for its employees. Time has shown that both customers and staff who are treated poorly will soon show their displeasure by finding the door. A company's failure to deliver on any of these fundamental issues will prove fatal to its operations sooner or later.

It is in the area of professional competence that these three business objectives are most clearly intertwined. If a company's key know-how and leadership have not been fostered appropriately and are allowed to reach the end of their life cycle, it is inevitable that problems will soon escalate.

Over the last 15 years of my career I have become acquainted with hundreds of Finnish companies and their management personnel. The vast majority of these firms were significant players on the international stage, both in terms of their size and their expertise. I have long been intrigued by the reason why some of these companies enjoyed or went on to astonishing success and why others did not. I recently set out to gather together the notes I had collected on my visits to these companies with the purpose of completing a grounded analysis. The premise behind this B2B customer work was my work using process consultation methods<sup>1</sup> to discuss the company's situation with the customer and jointly discover the real needs of the organisation. Then together we would work to devise a beneficial solution. My analysis of this material from these meetings does not go to far to encompass such market phenomena as cartels, embargos, and corruption, which are fortunately quite rare in Finnish commerce. Instead, I chose to focus on know-how and leadership alone.

My analysis produced some interesting observations. Of all of the areas that had an effect on success, strategic development seemed to be the one that companies devoted the least time to actively developing. Investment in the enhancement of various kinds of tangible know-how also appeared to be quite constant from one point in time to the next; after all, a certain amount of effort must be made in order to simply preserve the company's current expertise, if not to advance it further. It is nonetheless clear that a basic requisite for market success is adequate company management of its fundamental and auxiliary know-how, in addition to its core capabilities<sup>2</sup>.

A surprising finding is that all of the companies apparently have a glaring need for the development of so-called "enabling skills". We could also speak here of organizational operations development. The statements below are representative of the environments prevalent in the analysis companies, in particular the everyday hectic operative workload of its middle management:

*"The company has reached a point at which it would be good to move from a problem-centred, result-oriented management approach to a broader employee-focused management approach that fosters motivation and a good work environment."*

*"After the merger, the language and cultural barrier has restricted all prudent activity."*

*"The root cause of our difficulties is the amount of unproductive work that takes place in our processes. We have the skills, but not the efficiency."*

*"Each of our units is plagued by a culture of stanch autonomy and self-interest."*

*"Our biggest challenge is a lack of staff commitment to the company; 20% of our employees leave their brain at the door when they come in to work in the morning."*

*"There should be a way to disseminate our tacit knowledge in order to safeguard the company's core competencies."*

*"We can't get the high number of faults on our main production line under control."*

*"Our production bottlenecks keep changing and we can't get a hold on it."*

*"The start up of our new production plant must succeed or else..."*

A sufficient growth in production is a key indicator of the vitality of national economies on a macro level. The pillars of a healthy economy are in turn successful companies. Company productivity is inextricably linked to its competencies. Businesses have traditionally sought to improve their capital intensity by increasing and investing in technology, but they have also invested in other forms of non-material capital and know-how as well. Professional competencies naturally have an extraordinary leveraging effect on any kind of investment.

It is imperative that companies are able to identify and admit their situation when they have come to a point where sluggish or negative growth can no longer be suitably addressed with decisions to purchase larger, more advanced equipment. If the company's concept is ineffective, the law of diminishing returns will inevitably warrant that each investment in the system will produce a lesser result. Consider one of the central challenges facing the production industry today: the escalating number of unfinished products that tie up capital. Instead of investing in more machinery, the solution should favour systematic elimination of the impediments to smooth operation – in other words, fluid production.

A successful company cannot develop itself successfully if it seeks to simply run the same race indefinitely. To thrive, it must eventually gain a mastery of every single sport. Constant changes in the global business environment add their own degree of difficulty, no doubt. But few businesses operate in a penalty-free environment, as every performance and result is greatly influenced by a myriad of internal and external factors.

For businesses and their employees, the practice of keeping company know-how and operational processes up-to-date is like taking out a life insurance policy. At the same time, it secures a license to carry on and enhance the business further. Although it is true that many successful business concepts can be based on outmoded technology and conventional structures and methods, even these require a healthy dose of astute business know-how to succeed. Without inspired leadership and the proper nurturing of competencies, companies will find that nothing can save them in the long-term – not even an impressive balance sheet.

Keijo Koskinen

Key Account Manager

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<sup>1</sup> Schein, Edgar H. Process Consultation Revisited. Building the Helping Relationship. Addison-Wesley Publishing. 1999.

<sup>2</sup> Long, Carl & Vickers-Koch, Mary. 1995. Using core capabilities to create competitive advantage. *Organizational Dynamics*, Summer, pp. 7–22.

# Event sourcing: a new approach to destination marketing – case City of Turku, Finland

By Janne Tienpää

Tourism covers roughly 2,5% of Finnish total GDP – that is the sector is now a 'marginal' revenue-maker in our country. However, travel industry as a whole (including personnel on ferry cruisers) is a substantial employer with approx. 64.000 employees.

For specific reasons (accessibility, major tourism investments, historical consumer behavior) four major parts in Finland are more important tourist regions than the others. From south to north these are southern archipelago (including the Åland islands), Helsinki capitol area, 1000 Lakes district and Lapland.

## **City of Turku is the main gateway to the wonders of the archipelago.**

### **Turku – the port to Scandinavia**

Turku with its 179.000 inhabitants lies at the Aura river estuary. Also known as the oldest city in Finland (founded in 1229) this former capitol is situated in the south-west part of Finnish mainland. After the Swedish kingdom lost a war to Russia 1809 and was forced to hand over Finland to its eastern rival and it was announced soon by the new rulers that capitol was to be transferred eastwards – that is how Helsinki actually was given a birth. Statesman, university authorities, flamboyant bourgeois moved to new surroundings and gradual degeneration started in Turku. Finland gained its independence in 1917 after Russian revolution and status of Turku again high-rised. Busy harbour and active business contacts to Stockholm region helped the growth in the area. Also large-scale shipyard industry flourished tempting new labour to the city. Nowadays the whole sea cluster in the region gives work to more than 20.000 Finns.

### **Culture capital of Europe**

Turku was the official culture capital of Europe 2011 together with another well-known Baltic city: Tallinn.

The capital year was a great success: approx. 2,2 million visitors from all over Finland and abroad were more than satisfied. And so were the city authorities. City of Turku invested totally 36 million euros to the culture capitol project during 2008-2011. Number of hotel nights in Turku region were +7% higher comparing previous year. It is calculated that total extra revenue to the region was 260 million euros which is 60 million euros more than expected. Most of the revenue increase comes from tourism. This is a clear sign that travel industry has potential ability to grow even further.

### **Turku Touring – a key player**

The official tourism organisation of city of Turku is called Turku Touring. It manages both BtoC and BtoB marketing and does broadly cooperation with local tourism operators (hotels, aircarriers, cruise companies etc.) and has managed to market the city remarkably well. For instance the New York Times gave top ranking to Turku and praised the city as 'one of Nordic Europe's best kept secrets. A fine

example of well-implemented marketing strategy of Turku Touring.

The city and Turku Touring now focus on event 'hunting'. Major events are professionally monitored everywhere whether there is a possibility to raise interest to come to Turku. Last year Turku hosted also Power Cup volleyball tournament with some 7.000 attendees – a largest volleyball event in Europe! All kind of events are welcomed: sports, cultural, scientific, political plus various concerts & conferences.

### **Destination marketing in practice: combining business & leisure**

There are approx. 2300 hotel rooms in Turku and room occupancy 2011 was 58,8% while at the same time in Finland it was 49,7%. High season is during summer months and July being the peak month. The leading hotel operator in the area as well as in Finland is S-Group Hotels representing both Sokos Hotel and Radisson Blu Hotel brands.

One of the most popular hotels is Sokos Hotel Caribia. Located on the edge of the city center this hotel is a resort-like activity center combining both business and leisure customer needs. Sokos Hotel Caribia has a spa and congress center with easy accessibility. Caribia Arena at the facility hosts annually various major events: concerts, conferences, sports events, various fairs etc. During the past three years the hotel has focused especially to major-scale events & productions. As a result of this hotel has managed to have a steady inflow of revenue all year round, that is seasonal variations are now less than some years ago.

This is due to the following tactics: ability to combine city's or region's attractiveness to a selection of social interest activities at the resort hotel and further use story-telling marketing strategy to be able to create more value to potential customer segments. And the story goes on. After culture capital of Europe year 2011 the statistics show that number of nights in Turku has decreased while at the same time Sokos Hotel Caribia has sold more this year compared to last year! This result underlines the importance of event sourcing. It also emphasizes the power of long-term strategic & tactic planning.

Janne Tienpää

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## State-financed investment – the Achilles' heel of Russia's rents-addicted economy?

By Janne Hirvonen

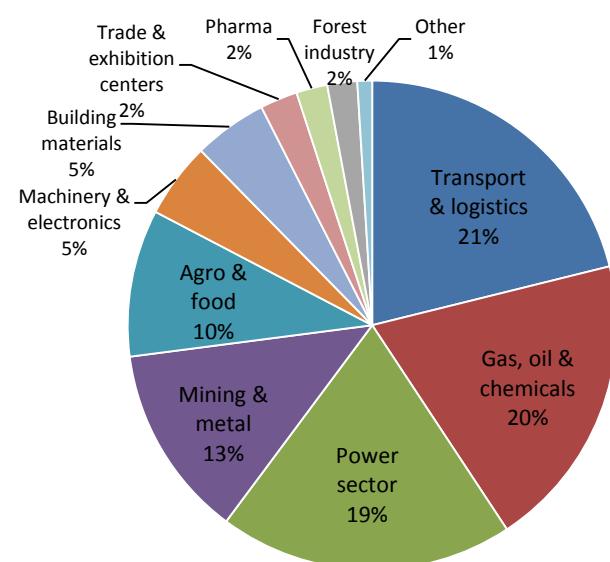
Compared to our earlier survey, real investment activity has moderated somewhat in Russia. From May 2011 to July 2012 some 286 major investment projects worth a total of \$86.5bn<sup>1</sup> were announced, under construction, or in the commissioning phase.<sup>2</sup> The value of individual projects ranges from \$11m to \$10.8bn and over 40% of all projects involve state money. A vast majority (71%) of the investments are from federal investors. Regional and foreign capital investors provided a smaller, but fairly similar shares of investment, 15 % and 14 %, respectively.

The charged investment atmosphere in the second half of 2011 ahead of the Duma elections faded by early 2012 as it became clear private sector investment was decreasing. In 1H12 the flow of fixed investments gained momentum from a substantial boost in state-financed projects.

The transport and logistics sector was the largest real investment category with investments totaling \$18.2bn. The second- and third-largest project categories were gas, oil and chemical industries, and the power sector (Figure1). In terms of the number of investment projects, agriculture and food industries ranked first with 69 projects (total value \$8.4bn). Despite continuous efforts to diversify Russia's industrial base, investments in high-tech production was still minimal.

The largest investment projects involve the transport and logistics sector; gas, oil and chemical industries, and the power sector. Transneft's ESPO-2 (\$10.7bn) and BPS-2 (\$3.3bn) pipelines are by far the largest transport and logistics sector investment projects. The oil refining sector has experienced an investment boom, outdoing even highly capital-intensive metallurgy. Kinef, a subsidiary of Surgutneftegas, is building a \$2.9bn oil refinery in the Leningrad region. Rosneft's \$2.3bn modernization project at the Tuapse oil refinery will boost its refining capacity from the current 5m tons to 12m tons. LUKoil's \$3.7bn natural gas & chemical complex in the Stavropol region is expected to become one of the industry's largest in Russia.

Figure 1. Main real investments in Russia (% of total, \$86.5 bn, May 2011-July 2012)



Source: East Office, Ekspert, NSSRF

Most of the 40 investment projects (\$16.8bn in all) in the power sector were state-financed. The state seems determined to modernize the industry's out-of-date infrastructure. Rosatom, the state atomic energy corporation, is developing a \$4.5bn nuclear reactor investment in the Sverdlovsk region. Network companies, such as FGC UES and MRSK, have announced 11 investment projects worth over \$1.5bn involving building new or fundamentally modernizing old electric substations.

Mining and metal industries have continued to attract investment. OMK's \$1.5bn plate rolling mill in the Nizhny Novgorod region is among the most substantial projects. Foreign investors have a strong presence in the machinery and electronics industries and thus a vast majority of the investments involved foreign capital. The automotive sector, along with heavy machinery, continues to lead the sector.

The high investment activity in the agricultural sector was largely a reflection of federal subsidy policies that provide investors with easy access to funding and the relatively low cost of capital. In May 2012, Cherkizovo group, Russia's biggest meat producer, announced it was putting on hold new investments in pork production until the impacts of Russia's WTO accession clarify.

Investments of established operators drove investment in building materials production (23 projects with a value of \$4.2bn). The biggest projects were Holcim's \$660m investment in a cement production line in the Moscow region and Lafarge's \$600m investment in cement production in the Kaluga region. The forest industry has 13 investment projects (total \$1.7bn) although the *Ekspert* data omits several substantial projects. The \$400m wood processing complex in Arkaim on the Pacific coast in

<sup>1</sup>Projects exceeding US\$11m

<sup>2</sup>Ekspert Business Weekly issues 37(770), 50(783), 16(799), 23(806), 36(818); NSSRF; East Office

Vanino, Khabarovsk Territory, was by far the most expensive investment on the menu.

Both foreign and domestic investors announced several retail trade investment projects (\$2.1bn) including Metro Cash & Carry's and Auchan's projects. The pharmaceutical sector saw 15 sizeable investment projects (total of \$1.8bn) that included 11 pharmaceutical plants. Novo Nordisk, the world's leader in production of diabetes medicines, broke ground on a \$100m plant for the production of insulin cartridges in Graptsevo, Kaluga Region.

The state-financed projects have sustained investment activity at a relatively high level. In his third inauguration speech, President Putin ordered the government to boost investment from 20 % of GDP to 25% by 2015. Even more important for the long-term success of the economy beyond increasing the investment ratio would be to diversify Russia's industrial base.

A possible external price shock and subsequent implementation of a tighter budget rule would effectively

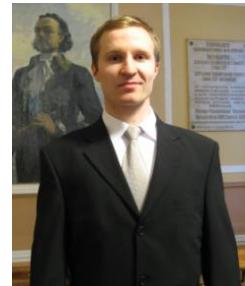
force the state to cut back on investment in the real sector. As long as Russia's economy remains vulnerable to external price shocks of commodities, the dominance of state-financed investments can be considered the Achilles' heel of Russia's rents-addicted economy.

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## The impact of investment climate on the ease of investment – a comparison between Russia and the Baltic States

By Markku Sippola

Russia's economic modernisation programme seeks to render the country's industries more efficient to meet international competition. One way to do this is to attract foreign investment in the country which will provide the manufacturing and other sectors with necessary technology transfers and knowledge spillovers. For foreign investors, the path to Russia is still thorny. For big businesses, there is the domestic Foreign Investment Advisory Council and a number of foreign lobbies, such as the East Office of Finnish industries, to facilitate investments in Russia. However for SMEs, the Russian environment is continuously hard to invest in (U.S. Department of State: Investment Climate Statement 2012).

Also in practical terms, the focus of the Russian government to attract investment has been on big multinational companies. Large forest sector companies have been granted a 'prioritized investor' status. Inspired by the huge consumer market and the reduced customs duties, the larger manufacturers of cars and auto components have set up industrial assembly units in the country. The Skolkovo 'technopark' will house up to 1,000 start-ups in the near future, but those firms only exhibit the most innovative, high-risk and high-gain young enterprises. As to the ordinary SMEs and the other regions of Russia, the development is still mostly stagnant.

With regards to the ease of investment, we can make comparisons to the Baltic States, who have had in economic terms a similar starting point as Russia had in the 1990s. I have had an opportunity to do research on Nordic-owned manufacturing companies in both Russia in 2011-12 and the Baltic States in 2004-08. The emphasis on large companies is seen especially in my Russian case study companies: while four parent companies out of the twelve cases in my Baltic sample were SMEs, there were no SMEs among the investigated seven companies in Russia. Although I do not have any SMEs in my Russian sample, I can grasp some of the difficulties foreign SMEs might encounter when entering Russia: three out of the seven researched factories had adopted a small-steps investment policy even though by virtue of their size in the home country they would have had resources and also willingness to make bigger investments. Although having been in Russia for years, these three firms still had less than 100 workers in Russia, the entry mode was predominantly 'brownfield', and they still assumed a careful stance towards Russian authorities and business environment.

Somewhat the small steps in Russia seem forced to be smaller than those in the Baltic States. In Russia, the cases encompassed an unsuccessful launching of production in an industrial park (Agrotehnika), disinvesting from unprofitable business – and consequently a shift from large

steps to small steps investment (Mashina) and a search for suitable premises (Stal). In the Baltic States, some of the case companies also assumed the 'small-steps' investment policy, but there the cases exhibited a successful production launching in a Nordic industrial park (Steel Works), greenfield entry (Profile Maker), the utilization of a peripheral location and its cheap local labour force (Foodstuff) and the employment of skilled, locally supplied labour (Medicament); in other words, the Baltic cases resembled the liberal market economy setting more than that of the transitional market economy.

As regards the larger-steps investment policy, my evidence exhibited a clear distinction between Russian and Baltic environments in firms' approach to public relations. In both contexts, PR was highly relevant. In Russia, the cases evidenced that the relationships with local authorities need to be established before the investment and actively maintained since then, whereas in the Baltic States, local PR is rather being done in order to maintain good supply of labour. In other words in terms of larger investment, those Nordic manufacturing companies investing in the Baltic countries seek to become 'agents' rather than 'patients' for the localities. That is to say, enterprises that make localities dependent on them are called 'agents', and enterprises on which localities are not dependent are called 'patients'.

In the light of these cases, it seems obvious that we can speak of the end of the transition period to a market economy with regard to the Baltic societies but not yet as to Russia. The 'transitional' phase of Russia is most strikingly seen in the degree of friendliness – or unfriendliness – towards foreign SMEs. It follows that for the Russian government, it would pay off to smooth small steps investment by offering facilities for investment that are freed from short-term local interests of the authorities (perhaps benchmarking from the Baltic States); and to switch the focus with regards to larger steps investments on the provision of labour (VET measures, welfare and housing provision, perhaps benchmarking from the Nordic countries) rather than on how the large investment would benefit the locality in terms of taxes, rents and revenues.

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## Nordic-Baltic defence cooperation – opportunities and challenges

By Martin Hurt

The total population of the Nordic and Baltic region amounts to 32 million people, which makes up only 6% of Europe's population. Hence the region holds a fairly modest position in Europe in terms of population size. At the same time, the Nordic and Baltic countries are surrounded by a relatively similar security environment where Russia does not pose a military threat to them, but still affects the whole region due to its fitful nature and inadequately contained aggressiveness. The region's defence forces are quite small-sized with capability development and materiel procurements becoming increasingly more difficult for them due to defence budget cuts and increased appreciation of military technology. After all, the Nordic and Baltic countries are rather small and therefore less attractive customers for the huge international arms industry compared, for example, to Southeast Asian nations with their rapidly growing economies.

The Nordic-Baltic region has traditionally put great emphasis on transatlantic cooperation. However, the US pivot towards Asia raises the issue of how to remain relevant in the longer term. The trend towards downsizing in the defence forces is accompanied by an increase in dependence on allies, partners and especially neighbouring countries with whom many qualities are shared. Cross-border defence cooperation takes on new significance as the need to retain existing military capabilities through joint training activities and large-scale investments is getting more pronounced.

Although constantly deepening bi- and multilateral cooperation has become commonplace, there are still several factors that undermine the development of Nordic-Baltic defence cooperation.

The first factor is, of course, the historical tradition to treat national defence mainly as an activity conducted by a state to safeguard its independence. All Nordic and Baltic countries are currently members of either NATO or the EU (or both), which is why the development of military capabilities should not be solely based on each nation's individual needs, but should take into account NATO's and/or the EU's requirements and developments in their entirety. Every wasted euro affects not only one nation, but all allies, all partners and their ability to implement the decisions adopted by their heads of state.

Another complicating factor is a preference for domestic defence industry and research institutions – a preference that stems from internal politics and has been expressed more or less vocally. This category also includes decisions based on local political considerations to retain units without military relevance in the international context.

All people active in the field of national defence have not yet linked into the global social network that contributes to joint defence development. There have been major language and cultural barriers in the cooperation between the Baltic states on the one hand, and the Nordic states on the other. Fortunately, these are gradually beginning to disappear in connection with deeper cooperation.

Despite the challenges, Nordic-Baltic defence cooperation also provides ample opportunities which so far have been exploited only to a limited extent.

Nordic defence cooperation dates back to the Cold War era. The present cooperation framework NORDEFCO was launched in 2009 to strengthen the participating nations' national defence, to explore common synergies and to facilitate efficient common solutions. In January 2011, the Baltic countries were also invited to join in, but initially only in three selected areas of cooperation: education, veteran and gender issues. However, none of these contributes directly to the establishment of Nordic-Baltic military capabilities or to the creation of considerable synergy. At the moment, Nordic-Baltic defence cooperation is far from reaching the level of pooling and sharing, not to mention smart defence. Admittedly, the Nordic countries work closely together, but the Baltic states still lag behind in their involvement.

From the perspective of the young Baltic nations, the Nordic armed forces seem extremely well developed and highly experienced. The Baltic countries have much to learn from every Nordic country, be it a member of NATO or merely of the EU. The building of national defence from scratch is a time-consuming process which requires financial resources as an input, but it cannot do without experiences either – otherwise the resources will be easily squandered. The Baltic defence forces still have a lot of potential, which is why they definitely need support in the form of joint exercises, joint procurements and personal cross-border contacts.

The Nordic Battle Group (NBG) has provided a fine example of joint capability to which Sweden, Finland, Norway and Estonia (plus Ireland) have contributed to date. Sadly, the NBG is by default only of a temporary nature, having been on standby twice – in 2008 and in 2011. If the Baltic countries expect increased military visibility from NATO and EU members on the eastern coast of the Baltic Sea, they must all join the NBG. In addition, it would be justified to ask why only Sweden must fulfil the leadership role in the NBG – maybe the responsibility should rotate, so that Finland, Norway and a Baltic country could also bear the brunt of leadership?

Martin Hurt

*Member of the Executive Board*

*International Centre for Defence Studies*

*Estonia*



## Unconventional resources and energy security in the Baltic Sea region

By Jonas Grätz

Unconventional oil and gas resources – i.e., oil and gas resources that cannot be recovered by simply tapping a reservoir – have contributed to a paradigmatic change in the energy security debate: It has shifted from the zero-sum Malthusian predictions of the mid-2000s, which foresaw a permanent decline of physically limited production and yet greater political dependence on a few suppliers, towards the concepts of technological advancement, economic opportunity, and territorial diversity. The concurrently increasing globalisation of the gas market has been aided by improvements in the technology for liquefying and transporting natural gas (LNG). The prospect of a “Gas OPEC” that made the headlines just a few years ago has now become a very unlikely prospect.

Due to the hype one could be forgiven to forget that the “unconventional revolution” requires a geological base, too. It is taking place mostly in North America and in Australia so far. It is here that the vast resources of tar sands and light tight oil as well as shale gas are located and where the population has so far accepted their extraction. Mainland China may also have big reserves of shale gas, but it remains to be seen whether it can replicate the North American success, especially as the geological conditions might be far more difficult. The Baltic Sea region has attracted some attention recently, particularly Poland. But difficult geology means that the shale gas prospects are still uncertain in Europe.

With regards to unconventional oil production, the Baltic Sea region is the leader in the EU. This is due to the Estonian shale oil industry, which produced 0.5 million tons of oil from oil shale in 2011, a figure only surpassed by China. This has aided the Estonian economy and energy security, but wrecks the country's climate scorecard.

As the impact of Estonian production on oil markets is negligible, it is primarily global gas markets that transmit the benefits of unconventional resources to the energy importers in the Baltic Sea region. Traditionally, they have been relying on gas supplies from Russia, which makes a lot of sense due to transport economies, but poses risks for energy security. As the US market is saturated with cheap natural gas, LNG has become available in greater quantities and at lower prices. In line with the economic slump that helped depress energy demand and reorient EU funds towards infrastructure spending, this has opened a window of opportunity in the region. Also, the EU Commission has become more active in promoting a common gas market against the background of the changing global market fundamentals.

Aided by the injection of EU funds, several LNG terminals are being built or planned: Poland is building an onshore terminal in Świnoujście, and Lithuania will lease a floating storage and regasification unit to be installed in Klaipeda from 2014 onward. The unit is currently being built in South Korea. Estonia and Finland are still discussing on which side of the Gulf a third terminal should be constructed. In addition, planned pipeline interconnectors between Poland and Lithuania and also between Finland and Estonia will create the first interlinked Baltic gas market.

But the flurry of projects also points to a lack of coordination in the region, putting a question mark behind the economic rationality of the national diversification policies.

Russian gas is certainly expensive, but so is the construction or lease of an LNG terminal for a tiny gas market. For example, over a quarter of Lithuania's natural gas is used by the Achema fertiliser company, which receives gas from Gazprom under a separate contract. The market for LNG will therefore be quite limited without additional coordination. Baltic rim importers therefore need to coordinate their diversification strategies better to be able to reduce the economic cost of diversification.

Meanwhile, the dynamics of diversification serve to expose further cracks between Russia as a resource exporter and the net energy importers of the Baltic rim, as it simultaneously blunts Russia's ability to use gas as a tool of political influence and is eroding Gazprom's market share and profits. Russia is still extremely dependent on the revenues from its oil and gas exports, as well as from other raw materials – a situation that has not improved much in recent years. As a result, Gazprom has been pushing for its oil-linked natural gas prices throughout the EU, rejecting a volume-based strategy over high prices. This was predicated on the hope that the glut would come to an end sooner rather than later.

The problem is that the economic model the Kremlin wanted to capitalise upon seems no longer so viable, while it has not developed the means to reform the economy or even adapt it to changing circumstances. Instead, the Russian political system is entrenched and geared towards short-term survival. In this context, the wrong choices are being made: Putin opted for more, not less repression in his third term. Russian WTO membership is also witnessing a bumpy start, indicating that the Kremlin wants to use its membership to influence global rules rather than to comply with them. “Modernisation” is increasingly understood in terms of bolstering the defence industry. Neither has the Kremlin abandoned or reduced Russia's ambitions as one pole of a purported “multipolar world order”, a claim that serves to deflect attention from the problems at home.

The growing gap between the Kremlin's goals and the available economic means implies that Russia may act even more stridently and unpredictably in the near future. The spot to watch is the Caucasus, rather than the Baltic rim. In the longer term, Russia's clout over the EU might increase notwithstanding the unconventional boom, if the EU's economic crisis will be overcome and as the “Arab Spring” is showing repercussions on energy markets. But currently, opportunities are huge for energy importers of the Baltic Rim. If opportunities are grasped in a coordinated way, structural changes will be profound and will endure, even if the supply picture should darken in the future.

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# Euro-Arctic cross-border cooperation for development of the Russian Arctic offshore oil & gas reserves

By Mikhail Grigoryev

Development of the Arctic zone is one of priority goals and challenges for the Russian Federation. It means the solution of two tasks – exploitation of natural resources, first of all – hydrocarbons, and establishment of a global Europe-Asia transport corridor – the Northern sea route (NSR). These processes are interconnected: creation of modern transport schemes for supplies of equipment and materials for development of oil&gas fields and for deliveries of products to markets of Atlantic and Asia-Pacific region promotes development of NSR infrastructure. It reduces navigation risks and makes sailing by NSR more attractive for transit transportations of different cargoes, and growth of cargo shipping should lead to decrease fees for icebreaking and other services, reduce insurance expenses that also favorably affect navigation development.

The effective solution of both tasks is possible only in terms of intensive international cooperation – development of the Arctic technologies, unified/harmonized standards for the industry, communication and other infrastructure, personnel training, etc.

Challenges of the international cooperation for protection of fragile Arctic ecological systems have special importance. It concerns not only mitigation of industrial impacts on Arctic environment, but also on development of preventive measures to decrease negative processes for nature. Considerable climate change processes not only open access to exploitation of natural resources and development of the Arctic navigation, but defines emergence of the negative natural processes with consequences that we may still not understand well enough – first of all, melting permafrost and methane gas emissions.

We have to consider indigenous people as essential element of existing ecosystems. When planning the exploitation of natural resources of the Arctic, we should ask one question – whether there is life after oil? All possible efforts should be undertaken to ensure that short, in historical aspect, stage of development of exhaustible mineral resources would not bring us to ecological and social cataclysms.

Exploitation of natural resources of the Arctic and development of new transport corridors is requirement of all mankind, therefore Russia realizes responsibility for sustainable development of the region within constructive international cooperation. A basic condition is a stable legal platform, first of all in the sphere of the international relations. Russia supports observance by all states, including non-coastal, historically developed legal regime of the Arctic fixed in a number of international agreements – the UN Convention on the Law of the Sea (UNCLOS) and others.

Development of the region is leads from west to east. It is connected with development of onshore and offshore oil and gas fields of the Barents Sea region (the impulse to the process was given by the Russian-Norwegian Barents sea agreement), but also with building logistic structure for development of fields of the North-Western Siberia, first of all – Yamal, and with forming infrastructure of the NSR.

The western part of the Russian Arctic is the prime region for development; special importance is gained by interaction of Russia with its partners within the Barents Euro-Arctic Region, first of all, with the neighboring countries – Norway and Finland. From the Russian side, obvious participants are northern regions of the

Northwest federal district – members of the Barents regional cooperation.

Pillars for development of the Russian Arctic are large investment projects – as realized at the expense of the federal budget, private investors and public-private partnerships. These projects are considered in several documents of strategic planning already approved by the Russian Government. Cross-border cooperation for the development of the Russian Arctic offshore oil&gas reserves will be carried out within the specific investment projects, based on the optimal international division of labor. It is necessary to mention the agreement for the Barents Sea between Russia and Norway which directly state the joint development of cross-border fields.

It is obvious that cooperation should be based on the developed economic relations and participants' experiences. Finland has exclusive experience in ice-class vessel design and construction (the majority of the Russian fleet of ice breakers and the strengthened ice class vessels was designed or constructed in cooperation with the Finnish experts), environmental technology, weather and ice condition forecasts. The obvious directions of the Russian-Finnish partnership in development of oil and gas reserves of the Arctic are shipbuilding, navigation, ice technology and environmental aspects. Cooperation in the field of the Arctic transport scheme and logistics are primarily connected with the NSR. In this case the number of partners from the Russian side extends for the eastern coastal regions - Yamal-Nenets autonomous okrug and others.

Cooperation with Norway obviously proceeds not only from participation in development of the fields (not only cross-border) on the basis of high technological and environmental standards, but also providing their logistics, being based on optimum distribution of deliveries through the Norwegian and Russian supply bases and terminals. Norway can also be the large consignor for NSR – oil and LNG, iron ores and other cargoes.



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## The "small" actors are the major actors

By Eva Hjälmered

**The city you live in use a lot of energy, in order to make your city safe, attractive and to fulfill their duties. In order to have a more energy efficient future we need to focus on our efforts in reducing the consumption. Major players in consuming energy are our cities and municipalities. This can be considered a big problem. It can also be considered a big opportunity!**

In 2009 a report was written about sustainable energy scenarios for the future by the Danish company EA Energy Analyses. They looked at energy perspectives for the Baltic Sea Region, how an agenda can be set for the future. The effects on the climate are global, borders are not restricted. The efforts need to be global as well, but we cannot leave the question "up in the air". We need to look at the local level and at the individual level. In the report the authors highlight big tech versus small tech.

### Small tech versus Big tech

The Small tech scenario focuses on distributed energy generation, energy savings and efficient utilization of energy through combined heat and power generation. This scenario assumes a high level of interconnection of the electricity grids in the Baltic Sea Region to allow for the integration of a high share of wind power. So-called 'smart grid technology' and improved communication between the different parts in the energy system play a key role in providing an optimal dispatch and efficient utilization of the energy infrastructure. The Big tech scenario on the other hand explores the opportunities of more centralized solutions. In the Big-tech scenario, almost all new coal and natural gas power plants established from 2020 and onwards will be equipped with carbon capture storage technologies (CCS). In addition, it is assumed that most new large coal power plants commissioned in the period 2010-2020 are prepared for CCS and retrofitted in the subsequent decade. The nuclear power capacity will be increased by 35 % compared to today. New nuclear generation capacity is presumed to be built in Finland, Lithuania and Poland, and existing nuclear power plants in Germany, Sweden and North West Russia will continue generation.

The results from the study show us that we do have the resources and technologies to achieve the targets set out. It also shows us that the effect of the Small tech scenario can give us a substantial reduction of the energy consumption, unlike the Big tech scenario.

### Why are these results of importance?

As mentioned earlier the climate issues faces no borders, but policies and actions do. The Baltic Sea Region joins countries with very different economies and energy resources. The results show that major actions can be taken on a local and individual level that will have great importance. We do have the technology, and we have the science. What is missing is a strategy and decisive measures on a local political level. Energy is crucial when it comes to designing policies that meet the future challenges of developing renewed growth and prosperity in the region, competition and climate friendly new technologies. Keen political interest is taking in the Baltic Sea region in these years providing great opportunities for the region to shape its energy policies to develop and obtain prosperity. The report discloses some of the advantages of enhanced energy cooperation in the Baltic Sea Region based on facts and data. It illustrates that there is a huge potential for

cost-efficient energy savings and energy efficiency measures through a stronger coordination of the energy policies across the region.

### UBC works practically on the local level

It is time to highlight the actual part the cities and municipalities play in a more energy efficient and sustainable future. The Union of the Baltic Cities (UBC) acts on a local level. It is a network of cities and municipalities around the Baltic Sea Region. The focus is the local level and how we can cooperate and help each other. We choose to work with practical examples that can give inspiration, information and guidance. I would like to give you two practical examples in our energy efficiency work; lighting and buildings.

#### *Lighting*

Lighting effects how we feel, what we feel and how we perform at work. Providing street lighting is a very important – and expensive – responsibility of a city! Lighting can account for up to 38 % of the total energy bill in a typical city worldwide (NYCGP 2009). Inefficient lighting wastes significant resources each year, and poor lighting creates unsafe conditions.

The light has several functions. For example we need light for orientation, for recognition of small details, for creating a special atmosphere, for feeling safe. A working space, where people work for several hours requires other lighting than a space which is just meant for relaxation or transition to another space.

By converting the public lighting to more energy efficient lighting, in our case LED lighting, significant amounts of energy and money can be saved while making the cities safer and more attractive.

#### *Buildings*

Another example is buildings. There are several technical solutions allowing improvements in the housing energy efficiency. Of the introduced solutions, improved insulation, control of the heating, and sufficient ventilation with heat recovery are seen as effective methods to improve both housing energy efficiency and quality of living. Renewable energy sources are available in different scales, and for instance micro CHPs can provide additional option for using natural gas.

Both when it comes to lighting and buildings, these are a large budget post in the municipalities' energy costs, and huge savings can be made. We know that financial incitements are very effective. To become more energy efficient is a big goal in itself, but to save money in doing so gives a clear push in the right direction. By cooperating on a local level we can learn from each other, become more energy efficient and make a big difference in becoming a sustainable region.

Eva Hjälmered

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## Energy infrastructure projects in Lithuania

By Eugenijus Uspuras and Vaclovas Miskinis

The energy infrastructure is crucial for stable economic development in any country. It should create opportunities to supply fuels and energy technically safe, reliable in terms of supply security, environmentally friendly and at acceptable social costs. During five decades the Lithuanian economy and the energy sector were fully integrated into the Former Soviet Union. Therefore capacities of the main power plants and oil refinery were planned and constructed with intention to meet not only the growing country's internal energy demand, but also the needs of a much larger North-Western region of the Former Soviet Union. In principle energy infrastructure inherited from its Soviet past was inappropriate in terms of country's size and access to primary energy, and in some respects was not enough reliable and technically safe. Many efforts were done to convert the Lithuanian energy sector into a new structure but many projects of the energy infrastructure are still not implemented.

The Lithuanian power sector was oriented towards large electricity consumption, as well as towards considerable exports. However, after closure of Ignalina Nuclear Power Plant in 2009 more than half of required electricity is imported from neighbouring countries (mostly from Russia). Lithuanian Thermal Power Plant currently is the major electricity generation source. But its units constructed in 1960's and 1970's are inefficient and are not competitive in the electricity market due to high price of natural gas. Since 2013 the gap between electricity generation and consumption will be reduced due to commissioning of modern combined cycle gas turbine unit with a capacity of 455 MW at Lithuanian TPP. Construction of wind power plants with capacity of 500 MW as well as cogeneration power plants using biomass with capacity of 355 MW is foreseen in the National Energy (Energy Independence) Strategy until 2020. One can expect that contribution from renewable energy sources into balance of electricity consumption will increase during decade up to 30-40%. The major option seeking to reduce high country's dependence on import of primary energy and as well of electricity is construction of a new regional nuclear power. Its commissioning is planned in the Strategy in 2020-2022. This project is a big challenge for Lithuania and regional partners from Estonia and Latvia. Therefore its implementation is based also on significant contribution from the Strategic Investor "Hitachi-GE" from Japan and support of Japanese and US Governments.

The Lithuanian electricity transmission and distribution network is comparatively powerful and well connected with neighbouring countries – Latvia, Belarus and Kaliningrad region of Russian Federation. However, absence of interconnection with countries of Western Europe is the major shortage of transmission grid. Currently only the underwater cable with a capacity of 350 MW connecting Estonia and Finland could be used for power exchange with electricity market of Scandinavian countries. Therefore the first priority in the national energy policy is construction of strategic interconnections with Poland and Sweden. Interconnection Lithuania–Sweden (NordBalt) with capacity of 700 MW will create since 2016 technical conditions for integration of the Baltic electricity market into market of Scandinavian countries. Interconnection Lithuania–Poland (LitPol Link) with capacity of 1000 MW will integrate the Lithuanian power system into the power system of Western European countries and will increase the reliability of energy supply. This link is important step for synchronous operation of the Baltic power system with the ENTSO-E system. These infrastructure projects are included into Baltic Energy Market Interconnection Plan (BEMIP) and have been partially supported by the EU funds. To use efficiently new opportunities of electricity market integration, the reconstruction of physically and morally worn electricity transmission and distribution networks is required in particular taking into consideration growing contribution from distributed electricity generation and the requirements for electricity supply reliability.

Taking into consideration existing technical supply facilities and the more stringent environmental requirements, currently natural gas is the major fossil fuel for electricity and district heat

generation in Lithuania. However, gas is imported only from one source – Russian Federation. The country's gas network is connected with the "Northern Lights" pipeline transporting natural gas from Siberian gas fields by the only pipeline Minsk – Vilnius. The gas supply to the Lithuania is exposed to potential disruptions and in particular security of supply in peak periods is not sufficient. In addition due to limited interconnection capacity between the Latvia and Lithuania and limited output capacity of the Incukalns gas storage possibilities for alternative gas supply in winter time are very limited. Therefore the national energy policy documents are focused on infrastructure projects orientated at diversification of gas supply sources and increasing security of gas supply. Preference is given to construction of LNG import terminal in Klaipeda sea port as the best and the fastest option of solving the problem of Lithuania's dependency on single gas supplier (Gazprom). The start of its operation is planned in 2015. The expansion of the transmission system in the western part of Lithuania is going on. This infrastructure project is very important for connection of LNG terminal with existing natural gas system and proper functioning of this terminal. To foster development of a regional Baltic gas market, construction of the new gas interconnection between Lithuania and Poland and enhancement of interconnection Lithuania–Latvia until 2020 are included into the list of projects specified by the BEMIP implementation action plan.

Largely developed systems of district heat supply are important feature of the Lithuanian energy sector – about 75% of residential houses in towns are supplied by district heat. Due to disconnection of industrial consumers, reduction of heat consumption by residential and public sectors and other reasons district heating is insufficiently efficient. In addition natural gas accounts for approximately 73% of fuels in the production of district heat, and bills for space heating in many multifamily houses are not affordable for consumers with low salary due to high price of gas as well poor thermal insulation of buildings. Therefore modernization of the existing infrastructure in the district heating sector is required. The major priorities are: substitution of natural gas by biofuels, deployment of cogeneration, reduction of heat transmission losses and complex refurbishment of buildings. Application of modern technologies creates new opportunities for the effective use of wood and waste (wood waste, chips, pellets, straw, municipal waste, etc.) for reduction of district heat price.

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## Plans for Baltic nuclear power plant financially unviable and ecologically hazardous

By Frederic Hauge

The Baltic nuclear power plant, which is now being built in the Kaliningrad region of the Russian Federation, is a prime example of how the lobbying power of nuclear energy, combined with the vicious mechanism of decision-making in modern Russia, leads to the implementation of economically wasteful and environmentally hazardous projects.

Rosatom declared that, "the construction of Baltic NPP will solve the problems of energy security of the Kaliningrad region, as well as export up to 2 GW of power to neighbouring countries and will strengthen Russia's influence in the region, and be a favourable example of cooperation with Russia to these countries." Thus, the project has a clear political motivation. Its commercial prospects are nevertheless dubious.

### **The electricity generated by the Baltic NPP would be too expensive.**

The projected cost of the Baltic nuclear power plant in 2010 prices was 4.8 billion euros, and with the necessary plant infrastructure - 6.23 billion euros. This value is clearly underestimated, since this does not include interest expenses, and the costs for the power system, or payments for surplus capacity in the region and abroad.

The projected payback time is quite long for the modern Russia - 19 years - but we do not know the key parameters applied in this calculation (for example, load factor, average price), the way plant decommissioning will be funded, etc. The NPP cannot operate without the construction of high-voltage transmission lines or underwater cables to access markets of sufficient capacity, which involves capital expenditures comparable to the cost of the plant.

The project is funded in part by the Russian budget, in part by a special fund of Rosatom, which is formed by mark ups on regulated tariffs. Though Rosatom was supposed to sell a 49% stake to foreign and private investors, so far no such investors have shown interest in entering the project.

### **There is no market for the electric power generating by a power plant of that size neither in the region nor in the neighbouring countries.**

The amount of electricity that can be generated by the region's power plants and the Baltic NPP reactors together (2340 MW) will exceed the needs of the Kaliningrad region by 4-4,5 times. A nuclear power plant that is built specifically for the export of electricity is unique in global practice.

Nuclear plants operate as a base load capacity, and consuming the electricity power they generate on a regular basis imposes some obligations to the importing countries. They have to include energy imports from Russia in their energy mix by excluding some of the local, as well as maintain spare capacity. All this can create some dependence on Russia, which its neighbours are trying to avoid. Only the construction of transmission lines in Poland and Lithuania makes it technically feasible to export energy from the Baltic NPP and thus crucial for the project, but these countries still refuse to discuss the possibility of power distribution from the Baltic NPP to their power systems.

The Kaliningrad region is surrounded by EU nations, and its power grid is still connected to the Baltic energy system. But according to an agreement among Belarus, Russia, Estonia, Latvia, Lithuania there no obligations to buy or sell the electricity produced.

Neighbouring countries are currently not experiencing shortages of generating capacity aside from considering their own nuclear power projects. The Baltic NPP is a rival for these projects. Rosatom intends to sell electric power on the transborder spot market without international long-term agreements, referring to the today's practices of trading with Finland and the Baltic states. However, other regional energy systems sell surplus electricity that can be easily sold elsewhere in the domestic market, and the export earnings are not critical for them.

Due to the technological limitations, a nuclear power plant running without the long-term contracts will be ready to sell electricity in almost any price to avoid downtime and will be very dependent on consumers.

Experts point to a number of environmental issues with the project (seismic hazards at the construction site, the construction of reactors in the area in the flight path of low flying aircraft).

**The energy shortage issue in the region may be solved more efficiently by a proper energy saving programme.** The level of losses in networks is the worst in Russia - up to 22% of supply, more than 800 million KW/h per year. District heating is in the poor condition and the level of heat loss in some municipalities exceeds 50%. Wasted heat from the Kaliningrad Heat Station (5 million Gcal per year) exceeds the amount of heat consumed by the whole region.

While it does not appear in general to be justified economically, the Baltic NPP project is very beneficial to the nuclear industry, with the risks and losses allocated to Russian taxpayers and power customers. This concerns both the purely commercial risks and the risks specific to the nuclear power industry - third-party liability in case of accidents, emissions, spills, etc. One can talk about the economic feasibility of nuclear power only if at every stage it operates according to favourable rules. Implementing a nuclear power plant at least in part as a business project that has no guaranteed customers or regulated prices is doomed to commercial failure.

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## The political project of the Baltic nuclear power plant

By Marijuš Antonovič

After the Fukushima nuclear disaster Europe has lost its affection towards nuclear power. But this phenomenon is more common in the western part of Europe than in the eastern, especially in the Baltic Sea region. In fact at least 4 new nuclear power plants are planned to be built in the region: Visaginas nuclear power plant (VNPP) in Lithuania, Astravieč nuclear power plant in Belarus, one nuclear power plant in Northern Poland and the Baltic nuclear power plant (BNPP) in the Kaliningrad district. While the motives for building the first three are known, the economic reasoning behind BNPP is still unclear and needs further explanation.

The decision to build BNPP was taken in 2009. It will be built near the town of Neman and will have two 1150MW blocks. It had been planned to complete the construction of the first block in 2016 and of the second block in 2018, but later the launch of the plant was delayed for a year, and recently there has been speculation that the delay may last two years. BNPP's project will be formed on basis of an identical nuclear power plant currently being constructed near Saint Petersburg. BNPP stands out from other Russian nuclear projects as it should be the first to be partly financed by private sources and foreign investors will be allowed to acquire up to 49% of BNPP's shares. "Inter RAO" is responsible for finding finance for the project and for negotiations with potential investors.

After the completion of Kaliningrad's thermoelectric power plant, the Kaliningrad district is self-sufficient in electricity. Thus, BNPP will generate surplus electricity – the first reactor will create an energy surplus of 1020 MW, and the second reactor will raise the surplus to 1990 MW. Hence, at least 80% of BNPP's generated electricity will have to be exported. This is the reason why Russia wants to attract foreign investment into BNPP, as it is expected that the same investors would then import electricity. Without export markets the plant cannot be launched. Russia firstly targets the Baltic States, then Poland and Germany as it is estimated that these countries will soon have an electricity deficit. Russia is mostly keen to attract Lithuania and Poland into BNPP, because if these countries join the project, then VNPP becomes economically unfeasible. VNPP is aimed to generate electricity for the Baltic States, reduce electricity and gas imports from Russia and prepare the Baltic countries to join the European electricity market. But to satisfy the electricity needs of the Baltic States one nuclear power plant would suffice. Hence, the construction of BNPP is targeted to preclude VNPP project from being finished and by doing so, tie the Baltic States into Russia's energy system, further strengthen its positions in the region and prevent the Baltic States from joining the European electricity market. Therefore, the BNPP is not a commercial, but a political project aimed to stop the Baltic countries from pursuing energy independence from Russia.

Russia started preparatory and construction works in 2010, though the project of the plant has not yet been

completed. "Inter RAO" had expected to attract investors by the end of 2011, but at the moment has not found any foreign investors. Poland had rejected Russia's offer to import electricity from BNPP and the Baltic States are refusing to join the project. Moreover, France announced it would not participate in BNPP and the interest shown by German, Czech, and Spanish companies has not materialised into deals to invest and buy electricity. Neither there was any interest from Scandinavian countries or companies. Only Italy's Enel accepted the possibility of becoming the supplier and distributor of electricity generated in BNPP. Furthermore, the Kaliningrad district lacks the necessary infrastructure to export electricity and this detracts potential investors. Therefore, BNPP finds itself in a tricky situation: though the construction works of the plant are moving forward, it is still unclear where the generated electricity will be used and if it will be used, how it will be transported into export markets.

The perspectives of BNPP depend on two factors. First is the outcome of Lithuania's parliamentary elections in October 2012 and whether the new ruling coalition will stick to the current schedule in building VNPP. Second is Poland's willingness to build its own nuclear plant. Thus, there are three potential future scenarios for BNPP. First, if Lithuania holds on to its schedule to build VNPP by 2022 and Poland continues with its plans to build a nuclear power plant, then Russia will try to build an electric cable along the NordStream pipeline and export electricity into Germany or upgrade the "NordBalt" electricity cable connecting Lithuania and Sweden and use it for export into Scandinavia. Both of these options are costly and if they fail, then the BNPP is unlikely to be launched and may not even be completed at all. Second, if Lithuania decides to freeze VNPP then Russia has a huge potential to export electricity into Lithuania. Third, if Poland abandons its nuclear ambitions, then it may become an export market for BNPP.

All in all, nuclear energy in the Baltic Sea region has become very politicized meaning that economic reasoning is of secondary importance that creates a huge risk of wasting human effort and financial resources for unrealistic goals.

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## A drastic change to be expected in the energy map of the Baltic region

By Bo Österlund

Fossil and exhaustible fuel sources - oil, coal, and natural gas - respond for more than 80 per cent of the primary energy of the globe. Of this amount, the share of crude oil is about 50 per cent. The estimates of the adequacy of oil, at the present daily consumption rate (85 million barrels), vary between slightly less or more than 60 years. The estimates of adequacy depend primarily on calculations of profitability, i.e. which wells are still profitable, and which are not. Russians always include in their estimates of adequacy all oil wells regardless of their profitability.

According to expertise estimates the supplies of natural gas will probably suffice for another 65 years. The estimates of the adequacy of natural gas are based on the time prior to the economic exploitation of shale gas and exhibit an immense range of variation dependent on the estimator. All estimates reach, however, beyond 60 years.

Among the fossil energy sources, coal boasts of the largest exposed deposits in the world, the annual coal production today being slightly more than five thousand million tons. For the most part, the yield of the coal production is consumed in the mining countries themselves: consequently only the surplus, some 13 per cent, can be exported. The deposits of coal are calculated to suffice for at least another two centuries. In these calculations, only those deposits are included which can be exploited profitably by using modern technology and which meet the demands of quality required today.

As late as some thirty years ago enlightened energy estimates around the world still established oil as the sole raw material whose exhaustion might have an immediate impact on the welfare of the world's population. An American research on energy policy, published in October 2011, predicts that by the 2030s Russian natural gas has taken the major role of being the crucial factor concerning the energy map of most European and NATO countries. The new relationships of mutual energy interdependence may, in a few decades, result in choosing different routes and generating different alliances from what we have today.

The United States consumes more than twenty per cent of the primary energy of our globe; of this amount natural gas covers slightly more than twenty-five per cent. A few years ago the American estimates concerning the exhaustion of natural gas supplies made the great gas producers (Norway, Russia, and Qatar) delineate plans of exporting liquid gas (LNG) to the New Continent. Establishing new LNG terminals was commenced to ensure gas imports. By the year 2009 nine new LNG terminals had been constructed in the United States which was thus prepared to take in LNG vessels from other parts of the world.

The European Union consumes about 490 thousand million cubic metres of natural gas annually, and roughly one quarter of this amount comes from Russia. This figure does not yet include the annual gas import of the 55 thousand million cubic metres transported via the double gas pipeline of Nord Stream from Vyborg to Greifswald.

According to the estimate of the EU Committee the import of gas into the EU will increase with at least 50 per cent from its present level by the year 2030 while the share of Russian gas will rise to sixty per cent of the total. Approximately one fifth of all energy forms is imported from

Russia, i.e. every fifth resident in the EU countries "runs with Russian energy".

In the estimated structural map of energy of the year 2030 made by the BP it is demonstrated that inexhaustible energy sources will grow slightly more than five per cent, the increase of nuclear energy will be 0.4 per cent, that of water energy 0.8 per cent, of coal energy 0.4 per cent, and the rise of natural gas will be 4.1 per cent. The consumption of oil is estimated to decrease as much as eleven per cent.

Shale gas will launch a revolution in the energy market. This energy source has been known for a long time. The first bore holes to bring gas to the surface of the earth were dug in the small town of Fredonia, NY in the United States in 1821. The gas thus obtained was used to light the town on the east coast. Greater economic exploitation was not, however, achieved until nearly 190 years later, in 2009 which is the crucial year of development. The new drilling technology exploits high-pressurized water in the bore holes, and the drilling proceeds by using a drilling technique at a ninety-degree angle in the shale gas deposit. Thus the process runs along the gas vein, not always through the thinnest layer. In 2009, an increase of one third in the gas supplies was registered in the United States due to new findings. It is estimated that in a few decades shale gas will cover as much as approximately 50 per cent of the demand for gas in the United States. The country will actually be a gas exporter, and the LNG terminals built for imports will be transformed into gas export harbours.

Europe, including Turkey and Russia, are, proportionally, the greatest consumers of natural gas. According to experts the European supplies of shale gas will suffice to meet the demands of the whole continent for the next thirty years. The estimated total amount of the deposits is evaluated to be somewhere around 18 billion (18 000 000 000) cubic metres. The corresponding amount of the deposits in the United States is estimated to be as enormous as 127 billion cubic metres, i.e. three times larger than the traditional Russian supplies of natural gas. It is possible to use shale gas to make up for the coal used in coal plants directly. When the maximal European shale gas production is launched, it will affect the gas pipeline network now crisscrossing the continent and the traditional suppliers of natural gas, i.e. the Norwegian Statoil and the Russian Gazprom.

According to the American research institute EIA (U.S. Energy Information Administration), Poland alone is able to supply more than 5 300 thousand million (5 300 000 000 000) cubic metres of shale gas in addition to the traditional amount of more than 100 thousand million (100 000 000 000) cubic metres known today. The quantity of shale gas supplies equals to the amount of gas transported in the Nord Stream pipeline in one hundred years. Twenty-seven million European citizens are today supported by this gas at the end terminal of the pipeline providing them with what energy they need. The most optimistic estimates concerning the sufficiency of the Polish shale gas to be used in Poland extend further up than 300 years in future.

At the end of this year, tests will be introduced as for the suitability of Polish shale gas for heating, as three thousand households in the village of Pomorkies will be

connected with the shale gas network. The price of the Polish shale gas will be at least twenty per cent lower than that of Russian gas. Full-scale production will be commenced during the year 2014. According to estimates, Poland is expected to produce fourteen thousand million cubic metres of shale gas by the year 2035, i.e. the amount sufficient to satisfy its own needs of consumption. At the moment, sixty per cent of the gas is imported from Russia. The Polish consumption of gas is only three times higher than that in Finland but we are totally dependent on imported Russian gas.

The Baltic countries, Latvia and Lithuania, are planning to build floating import terminals for the Polish shale gas since they were excluded from the scope of the Nord Stream project. Short distances, simple infrastructures, and the lower price seem to serve as excellent consultants of shale gas. Poland is likely to recruit an extensive clientele of consumer countries once the production has been properly launched.

The use of shale gas makes it possible to compensate the diminishing number of polluting coal plants. The

transportation of shale gas to the consumer may be done either by the gas pipeline system or as ship transports of liquid gas. The argumentation of the Nord Stream pipeline project disclosed that the estimated gas amount would be equal to 600 cargoes of gas tankers annually.

The effects of the energy development schemed above seem to cover the whole basin of the Baltic Sea. Sea traffic may increase more than what was estimated a few years ago, and the significance of incessant follow-up activity of sea traffic will be emphasized. The impact of the changes in energy policy on the composition of the security and military policies will remain to be estimated in subsequent years.

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## Cold February of 2012 – European gas system passes test, but questions remain

By Vitaliy V. Yermakov

The events of February 2012 challenged the gas system of Europe and Eurasia. As cold weather blanketed the region, from Russia to Spain and the United Kingdom, gas demand spiked. As markets coped with the peak demand, Russian export deliveries fell short of rising nominations in several European countries, LNG deliveries slowed, and traded market prices rose to new levels. Heavy storage withdrawal and some limited load shedding allowed the market to balance. The suddenness of the onset of the cold, following a period of unusually warm weather, was the major reason for the shortfall in deliveries to Europe, but Gazprom's room for maneuver was limited by a chain of complicating factors:

- **Russian domestic market trumps exports in an election season.** Gas deliveries in Russia exceeded all-times highs at 2 Bcm per day at the end of January-beginning of February. Previously, Gazprom would introduce gas supply limits for industrial users and power plants during such winter peaks, forcing these interruptible consumers to use reserve fuels (mazut). While running for the presidency, (then) Prime Minister Putin instructed Gazprom to deal with the home market as a priority destination, and to meet external demand for Russian gas only after the needs of the domestic market had been fully met. This political order greatly decreased Gazprom's room for maneuver.
- **Ukraine maximizes its gas offtake.** The Ukrainian gas transportation system operates by a principle of substitution: transit gas from Russia is used in Ukraine's industrially developed east, and equivalent gas is pumped out of storage in the country's west and sent to Europe. As a result, the contractual flows of Russian gas that are destined for Europe and gas supplied for Ukraine's internal use cannot be physically separated. As record cold set in over Ukraine, daily gas consumption in Ukraine jumped from 0.2 Bcm per day to 0.35 Bcm per day and, according to Gazprom, in early February Ukraine was taking Russian gas at a rate of 0.164 Bcm per day, significantly higher than the preliminary agreed schedule and the maximum Gazprom obligation under the contract, further complicating the task of delivering the volumes requested by Europe.
- **Weak links emerge in Gazprom's southern export flank.** Following a significant contraction in European demand in 2009-2010, Russia dramatically cut its gas purchases from Turkmenistan. Additionally, the pricing arrangements with Russia reached in 2008, before the crisis, made Turkmen gas very expensive in the new reality of a buyer's market, and Gazprom has refrained from purchasing Turkmen gas in the same volumes as previously. This denied Russia some of the additional swing capacity it had

previously enjoyed, delivered on southern flank, for peak demand periods.

- **Weak links are exposed in Gazprom's gas storage system.** Historically, Russia relied on the storage facilities that were available in western Ukraine to support its gas exports to Europe, especially during the winter months. These are the largest gas storage facilities within Europe, located right at Ukraine's western border. However, following several incidents of "disappearance" of Russian gas in Ukrainian storage, Gazprom dispensed with their services and has moved on to develop its own gas storage system in Europe. The process of creating a new generation of gas storage facilities in European countries has not been completed and still leaves some of Gazprom's clients exposed to limitations on meeting peak demand.

An important result of the obvious stresses of early 2012 was a demonstration that the European and Eurasian gas system can operate relatively effectively even under severe stress. In spite of temporary shortfalls in deliveries, Europe was largely able to meet the extra demand by digging into its natural gas storage reserves. Traded markets reacted appropriately to the surge in demand: prices spiked, gas flowed to the higher priced markets (where transmission capacity allowed it), storage capacity was drawn down hard, and interruptible customers were curtailed. Traded volumes increased markedly. Furthermore, the problems experienced by some European countries were due to a delayed response on the part of Gazprom to the very sudden onset of the coal weather rather than to insufficient supply capacity.

However, the events of February highlight a number of key questions about the way that the European market is developing.

- **A strengthened negotiating position for buyers?** Substantial embedded flexibility is one of the major benefits of signing long-term gas contracts. If this contractual flexibility cannot be guaranteed it weakens one of the pillars that support the role of long-term gas contacts in Europe.
- **Growing importance of Russian domestic market.** Although still below export parity, rising Russian domestic prices are increasingly attractive to independent gas producers and oil companies with relatively cheap associated gas, and to Gazprom.
- **Limitations of European gas market reform.** Necessarily the reform of the European gas market has been concentrated on the aspects that can be influenced by national governments and the European Commission: liberalization, the development of traded markets, and increased interconnection. However, the events of February 2012 highlight the limitations of the reform agenda: it can allow for the most efficient use of the existing infrastructure (through reverse

flow, capacity auctioning, and efficient TPA) and the most efficient allocation of available gas (through traded markets), but it has proven very difficult for internal reforms to increase the supply of gas to Europe or ensure the flexibility of supply.

- **Provision of flexibility.** The events of February 2012 were unusual—extreme cold weather across a wide swath of Europe combined with multiple supply problems—but planning for unusual events is an inherent part of the gas business. As the European market continues to liberalize, it must ensure this essential flexibility is provided. How this flexibility will be provided in the future remains to be determined—in recent years the majority of new storage development has either taken place in regulated

markets or has been in conjunction with external suppliers. As high swing domestic production declines this question is likely to raise up the EU agenda.

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## The revolution of gas logistics in the Baltic Sea region?

By Kari Liuhto

The unconventional gas production revolution in the USA has put into motion a global chain reaction, which may also ignite a liquefied natural gas (LNG) terminal boom in the Baltic Sea region (BSR). The chain reaction is caused by the fact that the USA can reduce its gas imports due to its unconventional gas production, and this reduction forces the LNG exporters of Middle-East and Africa to find alternative consumers in Europe and Asia. In addition to this indirect impact on Europe, I would not exclude an option that the USA would start exporting its gas to Europe and Asia. The US gas exports are motivated by a substantial price difference between the USA and Europe / East Asia, where gas costs more than 5 times that of the USA. Even if the gasification and transport costs are included, the price difference is 2-3 times to the advantage of the US gas producer.

In 1980, less than 20 million tonnes of LNG was traded globally. In 2011, the LNG trade exceeded 240 million tonnes, or over 325 billion cubic meters (bcm). The LNG represents a quarter of the EU's gas imports, whereas the pipelines cover the remaining three quarters of the imports. In 2010, nearly a half of the EU's LNG imports came from Qatar. The share of both Nigeria and Algeria was close to one fifth. All the gas arriving from Russia to the EU is piped. The major importers of the LNG in the EU are Spain, the UK, France, Italy, and Belgium. They covered 95 percent of the EU's LNG imports in 2010. None of the BSR countries imported LNG in 2010, but we may experience an LNG terminal boom in the BSR as the country-by-country analysis below shows.

**Denmark** has no intentions to build a major LNG plant or terminal in the foreseeable future. However, I would not exclude the possibility of the construction of small scale LNG plants, since annual consumption of LNG in Denmark may reach 0.5-0.6 bcm due to the bunkering of the LNG-driven ships.

**Estonia** will most probably host only one major LNG terminal. I believe that the project proposed by Elering will go forward. Most probably, the size of this terminal will be smaller than indicated in the plans. I guess that the nameplate capacity of the Estonian LNG facility could be closer to 1.0 bcm than 3.0 bcm, if it will be implemented on the national basis. I estimate that the LNG unit will be operational by the end of this decade.

Gasum's plan to construct a major LNG receiving terminal in **Finland** seems realistic as long as Gazprom does not start to slow down the project from within the firm. Here it needs to be underlined that Gazprom owns a quarter of Gasum and may influence decision-making of Gasum's main owner (Fortum) via its gas supplies to the company's electricity generation units in the Urals. Gazprom / the Russian Government may consider that there is a conflict of interests between the proposed LNG terminal and Gazprom's gas pipe deliveries to Finland. As there is no clear understanding of Gazprom's real motives, it is impossible to predict the final size and timetable of this unit despite detailed plans. Should the terminal reach the proposed 2.0-bcm-capacity, then it could have a major impact on diversifying Finnish gas imports. In addition to

this major terminal, Finland will build a small scale unit to bunker LNG ferries and ships in South-West Finland.

**Germany** may prefer to build additional pipes (Nord Stream 3 and 4) from Russia rather than construct LNG receiving terminals. Even if Germany would take a decision to build a small scale LNG terminal in Rostock, it does not have a major impact on the gas diversification of the country, since the terminal would meet less than 2 percent of Germany's total gas consumption.

I would not be surprised, if **Latvia**'s LNG project would slightly be postponed, but nevertheless, it may see the light of the day on the eve of next decade. Furthermore, the downgrading of the project seems inevitable, if the common Baltic LNG project does not materialise.

**Lithuania** has progressed most among the Baltic States with its LNG terminal, and it has declared to open the first LNG terminal in the Baltics already at the end of 2014, though most probably the terminal will be baptised during the course of 2015 due to a slight delay. The ultimate size of this terminal remains to be seen, although it is almost evident that it will be downgraded from 3.0 bcm due to the fact that the unit mainly serves Lithuania's national needs.

**Norway**'s LNG exporting capacity (6.0 bcm) is nearly in full utilisation at the moment, and therefore, it is not self-evident that Norway will be the main supplier of the LNG terminals in the BSR, unless Norway constructs new LNG plant or expand the existing ones.

**Poland** tries to open its LNG terminal in 2014, though a delay up to 1-2 years is possible, since one of the main constructing companies involved has gone bankrupt. It cannot be excluded that the terminal's capacity would go with time to 7.5 bcm, but I assume that 2.5-5.0 bcm seems at the moment a more realistic estimate.

**Russia:** Sibur, a subsidiary of Novatek, plans to build a plant with a nominal capacity of 2.0 bcm. The location of the Baltic LNG plant will be in Primorsk, close to the Finnish-Russian border. It can be estimated that this terminal can be operational by 2018. This project will proceed, if the Russian Government considers that Novatek would not start to compete with the pipeline deliveries of Gazprom. In other words, this would mean that Sibur's main clientele would be outside the BSR. In addition to this plant, Sibur plans to erect a liquefied petroleum gas unit in Ust-Luga, a port close to the Estonian-Russian border, in 2013.

**Sweden** opened the first LNG receiving terminal in the BSR in May 2011. Sweden may well proceed with another LNG unit in Gothenburg in 2013-2015. These two terminals with the combined capacity of 1.0 bcm can cover a major part of Sweden's gas consumption (1.3-1.7 bcm). On the other hand, I assume that gas consumption in Sweden will substantially increase, since the country uses little gas compared to its size. Besides these major LNG receiving terminals, there are plans to build at least five small scale

LNG terminals. I assume that not all of these small scale units will not be realised.

To sum up, it is very likely that the BSR will not witness all the LNG terminal plans in their proposed capacity. Second, the postponement of some of these projects is likely. Third, it is important to remember that the actual regasification volumes will be much smaller than the nameplate capacity of the terminals.

All in all, one can safely conclude that the LNG terminals of the Baltic States, Finland, and Poland will not replace Gazprom's deliveries but rather allow them to diversify a proportion of their gas supply i.e. Russia will be a large supplier of natural gas in the eastern BSR also in the foreseeable future. On the other hand, these LNG terminals will introduce competition which has a positive (lowering) impact on the price paid by the final consumers. And finally, the LNG terminals will improve the security of gas supply, though the eastern BSR in particular cannot build its energy supply on the LNG deliveries alone.

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## Russian railway sector transformation – opportunity for larger Europe

By Olli-Pekka Hilmola and Eugene Korovyakovsky

Impression of other Europeans from Russia is that it is applying the same public sector principles with governance structures of the society. This means that state manages and owns the structures, and for-profit companies should only concentrate on trade and industrial sectors. However, in some aspects Russia is already considerably leading with its liberalization and privatization policies other European countries, and this concerns mostly logistics field, whether we are talking about railways, sea ports or sea transports. There are of course exceptions on this, where Russia has identified areas as strategic, like oil, gas and railway infrastructure.

What about Novorossiysk commercial sea port, company who nowadays runs two most important oil export sea ports of Russia (most of the export volume), namely Primorsk and Novorossiysk (ticker at London Stock Exchange: NCSP)? Or sea transport operator as well as important hinterland logistics company Fesco (ticker at Moscow MICEX/RTS: FESH)? Or Transcontainer, dominant player in rail based hinterland transport of unitized cargo in the country (ticker at LSE: TRCN)? Or 2000 other companies involved in the railway market, mostly by owning and renting the rolling stock? Typically people out of west are keen to advise emerging economies in structural issues, but actually Russia went through similar economic crisis in the late 90's as what is the Europe currently experimenting. Due to the entire transition in 90's from centrally planned economy to market one, resulted in situation, where many areas of society are now in the ownership and operational control of private sector.

In one way the future of Europe in flourishing scenario is similar to the development of Russia after its crisis. Country was earlier mostly state run and uncompetitive industrial player (lack of appropriate investments), which successfully transformed itself into low taxation and low governmental role run, and raw material export economy. It is very hard for Europe to gain back lost manufacturing units, which were and are still being transferred to Asia. At least based on Russia's experiment from recovery process, economy and its structures appear to be totally different from the past. This does not mean that in Russia's case raw material sector would be the only contributing one, it is of course the dominant, but e.g. software and high tech industries are experiencing some sort of renaissance (e.g. St. Petersburg or Moscow's Skolkovo), but these still in very small scale.

Typically in world-wide logistics or logistics infrastructure indexes Russia performs rather poorly (like Logistics Performance Index/World Bank or infrastructure quality of World Economic Forum). This could be explained with numerous different issues. One of them is that Russia is large country, and performance in Moscow and St. Petersburg is entirely different as compared to the rest of the country. Second issue is that these measures typically trace the performance of general cargo segment, not liquid bulk or dry bulk. General cargo's low competitiveness could be explained with the lack of international manufacturing sector, short history of using containers at operations (international standard) and of course with the role of customs (e.g. level of customs income from state budget is still very significant).

It is not secret that roads are weak point of Russian distribution system, and quality as well as congestion creates also in the future problems for logistics operations. Situation could improve, but will do so only gradually. Numerous developments stand behind of better future for general cargo, for example: Increasing foreign investments on manufacturing units, Russian governmental programme to improve roads as well as World Trade Organization membership. However, situation is not going to change quickly, but will have positive development trajectory caused by these major factors.

Due to the situation described in the above, Russian logistics sector lives and breathes from railways. Or to be more specific from sea port, railway and short distance road transportation chain entity. However, as country is geographically largest in the world (numerous million population cities), the importance of railway sector could not be over exaggerated. Good news is that this sector from infrastructural point of view is in the best shape in Russia (even comparable to west), and government is having ambitious plan to deregulate sector considerably.

Already the role of governmental railway company, Russian Railways (RZD) is much lower than what it used to be. Structure has been split in smaller pieces, where Transcontainer, Freight One and Second Freight Company e.g. own most of its freight rolling stock. They all specialize in own transportation logistics sub-segments. Numerous other companies have been formed from old RZD structures too. Actually nowadays the role of RZD is to facilitate railway traffic and also offer traction services – of course maintaining and operating very large-scale railway infrastructure is most important task among these two other mentioned. So, in other words RZD still owns rail engines and holds legislation stated privilege to offer traction services for all railway wagon owners.

However, in Russia's long-term plans there exists will that traction could also be freed to competition, and in some very small segments this is already the case (e.g. private railway arrangement yards, short distance passenger transport and Norilsk Nickel run railway section). This means huge potential change what situation was in the past, and if in full extent materialized, will improve business opportunities of logistics sector considerably. And not only logistics, but will enable further investments on manufacturing capacity and retail sector. Currently these two sectors have been problematic issues to manage as operations in Moscow and St. Petersburg have been run properly, and in other cities making operations reality has been extremely difficult to achieve. Think about this rail liberalization effect together with WTO membership – growth should improve thereafter considerably.

Russian railway network is already today having direct linkages to some European countries (sharing the same or nearly the same gauge width, 1520 mm). For example, this is the situation of Finland (1524 mm), Estonia (1520) and Latvia (1520). Indirectly railway network reaches Lithuania (1520) and small part of Poland (there is small 1520 railway network in south-east called PKP Linia Hutnicza Szerokotorowa). Typically the railway operations in the countries are being accomplished with bilateral agreements of RZD and national railway operator of respective country. So, traction is being run by governmental companies.

However, if Russia continues with its railway reform as it seems to be the case currently, then these international operations should be further considered, and possibly to remove privilege of governmental operators, and give market economy space to form itself, and produce growth. This would not only be business or economically wise decision, but would lead to much lower CO<sub>2</sub> emission levels. Also could be expected that market actors would solve the paradox of using railways only to transport dry bulk and bulk to west from Russia, and illogically using road transports to dispatch containers to Russia. Currently implications of this paradox are evident in empty transports: Railway wagons are empty as returning e.g. from Finland to Russia, while trucks are empty as they come and pick containers from transit sea port (such as HaminaKotka). Basically these flows could and should be combined, not only due to economical reasons, but also in the sake of environment and avoiding building excessive road infrastructure at border areas (e.g. waiting areas and customs). In the ecological and oil scarce future economy long distance hinterland freight operations belong to rails.

In the long-term neither European Union nor Russia can trust alone on economic growth generated from further collaboration with each other. Joint projects and development agendas are of course necessity for the short and medium term growth, but in longer term both of these parties need together help each other to achieve viable and sustainable connections on emerging economies, which do not experience from graying population with small generations of younger children. Like it or not, European Union is facing shrinking and ageing population, and situation is exactly the same in Russia.

So, interoperable connectivity should be built in collaboration through Europe to potentially in two decades time emerging economic area of Africa. Europe has also already as operational 1435 mm Adriatic railway corridor, which ends to Slovenia (starts from Poland). Also railway corridors going through Germany and reaching Italy have been for years as reality (e.g. Denmark-Italy; eased by Brenner railway tunnel completion in future). Similarly Russia could offer very time wise and economically viable connection to Middle East (railway corridor, which ends to Iran). Also reaching India through this corridor is very convenient (short sea journey required). Cost and time wise Trans-Siberian Railway connection to China, South Korea and Japan is of course at everyone's collaboration agenda in European industrial sector.

In this light long-term context Russian plans to finance 1520 mm connection to Wien are understandable, and should be seen as an opportunity in larger Europe. Similar motivation goes to two decades planned Rail Baltica

corridor, which would enable links for Central Europe to northern capitals, like Riga, Tallinn, St. Petersburg and Helsinki. In here it would greatly help too, if European Union and Russia together could implement project, and assure transportation volumes from the beginning.

It could be stated that in short-term we need to collaborate, medium term bring benefits for both parties, but in longer term we need to establish both benefitting symbiosis in railway logistics issues. Only way to connect emerging, distant and typically "landlocked" markets to European Union or Russia in post 2020 ecologically demanding world is by railways. This could only be accomplished together. Building sustainable growth after several bubble bursts in recent decades' time takes now more work, since economic growth is arising from distant and unfamiliar places.

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## Baltic transport research agenda – a strong demand

By Vladas Sturys

THE HISTORY of the last decades of the Baltic Sea region and in particular of its transport system is undoubtedly unique in world practice. Through the previous centuries, and "Iron curtain" times significant technical and technological differences between its various parts were formed out.

UNIQUE ACCELERATION, under which the region's transport system is undergoing changes in last decades, is impressive. No other marine basin around Europe was breaking infrastructural, technological and mental barriers so fast and successfully. Driving forces for this were programmes of Pan-European Transport Corridors and Trans-European Transport Network, the regional co-operation, initiatives of the business to build supply chains for new economic relations.

### **May such strong acceleration of the regional transport system development to be continued?**

On the one hand - yes. Currently the largest part of the region is in the same political and economic space - EU. The economic policies of the Russian Federation with its accession to the WTO are becoming more open; the EU - Russia cooperation program demonstrates evident trends for further loss of existing barriers.

On the other hand threats for efficiency of the development are obvious.

Globalization actualises the competition of macro regions. The transport system is the backbone for our region, being at the same time important competitiveness factor for the eastern parts of the continent. Just to overcome individual differences in the development of those parts will not be enough.

A roadmap of tasks up to 2050 is well guided in the new White book of EU Transport Vision "Towards a competitive and resource-efficient transport system". This set of tasks together with highest criteria of transport users is one challenge.

INTERESTS of transport and logistics stakeholders in the region is another challenge. Just three aspects from the findings of my study of interests along the East-West transport corridor: 1- a very wide range of stakeholders; those are countries with their governmental vertical , then three NUTS level regions, local societies, infrastructure developers, extremely broad pallet of transport and logistic business actors, transport users (passengers, freight shippers) etc. 2- very wide spectrum of interests (from strategic national interests to tariffs for concrete services or technical standards etc.). 3-high difference in coherence of interests (from full matching e.g. optimisation of logistic costs to hard objections e.g. fair competition, state aid etc.).

The repulsive forces are no less than attractive ones. Illustrative example might be the Rail Baltica project, a much-needed one for the EU transport enclave from north-eastern borders of Poland to Helsinki, which for long years still close to the starting phase.

So, without consensus and harmonization of interests the further sustainable acceleration is unlikely.

How and by whom the COMMON DENOMINATOR could be created to serve as a base for harmonisation of interests and for the synergy of stakeholders? I think that well-coordinated RESEARCH accordingly commonly accepted AGENDA may play this role and serve as development accelerator.

The recent moment is exactly right for changes. On the one hand, the going preparation for the new 2014-2020 EU financial period requires to ensure the effectiveness of the use of the funds. On the other hand, the global financial crisis is forcing savings and expedience. Research carried out on ad-hoc basis, is not able to do that in complexity.

The region needs to have a well justified pyramid of transport and logistics problems, topics to be analysed and actions to be performed. This is a way how EU investment programmes are usually performed: they mostly arise from comprehensive research accordingly Framework Programme agenda; this agenda is elaborated by technological platforms, consisting of best European professionals and experts.

Such platform (let's call it Baltic Transport Research Agenda Council - BalTRAC), brought together by individual experts from all Baltic Sea countries (incl.Belarus) could be a strong instrument to create the regional research Agenda and reconcile it with stakeholders. Namely this Agenda could serve as a starting point for projects from most of international and national sources.

An important principle of the Council membership should be a voluntary individual membership and independence of the Council. If delegated by organizations and state structures, such platform may become an ordinary and inert body, once - twice per year issuing protocol or declaration.

The region disposes really strong individuals - transport and logistics academics, researchers and consultants. They are successfully working in international, national and industrial projects, demonstrating their knowledge and highest standards. Namely they (not organisations) are personally communicating with governmental structures on EU, national and regional levels, with developers, operators, customers and transport users. Involvement of professionals from the industry would strengthen the competence of the council.

BalTRAC activities are of high demand in the region. Its cooperation with the EU DG MOVE, coordinators of the Chapter 11 of the EU Strategy for the Baltic Sea Region, BDF Directorate, NDPTL and other regional organisations would create conditions for new synergy and acceleration.

Oncoming 25th Anniversary Seminar of the Pan-European Institute (25 October 2012, Turku, Finland) is a good opportunity to collect the initiative BalTRAC group.

Initiatives are welcome by e-mail: v.sturys@zebra.lt tel. +370 698 2375.

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# Environmentally safe transportation and packaging unit for transportation and storage of spent nuclear fuel

By Ilya Shegelman and Pavel Shchukin

Environmentally safe transportation and packaging unit for transportation and storage of spent nuclear fuel is a result of cooperation of Petrozavodsk State University (PetrSU) and JSC "Petrozavodskmash". The work is conducted under the grant supported by the Ministry of Education and Science of Russian Federation (resolution № 218 under date of 09.04.2010 of Government of the Russian Federation, State contract № 13.G25.31.0066 under date of 22.10.2010).

The analysis revealed that the preparation and implementation of commercially viable projects in the field of nuclear energy requires huge investments for their implementation and influences both on the competitiveness of businesses and the states to ensure their national economic and environmental security. Competition in this area and the projects themselves are under careful attention, and sometimes face fierce resistance of the opposing businesses, states and environmental organizations. That is why it is essential that all the decisions in this area should be based on a detailed study of the problem, comparison of the precise evaluation of the anticipated competitive advantages and possible threats to the environment, society etc. In addition the authors of the project taken into account that for transportation and storage of spent nuclear fuel there should be used transportation and packaging units, which are equipped with damping shock absorbers in order to reduce the dynamic loads on the container and protect its contents from damage due to careless handling, as well as emergency conditions.

The significance of this project is totally supported by the provisions set out in the Basic principles of the state policy for ensuring the nuclear and radiation safety of the Russian Federation till 2010.

The place and role of the multiple-purpose project in solving the set tasks:

- to work out an entirely new range of transportation and packaging unit, and occupy relevant domestic and world market niches;
- to strengthen the competitive position of national science and big business in the fields related to nuclear energy;
- to develop labor productivity at the domestic enterprise JSC "Petrozavodskmash" be means of modern production organization;
- to develop innovative industries and create new jobs in knowledge-intensive production;
- to maintain long-term scientific and practical cooperation between PetrSU and JSC "Petrozavodskmash" with students, young scientists and teaching staff involved;
- to improve professional development of PetrSU teaching staff by taking part in the project; to give better knowledge to the graduates who are ready to work effectively in high-tech organizations of the real sector of economy.

Practical implementation of the obtained results would allow creating in Russia a commercially viable production of transportation and packaging containers for spent nuclear fuel, followed by their release and delivery to the businesses; to improve the environmental safety of transport and packaging containers manufactured in Russia. Furthermore, it would facilitate the domestic machine-building enterprises of CJSC "Petrozavodskmash" which produces competitive products to enter the international market of transportation and packaging unit for safe transportation and storage of spent nuclear fuel of VVER-1000 reactors, as well as for its storage for at least 50 years.

Production of large machine parts from high-strength cast iron with spheroidal graphite at CJSC "Petrozavodskmash" would increase the degree of capacity utilization at JSC "Petrozavodskmash" and thus strengthen its position in the domestic market of transportation and packaging containers for the nuclear power waste.

Close cooperation with a large machine-building company on implementation of a joint project allows to extend the capabilities of the university to hold the experiments, conduct practical trainings for students and offer wider opportunities for joint research, development and technological work from related scientific fields, providing innovative activities and implementation of scientific projects at the domestic machine-building company and further commercialization. Specifically, the areas of joint studies are: development of promising methods and devices for storage and transportation of spent nuclear fuel; development of damping devices for large-size containers, including containers for storage and transportation of spent nuclear fuel; development of methods and devices for efficient dehydration of wood and etc.

The results of development and implementation of the project revealed that joint scientific and practical studies would lead to the creation of intellectual property with a high chance of successful commercialization.

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# Sustainable water management in the Baltic Sea region and the Kingisepp phosphorus case

By Egon G. Nordström

The state of environment in the Baltic Sea is and has been of great concern during decades. First we had the problem with DDT and PCB, which still lies in the sediments on the bottom of the sea. However, after this we have seen rising levels of phosphorus and nitrogen nutrients, affecting the eutrophication of the sea. Countries around the Baltic Sea in the region have made efforts like in the form of Helsinki Convention or HELCOM to start actions towards a more healthy ecological state of the Baltic Sea. By the end of the last millennium a lot of information data had been collected. However, real substantial actions were few and mainly talks and meetings were on the agenda.

Thus, when looking in back mirror we can ask ourselves - what have we achieved? Firstly, we could ask - how should we act to reach the best results? Perhaps there is no simple answer to this question. However, if we do not really put the money resources and human resources to solve this matter and stop or reduce the nutrient flow to the Baltic Sea from the Baltic Region drainage area and instead swell out the administration of distributing money (for what?) we will be in trouble.

Working for two decades teaching sustainable development in Baltic Region and sustainable water management at Open University of Åbo Akademi University have taught me a lot of the global interest for our sea and surrounding environment. Students participating in the course are international students from Asia, Africa, Oceania, South and Latin America, USA and all around Europe. My main interest for the Baltic Sea and the Region awoke in late 1980 and in the second part of 1990 when we on private basis together with my colleagues of our private entrepreneurship made a suggestion to the Finnish Environmental authorities on ministerial level. This proposal considered a list of actions that would have effect on stopping the eutrophication of the Baltic Sea, by taking acts against nutrient inflow from the main sources like rivers connected to the Baltic Basin and using the large analytical data collected. Today I'm proud to see that similar, more prestigious associations than ours are walking the same route. Congratulations and all the best in their work for an important issue.

Do we know all the phosphorus and nitrogen sources in the Baltic Region and do we have an action plan for all the countries around the Baltic Basin? The sources of nutrients are many. However, the main sources are recognized i.e. agriculture, urban sewage water and locally even large fish farming. All of these introduce phosphorus and even nitrogen, in the ratio 1:50, to the Baltic Sea Basin.

Municipality sewage water treatment has been developed since 1960s in some of the countries. Some of the countries started in the late 1970s and the last ones are now developing their systems. Sewage treatment systems are of course "expensive". However, thinking of this as an investment for future life in the region makes them "cheap". The cost is one reason that has been a retarding factor for development and construction of plants. However, with increasing living standard and development of state economy the investments have been successfully overcome. Also the Directives promulgated by the European Commission have been a driving force to fulfill construction work and together with positive funding decisions from European Investment Funds and Banks too. I must say that I'm very impressed of what I experienced when visiting Vodokanal, the local company responsible for sewage water handling in St. Petersburg. Not only the simple removal of phosphorus, but the interest and enthusiasm to develop the

systems, even if already very developed, were something that can be an example for other cities in the Baltic Region. They had experienced all the difficulties and had overcome them by making solutions to solve the problems in a sustainable way and by using the brains, not only pushing problems away and trying to persuade themselves and others that the situation is now good and status quo is achieved. Ironically, those who have criticized St. Petersburg sewage treatment are those who have most to learn from there.

However, even if we raise the treatment effects of all the sewage treatment plants to almost 100 % nutrient removal, we still have the biggest polluter the agriculture untreated. The nutrient flow from agriculture is from large cultivated areas via the big rivers. I'm not going to point out any particular country responsible for this. However, the reader can imagine where we have large agricultural landscapes in the region and also flooding areas. To find and good action plan for the most critical areas will be a future challenge for the decision makers and experts. The follow up of HELCOM Baltic Sea Action plan in 2013 will be of uttermost importance and that the next report will be stricter especially if the 2003 stated has not been achieved.

In chapter four I mentioned fish farming as a polluter and in fact locally this is so, but even more regionally also this load is an extra load to the sea and what is even more alarming is that the ecological state and biodiversity of fish fauna in the Baltic Sea locally at least is disturbed by this introduction of a salmon species that is not a natural one in this ecological environment. The effects grow with growing size of fish farming plants.

Recently we were notified of the Kingisepp phosphorus case and the matter rouse to squares that were of enormous interest. HELCOM awakened and started a program (BALTHAZAR) to analyze the phosphorus levels of Luga River. Even a possible source for this unexpected phosphorus leak was pointed out, namely a former phosphorus mine and the deposits of its waste.

Suddenly, however, in the early summer of this year the phosphorus levels surprisingly went down.

Just a little before this a Finnish association together with Finnish consulting company had started the cooperation with the owner of the former phosphorus plant. Maybe this way of working, in this particular case, shows to be fruitful and not official communication between two states, where the distances between authorities, seems to be very far from each other.

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\*This article does not represent official position of the Ministry of Environment of Finland and the views presented here reflect only the opinions of the author.

## What next in Russia's climate policy?

By Anna Korppoo

As the fourth largest emitter of greenhouse gases (GHGs), Russia is an important player in international climate politics. Since being in the centre of attention as the crucial party to bring the Kyoto Protocol into force in 2004, Russia has taken a less active role in the UN climate negotiations process. Moscow maintains that the collapse of emissions due to economic restructuring during the 1990s counts as a major contribution to the global combat against climate change. Whilst it is true that Russia's emissions have remained some 33-37% below its Kyoto target during the first half (2008-2010) of the first commitment period, the economy continues to use energy very inefficiently. This is illustrated for instance by the fact that the Russian economy is three times as energy intensive as the European Union average. Further, the emission cuts were not the outcome of focused emission reduction measures, and their permanence is thus uncertain. Russia's GHG emission trend has been upward since the late 1990s; during 2000-2010 the growth was ca. 8%.

Russia announced its decision not to participate in the second commitment period of the Kyoto Protocol at the Cancun climate conference in 2010. This was hardly a surprise to any longer-term watchers of Russian climate policy. The ratification of the Kyoto Protocol was originally considered as 'a political' decision. The leading argument that the Protocol is ineffective in solving the problem of climate change due to its limited coverage dates back to the 2004 debate and is alive and kicking in today's discussion. The Russian leadership – like many others – argues that they would like to see a new global climate agreement which proceeds beyond the division of countries into developed with and developing countries without climate commitments. The Russian proposal first discussed in Durban climate negotiations in 2011 addressed this by suggesting a periodic review of the country groups under the UN Framework Convention on Climate Change that are currently based on the early 1990s situation.

However, some in Russia would like to see the country joining the second commitment period of the Kyoto Protocol (Kyoto 2) for economic reasons, and it has even been suggested in the media that Russia's participation is being reconsidered on higher level. Russia has participated actively in one of the Kyoto mechanisms, Joint Implementation (JI), since mid-2010. JI allows industrialized countries (as defined in the Annex I of the Framework Convention) to reduce emissions jointly. A country which finds its domestic emission reduction opportunities expensive can link purchases of cheaper emission allowances from other countries to financing equivalent amount of emission reductions. Given the inefficient use of energy in the Russian economy, plenty of such opportunities have been identified and already implemented. However, actors involved in JI would benefit from access to the investments through the mechanism beyond the first commitment period of the Kyoto Protocol that ends in 2012.

These benefits could indeed be considered as attractive to Russia, especially since the start of JI was delayed. It would not require significant effort from Russia to join Kyoto-2. The increasing GHG emission trend is so slow that the Russian emissions would be unlikely to exceed the country's pledge prepared for the Copenhagen climate conference in 2009 i.e. limiting emissions to 15-25% below the 1990 level until 2020. Further, some policies which can further slow emission growth down have been introduced, including measures targeting the low energy efficiency as well as the flaring of associated petroleum gas. Even though the implementation of these policies has been delayed and complex, they establish a good basis for developing towards an economy with lower carbon intensity. The Kyoto Protocol also established Russia's surplus

emission allowances - the 'hot air' – which could be transferred between commitment periods according to the Kyoto rules, but not outside the Kyoto Protocol.

Regardless of these view points, it seems that the political leadership has still been quoted to call the Kyoto Protocol 'useless' recently. It is easy to agree that Kyoto 2 makes only a minimal contribution to solving the global warming problem as its rate of participation is indeed low and targets lose. This would also mean that there would be little demand for Russian carbon credits beyond the so called true up period of the Kyoto first commitment period which provides the participants some leeway for final shopping should they find themselves overshooting their targets in the end of the commitment period. Further, the Russian climate debate has traditionally included views skeptical of climate change and its origins, which reduces the pressure to act to avoid negative impacts in the future.

Against this background Russia's preference of a new global agreement - and simultaneous refusal to support the Kyoto Protocol as a short-term solution - can be interpreted as the easy way out of international carbon regulation. Given the major disagreements on the global equity and burden sharing issues, a meaningful global climate agreement could be in a distant future. In order to demonstrate that Moscow is serious about global climate policy even though outside Kyoto 2, Russia could adopt a domestic emission reduction target. There have been discussions about taking such a target, however, rather of keeping emissions 20% below 1990 level until 2020 than what was offered in Copenhagen in 2009, yet no decision has been taken. Even though easy to achieve without additional measures, it would still be a step forward to adopt such a domestic target, and provide Russia a better starting point to argue that the future climate agreement must have a global coverage.

However, given Moscow's lack of interest in the climate issue, it seems unlikely that Russia would be keen to make a serious contribution to developing the future global climate regime through promoting wider participation. What comes to the individual future options outlined above, the decision-making process is hard to predict, and a lot depends on the attention the issue happens to get on the top decision-making level. The marginality of the climate issue adds to the random nature of the process. Only one thing seems quite certain. Climate change is very unlikely to gain weight in Russian domestic politics at its own right anytime soon.

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## Environmental lessons from the past

By Tuomas Räsänen

Our culture overrates the present over the past or the future. Companies want quick profits, individuals seek instant fulfillment of their desires, and intellectuals are the ones who can give incisive answers in a second. If societies seem to lack overarching plans for the future, this is because we have forgotten the past. The past, however, is among us in every action, thought and motive, and without historical explanations they are doomed to be misunderstood. As with individuals, societies become sick when the past experiences, present wellbeing and future expectations are not in balance.

Historians themselves are partly to be blamed for the decline of the historical perspective in contemporary debates (the exception to this being wartime traumas). They have more or less accepted the current situation, where, echoing Voltaire, history is seen as nothing more than fables; suitable entertainment for educated minds when in need of a moment of rest from daily stress.

Perhaps nowhere is the lack of historical understanding as clear as in discussions about the degradation and management of the environment. Environmental problems are seen as totally belonging to the realm of natural sciences, although their essence lies in the interaction between the natural and the cultural. If we study only the natural side, the other half of the question – the historical and cultural processes that have inflicted environmental problems – will be left unanswered.

A case in point is the Baltic Sea. We have a wealth of natural scientific knowledge that has been gathered during half a century of intensive research. At the same time we have virtually no knowledge about the environmental history of the sea. It is therefore no wonder that social discourse about the Baltic Sea environment is ahistorical and focuses overwhelmingly on natural processes.

Maybe economists have not read Voltaire (although I know many that have), but when they are trying to figure out causes and ways out of economic crises, they turn their eyes towards recessions of the past. Environmental managers should do the same. History is, of course, not a manual from which to pick readymade solutions to present problems. Environmental history, however, tells us that human societies have faced problems in the past that are not so dissimilar to the present ones. Thus, historical analysis gives a perspective for weighing solutions that have or have not functioned in the past.

In such a short space as this it is impossible to thoroughly elaborate historical processes that would be important from the point of view of the discussion about the Baltic Sea. Instead, I am presenting three, somewhat polemical, arguments based on the environmental history of the Baltic Sea.

First, we have known for years about the nature of the environmental problems and what is required to remedy the matter. What we are lacking is knowledge about the social side of the issue. This is not to say that marine sciences are not needed anymore. On the contrary, they are indispensable, for example, in tracing the sources of pollutants and in order to discover novel environmental problems (which will inevitably occur). However, from now

on resources should be distributed more evenly between natural sciences and social sciences, such as environmental economics, sociology, political sciences, and history, for they can uncover obstacles and possible solutions for more effective protection.

Secondly, it is always worth listening environmentalists with great care, even though you might oppose their general views about societal development. This advice has become ever timelier in recent years, when environmentalists' direct impact on political decision-making has been faltering. Environmentalists have time and again advocated ideas and methods that are initially met with resistance or even hatred, but have later been taken for granted. It would also be a lot cheaper, history shows, to be in the vanguard of introducing ecologically responsible methods than to cave in at the last possible moment. In regards to the Baltic Sea, environmentalists were the first to demand stricter control on toxic chemicals; they spoke for safer oil tankers and better equipment for dealing with oil leaks. They also campaigned for the purification of all waste waters at the time, when most marine scientists saw no reason to be worried about the pollution of the open sea.

Thirdly, never count on Russia (in administrative level it must be added), when it comes to protecting the Baltic Sea. They did not care about the well-being of the marine environment in Soviet times, and they do not care about it terribly much now. They have contributed to protecting the sea only when others have paid the bill. They continue to ignore the threat of oil accidents, as their capacity to clean oily seas is light years away from what is considered adequate. They have eaten their own words and frequently concealed their emissions for as long as the protection of the sea has been discussed. And there are very few signs that any of this will change in the near future. The episode last spring, when a Finnish scientist revealed a huge secret source of phosphorus in Luga River and found himself under arrest in Russia, should not have surprised anyone familiar with the history of Baltic environmental cooperation.

Russia, however, can be talked into governmental agreements by offering them support in other arenas of diplomacy. This is the only choice anyway. Despite all the talk about the demise of nation states and despite burgeoning non-governmental activities, the fate of the Baltic Sea is and continues to be irreversibly tied to governments: on their capability to sign mutually binding treaties and to enact efficient environmental laws.

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## Fostering innovation in Russia – time to set priorities

By Vera Barinova

Innovative companies are assumed to be the backbone of the innovation-based economy. By those we mean dynamic companies of all sizes that are ready to change, open to new ideas, and constantly seek new ways to improve their products, business processes and administrative procedures. Innovating in all spheres of activity is regarded as their immanent feature.

Taking into account all the attempts to foster such companies in Russia, modernization by innovations may seem an unsolvable task or, at least, a goal, which may take decades to achieve. Indeed, Russian economy and its institutional framework have a set of issues that make it difficult to prioritize the support and investment focuses and areas of further structural changes. Obviously, this is a challenge to face, but it is possible to simplify the task by dealing with it from a managerial standpoint.

An effective manager, as we see it, has to set up priorities. According to this, we need a clear plan to classify the main factors that somehow influence innovations in companies and innovative firms themselves.

We suggest to use the principle of Herzberg's motivation-hygiene theory also known as Dual-Factor Theory (Herzberg, 1968)<sup>1</sup>, that analyses motivation factors, that cause job satisfaction and dissatisfaction. Thus, to motivate personnel, managers should either provide people with motivators, increasing satisfaction, or improve hygiene factors to minimize dissatisfaction.

Similar to this, we divide factors, influencing innovations. It should be emphasized, that the list of factors classified is not complete; the example is merely an illustration of the classifications' criteria. Moreover, we should also keep in mind, that work motivation can't be equated to innovative activity.

First of all, we obviously divide factors into "inner" and "outer" (for example, competition). Everything that comes from the government is "outer" to innovators (laws, infrastructure, competition, scientific resources, concentrated in educational and science institutes), while all the factors, which are important within the company, are "inner": its assets, organizational structure, managers and other employees, their expertise etc.

Secondly, we distinguish between "framework/infrastructural" and "activating" factors. The first group refers to Herzberg's "hygiene factors", while the second one consists of "motivators". The key difference between them is not only in the sphere they belong to (that is "framework/infrastructural" are general, they refer to infrastructure and institutions), but also in the way they influence innovators. "Framework" factors are necessary but not sufficient to boost innovation. Without proper infrastructure there no innovations are possible, but improving it can't bring a significant breakthrough. At the same time, activating factors (such as tax incentives as an accelerating factor and technical regulations as a restricting one) can be very effective in promoting the innovative development, providing that proper infrastructure and framework exist. Moreover, in some cases they are unnecessary, while framework factors alone are able to create incentives for innovations (USA, Germany).

As for outer factors, it's rather easy to draw the line between activating factors and framework: targeted support (either financing, subsidization investment or tax exemptions) is to stimulate innovation processes, whereas the general environment (legal system, science&educational system as

knowledge generators etc.) configures the infrastructure and framework for innovations.

A way more challenging task is to classify inner factors. We use the same criterion, described above: static characteristics of the company/start-up, which are necessary for it to function properly, constitute its framework. Those are: organizational structure, its fixed assets and R&D base, etc. Almost every successful company has these, but not all of them innovate, for these are not sufficient condition for innovations. Since innovating is synonymous to permanent improvement, we assume, that the driving force for innovations inside the company is its staff, both the initiative employees on the lowest and middle positions and top-management, responsible for the business strategy. So as far as activating factors are concerned, innovative corporate culture, entrepreneurial vision and strategic planning are the essential elements of corporate innovation processes.

Defining these groups of factors that influence innovative activity is useful mostly for public administration purposes, for it's no use trying to impel managers to change their business strategies towards innovations.

Now that we classified possible incentives to innovations inside and outside the company, a kind of a strategic action plan – an algorithm of changes for the government officials may be proposed. Obviously, to foster innovation development in Russia it is necessary to work towards two directions. First priority we see as creation potentially comfortable and innovation-supportive environment – that refers to institutional reforms, of which the most important for the innovation development are competitive environment, science and educational system, finance system, legal framework, judiciary, public management. However, these actions will only create the basic conditions for innovations. So the next step is to apply direct measures such as targeted financial support and consulting, tax exemptions, support of the workplace innovations. The proposed algorithm may be helpful for the purpose of allocating scarce finance and time resources to different innovation incentives. Neither the proper environment nor direct measures alone won't be effective in modern Russia: it's essential to combine these two groups of incentives, described above, according to the priorities set.

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<sup>1</sup> Herzberg, F. 1968, "One more time: how do you motivate employees?", *Harvard Business Review*, vol. 46, iss. 1, pp. 53–62

## Finland and Russia – how good partners may contribute in developing innovations

By Virpi Herranen

Finland and Russia have a common history and long-lasting economic relations. Finland remains one of the most important economic partners for Russia and historically, was the first border entry point for Russia to the EU (European Union). Until very recently economic activities between the two countries were mostly focused on cross-border trade, where Russia predominantly provided raw material imports, and Finland provided predominately industrial goods within their overall export structure. This equilibrium began to be altered by major changes in the Russian economic landscape initiated by the government's attempts to modernize its current commodity-based economy into a knowledge-based one.

In the last five years a completely new set of governmental institutions has been created to support development of translational research and technology commercialization, leveraging of private investment in domestic hi-tech industries and nurturing of Russian venture capital. The world's best environment for innovative development, including that of Finland, have been analyzed and benchmarked to create a local business environment that supports innovations. The most important institutions include the Russian Corporation of Nanotechnologies (RUSNANO), Russian Venture Company (RVC) and Foundation for Assistance to Small Innovative Enterprises (FASIE). The Skolkovo Innovation Centre, often dubbed as "Russian Silicon Valley" is the latest to join the consortium. These institutions combined, form a so-called "innovation lift" where hi-tech companies are supported by the government all the way from the very initial "seed" stage up to the higher development stages of aggressive expansion. The model implies that the increasing share of private investment shall complement public funding.

University reform is another important step that Russia has undertaken to bring its innovation system in line with recognized best practices of other major nations around the world. Research work that was previously allocated mostly to the research institutes of the Russian Academy of Science is now prioritized to move back to universities, which receive additional funding for R&D activities and, especially, commercialization of innovations.

Russia still has a lot of catching up to create a modern knowledge-based economy, but recent governmental initiatives backed by considerable amounts of funding, both public and private, paint a more optimistic picture for local R&D professionals, hi-tech entrepreneurs and investors as compared to the last 10-15 years. Young innovative Russian companies, especially in ICT, have already proven their ability to grow into international success stories. Examples are Kaspersky, Yandex, ABBYY, and Parallels. Another investment intensive area is nanotechnology. However, funding here comes mostly from public sources. Biotech and Pharma innovations are also growing trends in Russia, and a good example is Maxygen – a university startup that developed a fast, mobile and inexpensive DNA diagnostic device that won the top award at Aalto VG Startup Sauna 2011 and came in second at Intel Global Challenge in the US.

It is the right time for Finland to share its experience in hi-tech commercialization with its big neighbor-Russia, and capitalize on joint development of breakthrough innovations

created by Russian researchers. Finnish-Russian collaboration in the area of innovations intensified in 2010 when the Partnership in Commercialization of Russian Innovations Project was launched by the Finnish Ministry of Employment and Economy. The Finnish innovation Centre -Finnnode Russia has been offering a focal point for Russians willing to get into contact with the Finnish innovation development system and learn about cooperation possibilities. Working on fostering and facilitating collaboration between Russian and Finnish development institutes, infrastructure institutions, innovators, investors and entrepreneurs, Finnnode has also been helping some of the best Russian startups to visit Finland and establish valuable and practical contacts with potential Finnish partners.

Over 400 Russian innovation companies and their business cases, collected from all around Russia and from all kind of institutions, incubators, techno parks and innovation award events underwent thorough evaluation by Finnnode during two years of the project. From this number of companies, 2-3 % of all cases demonstrated commercial value and potential that was attractive for Finnish private investors or regional development organizations. As a result, seven companies based on Russian innovation have been established in Finland in order to commercialize their invention for western markets.

Infrastructure to support innovations in Russia is completely new and is founded on greenfield. Existing conditions for hi-tech businesses in Russian techno parks, incubators and accelerators varies substantially depending on region, and organization. Russian entrepreneurs' skills in international business development are often insufficient, even for a neighboring country.

Competition is tight, however, only a few smart ideas look for smart money, smart networks and smart partners. The country who wants to fight for the best innovative ideas in Russia must offer all of this smart infrastructure, but at the same time also offer professional Russian – focused support, which will be either participating in business or having a true long term interest in developing business ideas into success stories.

The last two years looking at project work in searching which business cases were the best for coming to Finland and for commercializing to international markets from Finland has shown that the "project pipeline to Finnish innovation ecosystem" still needs development. Lots of municipal and regional players do offer their help, but for Russian companies it is hard to see added value in Finland compared to other EU countries, not to mention between regions or cities in Finland. To be able to start one's own business based on innovation, residents of Russia need to establish their own company in Finland, and take many practical steps through foreign bureaucracies. Even if it is not cumbersome, it is time consuming. When the business is to be started outside the country from scratch, the progress is even slower.

To improve Finland's competitiveness as a partner for good innovative ideas, certain changes to Finland's own internal structure have to be made. Finland's innovation ecosystem has been built up internally for Finns and it has in practice no systematic structure or strategy for incoming

foreign startups. Contrary to US investment funds, Finnish private investors in innovative technologies are still reluctant to screen Russian startups. Finnish private investors (VCs and investor angels) usually evaluate most of the Russian ideas coming to present at forums such as MoneyTalks as being too early for investment. As a result, a typical startup trying to reach an international market and seeking not only smart money but also market access and business model knowhow and best practices in commercialization often hears "too early stage, no, thanks". This is heard even if technological innovation itself is high grade. In interesting cases, business intelligence should be offered as an in-kind service to high-interest companies to enhance their competitive advantage for the Finnish innovation ecosystem. All gaps between Russian entrepreneurs and the Finnish innovation ecosystem need to be filled.

Proactive steps are being implemented all the time. One recently added powerful tool available for joint innovation development is the co-funding program initiated by The Finnish Funding Agency for technology and Innovation Tekes and FASIE. The program provides that Russian and Finnish innovative SMEs developing joint innovative projects may apply for funding from their respective country agencies. A number of joint projects have been successfully approved already, but as FASIE is significantly smaller than Tekes and has limited funding capacity, Tekes now seeks to offer a mutually beneficial collaboration model that is similar to Skolkovo. Initial contact has already been made and both sides are now negotiating potential opportunities.

Startup Sauna, a well-known accelerator program from Aalto Venture Garage, started to accept Russian startups and Sauna which has generated interest several times in

many Russian cities, has selected startups for the acceleration program in Finland. Vigo – another new and very successful accelerator concept which is supported by Tekes is opening their eyes towards Russia. Currently Vigo features nine accelerators launched by some of the most successful of Finland's hi-tech entrepreneurs and business angels leveraged by Tekes. Areas of specialization include ICT and software, Cleantech and renewables, Biotech and pharma. Vigo accelerators are looking towards welcoming Russian innovative technology cases in Finland, as well as attracting private Russian investment in their portfolio companies. Initial contacts have already been made, and recently, in a fact finding trip organized by Finnode, 2 Vigo accelerators along with Vigo program coordinator have attended Russia's biggest annual innovation contest BIT in Moscow to get the first impression.

Last but not least, Russian private and public investors are now looking for interesting hi-tech projects from Finland. Government provides financial support for tech transfer projects to Russia where about a billion Euro in total is available. A number of associated private venture capital funds are ready to use this leverage for investments into projects that have potential in bringing their technology to Russia. Cleantech, energy efficiency and renewables are regarded as hot topics in addition to the traditional favorites such as ICT and software.

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## Science and innovation policy of the new Russian cabinet

By Liliana Proskuryakova

The new Russian cabinet that was formed after the presidential elections in spring 2012 marked new priorities of science, technology and innovation (STI) policy. Dmitry Livanov, Rector of the National University of Science and Technology "MISIS", was appointed the new Education and Science Minister. Previously Dr. Livanov already spent three years in the Ministry as Director of Department and Vice Minister (2004-2007). The new Minister holds a doctorate degree in physics and mathematics from MISIS.

One of the first initiatives of Dr. Livanov was the creation of an 'open ministry', including the establishment of open spaces for discussion of particular decisions and initiatives, and the organization of a civil society council by the Ministry, headed by the Nobel prize winner in physics (2000) Z. Alferov. The new team of top officials consists of practitioners - researchers and professors, while some career civil servants left the Ministry. It is also planned to create a network for professional evaluation of projects of key importance. Both the expert council and the network will comprise a wide range of stakeholders.

At a recent meeting devoted to modernization of the Russian economy, which has remained high on the agenda of the Russian leaders since 2000, the PM announced a planned 30% increase in the share of high-tech and knowledge-intensive sectors of the economy by 2018 (as compared to the 2011 level). At a meeting of the expert group on entrepreneurship at universities and research centers in August 2012 Mr. Medvedev also underlined the lack of investment, which could be resolved by venture funding and state funds support. He also suggested the possibility of IPO by selected new innovative companies at the specially created international stock markets.

The 2012 presidential decree features more immediate actions in the sphere of science and technology (S&T), including further advancement of the leading universities internationally, an increase in budget allocations for state science funds (up to RUB 25 bln by 2018) and competitive funding to university-performed R&D. It should be noted that Russian universities hold weak positions in the Russian innovation system. As compared with OECD and BRICS the input of the Russian higher education sector in basic research is one of the lowest (it varies from 80% in Ireland and Denmark to 20% in Korea, Great Britain and Russia). To address this and other weaknesses the recent move of the ex-Minister Fursenko was to strengthen the research capacities of the Russian universities and to improve their connections with Russian companies.

Considering the mentioned tendency, an important factor is the attraction of highly qualified professors. The authors of an international comparative survey of academic profession note that Russia is characterized by low internal mobility, most universities have little flexibility to increase salaries for better performing faculty, and the average professors wage often fall 10% below the average wage of

others in the economy who have completed higher education. Certain wage increases for professorate (up to 200% of the average wage in each of Russia's regions) were previewed in a relatively long perspective - until 2018.

Another immediate action outlined in the 2012 presidential decree is the adoption of a long-term national basic research program (following the opinion expressed by some renowned commentators, such as Yaroslav Kuzminov, of the need to concentrate efforts on long-term priority-setting and strategies rather than daily routine). Such a program will facilitate reaching some key targets, for instance, increasing the share of Russian publications in the Web of Science journals up to 2,44%.

The difficult and long-pending reform of the Russian Academy of Sciences (RAS), also highlighted in the OECD Innovation Review 2011, is currently not on the agenda of the new Minister, who previously criticized the Academy. Prime-Minister Medvedev earlier mentioned that it is up to the RAS itself to undertake internal reforms. Today the Academy remains by far the biggest recipient of the government R&D appropriations and is slowly moving towards a greater share of competitive funding in its budget.

The S&T development targets require budgetary support, but its prospects remain obscure. On the one hand, it is expected that Russian GERD will increase to 1,77% of GDP by 2015 and the share of appropriations to higher educational institutions will raise to 11,4% of GERD. On the other hand, the 2013-2015 Russia's draft budget already caused disagreement between the official and "open" (expert) governments. The experts claim that education and a few other sectors are underfunded, asserting that federal appropriations for education will decline by 7% (by 0,3% GDP down from 1% in 2012) and the planned salary increases in the educational sector will be assured by lowering the appropriations for applied research and subsidies to regional educational programs.

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<sup>1</sup> First of all the Foundation for Basic Research, Russian Foundation for Humanities, and the Foundation for Assistance to Small Innovative Enterprises.

## Russia – an unattainable goal of diversification

By Natalya Volchkova

During the last two decades the diversification of Russian economy was always declared as one of the most important goals of economic policy. The breakup of the Soviet Union left Russia with a very peculiar economic structure. In 1990, industry accounted for around 50% of GDP, while services contributed only 35%. Over the next two decades the major changes in the structure of economy were highlighted by an expansion of services and the relative contraction of both industry and agriculture. Currently, services make up nearly two thirds of GDP while manufacturing now accounts for no more than 16%. Additionally, in the past decade, the Russian economy has experienced a substantial increase in external revenues due to the rise in international hydrocarbon prices. An improvement in the terms of trade coupled with an increase in domestic demand has been accompanied by appreciation of the domestic currency and the relative rise in the price of non-tradables. Thus, the process of de-industrialisation that had already started in the early 1990s has been emphasized by the shift in relative prices induced by inflated oil and gas prices and, consequently, government revenues.

The consequences of the natural resources boom since 2000 are clearly observed in the concentration of Russian exports. By 2009, mineral fuels contributed nearly two thirds of Russia's exports in nominal terms - a significant increase from a level of over 40% in the mid-1990s. Most of this increase can, however, be attributed to higher hydrocarbon prices rather than purely by an increase in volume. Calculated in constant 2000 prices, the share of mineral products in exports actually remained the same over this period. In other words, in real terms, there was almost no reallocation across commodity groups so that the concentration of exports has remained broadly stable since 2000.

However, while at the aggregate level the export structure is stable, a more detailed analysis reveals signs that diversification has worsened. In 1996 Russia had a comparative advantage in 156 out of 1242 product lines (for comparison, China had a comparative advantage in 479 product lines in the same year). The latest data for 2010 show that Russia's comparative advantage had narrowed substantially: the number of Russian product lines with comparative advantage had fallen to 103 (in contrast, the number for China had increased to 513 by 2010). These figures emphasize the fact that despite the policy rhetoric, the Russian export basket had become even more concentrated since the mid-1990s.

One might blame oil dependence as a major reason for such deterioration of export structure. However, a closer examination of production and export concentration across Russia's regions does not provide supporting evidence of this. That is, no significant correlation between oil and gas abundance of a region with its export diversification is observed in the data.

An analysis of company level information along with company export profiles indicates regulatory burden as one of the major constraints for diversification. The very first observation is that Russia has a far smaller share of export-oriented firms than many other countries. By 2008/09,

about 3% of Russia's firms were exporting firms compared to 15-17 % for the USA or France. Not only are there relatively fewer exporters, but those that do export have higher premia in terms of sales, assets and investments than in these other countries. Further, an increase in foreign market penetration by Russian exporters is mainly associated with the increase in intensity of exports per firm rather than in the number of exporters. These findings are consistent with a higher fixed cost of becoming an exporter in Russia. In fact, applying a more general model using other countries' data revealed that the ratio of the fixed costs of exporting to fixed costs of production in Russia is five times higher than in a country like Chile.

The qualitative and quantitative analysis of Russia's export firms sentiments' toward export barriers revealed several "candidates" that prevent Russian exports from diversification. Firms indicate problems with VAT refunds as a very important reason that precludes them from export expansion. Instead of fighting false exports with the help of enforcement agencies, the state employs tax inspectors. The strategy is very simple; young exporting firms can, as a result, generally only receive the VAT refund for exported goods through court decisions, which is both costly and time consuming. This also implies meeting with tax inspectors in a trial. However, tax agencies in Russia have too much discretion over the firms, especially young ones, such that not every firm will want to risk fighting their case. Ultimately, due to this bureaucratic barrier, many firms prefer not to export at all rather than go through this extra scrutiny by tax inspections.

Another rudimentary regulation that Russian exporters face involves currency control. By law, Russian exporters must receive foreign currency in the full contracted amount in their bank account within 45 days after their goods leave Russian customs. The fees for violators are quite severe. This is the remnant of state capital controls that Russia enjoyed during 90s. Now, when many other components of capital control are completely removed this particular element is still enforced resulting in pushing up the costs of exporting, particularly for new small manufacturing exporters.

Ironically, while the Russian government spends more money on export promotions and the development of new, modern, technology, there are quite a lot of regulatory traps that prevent these resources from achieving these aims. Without streamlining bureaucratic red tape, procedures, and legislation and making the interaction between the state and potential exporters more predictable, the diversification of Russian exports will still remain an unattainable goal.

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## The real challenges of start-ups who want to make people's lives better

By Triin Kask

It all started like these stories very often begin. In May 2008 I parked my car on a paid parking spot and went to have dinner in a restaurant nearby. About an hour later I returned to my car and saw this familiar yellow paper on my car's windscreen. Once again I had forgotten to start the parking payment and got a parking fine for this typical misbehaviour. I was really furious and thought to myself that why anyone has not yet developed some kind of a GPS-based parking device that parks your car automatically. Just like that the light bulb above my head went on and it is shining ever since.

Today I am running the company, BluNavi and I have great plans bringing it into the global arena. We have developed a GPS-based automated parking payment solution that includes a device and software and above all, it actually does what it is supposed to do. Imagine, just pulling into a parking spot and walking away without having the need to have coins, send SMSes, activating mobile apps etc. Thus, we have the solution that improves people's lives, guarantees parking fees for cities, increases revenues and customer satisfaction at the same time, helps to reduce costs and increase traffic efficiency in cities, so it seems that the world is ours. But just here the whole fun ends as suddenly as it had begun. Well, what is the problem then?

The problem is that instead of helping cities to upgrade their parking infrastructure, we have to spend many hours on finding the right people to communicate with or in order to put the idea into practice we need to spend much time on lobbying. Over 45 billion EUR worth parking industry is very fragmented, there are lots of different stakeholders who all want their share. I have been told several times that the industry is still in Stone Age and it takes at least a decade for it to understand the possibilities of modern technology. I think they have already understood it but their mentality is to keep something that earns good money stable, although the end-users and cities could gain much more by upgrading the parking infrastructure according to modern technology.

The process of becoming a player in the parking industry is long and hard as it is controlled by long-term contracts, big corporations and nerve-racking bureaucracy. This could be a real challenge for a start-up who has no previous experience and network in this industry. Therefore, finding the right business model that ensures instant revenue is crucial. Otherwise it might take several years to work your way into the market, which in turn is too long for an innovative solution to be truly an innovation.

As different aspects concerning traffic are very often controlled by the city politics, one might need unethical approaches to get to the market. For example we had a case with one city in Italy, which was interested in our solution but instead of being progressive and organizing beta trials with us, they suggested us to collect some

money first in order to satisfy different needs of decision-makers, like travelling to Estonia and staying in five-star hotels, having expensive meals and other benefits. At first you think it is some kind of a test but when you understand that this is actually the way business is done you start to think how far are you willing to go yourself. Thus, the real challenge is to understand the game played in this industry and finding your strategy and tactics.

But more complicated are these cases where decision-makers do not even consider finding better alternatives to existing solutions. This usually means slow communication or no communication at all and it is quite baffling how to attract attention in order to show the benefits we could provide. Hence, coming out of your comfort zone, being an intrusive communicator may well be all against your beliefs and yet it might be the way to success.

And then there are investors without whom a start-up can rarely grow. Investors usually look for bullet-proof business model that warrants them income of ten times their investment. Getting the investment very often depends on how impudent a start-up is not on how well their product helps to improve people's lives. Therefore, the founders have to switch over from ideals to profitable result-oriented thinking, which again might be really hard when you have strong rooted principles.

So how can one survive in this rigorous superficial world order of parking industry? Before I founded my own start-up I had been studying economics and lecturing entrepreneurship courses in the University of Tartu. Writing my PhD dissertation about innovation and Estonian IT organizations provided me with different viewpoints how companies manage innovation and success at the same time. My research results showed quite clearly that the broader and more ambitious the vision of a company, the more successful it is in terms of innovation. That brought me to the idea that what organizations and their members are really lacking is actually understanding their vision and where the company is heading. Thus, as long as I have the vision where BluNavi will be one day, I have the willpower to build those complicated time and nerve consuming relationships in order to get through to the right people who make decisions and who hopefully see the financial benefits of our solution. I know we will succeed one way or another and knowing this keeps us going.

*Triin Kask*

*CEO*

*BluNavi*

*Estonia*

## Baltic States – three states, but no region

By Dovile Jakniunaite

Since the three Baltic States - Estonia, Latvia and Lithuania - re-established their independence in 1990-1991 they were considered as one region, as they had a lot in common. Noticing their development now the idea about the Baltic States region seems dubious, at least for the Baltic States themselves. Regional policy is almost nonexistent in their foreign policies, and they competing among themselves more than they are cooperating.

There are many ways to describe Estonia, Latvia and Lithuania. They all are small states. They are (still) post-soviet states. They are Central Eastern European states. And only then we may think about them as Baltic States. Geographically, it is the right description, and it also emphasizes their uniqueness - they are the only ones in the EU with the experience of having been part of the Soviet Union.

All these descriptions are applicable and useful. And the description "Baltic States" is one of the options usually used in a certain context, but not everywhere. Analysing the usage of the concept, can we fine any "Baltic way" of doing things, and, if so, what does it imply? A region is usually understood as a territorial entity defined by common identity, institutions and activities, as well as by perception of others as such. A region is not something absolute, given and unchanging. A region is always historical and exists as long as it provides something for its parts.

Any definition of the region depends both on the external as well as internal actors. Looking throughout the 20th century, we can see that the "Baltic States" was mostly used by the external actors. During the inter-war period these three small states were at some point considered as a neutral buffer from Soviet invasion and influence. During Soviet times the conceptualization of the three western republics as the Baltics was established and strengthened. Unsurprisingly this thinking continued after the fall of the USSR, this time supported mainly by the neighbours in the North and by the EU policies.

After 1991 the Baltic regional cooperation was developing in full speed. During five or six years all the necessary institutions modelled on the Nordic cooperation were established. Presidential summits became common practice. At the same time around 1995, the policy priorities of the three states clearly moved towards integration into the EU and NATO, and all joint efforts were concentrated there. The lively military cooperation was encouraged and facilitated by NATO. The economic cooperation was fostered especially by the EU. The EU saw the Baltic States as a sub-region and thereby emphasized the regional cooperation as preparation for accession, and gave financial support for regional initiatives.

Starting from 1997, however, the individualized and differentiated EU policy began to develop. As a consequence, external initiatives for cooperation decreased, and Latvia, Lithuania and Estonia started to

compete among each other for the position of being the most successful one. After the EU enlargement in 2004 nothing of importance has happened in the arena of cooperation and regional development of the Baltic States. Although common institutions still exist and function, and meetings between the leaders are taking place, it is very difficult to find any substance in the regional cooperation proclamations. Integrations into the Schengen and the euro zones - another two important integration projects - have also happened separately, without any coordination. Energy and transport sectors - the most potential areas for cooperation - are surrounded by disputes, arguments and mutual frustrations. And one more or less successful project – the establishment of the Baltic Energy Market – only became feasible because of EU efforts.

All in all, these three states were thinking as one and coordinated their policies only for a very short time. Becoming part of a bigger regional project naturally diminished the need for smaller regional initiatives. Besides, all the three states started to look in other foreign policy directions. Lithuania contemplated about the strategic partnership with Poland concentrating more on the EU Eastern policy, Estonia was focusing on Nordic cooperation, and Latvia recently started to redefine its relations with Russia.

Finally, when we look how Estonia, Latvia, and Lithuania perceive each other, we can notice the constant comparison and constant competition. Estonia and Lithuania are economically and politically the most visible states, constantly competing for being more famous and/or successful. Latvia is persistently looking for its own developmental path. Thus, while being undeniably similar in economic, political, social and cultural terms, the states nevertheless do not make one regional entity in their own minds.

The Baltic States have travelled a long journey together, but they haven't formed a friendly company. The internal motivation and reasons to regionalize were short-lived. The term Baltic States exists for these states as a shortcut that is convenient for policy reasons. But the regional practices, thinking as a region or the regional idea do not exist. It is not yet a community that tries to find common solutions to common problems.

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# The Baltic Sea Dimension at the Department of North European Studies, Humboldt University, Berlin, Germany

By Ralph Tuchtenhagen

Since the late 18<sup>th</sup> century, Berlin has constantly been a centre of academic research on Northern Europe. In 1994, the Department of North European Studies at Humboldt University, Berlin, was founded as a merger of north European studies previously pursued at various academic institutions in Berlin. Presently, the Department of North European Studies employs a staff of c. 50 persons, including 3 professors, 2 guest professors (from Norway and Sweden), 5 language lecturers, assistant professors etc. Roughly 550 students are registered in various teaching programmes including a continuous language education in Danish, Finnish, Icelandic, Norwegian, and Swedish as well as courses in north European history and culture.

Teaching and research at the Department of North is carried out against the background of a broad geographical definition of the term 'north European', meaning an area reaching from Greenland to Northern Russia and from northern Germany, Poland, and the Baltic States to the Arctic Sea. The Baltic Sea region is an integral part of this concept.

As a tool to coordinate teaching and research the "Baltic Sea School" (Ostsee-Kolleg) has been founded as an affiliated institution in 2001. It serves as an institutional forum for all study and research activities dealing with the politics, culture, history, and economy of the Baltic Sea Region. Beyond regular teaching on various aspects of the history, politics, and culture of the Baltic Sea region, summer schools were organized during the years of 2008-2011 in order to attract international scholars and students interested in the study of the Baltic Sea region. Conferences organized on a regular (annual, biannual) or irregular basis were also part of the Department's research on the Baltic Sea region. Since 2009 the Department, in co-operation with the Institute of Northeastern Europe (Lüneburg, Germany), the Department of History at Tallinn University, the Baltic Sea Academy and the Sankelmark Academy (both Sankelmark/Flensburg, Germany) organized conferences on Baltic Sea history and culture for junior scholars from the Baltic Sea region and beyond. Moreover, national and international co-operation include various programmes with the Finnish Institute, the Baltic Sea states' embassies in Berlin and Germany's embassies in the Baltic Sea region, the Herder Research Council (Herder-Forschungsrat), the Herder Institute (Marburg, Germany). Contracts of academic exchange and project co-operation exist with a dozen universities in Scandinavia, the Baltic States, and Poland.

Research activities are documented in the Department's own journal and various monograph series. The half-yearly journal "Nordeuropaforum" (Northern Europe Forum), founded before the Department's existence in 1991, includes, among others, articles and reviews on historical, political, sociological, economic, and cultural aspects of the Baltic Sea region. The monograph series "Arbeitspapiere 'Gemeinschaften'" (Working Papers 'Communities') deals with historical and present phenomena of communities and societies in Germany and

Northern Europe. The "Berliner Beiträge zur Skandinavistik" (Berlin Contributions to Scandinavian Studies) comprise editions of old Norse and recent Scandinavian texts as well as monographs, paper collections and bibliographies from all branches of Scandinavian studies. They present mainly texts written by members of the Department, but are open to other contributors as well. "Kleine Schriften des Nordeuropa-Instituts" (Smaller Publications of the North European Department) publish various kinds of working papers and resources useful especially for teaching or as a basis for further research. The Department's central organs for Baltic Sea studies are the two monograph series "The Baltic Sea Region: Nordic Dimensions – European Perspectives" and "Nordeuropastudien" (North European Studies). "The Baltic Sea Region" aims at analyzing historical, political, economic, social, and cultural processes and structures within the Baltic Sea region. It is especially meant as a forum for younger scholars. "Nordeuropastudien" publishes economic and sociological, historic, juridical, and cultural studies, covering an area reaching from Greenland to Finland with special emphasis on the Scandinavian states of Denmark, Norway and Sweden. The monograph series "Die kulturelle Konstruktion von Gemeinschaften im Modernisierungsprozess" (The Cultural Construction of Communities during the modernization process), published in 11 volumes during 1997-2007, has not been continued. It analyzed topics like nation building, societal life, and the welfare state in Scandinavia and the Baltic Sea region. "Kleine saamische Schriften" (Small Saami publications) includes working papers, original sources, and smaller studies with a focus on Saami language, culture, and literature.

In addition to research projects, conferences and publications research is also carried out in the Department's "Deep Water Think Thank" dealing with current developments in the Baltic Sea region, and the research group "North European Politics" (FOR:N) focusing on the political development of, among others, the Baltic Sea region.

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## Peripheral regional universities – what role within the Baltic Regional Forum?

By Tatjana Muravska and Roswitha King

During the last 20 years Latvia has experienced a rollercoaster ride. In the earlier and mid 2000s the country was known as one of the Baltic tigers showing double-digit economic growth in 2005-2007 and - in the wake of the recent world recession - to double-digit economic decline, as GDP fell by 18 % in 2009, while official unemployment reached more than 20%.

Following the advice of the international lending community, Latvia chose severe cuts in budget expenditures. Statistics show that Latvia now is recovering from its dramatic economic recession. However, the social cohesion requires serious attention as a steady stream of Latvians continues to leave the country in pursuit of a better future. For example, although in many EU countries unemployment among university graduates has risen far less severely than among lesser qualified groups, the rate has increased by more than 100 percent in the Baltic States bringing with it a number of undesirable social consequences. Education and research have a key role to play not only to promote growth and employment, but also to guarantee equal opportunities and social cohesion.

To meet these major social challenges, universities are called upon to reconsider their mission beyond the confines of the lecture room in recognition of their role in knowledge creation and its transformation into innovative goods and services under involvement of both public and private sectors. More could be done to make business and academia work hand in hand to design and supply the curricula, develop skills and competences that allow traversing between business and universities. This has been recognised at the national and European level. Among the tasks to be performed are consulting services to SME, more proactive engagement in placing university graduates in businesses and connecting key players towards this purpose. The overall goal is to bind universities to regional growth and to rethink the responsibility of higher education institutions in regions. In order to obtain the truly connected region a catalyst for this process is urgently needed. Latvia has taken a first step in this direction by establishing the Baltic Regional Forum and bringing together academics, business partners, NGOs and other actors of civil society.

The role of universities in regional development has so far been under communicated, but it could be of a particularly strong impact in the economically weaker regions of Latvia, where the private sector is relatively underdeveloped. Here some thought needs to be given to why and how universities can be agents of change in regional development, as their potential to foster prosperity remains underexploited. Going beyond their two traditional duties of teaching and research, a third mission of universities, linking them directly to the business sector and regional growth is called for. In this process the Baltic Regional Forum as an initiative for regional development may become a central driver. In this regard we should learn the hard won lesson from the past and refrain from seeking isolated initiatives in favour of longer- term partnerships independent of the boom and bust of the funding cycles. To encourage such a long - term partnership development some institutional anchoring through the recently established Jean Monnet Centre of Excellence in Latvia is called for. The initial mission is a critical evaluation and an inventory of the regions' current and potential strengths as well as the region's capacity to identify and absorb university expertise. Thereafter regions' perceived advantages would be

evaluated according their potential toward development of critical mass that could lend the region its particular profile. Inventorying and evaluating the regions' potential require specific skills and competences. This is were the university should step in with capacity building workshops under collaboration with local, national, regional and international actors from both the public and private sectors. These considerations find support in a growing sentiment that universities should be coming out of their ivory towers and align their research and teaching more closely to their socio-economic environment. As universities maybe viewed as residing within specific regions it is a small step from there to a desire that universities become more proactive as drivers of regional development and community outreach. In this regard, we are not only thinking about technology and skills development but also about cultural awareness - thereby opening up a larger role for social sciences and humanities.

It may take considerable transformation before universities begin to understand themselves as regional actors or as service providers for the region. Development of the Baltic Regional Forum is equivalent to development of the gateway mechanism between the university and the region, which it wishes to serve in a novel way. This gateway mechanism works in two directions: connecting local concerns to larger regional issues. But also regional and global issues need to be translated into locally concrete targets.

If these challenges are to be successfully met, universities will have to confront their own specific barriers to regional engagement. Contributions within universities regional engagement will have to be worked out on case-by-case basis. Universities need to develop a sense of place. Is the Baltic Regional Forum a catalyst for regional development?

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## BSRS – making sense of regional realities for 15 years

By Markku Jokisipilä and Tarja Hyppönen

When the Baltic Sea Region Studies programme (BSRS) at the University of Turku was launched in the autumn 1997, we were living in the midst of change. 1990s witnessed a significant increase in the number of international students, and there was a demand for more teaching in English, both single courses and whole study tracks. Finnish Universities turned more and more towards the outside world and also international cooperation became a funding criterion. In the EU it became possible to become part of international higher education funding and mobility programmes as well.

Similarly in mid-1990s Turku University strategy started to stress more heavily the academic collaboration in the BSR. Ministry of Education mandated it to coordinate the relationships of Finnish Universities with those in Estonia, Latvia, and Lithuania, as well as throughout the Baltic Sea region. The BSRS became a pilot project in this task. The work began enthusiastically first with the universities in Estonia, Latvia and Lithuania, especially as they also established their own BSR related programmes. The collaboration evolved quickly and the focus was soon broadened to cover the whole Baltic Sea region and even beyond.

The language of instruction is today's European lingua franca English. The programme is coordinated by the Faculty of Humanities, but since the very beginning it has relied also on cross- and multidisciplinary expertise from the other faculties, other Finnish universities and a network of international partner institutions in BSR and beyond. In its wide-ranging effort of making scholarly sense of the BSR and world at large the programme utilizes the perspectives Contemporary History, International Relations, Human Geography, Cultural Studies and Nationalism Studies.

### Three-ring circus

The BSRS programme has three main fields of operation. Firstly it runs a two-year international Master's Degree programme, made possible by the creation of European Higher Education Area in the Bologna Process. Master's programme was launched in August 2005 as a joint venture in collaboration with international partner universities and has ever since been the main component of our activities. In 2005-2011, a very international corpus of 53 students representing 25 different nationalities has enrolled in the programme. So far 23 have graduated and four of them continue in doctoral studies in Finland and Sweden.

Secondly BSRS offers a Bachelor-level non-degree programme, which has been in operation since 1997. It is mainly directed to short-term international exchange students and Finnish degree students as minor studies. The range of courses offered has been diverse, covering for example fields of history, culture, intercultural communication, economics, geography and environment. The non-degree programme has offered the participating departments a structured opportunity to provide courses in English, to enhance their international activities, and to provide the junior members of their staff with experience of teaching and working in a genuinely international classroom.

Thirdly our programme participates in various international projects and joint undertakings, most typically linked to curriculum development and/or promotion of the

academic awareness of the Baltic Sea region. International collaboration takes place on many different levels from the contribution of individual researchers to larger, programme-based initiatives. In Autumn 2008 we became partners in the International Masters in Russian, Central and East European Studies (IMRCEES) consortium coordinated by the University of Glasgow. In 2011 IMRCEES was recognized by the European Commission as an Erasmus Mundus Masters Programme of 'outstanding academic quality'.

### International forum of experience and discussion

Today, the programme offers an interdisciplinary approach to understanding the characteristics of the region which has rapidly become involved in the process of European integration. With the 2009 adoption of the European Union Strategy for the Baltic Sea Region, the first macro-regional strategy in Europe, Baltic regionalization has become a model of cooperation and shared interests for other European regions. In this context our programme offers a scholarly qualified contribution towards constructing a new regional identity within European Union.

Teaching and learning in the Baltic Sea Region Studies Master's Program is based on a regional approach that complements but also challenges conventional national and international perspectives. Combining the expertise from various fields, the program strives to create an interactive and innovative environment for studying and learning. In a truly international classroom environment, students learn about the multifaceted history of the region, its vibrant political present, and its future challenges.

Equipped with in-depth knowledge about political, economic, and cultural developments on national, regional and global levels, BSRS graduates find employment in a broad variety of academic, governmental and other institutions and organizations. We encourage independent thinking, critical debate and intellectual creativity, qualities that are in an ever-growing demand in our completion-driven and information-centered globalized world. Multinational and multicultural interaction makes Baltic Sea Region Studies a truly unique academic experience.

*Markku Jokisipilä*

*Academic Director*

*Tarja Hyppönen*

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*University of Turku*

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*Further information on the BSRS programme  
<http://balticstudies.utu.fi/>*

# The Warsaw School of Economics (SGH) and its collaboration within the Baltic Sea region (BSR)

By Elżbieta Fonberg-Stokłuska

SGH, established in 1906, is one of the leading research and teaching centres in the area of economy, finance, political studies, business and management in Central and Eastern Europe, and the only Polish member of the prestigious international networks CEMS and PIM.

The academic position of SGH and its involvement in the transformations in Poland and Europe after 1989 relied on strong relations between its research staff and global academia, dating back to the times preceding the transformation in CEE. They resulted in introduction of new, innovative curricula and conducting research supporting development of Poland and the region.

The academic support for SGH shown by universities from the Western part of the BSR made it possible to develop its academic and research potential. Especially the cooperation with German institutions has been strong for years, climaxed with the establishment of the German Economy Research Centre at SGH. It is where numerous research projects are conducted, many in cooperation with German partners. Their focal point is the area of social market economy and German economic policy in the global context, the economic role of Germany in the EU, the impact of the change in the position of Germany in the EU on economic relations with the countries of the CE Europe, regional cross-border cooperation and energy safety.

The educational collaboration resulted in creation of the Polish-German Academic Forum, offering studies in German to SGH students. In 1999 the Forum was awarded the title of the best DAAD German language programme in Europe. SGH runs also exchange of students and academic staff with German universities, including 4 double degree programmes.

A new SGH initiative that is very popular among German students, is the German summer school (the 2<sup>nd</sup> edition - Between competition and partnership. Polish-German socio-economic relations - took place this year), providing students with up-to-date knowledge on Polish-German economic relations and business opportunities.

Equally important is the academic and research cooperation of SGH with BSR Scandinavian institutions. Students and teachers exchange with these partners is developing dynamically, and joint research projects are taking place, e.g. concerning the evolution of the Swedish labour market policy in 1950-2005 (extended for the Danish labour market as well) and comparative studies of Poland and Sweden in the area of life satisfaction, quality of life and late maternity.

SGH also cultivates very important partnerships with the countries from the Eastern BSR. The common experience and the need for creating a common regional strategy make such countries as Lithuania, Latvia, Estonia and Russia natural partners for Poland. In 2001 the Baltic States Studies Centre has been established (now [Global Economic Interdependence Centre](#)) at SGH. It is where research on systemic transformation and mutual relations among the Baltic states is conducted, as well as studies on their trade and investment relations, especially in the area of relations with the EU and the Russian Federation (RF), including the Kaliningrad Oblast (KO). The academic interests of the Centre's staff include in particular: political dialogue between the EU and the RF, position of the KO in

the context of the enlargement of the EU, the EU Northern dimension and international economic competitiveness of Lithuania, Latvia and Estonia.

The results of the research on the economies of the East BSR countries, as well as on the relations between Poland and this subregion, contribute to annual conferences dedicated to i.a. the challenges the states of the subregion face in view of their accession to the EU. The conferences provide the opportunity to discuss global and regional challenges faced by the countries in question, such as the global financial crisis or the Russia-Ukraine gas dispute of January 2009. They also cover such topics as corporate social responsibility within the BSR and its implications for the creation of the economic competitiveness, realization of the Lisbon strategy in the BSR countries and the regional competitiveness, with a particular focus on the matter of innovation. In addition, the Centre contributes to numerous academic publications, such as the study on the competitiveness of Polish economy that became a part of the 2010 State of the Region Report, published by the Baltic Development Forum.

SGH is involved in cooperation with partners from the BSR in realization of projects within the EC research framework programmes, including: The Insecure Perspectives of the Low Skilled in the Knowledge Society; European Network of Better Regulation; or Reconciling Work and Welfare In Europe, in the partnership with Estonia, Sweden, Denmark, Finland and Germany. Since 2000 SGH has been a member of the Baltic Sea Region University Network (BSRUN) that gathers higher education institutions from Belarus, Estonia, Finland, Latvia, Lithuania, Poland and Russia.

In March 2012 the EC published an announcement concerning the macroregional EU Strategy for the BSR ([EUSBSR](#)). Translated into aims and actions defined by the member states, it shall provide an impetus for the continuation and start of new intensive research of regional importance, the results of which should be transformed into new applications. SGH wants to be an active participant in new programmes for the region, declaring openness to topics important for the BSR, including environmental protection, effective use of resources, sustainable transport and energy.

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# Knowledge, networks and regional growth through best practices within the Baltic Sea region

By Tiina Tervaniemi

Moving towards the 2020's, it is necessary to improve the competence and capacities of the workforce to cope with the pace and the challenges of the future. This applies to the competencies needed in international collaboration as well as the capacity to innovate and to critically evaluate and alter one's working methods. Best Practices in the Baltic Sea Area project (2010-2013) aims at enhancing the exchange of best practices and seeking for new innovative methods to be implemented in the regional organizations. The project operates particularly in energy, environment and wellbeing sectors, which have been among the key development areas of Pohjois-Savo region. Furthermore, Best Practices- project focuses on bringing the regional actors together in order to openly discuss and assess the working methods. The overall goal is to promote and enhance cross-border co operation between the Baltic Sea region and Pohjois-Savo. The project focuses on different types of operators, such as the EU-funding authorities, RDI -organizations and educational institutes. Best Practices in the Baltic Sea Area is managed by the Regional Council of Pohjois-Savo and financed by the European Social Fund and Pohjois-Savo Development Fund.

In Pohjois-Savo, there are many fields of expertise in which international cooperation is a natural part of the operations, but there is certainly room for more. The statistics show Pohjois-Savo as a region lacking entrepreneurs or growth-oriented enterprises to be more precise. There are, however, possibilities for growth for example in bio- and medical technology. Furthermore, food production industry could be one of the possibilities for successful landmarks and Pohjois-Savo region poses promising possibilities for this sector as well. When talking about the environment, low carbon economy challenges us to seek for sustainable solutions in regional as well as international perspective.

But as we all know, sustainable growth does not come by itself. In order to go beyond the business as usual - perspective, it is necessary to work together and to offer sufficient supporting services for growth-oriented entrepreneurs. Local and regional administration, R&D organizations, educational institutes and private sector need more collaboration throughout the chain, starting from education and financing all the way to delivering the actual results. Team working spirit is evidently needed among the different regional actors in order to develop a common vision and allocating sufficient resources thus creating an increased base for innovations.

During the course of the Best Practices project, it has been delighting to explore the art of making things happen

in different places around the Baltic Sea region. It is clear that in order to accomplish innovative ideas and to develop larger entities, it is necessary to share ideas and to store them for further use. There are, for example, excellent models of how to build efficient networks to promote green business opportunities in a region. By combining regional know-how and resources, it is possible to create a solid base for sustainable local growth, which also has global effects.

It is of course evident that the time frame needed for setting up a well-functioning network is rather long, but this is where the already existing models really make the difference. Sharing the knowledge and remodeling the ideas into one's own surroundings is highly acceptable, when keeping in mind that this can also be beneficial in both ways; you do not necessarily only give but you also get something in return.

Gathering and sharing the existing knowledge is immensely important as we move towards the 2020's and particularly beyond. There are undoubtedly many ideas and methods in different regions, which can be modified to suit different fields and actors, if only the success stories would be shared and implemented into practice. Changing the rooted mindsets is evidently required in order to fully utilize the potential that we possess. In this respect the change is merely a question of looking at new ways of combining existing things, as sometimes the best practices are just around the corner.

Best Practices in the Baltic Sea Area strives to bring the existing examples of the good and the bad practices in front of the regional actors and opens the doors to active collaboration – the more voices we have, the better possibilities there are for delivering results across the borders.

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## Internationalisation process in high education – a practise of Šiauliai University

By Regina Karvelienė

Before starting to share our experience in internationalisation processes at Šiauliai University (ŠU), we need to know the general definition of this aspect. If we look into internationalisation as a specific driver in the life of organisation, so you may find it in every sector: *in business* (the increasing integration of economies across national borders through trade in goods and services, the migration of labour and the investment of capital), *in sciences* (there are many forms that affect every aspect of academic life from teaching, research to service), *in culture* (our society would not be as it is without the influx of all cultures that created the current picture over time). So what is an internationalisation in higher education? According various authors, internationalisation means the international university dimension that included intercultural subjects into the programme that made the participation of the faculties and students in different intercultural programmes more active. Whatever the viewpoint, a university should never enter the international market unless some basic provisions have been put in place. These are the then *most obvious* ones: A well thought-through portfolio of courses; International welfare officers; Suitable and affordable accommodation; Host country language support; Clear and well-communicated disciplinary procedures; Sound introduction programmes; Infrastructure to facilitate socialising between local and international students; Insurance schemes, legal and visa support, medical support and ect.; A truly welcoming attitude of both academic and non-academic staff towards international students. A University that goes into internationalisation without being able to tick all these boxes is arguably acting unethically. And it would certainly be unwise to do so, given the sustainable growth objective.

Analysing the internationalisation at ŠU it was taking to consideration the main elements of Internationalisation: the number of international students, the change of the study programmes, international cooperation, financial, the mobilization of human and technological resources, social partnership, the input of faculties and researches into the process of internationalisation and the support of the institution itself. During the 15 years of work, ŠU developed towards the internationalisation. The University confirmed 2007-2013 International Strategy in the beginning of 2007 and the basis of which can be described as the vision of the university that also includes the components of the internationalisation. SWOT analysis of the ŠU international activity showed that the University has a wide net including the whole Europe other part of the world. It is important to note, that these bilaterals works, not existing in "statical" position. Statistical indicators in the period of three years show, that numbers remain similar, even though the funding from EC and Budgets of the Republic of Lithuania has been significantly reducing. The stable mobility statistics is maintained by the International Strategy of ŠU, which plans the double increase in the number of participants – ŠU lecturers as well as students – in international exchange programmes and the formation of more opportunities of studies abroad for students from different levels of studies. The statistics of mobility at ŠU is presented as the picture of applied methods: about 37 % outgoing staff from the total staff number (in 2009 – 180 people, in 2010 – 189 p., in 2011-175 p.); 3 % outgoing students from the total student's number (in 2009 – 152 st., in 2010 – 175 st., in 2011- 157 st.). Every year ŠU is visiting by international professors, the number of incoming students increases as well: in 2009 – 64 st., in 2010 – 53 st., in 2011 – 60 st.

Internationalisation has been developed at ŠU by encouraging not only the mobility of outgoing people, but by attracting foreign students and staff from foreign institutions of higher education to University, as well as by active application of previously mentioned methodologies of strategies. Firstly, ECTS is successfully used; the quality of modules, offered in the foreign language, is ensured. In order to attract more students, the University system allows to select the flexibly between subjects, also increases number of study programmes, offered in foreign languages (in 2011 there were

over 130 courses taught in English and 19 international study programmes (4 Bachelor, 15 Master). The system of students – mentors has successfully been implemented too, which helps the foreign students to integrate to the University and city academic as well as socio-cultural environments easier. Also ŠU developing "Internationalisation at Home" idea this is the way how "home" students get a great opportunity to study speciality subjects in the foreign language together with international students, to communicate and cooperate with foreign students without going abroad.

The decision to implement internationalisation at ŠU is far-reaching for a university if it wants to make serious effort. First, it should be aware that the policy for internationalisation should include internationalisation for all students, not just those that go abroad. The University should be aware of who the stakeholders are both inside and outside the university. It should adapt its human resources policy and staff development programme to facilitate internationalisation at home.

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## Iceland facing the Arctic – Baltic lessons?

By Alyson JK Bailes

Iceland and the Baltic States have been good friends ever since the former recognized the latter's renewed independence. Today there are healthy economic, educational, and touristic links between these small states. It is harder, however, for them to work closely together in security matters, where opportunities are reduced both by the countries' different geo-strategic situations and by Iceland's lack of armed forces.

A possible new front will open for dialogue and mutual support when Nordic and Baltic parliamentarians meet at Reykjavik in October 2012, with the emerging Arctic challenge high on the agenda. Iceland has always been an Arctic state, even if its Northernmost territory barely extends above the Arctic Circle. The Baltic States have no Arctic history of their own, but have good cause to be interested in what is happening now. They may be affected in practical ways by the expected opening up of the frozen seas to long-distance shipping, new fisheries, tourism and exploitation of seabed oil and gas. They certainly need to watch how the new Arctic dynamics will affect power politics, peace and stability in Europe. Bridging the differences in the Icelandic and Baltic situations is the fact that all four states concerned are among Europe's smallest. Does that suggest any ways in which Iceland's Arctic experience might be instructive for its Baltic partners?

Answers may be found both in Iceland's past and present. During the Cold War it lay in the midst of a sensitive strategic zone, marked by nuclear and naval confrontation between the US and Soviet Union. Iceland was non-provocative in its own behaviour and made a good trade in fish with the Russians, but it kept safe by joining NATO and securing a specific US defence 'umbrella'. Under a bilateral agreement of 1951, US forces were stationed at Keflavik in South-East Iceland, helping out with civil duties like air traffic control and search and rescue as well as projecting deterrence. *Mutatis mutandis*, the way the Baltic States have used NATO membership and a US 'special relationship' to protect their still-sensitive strategic position on Europe's Eastern borders is quite a close parallel to these Icelandic solutions.

In 2006, however, the US unilaterally withdrew its military presence from Iceland, having downgraded its estimate of threats in the North Atlantic. It was time for Iceland to learn from a Baltic example, persuading NATO to organize air policing patrols over its territory with other Allies' aircraft. Even if these take place only a few times a year, they have helped to fill the gap and also to strengthen Iceland's multilateral engagement with NATO and its closest European neighbours. Icelanders now see that relying on one big protector, even when essential, is never quite enough.

The lessons of 2006 have helped Iceland grasp that it must stand up and set its own priorities for dealing with the effects of global warming. Since then it has hosted several international conferences on Arctic themes, including the only NATO conference ever held on the topic, in January 2009. At first, Icelandic ministers played up the chances of economic profit for their nation: increased shipping could call for increased trade, transport and servicing facilities on Icelandic soil, while Iceland might find oil or gas in a small

seabed area of its own (the 'Dragon Field'). As time has passed and Icelanders have absorbed lessons from the economic crash, the government's policy focus has widened and the tone has become less euphoric, Iceland still hopes to benefit from Arctic development, but stresses that it must be sustainable; while Reykjavik's analysis now also notes the possible security challenges, ranging from 'militarization' and conflict to major sea accidents for which local rescue capacity is lacking.

Iceland's current policy goals in the Arctic were set out in a parliamentary resolution of March 2011. They call for sustainable development, sensitivity towards local populations, peace and respect for international law, and the pooling of international resources to ensure effectiveness in monitoring, search and rescue, pollution defence and accident response. It is striking, however, that around half the items refer to process and governance, including the need for Iceland to improve its internal coordination and policy-making. Aware that a small state's voice is not naturally loud, the Icelandic strategy insists on its right to be heard as a permanent part of the Arctic and as a qualified 'littoral' state (implying firm control over national resources such as fish). Further, Iceland supports the Arctic Council both in word and deed as the central institution for the High North, where local nations' interests enjoy the most equal representation. That said, Iceland is also ready to work with several other institutions with useful competences, including the EU (and potentially NATO, if one state's current veto on Arctic discussions there was lifted).

Three general points here could be worthwhile for Baltic observers to reflect on. First, the need to plan explicitly for getting one's voice heard as a small – and in the Baltic case, second-echelon – player. Second, the logic of seeking protection primarily in institutional frameworks when the security agenda is so diverse and the evolving power-political balance unclear. Thirdly, the fact that the Icelandic government processed its strategy through parliament was helpful both in building consensus and in polishing the document's quality. Democracy has hardly been a strong feature in Arctic governance so far, but is an aspect where even the smallest can lead the way.

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## EURO 2012 in Poland – was it worth it?

By Aleksandra Kuźmińska-Haberla and Marcin Haberla

Big sporting events always evoke great interest and excitement not only among sport fans but also among economists, the media and politicians, particularly in the countries which organize such events. It was no different in Poland, which hosted the UEFA EURO 2012 along with Ukraine. Despite the fact that the Polish team lost quickly – was eliminated in the group stage, for many Poles the important question was whether Poland handled the organization of such an event and if it was worth organizing it? Some politicians and economists argue that too much money was spent on it especially in the times of economic crisis. What is more, the money could have been spent much better and it did not pay off. Thus, was it a success or a failure?

Organizing great sport events always requires plenty of money and effort. Economists estimate that organizing EURO 2012 in Poland cost 25 bln euro, which is about 6,5% of Polish GDP (what makes 650 euro per each Pole, and in the situation when the average wage is about 1000 euro it makes quite a big expenditure). The most money was spent on the infrastructure – about 16 bln euro on highways, 4 bln euro on railway, 5 bln euro on new stadiums. Host cities got new airport terminals, in many cities railway stations were renovated, many kilometers of new roads were built. Unfortunately, the results of Polish construction industry were not very optimistic. Instead of big boom after EURO 2012, many companies were threatened with the collapse because they were not paid on time. But those expenditures should not be considered in terms of short-term economic calculation – in Poland there is a strong need to modernize infrastructure so it had to be done anyway. Besides, those expenditures will pay off in the future – the facilities will be used for years.

The maintenance of stadiums in the host cities seems also a big problem. It is estimated that the upkeep of one stadium amounts to about 2 mln euro per year. The host cities took mortgages to build them and now have to pay the debt off. Like it or not, it is the citizens who will bear the costs of all stadiums.

During EURO 2012 Poland was visited by about 600 000 guests, which was less than it had been predicted before the event. Tourists spent about 225 mln euro in hotels, restaurants, pubs and fan zones, usually in host cities but some other places also got to earn – especially Krakow where 3 national teams stayed during the championships. According to the experts those results can get better in the following years – more tourists will visit Poland on holidays or weekend trips because they had very positive experiences, fun and explored interesting and friendly places. Many tourists declared that they would come back or at least encourage their friends to come to visit Poland. Polish Tourist Organization also counts very strongly on business tourists who would use new hotels or conference facilities prepared for EURO 2012. The Organization predicts that Poland will be visited by half a million of tourists more in the following years.

Such an international event as EURO 2012 is not only about the money but also about the prestige. The biggest advantage of organizing the championships was a huge improvement of Polish image not only in Europe but also to some extent world widely. Despite of the membership in EU Poland used to be considered as backward, poor

country, full of nationalists and racists. EURO 2012 was a great opportunity to improve that weak image. Luckily, it was used very well. Not only national teams and football fans were delighted with organization and warm welcome, but also journalists reported that Poland made a huge effort to make the championships as good as possible. They praised well built and equipped stadiums, good communication solutions after matches, hotels and the organization as a whole, but also Polish attitude, hospitality and great enthusiasm of Poles who were very happy to host other Europeans. Assuming that people very often tend to rely their decisions on what they have heard or read, positive stories about Poland can help to "sell" it to tourists, investors and consumers that buy imported products. Hopefully, Poland will be able to make a use of it in the forthcoming years.

Unambiguous assessment of the event appears to be difficult. There were huge costs connected to organization of the event, some plans have not been implemented (not all highways promised by the government have been finished yet), some predictions were too optimistic. But on the other hand, EURO 2012 was an invaluable promotion of a not very recognizable country. The world got to know Poland – the country that had made a tremendous progress from a backward, communistic country to a modern, open-minded European democracy, that can handle the organization of big international events. There is one more positive and important result of organizing the championships: Poles believed in themselves – got rid of complexes and got proudly patriotic about their country, people and actions.

Some say that organizing such sports events never pays off – economic costs are much bigger than profits. But they forget about prestige and image benefits. Moreover, it is important to notice that those benefits are much more important for not recognizable countries like Poland or Ukraine than for example for England – the host country of Olympics. So, answering the question in the title – yes it was worth it!

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## Paneuropean and Baltic Estonian Diplomat

By Pauli Heikkilä

Kaarel Robert Pusta (1883-1964) became an active politician in the Russian Empire and he was arrested many times. In the independent Estonia he acted as Foreign Minister and subsequently his main posting was as envoy in Paris. As Minister, Pusta became aware of the Paneuropean Movement by Count Richard Coudenhove-Kalergi. He promoted European unification on the basis of continental community, which was divided into various languages and nations.

As early as in 1924, Coudenhove-Kalergi asked former Pusta to initiate an Estonian section of the Paneuropean Union. The call was futile for now but Pusta became member of the Central Council. The Estonian Society of Pan-Europe was founded in August 1929. Professor of international law, Ants Piip, was elected chairman and many prominent Estonian, such as former Head of State Jaan Tõnisson, joined the Society.

Pusta could easily incorporate Europeanism and national security. He ended his speech in the first meeting of the Estonian Society: "When we are supporting Paneuropean Union, we are working for our own independence, economic success and preservation of national culture." There was a need to give birth to "conscious European solidarity, European 'patriotism' in every class, especially among the young."

Pusta's Europeanism did not prevent him from promoting cooperation with immediate neighbours. According to him, different regions were not exclusive alternatives but complementary entities. Pusta had been a strong advocate of the Baltic League, and later applauded its protocols "a blueprint of a small European federation". Whereas regional cooperation was a method for continental unification, Pusta's reasoning worked to the opposite direction as well: "The more distant, the more European our aim is, the more certainly and rapidly we will achieve something in a narrower sphere."

The two region were both present in Pusta's posthumous publications. His memoirs were edited into "Saadiku päevik", which was accompanied with the Paneuropean emblem. On the other hand, his colleagues compiled an anthology of scholarly articles with the title "Pro Baltica".

The aspirations for European unification of the interwar period culminated in the proposal by French Prime Minister Aristide Briand in May 1930. His "Memorandum for a System of European Federal Union" was sent to other governments for their opinions. Pusta's report from Paris affected greatly to the Estonian response, which encouraged the League of Nations to act vigorously towards United Europe.

Other European states were not as eager, and as a compromise Commission of Inquiry for a European Union was created. The mandate of the Commission were anywhere near to the grandiose task and the continuation of the Commission was discussed a year later.

There Estonian Foreign Minister Jaan Tõnisson proposed actions by the League to evolve the fundamental idea of sovereignty into new, European thinking. He wanted the commission to summon the governments to use

newspapers, education, movies, and radio to promote the idea of European unification. Five days later, Pusta criticized the Commission for focusing too much on economic problems and urged it to go further.

These proposals resulted in some ridicule but mostly with appreciation of earnest attempts to increase European security. The continental unification as such ended with this action and worsening economic situation was next met with regional approaches. Pusta organized in Paris so called Baltic Lunches among neighbouring legations. Soon he was sent to Warsaw to improve Estonian relations with Poland and subsequently to Stockholm.

Eventually Estonian democracy failed, when Konstantin Päts installed authoritarian regime in March 1934. Pusta was brought to the middle of events, as he was listed as Foreign Minister of the forbidden right-wing movement of Vapsid. He was imprisoned for several months once again, and finally found innocent.

Pusta emigrated to Paris and he was called back to diplomacy in 1939 and later he went on to New York, where he persuaded Americans to continue their non-recognition policy towards the Soviet incorporation of the Baltic states.

After the war he joined the Free Europe Committee, which initiated the European Integration Project. It was soon closed down and then Pusta returned to Europe as Estonian diplomatic representative in Spain and France; he moved to Madrid in 1953. He joined again with Coudenhove-Kalergi in the European Parliamentary Union and attended its conferences and signed declarations until his death. Pusta never showed any doubt in the progress of European unity and reminded constantly of the half of the Europe left out from the European solidarity.

On the other hand, Coudenhove-Kalergi had fallen out of developing European integration. Pusta was badly informed on other efforts for unification and other Estonians in it. When he returned to Europe, he gave advice to Estonian National Council in Sweden: "I'd presume that it is the last hour to educate our people to consider common European problems; the fate of our country and nation depends totally on their solution." The receivers had been active members in the European Movement and actually withdrawing from it. Nevertheless Pusta became their valuable contact person in Western Europe.

Despite his long career during the essential changes in international relations, Pusta maintained his guidelines of promoting Estonian interests always in a wider, Baltic or European, context.

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# Introduction to SmartComp – Smart Competitiveness for the Central Baltic region

By Eini Laaksonen

The maritime clusters in the Baltic Sea region are facing new challenges in the global shipbuilding industry. Far Eastern maritime clusters, led by China, compete for the position of the greatest shipbuilding nation in the world. Their competitive advantage lies in producing series of standardized vessels at low costs, whereas the European shipyards with their subcontractors and suppliers provide high-class quality, specialized solutions and technologies. For the European maritime clusters, keeping one step ahead of the fast-growing Asian competitors is not an easy task, particularly when the local environment is facing various changes that affect also shipping companies, ports and port operators. For instance, the tightening environmental regulations as well as rising cost levels are currently shaping the maritime clusters' business environment in the Baltic Sea region. In addition, the political decision-makers and various interest groups and associations strongly affect the maritime actors' playground. All these developments have their impact on cluster competitiveness – how is the future outlook for the competitiveness of the maritime clusters in the midst of the rapidly changing business environment?

**SmartComp – Smart Competitiveness for the Central Baltic region** is a Central Baltic INTERREG IV A Programme 2007–2013 financed project which aims to support smart, environmentally sustainable development, growth, competition and cooperation between maritime clusters, cities and universities in the Central Baltic region (CBR), i.e. in Estonia, Finland, Latvia and Sweden. The partners involved in the project include Union of the Baltic Cities, Commission on Environment Secretariat (Lead Partner, Finland), University of Turku/Centre for Maritime Studies (Finland), University of Turku/Turku School of Economics (Finland), Centrum Balticum Foundation (Finland), Åbo Akademi University (Finland), Tallinn University of Technology (Estonia), University of Tallinn (Estonia), Riga International School of Economics and Business Administration (Latvia), and Latvian Maritime Academy (Latvia). Through triple helix cooperation, the project consortium seeks new opportunities for the maritime clusters in the Central Baltic region. **This review of Baltic Rim Economies, Special Issue on the Future of the Maritime Sector in the Baltic Sea Region, is the first project output, comprising columns from invited experts.** Because of the differing backgrounds of the writers, this review brings to discussion various points and perspectives on the maritime sector's future.

Regarding the following project outputs, the SmartComp research consortium will publish the first SmartComp research report *Maritime cluster analysis in the Central Baltic region* at the end of December 2012. Based on the findings of the coming report, it can be concluded that the maritime clusters of the Central Baltic region have several factors in common, but are still separate and often compete with each other. However, in the future they should find ways to combine their strengths in order to increase the competitiveness of the region's maritime sector. The risk of accidents, such as oil catastrophes, concerns all coastal states, and boosts the investments in technologies and processes aimed at increasing the safety of navigation. The legal framework for vessel traffic in the Baltic Sea is also tightening, the sulphur emission regulations giving the most recent example. The maritime clusters in the Central Baltic region have to make remarkable investments in finding and implementing new solutions to meet the regulations. Although challenging, the tightening environmental regulations could turn into an

opportunity as well, making CBR countries forerunners in environmental-friendly technologies, life-cycle solutions and fuel efficiency.

However, at the same time also the rising cost levels threaten the profitability of the maritime industry, and the global competition is tightening as particularly Asian clusters are competing with lower production costs. Instead of prices, the Central Baltic region maritime clusters could compete with quality and specialization, which, however, requires financial and scientific resources for innovation activities. Availability of qualified workforce is also a common problem in the maritime sector, both due to aging population and shifting of experts to other industries. This challenge has to be met by guaranteeing the sufficiency and quality of education and creating an appealing image for the maritime sector. Common branding and communication activities could improve the image of the maritime sector and increase awareness of its importance for the CBR countries.

The main common feature of the Central Baltic maritime clusters is the proximity to Russia and, thus, a high transit traffic flow is taking place in these neighbouring countries. Russia is, however, investing heavily in developing its own port and land infrastructure with the aim of taking larger control over the transports. Nevertheless, the development of the Russian ports can increase the material flows in the region, and the other clusters have to make sure they are involved and make most of the business opportunities related to the gigantic development projects of the Russian maritime cluster.

The CBR clusters are still small in a global scale and are facing common challenges which could be better answered with coordinated solutions. The cluster companies should not only strengthen their internal cooperation networks but also establish connections to other clusters abroad in order to increase their business opportunities, knowledge flows and joint research and development (R&D). Encouraging this, however, requires government support for SME internationalisation and innovation activities as well as new mechanisms to finance investments. However, the cluster competitiveness ultimately stems from companies and their efforts for continuous development. By joining their forces around the Baltic Sea, the maritime clusters in CBR could better tackle their common challenges and compete with their large Asian counterparts.

To download the first SmartComp report with detailed conclusions and for more information about the forthcoming SmartComp publications and events, please visit the project website at [www.cb-smartcomp.eu](http://www.cb-smartcomp.eu).

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## Factors for safer shipping in the Baltic Sea

By René Sirol

Maritime affairs have long-term traditions and shipping has played an important role through centuries. Today shipping is a global business characterised by fierce economic competition.

Maritime affairs are governed and regulated by numerous conventions, codes, laws and regulations to make seagoing safe and environmentally friendly. In the shipping today the rules are getting tougher. There is a constant flow of new obligations to consider, legalize and adopt as regulations for shipping companies to follow and administrations to inspect.

International standards and regulations in this field are the responsibility of the International Maritime Organisation (IMO). In the course of its existence, IMO has developed number of conventions, codes, resolutions and circular letters. In addition to this, there are number of EU and Flag States regional requirements.

One of the priorities of the EU is safe shipping. Its goal is maximum safety together with protection of marine environment in its waters. For this purpose, the requirements regarding marine safety measures are being worked out and improved which in its turn, through the conformity of measures shows the way to the world that the ships not complying with the required standard are not welcome in EU ports.

At the same time one of EU strategy is to reroute cargo flow from motorways to rail and waterways. Special attention has been devoted to the implementation of short-sea shipping.

In the shipping context, safe and environmentally friendly shipping is definitely the most significant aim in present day shipping. There are a number of criteria or requirements introduced, the fulfilment or non-fulfilment of which forms the basis for safety assessment and a variety of measures introduced to inspect the fulfilment of the requirements, such as Port State Control, Flag State Control, etc., and sanctions applied. At the same time, this requires considerable investment and accompanies extra expenses for shipowners, to comply with all the standards.

The area of the Baltic Sea is special. It is small, a little over 415000 km<sup>2</sup> in size (incl. the Danish straits). Predominantly shallow waters with the average depth of 55m, the fairways in some places are quite narrow, and the marine environment most sensitive to pollution. The weather is changeable, from rough and stormy seas to rain, snow and fog. Another characteristic feature is ice, mostly in the northern and eastern part of the sea. In the coming decades the ice-breaker fleets of many countries is in need of renewal offering possibilities to develop and promote new technological solutions in ice-breaking.

The Baltic Sea has always been an important sea route connecting the Nordic countries and Russia to continental Europe. Surrounded by nine countries, it also has some of the busiest maritime traffic in the world with nearly 2000 ships operating at any given moment.

During recent decades, there has been a significant increase in maritime traffic, the sizes of vessels are growing and the nature of the traffic has changed rapidly. The passenger ships traffic, incl. high speed craft, is very intense. The oil traffic in the east-west direction, especially in the Gulf of Finland, is very busy. Next to cargo and passenger carriers there is also active fishing fleet. In comparison with some other sea areas in the world, the Baltic Sea already has a relatively high maritime safety and security level and thus the question is not how to change the poor safety and/or security level into a good one, but rather how to maintain the current level and to ensure a continuous positive development.

Shipping has never before been so regulated, inspected and certificated as today. Technical equipment, demand and know-how are on the rise. New equipment with high expectations to meet the safety demand is being installed. Also, the quantity of the equipment is growing.

Despite of all efforts made, there are still many marine accidents and most of them are caused by the human factor. In 2011, there were 121 ship accidents in the HELCOM area. The

accidents in 2010 and 2009 comprised 124 and 105. Collisions and groundings are the most frequent types of accidents. In 2011 35% of accidents were collisions and 25% were groundings.

How can we further improve maritime safety? We need to consider more cross-border co-operation, to share knowledge, experiences and best practice. More attention needs to be paid to harmonised interpretation and implementation of safety codes, standards and regulations which are reflected as increased co-operation between maritime administrations, more stringent sanctioning and increased awareness and responsibility of maritime safety and security issues in the maritime industry.

The scale of commitments for the present day masters and mates is exorbitant. He/she is committed to act as medical expert, radio officer, has to know the ship, have the know-how of the merchandise, be an expert in handling the sophisticated machinery and equipment, manage the paperwork, filling-in checklists and performing other routine procedures prescribed by the ISM/ISPS, act as an expert in legal matters, pass relevant training on board, have knowledge in relevant conventions, and eventually beside all of that to fulfil the duties of the navigator of a ship.

Crossings as a rule are very short in Short Sea Shipping. Cargo handling is often limited to a few hours due to efficiency making berthing time minimal. Nevertheless there is a need for specified cargo works, loading and unloading operations, cleaning the holds, to order products and equipment, meet frequent inspections and audits, meet various demands, etc. And therefore there might be a little time for rest.

When working out and establishing new requirements, it is of utmost importance to consider the ability of the crew to carry out their duties. Analyses must be conducted to find out what might happen if overloaded crew members are committed to fulfil additional duties. To consider carefully all the for and against arguments, and analyse if in real life situation is it feasible to load the crew, which is already minimised to maximum, with more duties and this way to ensure safe shipping or do we get the opposite effect and put the safety of navigation at risk? We seem to misunderstand that the primary duty of the officer in watch is safe navigation between destinations.

When adding additional responsibilities to the crew, should we also look through the requirements for minimum manning? Crew fatigue has posed a serious problem where various rules bring about additional duties and ships with limited crew may, on the contrary, diminish the shipping safety. There is so called "to be awake" system developed, where the crew member on watch should push a certain button over fixed time period, to guarantee that he is awake. Is this the solution to the problem?

It is important to find more possibilities to use the potentials of shore for creating the conditions to ensure safe navigation through the shore based services. We already have some good examples in Baltic Sea area such as the Gulf of Finland Ship Reporting System (GOFREP) or Baltic Icebreaking Management (BIM). The purpose of such shore based assistance should not be only gathering information for the Coastal States but it shall assist the master and the crew in a way as to minimise the load on the crew.

Safety at sea depends on the fulfilment of the set standards and requirements, but we should not forget the peoples who working everyday on board of ship - SEAFARERS.

*René Sirol*

*Capt., Deputy Director General,  
Head of Maritime Safety Division*

*Estonian Maritime Administration*

*Estonia*



## Baltic maritime transport – tense relationship between logistics and environmental regulations

By Karl-Heinz Breitzmann

### Importance and growth of Baltic maritime transport

With more than 600 million tons annually, transport over the Mare Balticum is very important for internationalisation and globalisation of Baltic Sea countries' economy (see table 1). For Finland and Sweden, for instance, the maritime share in transport of foreign trade is over 90 per cent. As nearly all branches of exporting and importing industries are relying on shipping, maritime transport is fundamental for competitiveness, prosperity and growth.

In the years from 2000 up to the recession in 2009 Baltic maritime transport was growing very strongly. Container shipping had the highest growth rates (14 per cent) followed by ro/ro goods and liquid cargoes (7 per cent), cargo handling of ports from 2000 to 2007 showed an overall annual growth rate of 4,7 per cent.

Russia became the main driver of transport growth. The developed market economies – Sweden, Finland, Denmark, Germany – were showing relatively low increases of cargo handling (0,3 per cent from 1995 to 2011), but the new market economies – the three Baltic countries Estonia, Latvia, Lithuania – as well as Poland and Russia went up by 6,2 per cent annually. The new market economies increased their share in cargo handling of all Baltic ports from 33 per cent in 2000 to 51 per cent in 2011.

### The Baltic Sea as a model for clean shipping

Although shipping is a relatively clean mode of transport and is not among the most important polluters in the Baltic Sea Region, it is nevertheless challenged and obliged to improve its sustainability. The negative impacts of shipping mainly can be found in the following fields:

- Contribution to climate change and global warming
- Accidental and illegal discharges of oil
- Air pollution from ships
- Emission of hazardous and noxious substances
- Introduction of alien organisms via ships' ballast waters and hulls.

In order to reduce those negative impacts, on different levels significant measures are under way. On the global level the International Maritime Organisation (IMO) is very active by means of international agreements. Central is the MARPOL Convention (International Convention on the Prevention of Pollution from Ships), which in its 6 annexes is regulating a broad variety of emissions.

On the macro-regional level the Helsinki Commission (Baltic Marine Environment Protection Commission) is aiming to take all relevant measures to prevent and eliminate pollution in order to promote the ecological restoration of the Baltic Sea Area. In its comprehensive Baltic Sea Action Plan from 2007 one of the 4 main segments is driving towards a Baltic Sea with environmental friendly maritime activities.

Additionally the European Union's Strategy for the Baltic Sea Region and its Action Plan declared the ambitious aim, that the Baltic Sea should become a model region for clean shipping by reducing pollutions from ships. In several projects efforts of authorities and private stakeholders are concentrated, in order to find solutions for the elimination of sewage from ships and to organize

port reception facilities, for establishing the port infrastructure for LNG as fuel for ships, to promote efficient solutions for shoreside electricity for ships or to develop models for differentiated port dues giving incentives for low-emission ships etc.

### Impact of environmental regulations for shipping on logistics costs and economy – the SOx example

In the meantime it has to be seen, that some of these actions very deeply influence the functioning of the shipping and logistics sector and they may diminish the competitive position of exporting and importing industries, if they are not prepared carefully enough and with a sense of proportion. That clearly can be seen from the SOx case. In order to reduce the negative effect of sulphur dioxide on human health and environment, the IMO in Annex VI of the mentioned MARPOL convention ruled, that the sulphur content in ships' fuels has to go down. In world shipping this content in 2012 had to be reduced from 4,5 per cent to 3,5 per cent and for 2020 (or 2025) a further reduction to 0,5 per cent is planned. The Baltic Sea as well as North Sea/English Channel were designated as Sulphur Emission Control Area (SECA) where much stricter limits are applied. Here the sulphur content in 2010 had to go down from 1,5 per cent to 1,0 per cent and from 2015 only 0,1 per cent will be allowed.

Among shipping companies, ports and exporting industries this regulation is hotly debated. They argue that shipping cost will increase, because ships in the SECA have to switch from Heavy Fuel Oil to high quality Marine Gas Oil bringing up the fuel costs by 60 to 80 per cent and the freight rates by 30 to 50 per cent. So for exporting and importing industries in Baltic Sea countries logistics cost will increase, that could result in weakened competitive positions of those industries on world markets. As in the Baltic Sea Region maritime transport is in competition with other transport modes, higher freight rates in shipping, furthermore, would result in modal shift from maritime transport towards road traffic. A study from the Institute of Shipping Economics and Logistics in Bremen concluded, for instance, that in the Baltic Sea Region 600.000 trailer movements and 630.000 container (TEU) would be shifted to land routes or to routes with shorter sea distances.

Unfortunately there was no impact assessment before the IMO decision was taken, all the mentioned repercussions were not considered.

According to the MARPOL regulation it is also possible, to reduce the sulphur oxide emissions by other means. One is exhaust gas cleaning by so-called scrubbers. But until now this technology is not fully mature for practical use.

Another solution would be to switch to alternative fuels, especially to LNG (liquefied natural petroleum) as fuel for ships. That would reduce emissions considerably. But that also is not a short-term solution and it is not an alternative for most of the existing ships. All that means, for 2015 only the switch to high-price Marine Gas Oil is realistic.

In order to avoid the mentioned negative impacts, it is urgent to come to adjusted regulations. For that it is important to note that ships in ports for their auxiliary engines have to use fuel with 0,1 per cent sulphur since

2010, what diminished the emission of sulphur oxid and its impact on human health already, especially in populated port areas.

I think that a solution would be right, which is normal for many IMO conventions: to differentiate between new ships and ships already in existence. The strict regulation should apply to new ships, for already existing ships a moratorium from, for instance, 5 years should allow to further develop technical innovations and to improve their efficiency.

I really hope that our governments end the actual deadlock in the SOx-case and find the spirit and the courage for a reasonable solution.

Furthermore from the SOx-case a general conclusion has to be drawn: Shipping has to contribute to reduce pollution for the impaired and endangered Baltic Sea environment. But important decisions have to be prepared

by complex impact assessments which take on board also the experiences and views of stakeholders.

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**Table 1 Structure of Baltic maritime transport 2010 according to type of cargo \***

Type of cargo	Total		Baltic external transport		Baltic internal transport	
	mill. tons	share (%)	mill. tons	share (%)	mill. tons	share (%)
Liquids	257	44,0	191	74,3	66	25,7
Dry bulk	144	24,7	106	73,6	38	26,4
Ro-Ro	65	11,1	10	15,4	55	84,6
Container	58	9,9	52	89,7	6	10,3
Break bulk/ other cargo	60	10,3	46	76,7	14	23,3
<b>total</b>	<b>584</b>	<b>100</b>	<b>405</b>	<b>69,3</b>	<b>179</b>	<b>30,7</b>

\* Transport between ports with at least 1 mill. tons cargo handling annually

Source: Baltic Institute Rostock using data from EUROSTAT and Russian ports

# Increasing marine traffic challenges the Baltic Sea

By Pentti Kujala

## Background

There are more than 2000 vessels trafficking in the Baltic Sea. The amount of oil transported via the largest oil terminals in the Baltic Sea exceeded 250 million tons in 2008. Changes in Baltic Sea shipping in the coming years which will have an impact on safety includes:

- Growing volumes and changing routes (e.g. in oil transportation, number of containers, cruise ships, short sea shipping, leisure boating), and hence growing risk of collisions and groundings.
- Climate change, leading to large variations in ice conditions and increasing the likelihood of extreme weather events occurring at a shorter interval in the future.
- Increasing use of international crews.
- New technology for cargo tracking and further development of new means for electronic traffic monitoring, service and reporting such as VTS, AIS, VTS and eNavigation as well as services and systems such as vessel traffic services (VTS)

While the pollution sources on land are being extensively regulated through various national, European and global legislation, environmental impact of shipping is still an area which can be addressed in a cost-efficient way. Due to its global character, shipping is regulated on international level by the International Maritime Organization and some new legislation has been developed and/or enforced recently to address e.g. ship emissions, bilge water, transfer of alien species through ballast water and sediments, TBT-containing antifouling on ships. The discussions on regulating GHG emissions from ships has not progressed equally well, and measures, backed-up with scientific evidence and workable solutions are needed.

According to HELCOM statistics, collisions and groundings are the most frequent accident types in the Baltic Sea, occurring mainly in confined waters, with around 50 grounding accidents and 50 collisions every year. These accidents can cause serious human and economical loss together with environmental and ecological damage. The traffic growth increases the risk of accidents, unless improved safety and environmental risk reduction procedures are set in place. At the core of the required procedural improvements are traffic organization measures, which involve e.g. the monitoring of ship movements, with the aim of preventing the development of dangerous situations.

Serious risks to the environment arise from the possibility of accidental spill of hazardous substances or illegal discharges into the sea such as oils and chemicals. In a semi-enclosed sea, the impacts of hazardous spills are long-lasting and can concern large areas. Further actions are still needed in the Baltic Sea aimed at improving cooperation, coordination and, at times, even the coherence of maritime safety, maritime security, surveillance agencies and disaster response.

## Future research needed

At the moment there are a number of EU-funded research project in which marine traffic safety will be studied such as CAFE, MIMEC and SAFEWIN. Traditionally the safety of marine traffic has been improved by developing various analytical methods and practices to identify and control the risks. **Multidisciplinary risk analysis, cross-sectorial and cross-border risk management** is the most important tool, which enable the modeling of all the risks with their occurrence frequencies and consequences and finally the risk control options are studied in relation to the costs and benefits. Climate change with increasing likelihood of extreme weather events occurring at shorter intervals can remarkably increase the risks levels of marine traffic if the possible preventive actions have not been studied thoroughly in advance. Ice conditions also greatly increase risks in winter navigation. Climate change will challenge to maintain the

expertise needed to operate ships in harsh weather conditions. For example while there is a growing concern about mariners not having experience on ice navigation and thus losing the knowledge for this skill, the rare extreme winters are even more demanding to navigators and create dangerous navigational situations. There is lack of scientific research related to the risk modeling of the navigation in ice.

Nowadays it is understood that accident occurrence is typically a result of multiple causes having complex interrelations. **Human element** has roots deeper in the organizations and prevailing safety cultures. The accident causation cannot be thought as just a single erroneous action made by the navigator. The error may be induced by fatigue, lack of information, knowledge or procedures or poor safety culture. In addition to the large number of variables with complicated dependencies, accident causation involves uncertainty due to lack of knowledge of the phenomenon and of suitable input data. Every maritime traffic accident includes a unique set of reasons and a suitable risk model should be able to capture this variability in the underlying factors as well. A challenge in modeling accident causation within a probabilistic risk assessment is that the model should include all the variables relevant to the problem and whose effects on accident risks one wants to analyze. The human and environmental impact of marine accidents in the Baltic Sea Region can be further reduced by synergies and better coordination of training, needs assessment, planning and operations between all stakeholders. This should be reflected in the training and certification of seafarers and appropriate labour conditions for those working on board ships and personnel working with international gas and oil grids in the sea.

Clean shipping is facing a number of challenges in the future due to more stringent international requirements for reducing harmful environmental impacts such as atmospheric emissions as well noise on and to the water. There is a high demand for scientific research related to the alternative fuels (LNG, bio-fuels, hydrogen...), application of new technologies for clean shipping and changing infrastructure. First of all, **shipping should be studied as a part of marine socio-economical and biological marine system**. Means to decrease ship exhaust gases, including renewable fuels and its consequences on ship operations need urgent holistic views, as well as environmental operations of vessels, including waste water and solid waste management and alternatives with a close co-operation with the inland facilities located on the coast line and along the rivers. Wind and wave power research is developing fast and the wind power stations in sea might act as artificial reefs and possibilities exist to combined wind power with ecological environmentally safe fishing and/or aqua cultures as an alternative to traditional fishing methods that cause damage on sea bottom. Economic modelling for creation of incentives for eco-technological development enable increased sorting and resource utilisation from the sea.

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## Marine nature does not have an owner – reflections on the future of the Baltic maritime sector

By Monika Stankiewicz

What kind of future for the maritime sector in the Baltic Sea do we want? With no doubt, the answer is, 'a prosperous one'. There is an additional term I would like to use – 'sustainable' or, 'environmentally friendly'. However, how to combine these two into the future scenario, of the green and blue growth? The starting point is to realize that there is no possibility for unlimited or endless growth, simply as there are thresholds in the marine environment that should not be exceeded. Otherwise the ecosystem and the services it provides will collapse.

As endorsed by global leaders and implemented regionally by HELCOM, an approach where the cumulative impacts from human activities should be kept within certain limits is called the ecosystem approach. In other words, all human activities are allowed as long as we can reach and maintain a good environmental status of the marine environment.

If trade-off is to be made between the economic growth and the quality of the environment beyond its capacity to recover, it should be an informed and collective decision where also the civil society is involved.

HELCOM holds the information about the environment of the entire Baltic Sea and its thresholds and have the responsibility to share and communicate this knowledge to decision-makers and stakeholders, so it can be taken into account in all policies affecting the state of the Baltic Sea.

The Baltic Sea environment is in a bad shape and for this reason, all sectors with negative environmental impact, including shipping, should recognize their "share" of the problem and contribute to solving it.

I believe that people living around the Baltic Sea more and more value the good basic things like access to clean water and beaches, healthy food, and fresh air. Nature is a hideaway from the hassle and bustle of our busy everyday lives. However, marine nature does not have an owner - it is a public good. Therefore, the governments have the responsibility to listen to the voices of both the civil society, who demands that the action is taken to save the sea, and of the interest groups, who raise their concerns about the new environmental requirements and costs associated with them/it.

Especially where knowledge and clean technology exist, we should invest with ambition as it will pay off in the future. This might not sound popular at the present, when the region's economy is still experiencing hard times. However, there are more and more encouraging examples of applications of best available technology, such as the recent adoption in Estonia of new legislation imposing HELCOM's standards for treatment of municipal sewage, going beyond the respective EU requirements. Many cities in other countries are already applying HELCOM's more strict treatment standards. Another bold move was to designate the Baltic Sea as a Special Area for sewage discharges from passenger ships under the international MARPOL Convention.

The key to wider application of the ecosystem approach and cross-sectoral integration lies in the valuation of the ecosystem services and integration of these values into the national planning and accounting. Currently, the cost of a lost habitat, the benefit of non-eutrophied sea or the benefit of keeping the spawning waters for fish undeveloped, is not taken into account when investing, resulting in severe underestimating of the real costs. To put monetary value to ecosystem services is challenging but it is possible.

The precautionary approach should also not be forgotten. It is a very wise principle on preventive measures, rooted in the international law including the Helsinki Convention, which provides the legal basis to HELCOM. This approach is not only to secure that we do not delay preventive measures to protect the environment and act right even in the absence of scientific certainty - but it certainly also can save some costs.

As it is the consumer who pays the price of a product or service at the end, sustainable consumption is important. The environmentally-savvy consumer has been highlighted at the Rio+20 Summit outcome posing as a real driver for change. Schemes for certification and labeling give possibility for the consumer to make the choice. Studies conducted within the Baltic Stern demonstrate that society is willing to pay extra for healthier marine environment.

Within HELCOM, with strong participation of stakeholders representing shipping, ports, NGOs, and other interests groups, we will continue looking into and supporting future solutions to environmental problems related to shipping and maritime activities in general. Clean technology is developing rapidly, and the use of alternative fuels, including Liquefied Natural Gas (LNG), safer navigation and reduction of nitrogen emissions from ships, can all be achieved.

Major events next year, the summit of heads of governments in the spring in St. Petersburg, as well as HELCOM Ministerial Meeting in October, provide opportunities to accommodate these clean solutions on their agenda and support long-term thinking and sustainable future for the maritime sector in the Baltic Sea region.

Monika Stankiewicz

Executive Secretary

HELCOM  
(Baltic Sea Marine  
Environment Protection  
Commission)



## The future of vessel traffic safety in the Baltic Sea

By Jerzy Hajduk

The Baltic Sea is a special area, both in terms of geophysical and hydrometeorological conditions and applicable legal regulations. One problem is that regulations based on the EU law cannot be applied to the whole sea area. This results from the fact that the Russian Federation, a coastal state, has access to the sea. The problem is essential as long as a vast majority of ships laden with large quantities of dangerous goods call at Russia.

The Baltic Sea imposes draft restriction up to 15.3 metres on ingoing vessels, due to natural depths occurring in the western region of the sea. In relation to safety of navigation, the restriction is viewed positively because the Baltic is a relatively small and confined sea. However, each marine disaster, of a tanker in particular, may cause irreversible changes in the ecosystem. At the same time for economical reasons shipowners are interested in operating ships of maximum size for the given area. The draft in the case of the Baltic is the restriction for the maximum size vessels. If we assume that the idea to deepen selected shipping routes to allow vessels drawing up to 17 metres is unrealistic and economically unprofitable, there still remain propositions to build 'Baltimax' vessels. This refers mainly to tankers and bulk carriers. Concepts to build such vessels have already been presented, and whether they will be put into service depends only on profitability. For coastal states it is not good news. Accidents at sea happened in the past, happen at present and will happen in the future despite technological advancements enhancing navigational safety. According to statistics, the human factor is of primary significance at sea and should be decisive in the future when additional safety criteria are formulated for the Baltic.

The coastal states face risks created by seaborne transport resulting mainly from the type of cargo carried. The fuel in ships' double bottom tanks is a smaller, although important problem. A potential ecological disaster is a black scenario that has to be taken into consideration. If an accident occurs, the disaster will be a direct consequence of the type of cargo carried and its quantity. Actions taken to prevent ecological disasters should focus in a given area on maximum size ships carrying cargoes that may threaten the environment. Therefore, increasing the size of Baltimax vessels by allowing greater overall parameters: length and breadth, is very risky in the long run. LNG, liquefied natural gas, is an example of a new cargo that generates new types of threats. Danger is also hidden in cargoes carried by large container ships. The latest case of spontaneous ignition and consequent fire combined with an explosion of a container in the middle of the Atlantic Ocean (MSC Flaminia, July 2012) confirms the claim that the problem of improper declarations of cargo contents in sealed containers has not been solved to date.

The safety of navigation can be enhanced by passive methods, including establishment of new traffic separation schemes and shipping routes. This goes in line with spatial planning at sea implemented by the EU. It is obvious in the long run that the exploration and exploitation of submarine resources or the construction of offshore wind farms should not cause any restrictions for navigation. One ought to bear in mind that large vessels have limited manoeuvrability and cannot move in a zigzag fashion. In the future the term 'freedom of navigation', understood as an unrestricted choice

of a route by the ship's captain, will go down in history in confined areas such as the Baltic. Apart from main transit routes, a number of locally important routes will be established in the Baltic Sea.

Active methods of increasing the safety of navigation go in conjunction with technological progress. It is important to stimulate its implementation in maritime shipping that, traditionally, has been very conservative. A number of engineering solutions that are being implemented into the marine sector were smoothly introduced in airborne navigation before. Technological advancements at sea, consisting in using new equipment and systems, may cause information noise. As mentioned earlier, the human being continues to be the weakest link at sea. Research institutes, manufacturers and international bodies capable of affecting the legal status should follow the idea that equipment and systems supporting navigator's decisions should be given priority. These systems should analyze situations and in a simplified manner propose optimal solutions, protecting the human from being overburdened with information that is often processed under time pressure. A number of such solutions are now being developed, and their implementation in areas such as the Baltic Sea may in the future prevent black scenarios of marine disasters from coming real. In this context the Baltic may be used as a pilot area.

Apart from actions directed at ships, new solutions must also be introduced by coastal states. First of all this refers to the supervision of vessel traffic and providing assistance if need arises. First steps have been made. Coastal states have been obliged to indicate places of refuge. National systems of marine safety continue to be expanded. In the near future efforts should be focused on the actual functioning of the existing solutions. In the long perspective, it is necessary to introduce safety management systems in marine areas. Such systems, apart for solving current problems in real time, will be used for analyzing events and generating long-term solutions eliminating potentially dangerous situations.

If we take for granted that the human is the weakest link of the system - future actions should address other issues beside technical support for the navigator. Questions to be answered today refer to specific training courses offering qualifications for specific sea areas. Are they needed and effective? To what degree can traditional pilotage be replaced by remote pilotage? The questions are vital and answers must be searched for and found. All participants of the transport process must be involved. Inhabitants of the Baltic region want to have the feeling of safety and be sure that their respective governments as well as the European Union properly understand arising problems and can effectively solve them.

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## Sea transportation of oil in the Baltic Sea – enhancing safety and security

By Robert Aps

It is stated by the Helsinki Commission (HELCOM)<sup>1</sup> that during the last decade shipping has steadily increased, reflecting intensifying co-operation and economic prosperity around the Baltic Sea region. According to the HELCOM AIS (Automatic Identification System), there are about 2,000 ships in the Baltic marine area at any given moment, including 200 tankers carrying oil or other potentially harmful products. The HELCOM Maritime Group (HELCOM MARITIME) works to prevent any pollution from ships – including deliberate operational discharges as well as accidental pollution. The HELCOM Response Group (HELCOM RESPONSE)<sup>2</sup> is working: 1) to ensure swift national and international response to maritime pollution incidents, 2) to ensure that in case of an accident the right equipment is available and routines are in place to respond immediately in co-operation with neighboring states, 3) to analyze developments in maritime transportation around the Baltic and investigate possible impacts on international cooperation with regard to pollution response, and 4) to coordinate the aerial surveillance of maritime shipping routes to provide a complete picture of sea-based pollution around the Baltic, and to help identify suspected polluters.

In recent years geographical information systems (GIS) have been increasingly used worldwide in conjunction with oil spill modeling tools as a means of integration and visualization of the oil spill response decision support related information. Numerous GIS applications have been used to inform the oil spill response decision making and to raise the public awareness in a case of the latest Gulf of Mexico disastrous oil spill in 2010.

GIS system MARIS<sup>3</sup> (Maritime Accident Response Information System for Baltic Sea) developed by the Finnish Environment Institute (SYKE) and financed by the Nordic Council of Ministers is used to view different, oil spill risk and response related datasets over a common background map and in different combinations. MARIS is implemented using ESRI ArcView system, meaning that the datasets are in the form of shape-files and layers and with this program it is possible to edit, analyze, visualize and query the datasets in a multitude of ways. The web version, ESRI ArcIMS, is also available. Intended users of MARIS are mainly the competent oil pollution response authorities of the Baltic Sea states, the Nordic Council of Ministers and the HELCOM secretariat.

GIS for oil spill response application BORIS<sup>4</sup> (Baltic Oil Response Information System) hosted by SYKE has been operational since 2006. However, building on recent rapid progress of the GIS technologies it was decided to develop the new application BORIS2 "Situation awareness system for environmental emergency response". BORIS2 system was successfully tested during the Balex Delta 2012<sup>5</sup> exercise in Finland in August 2012.

Seatrack Web 2.0 - a drift forecasting system developed for emergency purposes by the Swedish Meteorological and Hydrological Institute and the Royal Danish Administration of Navigation and Hydrography – has the status of official HELCOM oil drift forecasting system and is freely available to authorities of all countries around the Baltic Sea. The HELCOM Seatrack Web<sup>6</sup> oil drift forecasting system with integrated information from AIS proved to be a really effective

tool substantially increasing the possibilities to identify ships suspected of illegally discharging oil into the sea.

The Central Baltic INTERREG IVA Program Project OILRISK<sup>7</sup> "Applications of ecological knowledge in managing oil spill risk" has developed two applications: OILRISK Web and OILRISK Map. The OILRISK Web application is the interactive analytical toolbox for oil spill related ecological risk assessment and management. In assessing the ecological risk the OILRISK Web is used to integrate information from Seatrack Web simulations and the ecological sensitivity map layers developed by the Finnish and Estonian scientists. Oil spill response related data can be used through the OILRISK Map application, which is developed for both desktops and mobile tablets and phones. In addition, relevant parts of the data will be integrated into the OILRISK Web and the Finnish BORIS2 system thus ensuring the continuity of the projects' results.

The OILRISK approach is building on a concept of the Net Environmental Benefit Analysis (NEBA)<sup>8</sup> with aim to determine the most appropriate response option(s) in order to minimize the overall environmental impact of an oil spill. With the state of the oil spill appraised, using all kinds of the oil spill surveillance data, an assessment of the situation is next conducted, which among other aspects involves assessing 1) expected drift, behavior and fate of the spilled oil, 2) can the oil spill be combated at sea, and 3) the level of threat it poses to sensitive environment. The oil spill response decision maker is now in a position to weight the appropriateness of alternate courses of oil combat action and decide upon one - and the cycle starts again.

The Central Baltic INTERREG IVA Program Project MIMIC<sup>9</sup> "Minimizing risks of maritime oil transportation by holistic safety strategies" is developing the SmartResponse Web application with aim to integrate the oil transportation safety and security related operational information. The objective is to identify the safety and security critical components and/or services of the Baltic Sea maritime traffic control system whose failure 1) could do us immediate, direct harm and/or 2) whose failure could enable, or increase the ability of, others to harm us. Finally, the MIMIC project is going to develop a comprehensive view of the effectiveness of control methods concerning maritime safety and security of the sea transportation of oil in the Baltic Sea.

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<sup>1</sup> [http://www.helcom.fi/groups/maritime/en\\_GB/main/](http://www.helcom.fi/groups/maritime/en_GB/main/)

<sup>2</sup> [http://www.helcom.fi/GIS/en\\_GB/HelcomGIS/](http://www.helcom.fi/GIS/en_GB/HelcomGIS/)

<sup>3</sup> [http://www.helcom.fi/GIS/maris/en\\_GB/main/](http://www.helcom.fi/GIS/maris/en_GB/main/)

<sup>4</sup> <http://www.ymparisto.fi/default.asp?contentid=411922&lan=EN>

<sup>5</sup> <http://www.environment.fi/default.asp?contentid=419325&lan=EN>

<sup>6</sup> [http://www.helcom.fi/projects/Archive/en\\_GB/STW\\_AIS\\_SAT/](http://www.helcom.fi/projects/Archive/en_GB/STW_AIS_SAT/)

<sup>7</sup> <http://www.merikotka.fi/uk/OILRISK.php>

<sup>8</sup> IPIECA. 2000. Choosing spill response options to minimize damage – Net Environmental Benefit Analysis. IPIECA Report Series, Volume 10, International Petroleum Industry Environmental Conservation Association, London, 20 p.

<sup>9</sup> <http://www.merikotka.fi/mimic/index.php/en/mimic>

## Enhancing logistics competitiveness on a regional scale

By Juhani Talvela

In an ever increasing business competition, logistics companies in the Baltic Sea Region need to address performance and productivity issues in a timely and efficient manner. Reactive business models of the past have been replaced by pro- and interactive methods. Everlasting and reliable client relations of the past have now become vague. Well established local production facilities that used to provide a static flow of goods for logistics operators to handle, have been replaced with turmoil of profitable plants being shut-down and relocations of production to new regions and markets. These cumbersome effects of globalization have slowly unveiled one after another, as a great surprise to nations, regions and businesses.

In addition to such challenging changes in the business structure, pressure from the political realm adds to uncertainties. Global and EU policymakers seek to regulate energy price formation, environmental requirements, and rules of competition on open market. The EU sulphur directive, for one, decreasing the allowed sulphur content in ship fuel from 1% to 0,1%, leads to an increase in maritime logistics fuel cost by 80%, and the overall logistics costs by some 30-50%. For Finland, the consequences are turning out to become dramatic, as over 80% of her foreign trade is transported by ships.

### Regions of business – business of regions

National and regional policies define the development and maintenance of the local infrastructure. National budgets being under pressure in all of Europe, Finland is also limiting new construction projects, and the maintenance resources for road and rail infrastructure. Regions are eager to promote planning for areas providing new jobs. Logistics hubs, harbors, road and rail connections, areas of service and commerce are lucrative for regional decision makers due to their potential of new jobs. Their main concern is to identify those investments that most probably will generate expected business and traffic volumes, and ensure the interest of prominent and well known businesses to enter and get involved in the project.

It is by no mean an easy task to find and select right tools for regional planning and development. Should one focus on attracting one or a few business sectors to the region, or keep the door open to any business? What will happen to current employers and their business? Can we nurture or attract new employers to the region?

A clear focus and strong emphasis should be placed on a limited number of selected business sectors in order to gain momentum for better results. But focusing, means at the same time limiting resources available to those not within that focus group. And no-one wants to close doors in front of future growth businesses. So, regions need to figure out what kind of businesses structure will bring them the best results, and then support building of that.

Whereas the administrators have a hard time to figure out what kind of business structure they should seek for their regions, the companies are agile and always on seek for a better market position. For them, changes in value chains, business networks, operating environment, legislative demands, and availability of resources are common. They need to be followed and actions taken accordingly. But even for companies, the vision towards

future is seldom clear, limiting investments to ones that are repaid well within the timescale of the visible horizon. Uncertainty is the main force inhibiting bold investments and future building visionary acts among companies and administrators, alike.

### Looking into futures

A new form of collaboration between the regional authorities, business leaders, and researcher institutes is required to enhance regional planning and base it on realistic possibilities and opportunities. In the Kymenlaakso University of Applied Sciences, a process of new collaboration has been initiated and piloted, using Futures Research tools and methodology.

Futures research provides a methodology to produce, process, and evaluate a multitude of possible paths to the future as well as future scenarios. In 2010-2012 we tested and evaluated a number of futures research methods. 15 most prominent ones were selected and a methodology framework was created for academia catalyzed regional collaboration.

In parallel, a set of ten workshops in three Finnish regions – Varsinais-Suomi, Kanta-Häme and Kymenlaakso was organized. In the workshops, regional decision makers, company representatives, and academia brainstormed and drew out the current state, identified challenges, regional strengths, and future paths and scenarios in the field of logistics. Some 150 participants from companies, authorities, academia and the 3<sup>rd</sup> sector participated in the workshop process gaining foresight into logistics future development, and eventually, selecting for each region the most prominent “wanted” future scenario as a shared endeavor.

The process was seen by authorities as a way to introduce views of companies and other stake holders for improved regional planning. For companies the process would open a window for future thinking, a privilege in a hectic flow of business days.

### Future logistics

The outcome and findings of the workshops were that, by 2030, three main topics will have become key elements in the logistics business paradigm change:

- Digital technologies, including but not limited to the ICT, are finding their ways to logistics business value chains on many levels. Process automation, interactive information sharing, multiparty information platforms, security and safety monitoring, ITS, and 3D printing being some fields of development, to mention but a few.
- Challenges in regional planning are likely to guide authorities to identify regional strengths and opportunities with increased determination, and make more focused development plans accordingly. This will lead to regional business profiles becoming unique and focused, thus attracting investments in the selected fields.
- The nature of logistics as a simultaneous global and local service will add to reshuffling of value networks. Cost of logistics is on rise, resulting in its role becoming more important in selection of production locations. Logistics services will become

more integrated on a global level. Branded services and logistics routes, brand-wide information networks, and global brand management seek to gain global coverage and strong presence on all major markets.

There were plenty of other findings in the workshops, too, suggesting challenges and opportunities for each of the regions, or wider landscapes. Regional co-operation in planning and building of logistics hubs was one of the additional topics seen important for the Finnish logistics corridor.

### Conclusions

Foreseeing the future before it is unfold, is something that none of us can do. But future, as it is not in beforehand defined, can be aspired and made happen. A decisive mind may achieve great deeds, and change the world to his liking, replacing the path of faith with a vision and a strategy towards it. For the logistics companies, and the regional administrators pursuing a foresight vision means in fact seeking and setting shared goals for regional planning and development of the logistics industry.

Providing means and setting for use of futures research tools and methods the academia may enable administrators and companies to work in a productive process to generate new knowledge, awareness and shared will towards joint benefits. The futures process

recognizes current strengths and weaknesses in the region and the scanned businesses. It identifies trends and change forces, and produces one or a few targets to work on. A shared vision and a strategy to reach that vision, is the ultimate outcome of the process.

The futures research process is a new and powerful way to enable out-of-the-box thinking and allows participants to elevate their awareness to new levels. These experiences are found useful in other scopes and fields, too.

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*This article is based on findings of the ELLO-project (2009-2012) to enhance the competitiveness of the South-Finland logistics corridor.*

## Maritime technology industry – to fit for the green future

By Rima Mickeviciene

Since the declaration on Green Growth by Council of Organization for Economic Co-operation and Development (OECD) was adopted in June 2009, the world has been focusing on clean and energy efficient life. Europe Union (EU) has sustained the initiative widely so it is no wonder if the Strategy EUROPE 2020 aims to develop low-carbon economy. White Paper – a long term strategy on overall transport policy towards 2050 - covers a wide range of issues regarding the reduction of greenhouse gas emissions. Maritime industry and shipping as a part of European industry must turn to energy efficient and low environmental impact way, as well. Why does shipping as heavily regulated industry come to environment protectors' hands again?

All-known, shipping meets more than 85% of global demand on transport. During years since 1995 to 2008, world seaborne trade has doubled to more than 8 billion tons and be trebled in 2030. Within mentioned period, CO<sub>2</sub> emissions from ships increased and presently amounts 3% of world total. In 2020, business-as-usual shipping should overtake and surpass land based sources. Also maritime transport is responsible for about 7-13% of NO<sub>x</sub> and 4-6% of SO<sub>x</sub> emissions out of the estimated total global atmospheric emissions. According to IMO Second GHG study, Green House Gas emissions from international shipping will rise to 3,595 Mt in 2050, and then shipping contributes between 12 and 18% of CO<sub>2</sub>. This has been threatening Europe therefore European Commission (EC) is calling for the global maritime sector to reduce emissions by 20% by 2020 compared to 2005. EC also considers that GHG emissions from EU shipping sector should be reduced by 40% (50% if feasible) by 2050 compared to 2005.

Due to unique structure of the shipping industry, International Maritime Organization (IMO) regulates shipping with measures applied to all ships. Current key environmental regulations address emissions of SO<sub>x</sub>, NO<sub>x</sub>, particular matter and greenhouse gases (mainly CO<sub>2</sub>), as well as ballast water treatment (BWT).

IMO regulation for existing fleet includes gradual reduction of SO<sub>x</sub>: in 2010, SO<sub>x</sub><1,0% in ECA; in 2015, SO<sub>x</sub>< 0,1% in ECA; in 2020, SO<sub>x</sub> < 0,5%. The limits for the sulphur content of marine fuels used in designated SO<sub>2</sub> Emission Control Areas (SECA) is 1% until 31 December 2014 and will be 0,1% as from 1 January 2015. The new ships since 2011 must comply NO<sub>x</sub> Tier 2 (global) requirements and since 2016 - NO<sub>x</sub> Tier 3 (for ECAs). The Tier III standards require an 80% NO<sub>x</sub> emission reduction.

To meet new limits for SO<sub>x</sub> emission, sulphur content in the fuel should be reduced. That increases fuel price and operation costs. Experts observe world refinery capacities should be enhanced to meet increased consuming. An exhaust gas cleaning is considered an equivalent measure. As an instance, engine is driven by heavy fuel oil (HFO) with a scrubber or use distillate fuels or liquefied natural gas (LNG), or other kinds of fuel such as hydrogen, bio fuel, etc. But scrubbers make extra CO<sub>2</sub> emissions and cools down exhaust gases. Also some technical issues still need to be solved, for instant, only scrubber for all equipment driven by HFO. To reduce NO<sub>x</sub> shipping can apply following solutions: tuning, selective catalytic reduction (SCR), humid air motor (HAM), water emulsion, and exhaust gas recirculation (EGR), LNG, other fuels. But majority of mentioned technologies have side effects. For example, SCR increases CO<sub>2</sub> emissions; also this technology is sensitive to SO<sub>x</sub>.

There are known two ways to comply with CO<sub>2</sub> requirements for diesel engines: to reduce fuel consumption by reduction of ship resistance, increase in propulsive

efficiency and in power production efficiency, and reduce in auxiliary consumption. Or it is another choice - to shift to LNG. Reducing resistance means new ship hulls design. LNG as fuel today couldn't be used widely because of lack of infrastructure. The liquid hydrogen fuelled vessel become economically attractive when prices increase beyond 2000 \$/t.

Since 2012, shipping world keeps the track whether the ballast water treatment requirements come into force. The industry proposes a wide range BWT systems approved by classification societies. But on board systems can be costly to install and operate (almost twice more expensive is installing during refitting than during new building). As an alternative designers propose "No ballast", "Zero discharge", "Ballast free", and "Continuous flow" solutions. The most radical design involves with novel hull forms or substantial features that cannot be retrofitted to existing ships. The simplest design comprises use of potable water from onboard water maker or shore side supplier. Continuous flow methods include both new hull design and retrofitting solutions where BW volume becomes fully exchanged within 10 to 500 nautical miles.

Despite of the many types of equipment offering today by suppliers, many questions have no answers: how to assess the efficiency and performance of BWT systems without long-term experience? How to make decision on which type of BWT system for which type of vessel to install? Also, there is lack of instructions for onboard compliance analysis, rapid protocol forms from sample to result.

### How does new regulatory affect European maritime industry?

As European shipping controls 41% of the global merchant fleet, doubtless coming stricter requirements will touch EU shipping companies significantly, even till the loss of the competitiveness against other transport modes, especially in ECAs.

From the other point of view, retrofitting options and environmental upgrades of existing vessels are expected to form an increasingly significant component of additional work for repair shipyards. European shipyards must be ready to propose completed solutions for different types and sizes of ships. At the same time, ship repair industry is harmed by the lack of clear criteria for best available techniques. To facilitate the solution of the problem, EC co-funds a medium-scale focused research project Eco-REFITEC ([www.eco-refitec.eu](http://www.eco-refitec.eu)) that intends to support the repair operation of shipyards, and encourage ship operators to retrofit existing fleets through technological developments and new tools.

Needless to say, there are no precise answers to the questions discussed above. It is clear that the European maritime technology industry is under serious transformation and must keep a fit for a green future.

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## Baltic Sea cargo volumes at their highest in 2011

By Elisa Holma

All Baltic Sea region countries experienced growth in their maritime cargo volumes in 2011, with the exception of Poland and Sweden witnessing a slight decline in volumes. During the last six years, cargo volume growth has concentrated to the eastern Baltic Sea ports, while declining volumes are more commonly found among the western coast ports. Also the future outlook on cargo volume development is brightest for the eastern part of the Baltic Sea.

### Growth trend in the eastern Baltic Sea

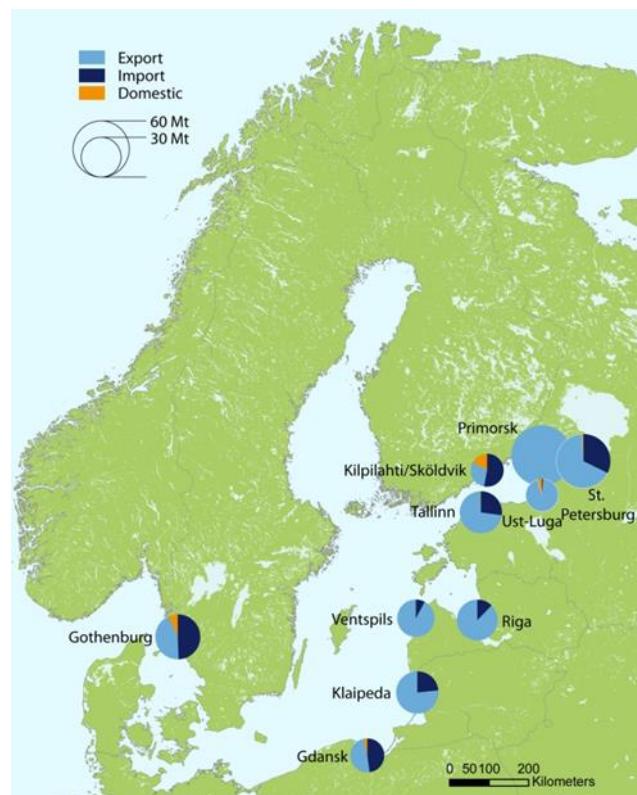
The Baltic Sea region ports handled in total 839.0 million tonnes of cargo in 2011, of which 91.4 per cent in international traffic. Despite the slowdown and precarious times in the European economy, volumes increased by 3.7 per cent compared to 2010. During six consecutive years of follow-up, the Centre for Maritime Studies recorded the total amount of cargo reach its all-time high in 2011. The cargo level of 2007, i.e. the level before the economic crisis and consequent plunge of cargo volumes in 2008–2009, was exceeded by 1.6 per cent. During recent years, the growth has been more apparent in imports, which compared to 2007 increased by 3.9 per cent, whereas in exports a modest growth of 0.8 per cent was witnessed.

Maritime traffic in the Baltic Sea is dominated by export: in 2011, exports accounted for 61.3 per cent of the international traffic and imports 38.7 per cent. In 2011, 40 per cent of the total international cargo volume comprised of liquid bulk, mostly crude oil, which has during the last six years shown a rather stable and subtle volume growth trend at the Baltic Sea level. The growth in liquid bulk traffic is a result of increasing Russian export traffic, either through its own ports or transit via Estonia and Lithuania. Dry bulk cargo constituted approximately 27 per cent and other dry cargo appr. 34 percent of international cargo volumes. As a result of nearly doubled cargo volumes in Ust-Luga in 2011, it rose in ranking to be the ninth biggest port in the Baltic Sea. Half of the 10 biggest Baltic Sea ports are now located in the Gulf of Finland. Growth in Ust-Luga has been even stronger this year, and more Russian oil is transported through its new oil terminal rather than through transit countries.

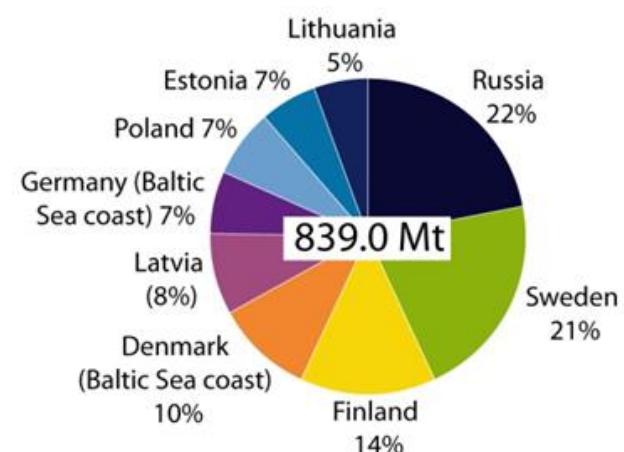
During 2006–2011, the development trends in maritime cargo volumes vary between the Baltic Sea region countries. On the western coasts of the Baltic Sea – in Sweden and the Baltic Sea coasts of Denmark and Germany – the highest maritime cargo volumes were reached either in 2007 or 2008. In Finland, the total cargo volumes were at their highest in 2011, due to temporary growth in domestic traffic induced by construction works of gas pipes laid from Russia to Germany, whereas international cargo volumes have not reached the level of 2007. Instead, on the eastern Baltic Sea except for Estonia, cargo volumes have been growing. In Russia, Latvia and Lithuania, the amounts of cargo were at their highest in 2011. Russian transit cargo volumes directed through the Estonian port of Tallinn, entailing predominantly coal and oil, have recently been strongly affected by the notable investments in Ust-Luga. In relation to the maritime cargo volumes transported through the individual Baltic Sea countries, the growth trend has been most dynamic in Lithuania, Russia and Latvia. On

the other hand, weakening cargo volume trends are found on the Baltic Sea coasts of Denmark and Germany, and in Sweden.

**Figure 1 Ten biggest ports on the Baltic Sea coast in 2011**



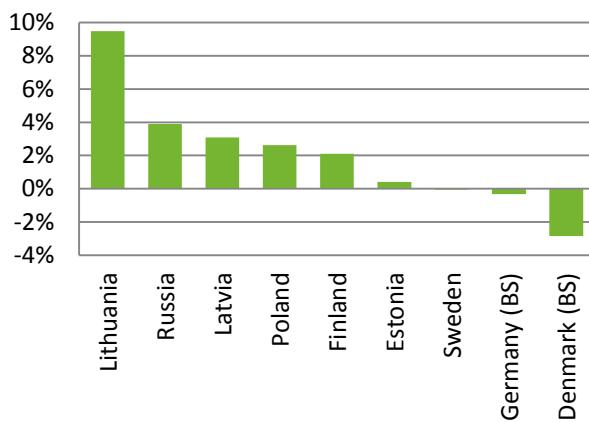
**Figure 2 Shares of Baltic Sea maritime cargo volume by country in 2011**



Economic and cargo volume development are generally closely intertwined. However, transit traffic, consisting mainly of oil and coal, but also of growing number

containers, has a significant effect on cargo volumes especially in the Baltic States and Poland. For this reason, cargo volume development in aforementioned countries does not in that degree reflect the development of national economies. Thereof the double figure GDP drops among the Baltic States in 2009 did not cause as dramatic declines in cargo volumes as in several other countries, with less negative GDP development.

**Figure 3 Average annual growth in maritime cargo volumes by country 2007–2011**



#### Expectations for 2012 and 2013 remain sluggish, yet positive

This year, the economic situation in Europe has remained just about as weak and uncertain as last autumn. Nevertheless, in October 2012 IMF forecast an average 2.1 per cent GDP growth for the BSR countries in 2012. However, the forecasts range from the most sluggish GDP growth of 0.2 per cent in Finland to the most promising growth of 4.5 per cent in Latvia. In general, the projections for the countries located on the eastern coasts of the Baltic Sea are clearly more optimistic than for those on the western and northern coasts of the Baltic Sea.

In the first half of 2012, declining maritime transport volumes were seen in all Baltic Sea countries other than Latvia (major ports +17%), Germany and Russia. The most noteworthy fall took place in Poland (-13%), where the drop was a result of waning Russian transit oil volumes through Gdansk. Most of the major ports along the Baltic Sea coast faced a decline in cargo volumes in the first half of the year. However, the disparity between

ports was remarkable. Despite the fact that a decline was seen in majority of the biggest ports, the total volume handled by the 20 biggest ports (based on 2011 volume, excluding Brofjorden), in fact increased by 7 per cent in H1 2012, mostly supported by the more than doubled cargo volumes in Ust-Luga. In general, volume shrinkages in H1 were more apparent in dry and liquid bulk cargo, whereas growth in container traffic has continued.

Baltic Port Barometer 2012 results indicate somewhat similar level of confidence in the Baltic Sea region economic development as last year. Ports' cargo volume growth expectations in 2012 are cautiously positive, although they have clearly come down from what they were for this year in 2011. Of the Barometer respondents 42 per cent expect either some or strong growth in their ports' cargo volumes in 2012. The most positive views are found among the ports located on the eastern coast of the Baltic Sea, where also the economic outlook appears the brightest.

Ports remain cautiously optimistic in their cargo volume growth expectations for 2013. The majority (62%) of the Barometer respondents foresee growth to take place in their ports in 2013. The anticipations are similar to those of last year. The most positive views are again found among the ports located on the eastern coast of the Baltic Sea. A total of 53 seaport authorities around the Baltic Sea participated in the Barometer survey conducted in July-August 2012.

*The article is based on Baltic Sea port market reviews, published by the Centre for Maritime Studies at the University of Turku. The package includes three publications: Baltic Port List, Baltic Port Insight and Baltic Port Barometer. Read more at [www.balticportlist.com](http://www.balticportlist.com) or <http://mkk.utu.fi/en>.*

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## Recent developments in the Estonian maritime cluster

By Eva Branten and Alari Purju

An economic cluster is a group of companies where the internal connections are stronger than the connections of this group of companies with the external environment. The concept of cluster has a regional aspect because the geographical location and proximity of companies are an important factor in clustering. The geographical factor emphasizes the competitive position of regions in providing high quality living and business environment. The Estonian maritime cluster has three large components: infrastructure (ports), operating services (shipping and cargo treatment), and shipbuilding and repair. These large groups of activities are supported by different (public) services like legal framework, safety and security related services, marine education, research and development.

**The sector of ports** provides mainly port operation services and use of fairways. The Port of Tallinn (Tallinna Sadama AS) is the largest company which consists of three harbours in Tallinn area (Muuga being the biggest cargo shipping port and Tallinn Old City Harbour the biggest passenger transportation harbour), Paldiski South Harbour, and Saaremaa Harbour. The company handles approximately 70% of the total volume of products transported through Estonian ports. The second largest company in the sector is the Port of Sillamäe, located in eastern Estonia close to Russian border with Estonia. Other independent ports outside Tallinn or Harju county are the Port of Pärnu (concentrating on transportation of timber and wood products), The Port of Kunda (belongs to Kunda Nordic Cement AS, which is part of international Heidelberg Cement Group, and is used first of all for exporting cement and limestone rubble). The other ports in Tallinn and Harju county, which do not belong to the Port of Tallinn are Paldiski North Port, Vene-Balti Port (belongs to the Baltic Ship Repair Group), Miiduranna Port and Bekker Port in Tallinn. According to the estimate of the Port of Tallinn, the total cargo volume operated on the eastern coast of the Baltic Sea has been around 400 million tons of which 14% was operated by Estonian ports in 2011. The market share of Russian ports (Primorsk specializing on oil products, Ust-Luga concentrating on liquid oil and coal, Vyssotski and St. Petersburg ports transporting more containers with different manufacturing goods and food products) was 53%; Latvian ports (Riga and Ventspils Ports) transported 16% and Lithuanian ports (the largest is Klaipeda Port) 13% of the cargo in this area.

Tallink Group AS is the biggest **shipping company providing passenger services** but also ro-ro cargo services on the Baltic Sea. The group carried in 2011 58% of passengers and 49% of ro-ro cargo on the route between Tallinn and Helsinki and 55% of the passengers and 34% of cargo between Finland and Sweden and was the only provider of daily passenger transportation between Estonia and Sweden and between Riga and Stockholm. The group has a diversified corporate structure and provides various services from retailing, catering and conference facilities on board to accommodation and transportation services on the coast of destination markets. The group has hotels in Tallinn and Riga and uses services of other hotel chains in Helsinki and Stockholm. There are several big companies like Baltic Sea AS, Tschudi Lines Baltic Sea and Tschudi Lines Nordic Sea operating freight transportation. Shipping companies are using services related to technical maintenance (instruments and appliances for measuring, testing and navigation, safety equipment), services related to transportation (bunkering), operating services (like pilot or ice braking in winter) and cargo handling.

**Cargo handling companies are providing services** on the territory of different ports. The largest share of products transported via Estonian ports has been petroleum products with 61% of total turnover in 2011. The petroleum products were transported dominantly from East to West and that determined also the dominating position of outgoing transit in Estonian marine transport. The growth of transported product flow, as it can be read in the Port of Tallinn annual report, has been coming from other areas like containers and fertilizers. Different product flows,

however, demand different services and when containers transportation increases that will have an effect also on the network of companies which provide this type of transportation services.

**In the sector of shipbuilding and ship repairs and maintenance** the largest company in the area is the Baltic Ship Repair Company (BLRT). The BLRT Group AS had the turnover of 347 million EUR in 2011, which is approximately 75% of the total turnover of the sector of shipbuilding and ship-repair in Estonia. The group had 4004 employees, 1843 of them were working in Estonia. The group's activities include shipbuilding, ship repair, production of large-scale metal constructions, metal processing, machine building, medical and technical gases. The group has shipyards in Tallinn and in Klaipeda and it operates in Estonia, Lithuania, Norway and Finland. The joint venture formed together with Norwegian Fiskerstrand Verft shipyard produces barges for the fish farming industry. The group has produced equipment for offshore wind farms builders, for Stockholm metro. The group has a port on its territory in Tallinn, on the Kopli peninsula (the Russian-Baltic port). Another large ship building company is the Baltic Workboats AS in Saaremaa, which produces aluminum boats, for example, aluminum pilot boats for Estonian, Latvian and Lithuanian pilot services. Other companies located in Saaremaa build pleasure and leisure boats. The AS Luksusjaht is renovating and building yachts and AS Saare Paat is building small fishing boats. Saaremaa has become a location for a small cluster of companies building small ships and boats for fishing.

**The Estonia's marine cluster** reflects not only ex post efforts of companies to create business connections, but also has an ex ante dimension as a policy tool. The big groups like BLRT and Tallink Group AS have complicated corporate governance structures that include a long list of companies providing different services. The vertically integrated structure comprising these activities has made these groups relatively independent from outside services. More sophisticated technologies, as well as a more complicated and strict regulatory framework (in environmental area, for example) could create a need for wider cooperation with respective technology companies. These big groups are at the same time in high demand as partners and clients for SME-s in very different sectors of production and services. The aim of the clustering policy is to promote contacts between companies and to initiate new activities that create closer connections between companies or make the already existing integration closer and more efficient.

Enterprise Estonia, the government agency in the governance area of the Ministry of Economic Affairs and Communication, started the clusters program in 2008 and continued until end of 2012. Among the full stage projects were, for example, a project coordinated by the *Estonian Logistics and Transit Association* "Development of Estonia's Logistics Cluster", where the partners were Tallinn airport, ports of Tallinn, Paldiski and Sillamäe, Estonian Railway, AS Smarten Logistics, Tallinn University of Technology and several cargo and logistics services companies. The EU Interreg Smartcomp project is targeting these aims in the Central Baltic Sea Region.

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## The current state and future of the Finnish maritime cluster

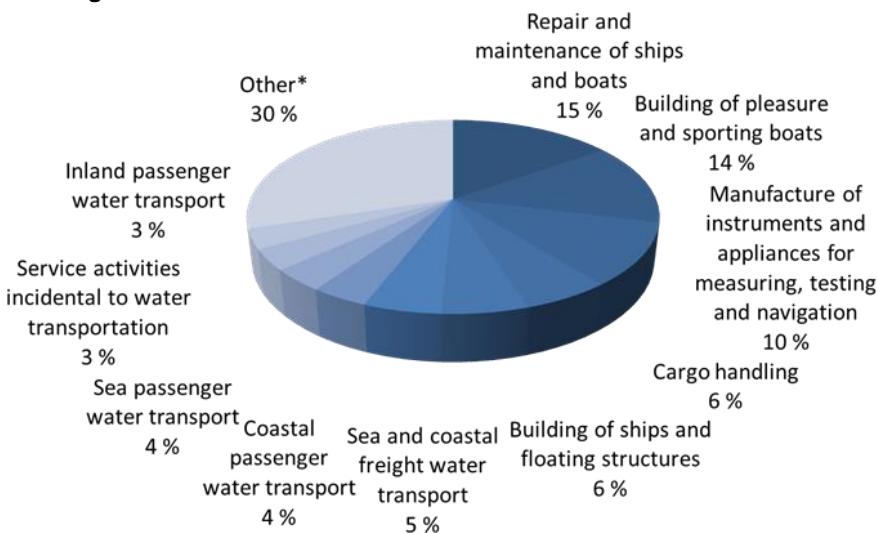
By Hanna Mäkinen

The closeness of the sea has always shaped the living conditions in Finland. The sea, long coastline and extensive inland waterways have enabled the development of seaborne traffic and trade. Shipbuilding industry has long traditions in Finland, and war reparations payments to the Soviet Union after the Second World War fostered the industry's rapid development. Indeed, due to the long and extensive experience, the Finnish shipbuilding competence has reached the high levels of today and made Finland one of the key hubs of special maritime know-how in the Baltic Sea region. Sea traffic and ports have also retained their significance for the Finnish economy and well-being.

The Finnish maritime cluster has significant economic and employment effects. According to the latest available study covering the whole maritime cluster<sup>1</sup>, the total turnover of companies' activities related to the marine sector is over EUR 13 billion. The cluster employs directly some 45 000 people whereas the indirect employment effects of the cluster concern half a million people in Finland. Due to geographical conditions, sea traffic and ports also play an important role – for instance, approximately 90% of Finnish exports and 80% of Finnish imports are transported by sea.<sup>2</sup> Thus, the maritime cluster is of great significance for the Finnish national economy and the society as a whole.

The Finnish maritime cluster consists of 2000–3000 companies depending on the definition and the methods used in company data gathering. The cluster comprises companies with a wide range of fields of operation and the competence regarding various fields is extensive. The ten largest fields of operation in terms of the number of companies are illustrated in Figure 1.

**Figure 1 The Finnish maritime cluster**



\*includes the other fields of operation that fall outside the ten largest ones

Source: Fonecta company database; Author's calculations.

<sup>1</sup> Karvonen T., J. Vaiste, and H. Hernesniemi: Suomen meriklusteri 2008. Tekesin katsaus 226/2008. Helsinki.

<sup>2</sup> National Board of Customs 2012.

Specialization and know-how in e.g. design, engineering, Arctic solutions, and other advanced technologies are among the key strengths of the Finnish maritime cluster. The Finnish maritime companies are also known for reliability, excellent quality, and keeping up with schedules. The specialization in several narrow areas of expertise has given a positive label for the whole cluster as a locus of special know-how. For instance, the demands of climatic conditions have created cumulated Arctic know-how in the Finnish maritime sector.

However, during the recent years, the state of uncertainty has overshadowed the Finnish maritime cluster. Shipyards have suffered from poor profitability and breaks in order books, and their subcontractors have been forced to look for business opportunities elsewhere. Production costs, particularly labour costs, have risen to a level that undermines the competitiveness of Finnish industries. Furthermore, the shipping companies and ports have both been affected by the economic crisis and are still struggling with profitability. On the other hand, the maritime sector is suffering from the lack of qualified workforce – during lay-offs experts have shifted to other industries and the image of the sector does not appear appealing to students.

The Finnish maritime cluster is facing various challenges also in the coming years. Competition in shipbuilding at a global scale is constantly increasing, as for instance Asian companies are catching up in know-how. Their competitive advantage lies in low costs, whereas the Finnish companies cannot make it in price competition due to high production and labour costs, and specialization in small niches with good quality. Thus, finding a balance between costs, quality and effectiveness and providing something that customers are willing to pay for is a real challenge for the competitiveness of the Finnish maritime cluster. In addition, keeping up with the pace of technological development requires maintaining the sufficient financial and scientific resources for innovation activities.

Nevertheless, maintaining the position at the forefront of the global innovation development is not easy for the Finnish maritime cluster, particularly when the local environment is also facing various challenges. The sulphur directive, which will decrease the limit for sulphur emissions of ships from the current 1 % to 0.1 % by 2015 in the Baltic Sea region, is estimated to increase freight costs significantly and cause great challenges for the shipping companies. The competition between the Baltic Sea ports is also intensifying, particularly in the Gulf of Finland, as Russia is investing heavily in the development of its ports. Thus, constant development is needed in order to maintain the competitiveness of the Finnish maritime cluster.

The Finnish maritime cluster comprises a large variety of companies of different sizes, operating in various fields of business. Although the Finnish maritime companies clearly form a cluster in which the various actors are

integrated and mutually dependent, the existence of the cluster is not always taken sufficiently advantage of. For instance, internationalization forms a challenge for the maritime SMEs as they often have inadequate resources and skills for it. They also lack the international contacts and references to succeed in foreign markets and have difficulties in winning bids in large-scale projects. Facilitating the networking among companies and combining their resources could increase their competitiveness and improve their chances to penetrate international markets. With a larger base of potential partners, companies could better make it in large project bidding competitions. Furthermore, through well-functioning networks, the inter-cluster flow of new ideas could support the innovation development and common challenges often require coordinated solutions. The companies could gain from a change in attitude – viewing the other companies less as competitors and more as cooperative partners. The same concerns the maritime clusters of the Baltic Sea region – by reinforcing both the

internal and international networks the clusters could better respond to the common challenges and increase the competitiveness of the whole region.

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## Finnish foreign trade will find new transport routes

By Ulla Tapaninen

When looking at Finnish economics and - in particular - the competitiveness of Finnish industry, one never forgets to mention the geographical situation of Finland. Finland is located at the far end of Europe, far away from the main European market areas. Even though it is connected mainland Europe by its borders with Norway, Sweden and Russia, the fastest and in practice the only possible way from Finland to Europe is by sea. In 2011 84% of Finnish foreign trade went through Finnish sea ports.

Finnish GDP very dependent on foreign trade, the share of export in Finnish GDP is 40% - and the share of import approximately the same 40%. It is no wonder that transport and logistics costs are monitored closely. In 2011 the logistics costs of Finnish manufacturing and trading firms were on average 12.1% of sales while European studies come to figures almost half of that. Due to geography Finnish industry is always in worse position in the Central European markets compared to its European competitors.

The situation is by no means getting easier. The transport costs are going to increase both at sea and on land. In addition to constantly increasing fuel prices, in 2015 the so-called sulphur regulation at sea will increase the costs of transportation for Finnish shippers by 30-50%; and thereafter there are more and more regulations coming for energy consumption and CO<sub>2</sub> emission etc. The time of cheap transport is over.

Finland has committed itself to reducing its greenhouse gases of transport. This requirement together with the increasing costs of transport means that the transport flows of Finnish foreign trade will need restructuring. In the last 30 years the Finnish foreign trade of unitized cargo has relied sea transport. The fast and reliable sea transport consumes huge amounts of bunker and creates loads of environmental emissions.

To be able to reduce the environmental load and energy consumption of Finnish foreign trade various technological innovations are being developed. In addition, the alternative cross-border corridors for transport flows need to be investigated. The requirements of the Finnish cross-border cargoes differ and consequently the solutions will differ as well. Exports from Northern Finland will look solutions at the Arctic Sea. For others at the South of Finland, the easiest way to reduce the environmental load and bunker consumption at sea is to reduce the speed of the vessels. This is best suited for low-cost bulk products,

e.g. coal and oil products; and even for some industrial goods. However, the consumer goods or high-value industrial goods, carried usually as unitized cargo, require speed and flexibility.

The European Union has for decades already developed a concept of Trans-European network linking its member states. Today, the concept of corridors includes also environmental requirements, i.e. so called green corridors. Finland is connected to Europe by three core network corridors: Stockholm-Turku-St. Petersburg - corridor, Rail Baltica and Bothnian Corridor in addition to Motorways of the Sea.

Rail Baltica Growth Corridor project aims to promote modern railway infrastructure in the Eastern Baltic Sea Region and to ensure the best possible interaction of railways with other modes of transport along the Rail Baltica route (Estonia - Latvia - Lithuania - Poland - Germany). For Finland the Rail Baltica project offers a new environmentally friendly solution that will link Finland to Central and Eastern Europe, both for passengers and unitized cargo.

There are still multiple challenges along the way, questions concerning with spatial planning, infrastructure development and finding solutions for logistics service providers. Particularly, for Finland the focus is on how to link Southern Finland to Estonia and to the Rail Baltica. What will be the transport unit and the suitable mode of transport in Finland? There are lot of questions that require actions and decisions not only from the private sector but also from national and local level policy makers.

Rail Baltica Growth Corridor is a project that will also change geography. The substantial shortening of transportation time from Finland to Central Europe will increase the competitiveness of Finnish foreign trade in an environmentally friendly way.

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## Finnish maritime industry – innovating the future

By Mervi Pitkänen and Juha Valtanen

An innovation can be defined as the processes where new ideas are implemented within an organization. Innovation is the establishment of new concepts, procedures or technologies in an organization. Innovation processes are commonly non-linear by nature and require accordingly flexible and adaptive tools. Maritime industry comprises innovative and also evolutionary elements. Evolutionary approaches stress the effect of the past in future development, and emphasize the never-ending change or development. Development is a continuum of the same progressive procedural and historic nature without a final, pre-defined or ideal goal. In evolutionary process the question is to change ideas into technological, social, institutional assumptions that blend in with normal practice, processes or products.

Maritime industry is also global business. In the future even more, when companies are more involved in the global value chains. However even though SME's are still more directly involved within the local and regional markets, the value chains of large companies are global and therefore affecting the whole network. The global affects, industrial, economic and social are coming more and more local also. The product itself is not enough in the global markets and features serving more for example added value such as services are required. This leads to the fact that development required in companies business change also. Moving more from specific technical product development towards business development is inevitable. This encourages seeking cooperation across the geographical borders.

Public sector actors are developing novel means of supporting mechanisms especially for research and development activities. The central objectives should be aimed at enhancing and renewing the competence based competitiveness of trade and industry, national economy and regions through a broad-based innovation policies. The EU Maritime Policy states that the oceans and seas to be approached in a holistic way, and this creates the vital discussion for the change of the mindset from the traditional sectorial approach among the maritime clusters more towards reformed value creation. Value creation that takes an overall view for economic and sustainable development aspects of the oceans and seas, including the marine environment is the key novel approach for future competitiveness.

One tool of EU Maritime Policy to strengthen the maritime competitiveness is the LeaderSHIP initiative. It was prepared by the shipbuilding industry in 2002 and endorsed by the Commission in 2003. Because of the global competition it became obvious that the review and update of the LeaderSHIP strategy is needed. European maritime industry as a whole with its strong innovation and design capacity has a strategic role to play in addressing major challenges such as climate change and energy efficiency. Building on the LeaderSHIP2020 strategy and after identifying and taking into account the main challenges and opportunities that occurred following the crisis, a vision will be developed for the further development of a competitive EU maritime industry which contributes to sustainable, secure and safe sea-borne transport and advances into marine resource use and energy generation.

The Maritime Clusters serve as a strong link both regionally and nationally as well as internationally between research and business actors in the maritime and shipping industry. Regional innovation ecosystems are the core blocks for innovation creation activities. Clusters offer companies a triple-helix cooperation model, forums and contacts for the joint development of new products and business ideas together with universities and other educational institutions, public administration bodies and investors. The public sector the funding and resources testing platforms when academia creates scientific knowledge and intellectual properties and educates competent employees for private companies.

New models for transnational and multi-regional cooperation platforms should be developed in order not only to improve the

competitiveness of the maritime value chains but also increase the cooperation between companies and universities.

In 2011 Southwest Finland Region cities decided together with universities, development agencies and Maritime Cluster Program to establish a new development tool and innovation hub; Maritime Innovation Platform.

This platform should aim;

- To form a functional model and management to increase macro-regional multidisciplinary scientific research and development as well as education within the maritime and offshore industry
- To build internationally acknowledged innovation hubs, world class innovation and re-search networks
- To facilitate the emergence and development of innovative, globally competitive and effective transnational innovation and research platforms for creating new competencies and business opportunities

Innovation environments and ecosystems are concentrating on macro-regional and transnational innovation hubs and business concentrations for renewal and growth. Due to the global structural and economical changes, the efforts are to be directed in strengthening the competitiveness and in promoting the growth-oriented business possibilities. Public sector, regions, universities and individual companies are facing also challenges to find new strategic methods for triple-helix cooperation to address the changes in the environment.

November 2012, the City of Turku, Aalto University, the University of Turku and Turku University of Applied Sciences signed an agreement on Marine technology research cooperation for 2013 to 2015. The research cooperation agreement aims to consolidate, not only for Turku region but also the whole of Finland, the strategically important maritime industry and its requirements as defined by the Turku-based marine technology research group Meridiem. This unique research unit serves maritime sector companies in their R&D –activities and projects on the local and national level by developing the best possible physical operational environment for the shipbuilding and offshore industry and developing the educational and research systems to secure word-class expertise, know-how and skilled labor for maritime technology and production. Research group Meridiem is taking the challenge of developing the innovative and global maritime industry.

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## EU-project develops skills and increases safety capital of maritime domain

By Jukka Seppänen and Mirva Salokorpi

Safety knowledge and skills of shipping companies are intellectual capital, but are as necessary as the "real capital". This intellectual capital is for example safety management practices - they need to work in everyday-life and they have to be continuously developed. An increasingly area of safety capital is internal and external relatives of a shipping company: competitive advantage by safety is possible only if both authorities and clients trust company's operations. Human safety equity is growing same time with safety structure of the company and it is personnel's safety knowledge and values; the safety rules are not followed because of the fear of being caught or respect for the law, although it is also important. The strongest safety equity is using the right practices just for the case, so, that the principles guiding the action could be make general laws.

Competitive Advantage by Safety (CAFE) project funded by European Union and managed by Kotka Maritime Research Centre aims to fill the gaps in safety knowledge and skills by mapping and spreading the information of maritime safety expertise and research. Kymenlaakso University of Applied Sciences is creating maritime safety material that will be published during the next year both paper and electronic version. The availability of safety information is tried to make it easier by the publication: findings and recommendations found both in safety studies and accident investigations will be presented understandably in the material. It is possible to develop safety knowledge and attitudes with the material.

Another important way to get and spread safety related information is quantitative and qualitative improving of reporting of hazardous situations. Reaching the aim is supported by creating teaching material of safety reporting for maritime schools and shipping companies. The meaning of reporting has not yet been fully understood in the maritime domain, and hazardous situations or incidents are often considered completely normal that belongs to the field's work. On the other hand, especially our own errors are hard to tell. Too often hazardous situations are treated in the same manner: they are not considered to be necessary to tell others or they do not dare to talk about. The fear of loss of reputation should get broken, so that maritime domain could go on trust-based safety culture. Instead of declaration and requiring them it should openly share information about the incident that had or could have been affected to the safety of operation. By reporting incidents and analyzing these reports in shipping companies, it's possible to shift from reactive safety culture to proactive level, where safety is managed by anticipating and where predicting of risks and safety development are known.

### Reporting promotes safety skills

Students' theses are one way to collect background information for the projects. One student studied in his bachelor's thesis about workload of different kind of reporting in Finnish merchant ships. Although reports are made for different reasons, based on the results of the thesis, workload of making reports is reasonable and it looks like that the it does not prevent to make safety or incident reports. However, there is a big difference in time used for reporting depending on shipping companies, vessels and their traffic areas, and in some situations especially workload of ship officers can increase to high. The problems of the companies found in the study were lack of resources, the poor quality of reporting, small size of volumes of the reports and continuous learning

and developing work due to a freshness of reporting systems and culture.

The benefits of reporting believed to depend on the ability of shore personnel to handle and utilize the reports. According to another bachelor thesis, both Designated Persons (DP) and ship's crew thought that getting feedback from reports is very important. Based on the interviews, it came into light a suspicion that some shipping companies do not handle some reports at all. At least no information about is not showed to the crew. There is also room for improving in reporting from shipping companies to the national authorities, because companies do not report incidents to the ForeSea databank, even if they consider the common databank is a good thing.

According to the Safety First! Incident reporting brochure published by CAFE project (Navigator magazine, May/2012) the benefits of incident reporting are considerable, that is, the working time spent for it in vessels and companies will certainly be paid back. It is possible to decrease number of accidents and incidents as well as increase safety awareness, job satisfaction and interaction in the company by developing continuously reports, their analysis, reporting practices, and culture. Same time increases whole the positive safety imago of maritime domain.

### Shipping companies are responsible

Corporate social responsibility that is also studied in the CAFE project includes financial and legislative, as well as ethical and volunteer responsibility. Financial responsibility of a shipping company is that the company can produce transport services needed by society at least so profitably that the activity may be maintained in the future. Preventing accidents is eminently taking responsibility: every accident cause gaps to the services providing and further, losses of income. Legislative responsibility includes compliance with international and domestic laws. Based on safety related ethical responsibility, shipping companies can be divided into two groups: those that do not take the responsibility and those that because of their own values develop safety, that is, are pioneers and bellwethers. Volunteer responsibility is at discretion of a company, too. This kind of responsibility is for example safety improving and non-profit donation to the outside of own company.

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## Uncharted waters

By Lan Le, Nina Luostarinen and Timo Parkkola

The craving for more creativity and innovations needs no explanation. It is inevitable that works requiring less expertise escape from the countries with expensive labor and the highly developed countries cannot afford to lose their position as pioneers. If you can't stand the heat, get out of the kitchen.

Innovation is often considered to be something entirely new and amazing, but is it just making new combinations of existing things? What kind of expertise is needed for spotting these new nodal points?

Cruise ships do not only carry people from one place to another but are in fact a part of the final destination. Their success in the travel market is dependent on how well they are able to foresee the constantly changing cultural needs of the consumers. For example, outdoor decks on cruise ships for the persistently growing Asian markets might serve the audience better as gardens with facilities to practice tai chi or play mahjong rather than sun-bathing areas.

Continuing with the outdoor decks, Kaleidoskooppi Project recently organized a nationwide KaleidosCup competition for university students in different fields to innovate year-round usage for ferry outdoor decks in the Baltic Sea. The jury consisting of representatives from STX Finland, The Federation of Finnish Technology Industries, Deltamarin and Painting DB rewarded the first prize to a trio of cultural management students with less technical and commercial qualifications. Their proposal stood out with an original and executable service concept that aims to create user experiences rather than complex constructions. This indicates that cultural knowhow is not indifferent in the maritime industry.

A successful innovation requires full understanding of the target group and a functional user interface. E.g. the average passenger of a cruise ship is scarcely interested in "the better welding seam" or "the changes in the cathodic protection of the vessel". However, from the maintenance point of view this could be essentially important. Both perspectives should be equally significant to the ship owner, because more usage of services means more revenues and less detrition means fewer expenses. For example, TallinkSilja has recognized that its restaurant sale has significantly increased after sending mobile notifications of buffet discounts to the passengers without pre-booked dinner tickets. Also, Zinaltec has realized that in order to sell more anodes it has to offer a novel solution that adds value to the ship owner: re-designing anodes for tunnel propellers could reduce cavitation and thus expedite the overhaul time of the vessel. In addition, a smooth travel without extra vibration and disturbance is more pleasant for the passenger.

In order to get full value of the user understanding, three types of reasons for adopting a solution should be observed: the acceptable reason, the sensible reason and the *real* reason. For cruise passengers, the acceptable reason to choose a cruise over city hopping by plane could be for example that sea travel is more ecological than air travel, the sensible reason could be saving time and money for not having to plan the program and book hotels and flights separately, but the *real* reason is most likely to experience the famous floating city with its luxurious lifestyle and memorable services and getting to brag about it on their Facebook status update. For welders, on the other hand, to apply a new tool, the acceptable argument could be nature-friendliness and the sensible argument saving the company's money, but the *real* argument for them to accept a change in their routines and learn a new working method is full understanding of the company's operational strategy and commitment to it. For employees to commit to the common decision they should perceive themselves as a significant part of the entity and feel appreciated for their opinions and development suggestions.

A case example of making the staff commit to the company's plan of action is an experiment called "Meriaura News" by cargo

shipping company Meriaura Group in co-operation with Kaleidoskooppi project and film production company Hallava Filmi. The challenge is to have the different units to communicate and co-operate fluently. Instead of giving the staff a traditional paperback blueprint and expect them to adopt the rules written, the pilot project aims to increase commitment by utilizing film making methods that encourage the staff to participate in creating the common objectives and operational models. The employees are commissioned to collect and exchange information about different units and functions inside the company, compile the data and create the manuscript for a newscast. In the future film compilations as such could possibly replace written manuals or at least complement them as training material.

Creative knowhow can contribute to creating new innovations, but how to find this expertise and apply it? As production-oriented economies are on their way transforming into solution-centered service economies, technical and commercial expertise need to be complemented with human and culture understanding. However, finding these specialists and applying their knowhow demands an intermediary to narrow the gap and lower the language barrier between industry and creative sector.

Cultural managers, also known as producers, are generally well-equipped with networking and management skills combined with wide knowledge of the cultural field. Their work is to find the nodal points between demand and supply (also the ones unrecognized by the main parties), join the right specialists, and make multidisciplinary co-operation possible. Kaleidoskooppi Project is currently studying this work model between the maritime industry and the creative sector. It also aims to find novel pilot cases that utilize cultural content production and creative methods.

The future of the maritime industry in the Baltic Sea Region demands a new and more human-centered approach. Hence, the main questions are: Can we increase the competitiveness of the maritime industry in the Baltic Sea Region by partly switching away from the main expertise of the maritime industry? And can we afford not to survey the uncharted waters?

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## Belarus – joining Europe and Eurasia together (Integration of Integrations concept)

By Mikhail V. Myasnikovich

The unique social and historical system – the USSR has gone from the world arena, but now the economies of the West are ill, and this illness may become chronic. It means that problems do not consist in “the evil empire”, against which the cold war was fought. But, it seems that politicians should give up the ideology of confrontation and be guided with objective economic laws of development. The politics of sanctions and dictate cannot be the European politics, there must be no room in Europe for the politics of ultimatums and preconditions, the politics of double standards and isolation are anti-European in its essence. Belarus is ready and open for cooperation and dialogue with the European Union on principles of mutual respect, partnership and mutual benefit.

This is an approach proposed by the leaders of Belarus. In 2011 the President of the Republic of Belarus Aleksander Lukashenko advanced an Initiative of “Integration of Integrations” for creating a wide platform for collaboration and economic co-operation in the area from Vladivostok to Lisbon. The European Union and the Common Economic Space of Belarus, Kazakhstan and Russia (CES) have enormous potential of partnership on the principles of freedom of trade, non-discrimination, mutual respect and constructive dialogue between the peoples all over the world.

The initiative of the Belarusian side is reflected in the Declaration on Eurasian Economic Integration signed by the Presidents of Belarus, Kazakhstan and Russia in Moscow on November 18, 2011. It confirms “striving for mutually beneficial and equal co-operation with other countries, international integration associations, including the European Union, along with access to the creation of a common economic space”.

The work for establishing the free trade zone between the CES and the European Free Trade Association (EFTA) is a practical aspect of implementation of the strategic initiative of the President of the Republic of Belarus A.G. Lukashenko for interaction between the CES member-states and Europe. Implementation of four basic freedoms – freedoms of movement of goods, services, capital and workforce is the explicit imperative of the European response to the global challenges of the contemporary world.

Openness of markets, availability of the world reserve currencies, transnational character of economic integration and cooperative ties represent the main, but far from the complete list of peculiarities of the world economy development at the contemporary stage. And this development can only be successful if issues of development of national economies which are per se transnational are taken into account. By creating joint ventures and implementing joint projects our states will gain more benefit than from protectionism and isolation. Practical work confirms urgency of this statement. Presently, 2924 companies with the capital from EU-countries and 2120 companies with the capital from Russia and Kazakhstan are working in the Republic of Belarus. Out of the Belarus's foreign trade turnover of 100 bln US Dollars, 30 per cent are falling on EU-countries and 48 per cent on the countries of the Customs Union of Belarus, Kazakhstan and Russia. These facts prove that Belarus has become an economic bridge linking Europe and Eurasia.

Research intensity and business-friendly environment are the factors of attractiveness of the national economy of Belarus. The Government of Belarus stakes just on them by implementing its economic policy. According to the World Bank, Belarus ranks 45th among 146 countries on the Index

of Knowledge and 59th on the Economy of Knowledge Index. Our country is the sixth in the world by the number of applications for inventions (to the amount of 1 bln US Dollars of GDP).

Belarus has opened its economy for foreign investors and privatization. Procedures of registration and business regulation are radically simplified. As reflected in the World Bank's ranking on the ease of doing business, Belarus changed its 115th place in 2008 for the 58th place among 185 countries in 2012. Experts of the World Bank and the International Finance Corporation included our country to the list of most active reformers. The process of market and innovation transformations has acquired the irreversible character in Belarus. Our strategy is ambitious – to be included to the first 30 leading countries with most investment-friendly climate already by 2015.

The European legislation is applied in Belarus. It guarantees all rights of investors, allows for application of British, Swiss, Italian and another law and arbitration. We are ready for the use of most advanced forms of investing: from establishment of foreign mixed companies to concession agreements. As of January 1, 2012 Belarus has the lowest in Europe corporation tax of 18%. Highly technological companies and new businesses in small and middle-size towns are exempted from taxation. A stimulating tax block is introduced for investors. We could ensure budget consolidation and get the deficit-free budget in the current year and in 2013.

Not all the problems of transformation have been resolved, but our country is systematically proceeding on the way of developing and improving the market institutions. The main thing is that Belarus does not bring about any problems for anybody in the world and is consecutively advancing its ideas of open platforms and technological transfer in the Eurasian Economic Community, CIS, UNO. Our initiatives have also been presented within the dialogue with the European Union (the Eastern Partnership). The European Union and emerging Eurasian Union complement each other. These unions represent two parts of the single whole, our common house – the Big Europe. We are ready to actively participate in the Pan-European integration with our industrial and intellectual capital. There is a need for constructive international political contacts between the leading elites which go beyond the frameworks of regional and block unions. Strict actions for introduction of the global systems of the unidirectional world belong to an obsolete arsenal. They will not work, and oil conjuncture, local conflicts, etc., will not work either. The mankind has become educated and well-informed during the recent decades. And new ideas are needed in order to restore faith of this enlightened international community in stable and successful development.

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## Direct investments in city-to-city cooperation between Belarus and EU

By Pekka Salminen and Hannamaria Yliruusi

International cooperation is done at different governmental levels. Often, the most tangible results are achieved at the local level, when true practitioners combine their efforts. Despite the level of cooperation, funding is needed to bring the international policies into practice. Belarus ratified the ENPI (European Neighbourhood and Partnership Instrument) agreement in 2008. Since then, direct investments to Belarus have been possible within several EU funding programmes. Currently, the Union of the Baltic Cities (UBC) is coordinating two investment-oriented projects focusing on Belarus.

The project-based cooperation at the local level has proven to be a powerful tool. Joining forces with the Belarusian cities is a new opening for the UBC in the common effort to improve the state of the environment and the Baltic Sea.

Direct environmental investments in Belarus are needed. Infrastructure, for example, in the water management sector is old and inefficiently operated. This results in water pollution, health and odour issues and a lower quality of the environment in general. New investments in wastewater management and the from-waste-to-recourse thinking can result in more cost-efficient processes, energy savings and energy production. Sustainable investments also need maintenance which is enabled by a sufficient level of tariffs and payments.

Modernisation of wastewater treatment infrastructure leads not only to cost efficiency but also to eco-efficiency. Direct EU investments to Belarusian water infrastructure improve the local state of the environment in Belarus. However, the whole Baltic Sea Region benefits from these joint efforts as the state of the water bodies is a common concern. The efforts to improve water management in Belarus are of special interest to Lithuania and Latvia, through which the River Daugava and River Neman runs, so connecting Belarus to the Baltic Sea.

In the UBC-lead projects PURE and PRESTO – co-financed by the Baltic Sea Region Programme – direct investments are focused on most cost-effective technologies to enhance phosphorous removal in five municipal wastewater treatment plants in Belarus. The phosphorous load from point sources, like municipal wastewater treatment plants, causes eutrophication, which is one of the biggest environmental problems of the Baltic Sea.

Cooperation has been practical and productive although several challenges exist. The EU ENPI funding enables direct investments to Belarus, with 90 % EU co-financing. In practice, successful implementation of investments would require a more harmonised

interpretation of the financial agreements between the EU and Belarus; the fundamental difficulty being that despite common financial agreements, Belarus and the EC differ on how they interpret the source of funding and method of payment, which affects the rules to be applied in projects. On the grass-root level, differences in public procurement procedures especially complicate implementation of direct investments.

International cooperation always includes challenges. The UBC was established in 1991 to overcome the challenges left from the collapse of the Soviet Union and to start the reconstruction of the Baltic States and Poland, with specific focus on the city level. In the turbulent political atmosphere, practical local-level cooperation was enabled through international funding and joint initiatives. Since the early 90's, the UBC has successfully lead several cooperation projects with Russian, Baltic, Nordic and other European cities to improve the state of the Baltic Sea and productive relations within the Baltic Sea Region and Europe. The natural continuation in this cooperation is welcoming the Belarusian cities to join their efforts in reaching the common goals.

For the future cooperation and direct investments, the momentum is here, as the new EU funding period is under preparation. For the EU-Belarusian and EU-Russian cooperation, the ratification of the ENPI agreement is crucial. At the moment, the situation looks positive and, hopefully, the challenges related to interpretation of financial agreements will also be overcome.

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## Security issues in the Baltic Sea region

By Artis Pabriks

The Baltic Sea region is a nodal point where national views of about 7 nations as well as the EU and NATO initiatives overlap. Moreover, this is the region where relations with partner nations of both organisations are very much appreciated; hence the cooperation has flourished throughout years despite diverse institutional and organizational boundaries. This mix of interests has formed a multidimensional regional agenda

The vibrant interactions with NATO partner nations in the region positively contribute not only to strengthening our ties but also will bring peace and stability far away from the region as from the beginning of 2013 Latvia will cooperate with Finland and Sweden in Afghanistan in the framework of Nordic Transition Support Unit initiative.

Such gradual deepening and broadening of cooperation has once again put into question many issues. What is the future of Finnish and Swedish non-alignment policies in the post-neutrality context? Is further deepening of cooperation possible between Allies and both partner nations without taking up binding obligations? What would be the best way how to address the issue of fully-fledged NATO membership? Taking into consideration the increasing and mutually beneficial military cooperation between Finland, Sweden and NATO maybe it is the right time to make historical decision and ensure that both countries have their say not only in Allied decision shaping process but also in Allied decision making.

The dynamics of the Baltic Sea Region are closely linked with Russia. In many cases this country seems to be the regional enigma because frequently Russian statements turn out to be contrary to its most evident security needs. For example, NATO Lisbon Summit and the "reset" provided a new opportunity for the U.S., Europe and Russia to cooperate to counter ballistic missile proliferation. However, Russia regularly makes statements which are in line with the Cold War logic of Mutual Assured Destruction and works on countermeasures to NATO missile defence primarily in the Baltic Sea Region. Russia seems to ignore changes of strategic context like increased proliferation of nuclear weapons and missile technologies in the southern direction of Russia. Fortunately, Russia's stance towards Allied and Russian cooperation further away from the Baltic Sea Region is much more constructive and together we ensure smooth transition in Afghanistan by delivering mutually beneficial outcomes.

Another security issue, which bears crucial importance in the region, is the overlap of NATO and the EU capabilities, institutions and efforts. As I mentioned earlier, for quite a while Europe has been obsessed with regular budget cuts. In this context it is surprising that NATO-EU dialogue on harmonisation and overcoming the duplication of capabilities remains in largely embryonic form after

several years of experiencing the after-shocks of financial crisis on European military budgets. Now it seems like we have missed out on our window of opportunity to introduce more cost-effective and complementary capabilities.

The prosperity of the Baltic Sea Region becomes more and more dependent on joint efforts to counter emerging security threats such as the increasing frequency of cyber-attacks, the ability to overcome challenges related to energy security as well as the build-up of Russian 'soft power'. Lately Latvia pays a lot of attention to the Baltic security of information space because it has become quite evident by now that Russia uses media not only to influence public opinion at home but also in its periphery with a help of re-broadcasted media, mainly TV channels. Unfortunately the information provided by these media represent journalistic distortion in its most extreme forms and therefore provides completely misleading views to the public.

Despite the variety and complexity of the emerging threats I am sure that the vast experience of multinational cooperation in the region regarding the conventional military capabilities is a good base for further expansion of security 'trans-nationalisation' regarding the unconventional threats. In fact the Baltic Sea Region already is developing as a hub of expertise on emerging threats as two NATO centres of excellence are based in the capitals of the Baltic States and Nordic countries have put cooperation on cyber defence as their top priority.

In conclusion, NATO and EU member states of the region seem willing and highly motivated to concentrate more efforts on future challenges. This orientation occasionally stands in stark contrast with Russia's warnings of conventional military build-up in the Western direction. However, these statements do not affect the overall regional enthusiasm in dealing with new security issues. The region has reaffirmed its political commitment by providing necessary funds for activities related to emerging threats and pays constant attention towards ensuring a sustainable defence spending level. For years the region has been on the right track because networking is the key to cost efficiency and enduring peace, prosperity and stability around the Baltic Sea. As I mentioned before there are several institutions and networks already in place which I am sure will continue to deliver tangible solutions to the emerging challenges.

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## Rail Baltica as a stimulant to Baltic economies

By Petri Sarvamaa

European transportation has long been riddled with a certain set of problems. Inefficiency that stems from the lack of intermodality, the existence of bottlenecks along crucial economic trade corridors, and the ecological impact of increased commercial and non-commercial road travel serve as examples of the kind of challenges Europe faces. Existing transport networks act as the foundation for a demanding, EU-wide trade sector, but they have mostly not been built for the needs of the Common Market and cross-border shipping.

The Trans-European Transport Network (TEN-T) initiative was launched by the Commission to tackle these exact problems. The aim is to provide Europe with a comprehensive network of roads, railways, ports and inland waterways that can handle the challenge of intermodality and provide faster, easier and more efficient means of transportation. In this article, I will introduce an aspect of the TEN-T project that is perhaps the most important one for the future of Baltic economies, TEN-T Priority project No. 27, better known as "Rail Baltica".

The objective of the Rail Baltica project is to establish a modern, high-speed, European 1,435mm UIC gauge railway line from Warsaw via Kaunas and Riga to Tallinn, with Helsinki connecting to the network by ferry. The project would provide the first inter-state north-south railway link between the Baltic states and Central Europe, while taking pressure off the road network by providing an alternative, more efficient method of transport.

Rail Baltica will form the northern most part of the Baltic-Adriatic Corridor, with continuous transport links all the way from Helsinki and Tallinn to Bologna and Ravenna in northern Italy. A joint venture for the planning and construction of the Tallinn-Warsaw -line has been set up by Estonia, Latvia, Lithuania and Poland, with the objective of having a comprehensive plan for all sections of the line ready by 2015. The track itself is planned to be ready for traffic in 2020.

There have been discussions about expanding the railway line from Tallinn to Helsinki via a tunnel beneath the Gulf of Finland. Though the price of such an engineering feat would undoubtedly be high, the option has not been ruled out as a future development. In the timetable of the current project, the link with Helsinki would remain by ferry alone.

The driving force of the TEN-T initiative is to provide a framework for growth. Better transport infrastructure means more mobility at a cheaper price. The capability of the network to handle more cargo and reduce total shipping time in turn gives companies better connections to the Common Market and opens up new geographical areas for trade. Simultaneously, the area from which a company can draw its workforce is expanded as workers have more and more efficient means to reach jobs further away, even across state borders.

Much of the new network prioritises railways over roads. The reasons behind this are many, but the main benefits remain clear. Firstly, improving road quality provides better safety, but by and large, it does not enable the travel speeds of up to 160km/h that can be reached by modern trains. Secondly, among the Commission's objectives for the TEN-T network is to reduce greenhouse gas emissions from transport by 60% by 2050. The environmental benefit of transferring freight from road to rail is essential if this goal is to be reached.

High speed inter-state railway lines that provide sustainable links between key economic areas play a vital role in encouraging businesses to deliver their cargo by train. In the specific case of Rail Baltica, it also provides companies and individuals in the Baltic states with direct access to Central European transport hubs such as Warsaw and Berlin. By providing a fast, relatively inexpensive link across the Baltic states, Rail Baltica would be a much needed solution to fill a long standing void in Baltic transport infrastructure.

Answering the challenge of intermodality in transport has been in the center of the project from the beginning. The construction of the line would provide a railway link that reaches three major Baltic seaports, Helsinki, Tallinn and Riga, with only a short rail connection to the port of Klaipeda. The establishment of true Baltic transport hubs, where cities, ports, major railways and airports connect, along the Baltic corridor would stimulate local economies, provide more jobs, increase the efficiency of travel and freight transport and, in the long-term, save both money and the environment.

The construction and progress of the project is tightly interlinked with the EU Multiannual Financial Framework (MFF) for the years 2014-2020. Funded largely through the Connecting Europe Facility, constraints in the MFF for the next 7 years ultimately mean less money for cross-border ventures of added European value, such as Rail Baltica. The outcome of the negotiations for the MFF remains clouded at the moment, and lack of extra funding might lead to delays on the project. If completed on schedule, however, Rail Baltica should provide a welcome boost to the economies of the cities, regions and states along the route of the future connection.

Petri Sarvamaa

Member

*The European Parliament*



## Nordic competitiveness in trade and commerce – a strong and secure future established by growth

By Jessica Polfjärd

Sweden and the other Nordic countries stand for an open market of trade and commerce. The recipe for a strong and vital market assigns some especially important ingredients such as openness and competitiveness. Furthermore, a strong and secure future is established by growth. The growing Swedish economy provides long term potential for a secure job market, an equal welfare system and stable finances of the state. The requirements for growth are I turn education, research, business and entrepreneurship –factors which the Swedish government, by its policies, is set to achieve.

The economic crises paralyzed most countries of Europe, striking especially hard on countries such as Greece, Spain and Portugal and accelerated a shift in the balance of the world economy. We now see a slow European recovery whilst China, other Asian countries, Latin America and Africa are becoming more important in future markets of trade but also for Swedish jobs and investments abroad. As relatively small, open and export-dependent economies, the Nordic countries are in need of policies that understand and meet the global challenges. Therefore, the Nordic countries need to maintain a constant flow of innovations and opportunities for trade.

However, to reach high levels of competition the Nordic countries need to maintain a strong competitiveness without thumbing domestic labor rights. For that reason Swedish governmental policies offers social market economy that combine both growth and welfare.

We believe that the Swedish model, where social partners are responsible for conditions and wage formation, is something to protect. This in turn has strengthened Swedish competitiveness and creates a strong long term wage growth.

To maintain and uphold other countries interest in inputs of capital and financial flows Swedish companies have been forced to strengthen their competitive ability to establish themselves in new markets. Furthermore, Swedish wage formation has been responsible and stable over time, thereby strengthening Swedish competitiveness.

Swedish Exports are equivalent to about half of Sweden's GDP towards a growing international market. The global market has, in the last 30 years, undergone major changes and world trade has increased multiple times benefitting both Swedish companies and Swedish welfare by generating tax revenues. However, many challenges lies ahead and what used to be countries buying Swedish export is now countries that rely on own manufacturing thus leaving Swedish companies alone on a rough and demising global market.

To further strengthen Swedish and Nordic competitiveness the following aspects must be taking to consideration.

Firstly, we need to accumulate knowledge through investments. Secondly, we need to ensure having a high productivity of labor relative to labor costs and finally, Sweden needs to be able to attract investment.

Therefore, Sweden needs to continue to promote research that leads to discoveries and innovations. We need to ensure that professional skills of the labor force is high and that companies operating in Sweden does not have a cost rate for including wages that differ from the countries we compete with.

Availability of labor, productivity, capital and knowledge as well as the conditions for entrepreneurship affect the general economic environment growth. All kinds of uncertainties and imbalances in the economy give rise to risks. Therefore, by reducing the incentives to invest and promote economic activity it is of great importance to maintain macroeconomic stability such as stable public finances and low inflation to further promote growth.

Sweden has a long history of promoting companies that are strong in large and complex projects. The potential for exporting business is great in many emerging markets and need to be taken further by intensifying cooperation between Swedish companies, especially small-and medium-sized, and foreign missions. The vision to increase the internationalization and foreign trade demands different solutions and action are taken to enhance Swedish export. Focus ahead will therefore include five areas; global free trade, targeted trade improvement against individual strategic markets, a more open and better EU market, a clearer and more positive image of Sweden in the world and better utilization of expert resources at home.

**Jessica Polfjärd**

*Member of Parliament  
Moderate Party*

*Chair  
Committee on industry  
and trade*

*Sweden*



# The Baltic Sea Labour Forum (BSLF) is working

By Franz Thönnes

One year after its establishment, the second **BSLF** Round Table took place in Hamburg at 15<sup>th</sup> November 2012. BSLF is a platform for cooperation between social partners and other key labour market actors in the Baltic Sea Region (BSR). This tripartite forum for social dialogue in the BSR mainly deals with jointly identified problems such as labour mobility, growth, competitiveness, education and training, and high employment rates. It is important for societies in the BSR to safeguard fair competition for enterprises based on respect for industrial and labour relations, decent working conditions and fair treatment of workers.

## From the Baltic Sea Labour Network (BSLN) to a permanent "BSLF"

In 2008, representatives of 22 social partners and political institutions (trade union federations, employers' associations, the Council of the Baltic Sea States and the Baltic Sea Parliamentary Conference), jointly formed the BSLN. It was a flagship project within the EU-Strategy for the BSR with the aim to achieve through social dialogue sustainable labour markets, fair employment conditions and proper social protection. Its excellent work culminated in the establishment of the permanent BSLF, set up by 22 organisations in November 2011. BSLF became more and more interesting and today it has 28 members and 7 organisations with observer status.

## BSLF - unique platform for cooperation

Employers' confederations, trade unions, politicians and other experts were called upon to exchange ideas creating sustainable regional labour markets in the BSR in Hamburg in November 2012. BSLF wants to promote a social dialogue and tripartite cooperation structures for sustainable economic growth and social development in the BSR. They dealt with the two main subjects

**Youth Employment and Mobility of Labour** as most important challenges in the BSR. The rate of unemployed young people in the Baltic Sea States differs between 7 and 30 percent. The number of commuters in the region is also growing, currently 140.-150.000 are living in one and working in another country. A Conference of information centres in the BSR, advising commuters and employers about the legal framework of working and social security conditions, has been established at the same time,

## Youth unemployment

Especially young people (15 to 24) have lower participation rates in the labour market. This has strong negative impacts for societies and labour markets alike due to the risk of rising poverty amongst youth as well as a lack of skilled and trained labour in the BSR. Especially missing practical experience and mismatches between education and qualifications that the labour market demands currently pinpoint which in turn makes labour market integration more difficult. Special attention should be paid to the transition management from school to workplace, occupational safety and health issues. This includes early economic education in schools, cooperation between schools and enterprises and measures as mentoring and apprenticeships.

## Mobility of labour in the BSR – Cross-border mobility

The BSR has a high mobility rate. Care must be taken to safeguard fair competition for enterprises in order to secure a sustainable social development in this region. BSLF wants to ensure that norms, responsibilities, conditions, rules and labour relations in each country are the same for foreign and domestic business and employees. Special attention will be paid to the border regions since they have to deal with many interrelated aspects of labour force mobility. The existing information centres, which offer information to commuters and migrant workers, could complement the efforts of the BSLF. Another problem is the

existence of barriers for commuters in the BSR. The existing information centres are aware of these problems, but do not have enough resources to work on these issues. Their networking would help to draw special attention to the needs of the border regions. The lack of statistics especially on migration is a fundamental problem in this field. The recommendation of labour market strategies by the BSLF requires sufficient and comparative data.

## Working groups and Resolution

For dealing with this issues two working groups have been established in Hamburg and a joint resolution with the following positions was adopted. The second Round Table called on trade unions, employer and business organizations, politicians, public officials, experts, NGOs and scholars to

1. launch concrete measures to reduce number of school drop-outs
2. step up in their efforts to integrate young people in labour markets
3. develop effective strategies equipped with powerful measures to tackle youth unemployment, and to ensure that existing programmes are better coordinated; the aim should be to offer each young person a job, an apprenticeship, additional continuing education or a combination of employment and vocational training after a maximum of four months of unemployment;
4. devise strategies and programmes to ease young peoples' transitions between school and work
5. work towards mutual recognition of vocational training in the BSR countries
6. set in motion concrete steps to dismantle existing bureaucratic barriers in the BSR that hamper the mobility of labour
7. continue to facilitate mobility within the BSR
8. ensure that conditions, rules and labour relations in each country are comparable for foreign and domestic employers and employees
9. promote the social dimension of cross border labour mobility
10. counteract the growing problem of illegal work by all actors in labour markets;
11. further explore the idea of establishing easy-to-reach one-stop information centers in the BSR and a unique information website.

Franz Thönnes

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Germany



## A cleaner Baltic Sea – a task for parliamentarians across borders

By Ann-Kristine Johansson

The Baltic Sea is one of the most polluted seas in the World which is a threat to the livelihoods of many people in the region. The challenges to the environment of the Baltic Sea are therefore high on the agenda of the Nordic Council. The responsible governments are still not carrying out the policies needed to make the Baltic Sea healthy again. Parliamentarians from the entire region therefore need to work together to make sure governments from all countries around the Baltic Rim stay on track when it comes to following up on commitments.

The Nordic Council is the parliamentary wing of Nordic cooperation, uniting politicians from Denmark, Finland, Iceland, Norway and Sweden. The work of the Council takes place in a number of committees and parliamentary groupings, mirroring the political landscape of the five Nordic countries. One of these committees is the Environment and Natural Resources Committee, of which I am the chair.

The Committee visited the Åland Islands in the heart of the Baltic Sea last summer. There we discussed amongst other things the latest HELCOM reports as well as the Baltic Sea Scorecard issued by the World Wildlife Fund in 2011.

According to the latter survey only two out of the nine countries around the Baltic Sea perform adequately in terms of living up to the requirements set out in the HELCOM action plan. And when it comes to eutrophication – one of the four focus areas of the plan and also one of the biggest threats to the Baltic Sea itself – the challenge is even clearer. According to the WWF scorecard, out of a possible 24 points, Denmark scores 8, Finland 5 and Sweden 11.

So there is room for improvement when it comes to raising the environmental standards of the Baltic Sea. And our role as parliamentarians is to act not only as legislators but also as watchdogs when it comes to making sure the necessary steps are taken to save our common sea.

Consequently, the Baltic Sea is one of the main focus areas of the Environment Committee of the Nordic Council and over the last couple of years we have drawn attention to a number of issues in that respect.

In 2011 we criticized the Danish government for not living up to its commitments based on the HELCOM agreement of 2007. We scrutinized the actions taken by Denmark, Finland and Sweden in following up on that agreement and made note of the fact that Denmark has been lax particularly in terms of reducing the output of nitrogen, possibly due to agricultural output.

We also criticized the fact that only two of the five Nordic countries had ratified the IMO Ballast Water Convention, thus holding up the final implementation of the measures stipulated in the convention. The cruise industry is ever growing and other commercial traffic on the Baltic Sea is also increasing. So there is a great need to limit the influx of harmful organism and alien species – one of the aims of this IMO agreement. And it is our duty as parliamentarians

to question our governments as to why they are holding up such an important ratification and what interests are at stake here.

The Environment Committee has also been involved in the question of improving port facilities around the Baltic and overall we have pushed for the implementation of HELCOM recommendations and guidelines. One of my Finnish colleagues, Christina Gestrin, has been chair of the Baltic Sea Parliamentary Conference and also deeply involved in the work of HELCOM.

Another focus these days is green growth and here the chair of the Nordic Council Committee for Business and Enterprise, Cecilie Tenteford-Toftby, is currently chairing a working group under the Baltic Sea Parliamentary Conference, exploring the common grounds for a greener development around the Baltic Rim.

For we need development and we need new jobs. But we also need to make sure that this development takes place in a sustainable and smart way. And this is where we need to cooperate more.

The Nordic Council is one arena assembling three of the nine Baltic Rim countries. The Baltic Sea Parliamentary Conference assembles all nine nations and the Council of Baltic Sea States is doing a major effort along with the Union of Baltic Cities and others. Likewise, our sister organization, The Nordic Council of Ministers – representing the Nordic governments – is deeply involved in for example the EU strategy for the Baltic Sea. And an institution like the Nordic Environment Financing Corporation under the Nordic Council of Ministers has contributed to financing needed investment for a cleaner Baltic Sea, including for instance new waste water treatment facilities in Saint Petersburg.

So there are plenty of arenas to meet and discuss, and plenty of ideas and strategies to carry them out. But maybe we still lack the framework for a truly united effort to save what is after all the only thing that really unites us all: namely the very waters of the Baltic Sea.

And above all, we need to stay on our toes to keep abreast of the new threats and challenges that keep popping out of the sea, so to speak – or maybe rather out of the countries surrounding it. And we must make sure that our governments stay on track when it comes to actually implementing the necessary steps and living up to the commitments to restore the good ecological status of the Baltic marine environment by 2021.

Ann-Kristine Johansson

Member of Parliament

Chair of the Nordic Council  
Environment Committee

Sweden



## The reluctant partner – Russia in WTO

By Hannu Himanen

**It comes as no surprise to pundits that Russia is dragging its feet in fulfilling its obligations as WTO member. There are real challenges. But instead of resorting to a negative rhetoric, Russian leadership could focus on obvious gains on the longer term. This means transparency, deregulation and fair play in the open global market.**

As one of the globally big economies, Russia was the odd man out as its WTO membership process dragged on for 18 years. When it joined, it became the 156th member of the organisation. The member economies now cover 97 per cent of world trade. Because of the size of the Russian economy and the extent of its foreign trade, bilateral agreements were concluded with as many as 89 countries. Real progress was made in the bilaterals, above all with the European Union and the United States, in the pre-crisis years of 2004–2008.

But it takes two to tango: as WTO members were prepared for the final crunch, Russia announced, in June 2009, that it had established a Customs Union with Kazakhstan and Belarus and wanted to join the organisation *en bloc* with its two partners. This led to a delay of two additional years before the deal was sealed at the WTO Ministerial Conference in December 2011.

### Commitments

Through its membership agreement, Russia is committed to liberalising trade, opening the domestic market in services, improving protection of intellectual property and reducing direct subsidies to domestic industrial and agricultural producers.

However, Russia insisted on and got exceptionally long transitional arrangements. Because of this, Russia will become a full-fledged member only by 2020. The longest transitional periods cover agriculture, financial services (insurance and banking) and the automobile industry.

The first steps Russia has taken as WTO member have not served to strengthen confidence. In a number of cases, Russia has either not implemented clear commitments or started to apply measures in clear violation of its commitments. There is an extensive government programme to protect Russian companies from the negative impacts of WTO membership. While this is understandable against the complex background of domestic politics, it raises justified fears of further trouble to come. The EU insists on full implementation as agreed and is engaged in negotiations with Russian authorities.

### Gains

Even if transitional arrangements delay some obvious benefits, both Russia and its trading partners will in due course see positive development. With improved transparency and predictability, it is expected that Russia will attract more FDI. Consequently, according to a World Bank estimate, the Russian economy may grow 3 per cent in the short term and 11 in the longer term in the wake of its accession to WTO.

In the case of Finland, a growth of 6 to 10 per cent in Russian import demand would translate to an annual growth of 300 to 500 million euro in Finnish exports to Russia. The

Bank of Finland has estimated that Russian WTO membership could translate into an additional growth of 0.11 to 0.17 in the Finnish economy. This is particularly significant as Finnish exporters are struggling with their traditional European markets in the midst of a recession and significant uncertainties.

In Russia itself, the most significant immediate beneficiary will be the Russian consumer. As trade liberalises and competition bites in, consumer prices will tend to go down. This is particularly true for products with high pre-membership tariff levels, such as medicines, food and domestic appliances. As the Government continues to protect domestic automobile manufacturers, import tariffs on automobiles will be reduced only after a seven-year transition period.

There are many economic players in Russia who see WTO membership as a positive challenge. In the Invest Forum in Sochi late September, Mr. Victor Yermakov, Director-General of the Russian Small and Medium Business Agency, explained in detail how even smaller companies can reap the benefits of open markets. Export procedures will be easier, and to support SME exporters, the government has set up export agencies in all major cities.

### A positive agenda

The debate on the implementation of Russia's membership obligations should not distort the big picture. Russia is rich with energy and natural resources, but the economy cannot in the longer run be based on raw materials. Economic diversification is an imperative clearly understood by the Government. Russia stands to gain significantly and quickly by participating fully in the global market and opening its economy to foreign direct investment. To attract more FDI, it needs to improve its business climate significantly. It will not be easy for Russia to climb from place 112 to 20 in World Bank's *Doing Business* ranking, a goal declared by President Putin.

Cheaper imports would benefit Russian consumers and industries alike. Tougher competition at home, with transparent and fair rules, would make Russian manufacturers much better equipped for competition in the export markets. This is a classic win-win agenda, occasionally difficult to be fully appreciated by many Russians obsessed with zero-sum games.

Seasoned politicians as different as Mr. Yevgeny Primakov, former Russian Prime Minister, and Mr. Karel de Gucht, the European Trade Commissioner, have concluded that Russia's accession to WTO is not the end, but the beginning, or a fork in the road. There are important choices to be made, choices that will determine whether Russia will continue to grow and prosper. This is a choice for Russia itself to make.

Hannu Himanen

Ambassador of Finland  
to the Russian Federation



# The dynamic corner of Europe – the High North as a strategic survival strategy for Finland

By Maimo Henriksson

In the larger Baltic Sea region there is one area that is currently living through a positive and dynamic phase in an otherwise gloomy European overall picture. This is the northernmost part of the region, the Arctic of the Nordic countries, the so called High North. Here we suddenly find growing municipalities, business initiatives and quite concretely a remarkably high number of crane trucks, digging machines and bulldozers. To put it shortly: here we find intense economic activities in combination with bright expectations for the future.

The north of Norway is the driving force in this development. Sweden and Finland follow, but with a more modest speed and volume.

There are several reasons behind the blooming of the northern regions. One is that the Norwegian energy industry is moving more and more to the north, at the same time as new discoveries also in the old areas in the North Sea are made. Technologic advancement makes it more and more profitable to utilize also northern and harder-to-get sources of gas and oil. In fact, the Norwegian energy industry is right now – in the winter of 2012-13 - taking a big leap up to the north. In the latest license round, that opened last summer and expires next spring, for the first time ever most of the slots to be applied for are situated in the northern seas. Out of all-in-all 86 slots, 72 are in the Norwegian or the Barents Sea.

Another reason behind the increased perspectives of prosperity for the north is the return of the mineral industry. Here Sweden and Finland are forerunners and Norway follows. The Norwegian Mineral Strategy is expected to be ready early next year. In Sweden and Finland tens of old as well as new mines are operative and running and an even bigger number is in the pipeline of prospecting or applying for a license.

Both the energy industry and the mineral industry need transport infrastructure: the goods have to be delivered to the purchasers. Here we come to the third reason, which is very problematic, but which at the same time offers an additional boost to the region. Climate change is opening up the North-Eastern Sea Route. Sooner than we expect also that day will come when the ships will sail not along the Russian coast, but across the North Pole, straight over from the European High North to Asia. Although we talk about small numbers of ships, especially compared to the traditional southern routes between Europe and Asia, we do talk about significant sums. The savings can be counted in hundreds of thousands of euros per day and shipment, as fewer travel days are needed.

Also the transport routes on land need to be improved and developed. Luckily we now have an instrument, the Northern Dimension Partnership on Transports and Logistics, that gathers all the relevant players – the EU, Norway, Iceland and Russia, at the same table to decide on new projects and to solve old bottlenecks.

Norway has understood the opportunities of the north and established its High North policy already some six

years ago. This policy is the number one foreign policy priority of Norway. The ambitious policy outlines that Norway will seek to be the leader in the field of knowledge of the High North. Norway wants to exercise its authority in the High North "in a credible, consistent and predictable manner" and it wants to strengthen cooperation with other countries in the Arctic or interested in the Arctic.

All these developments offer opportunities for Finland. In fact, Finland faces a fully loaded silver platter of untapped potential. In times of harsh economic challenges such a silver platter should be used. I do not mean that all the challenges of the economy of Finland could be overcome by cooperation in the north, but Finland should see the strategic importance of this dynamic region. The High North might not be able to change the whole of the Finnish economy, but it certainly can contribute to our welfare. Seen from a wider Baltic or European perspective: all positive developments in northernmost Europe will reflect also on Europe as a whole and thus promote Europe in the global competition.

What can then Finland offer? As president Sauli Niinistö put it during his recent state visit to Norway: Finland has a lot of "cold-how", being the only country in the world where in winter every single harbour may freeze. To be more precise: Finland has a strong arctic know-how in very many fields: offshore-industry, oil spill technology, maritime industry, shipping, forestry, mineral industry, metallic industry, energy efficiency, wind power, construction, waste management, healthcare solutions, bio- and nano technology, winter testing etc.

A special sector where we could join forces is tourism. Sweden and Finland can offer good products of experiences on land. If we to this package add a cruise in northern waters with a Norwegian cruise ship we have a very attractive product, which could attract tourists from all over the world.

The basis for all this to take place and succeed is education and research. I recall that the key word for the Norwegian High North Strategy is knowledge. Also in Finland we need to have the courage to invest in our northern knowhow. We need to build up networks between the universities in the north. We need institutional networks that promote exchange of students, teachers and researchers. Therefore it is very promising that some Norwegian and Finnish universities lately have agreed on closer cooperation. It is high time that Finland starts to focus on the silver platter offered to it in the High North.

Maimo Henriksson

*Ambassador of Finland  
to Norway*



## Security and defense in the Baltic Sea region – what to expect?

By Riho Terras

Kalevipoeg, a giant hero and a protagonist of the Estonian national epic, caused the first security incident between the neighbouring Estonia and Finland. He was a man of thick skull and disputable social skills according to the modern standards. He went to hunt down the kidnappers of his mother, met a Finnish blacksmith named Ilmarine who prepared him a new sword. While celebrating the fresh blade, Kalevipoeg killed the blacksmiths' son. Fortunately enough the concept of statehood was somewhat blurry these days so no war broke out. The retaliation though was very personal by the Finnish artisan as he cursed the very sword he had created and the Estonian giant lost his feet eventually. The relations between the neighbours have not always been as bright as they seem today.

The two decades that have passed since the collapse of the Soviet Empire and the Warsaw Pact have witnessed a smooth and steady westernisation of the security and defence sphere around the Baltic Sea (with one exception remaining, obviously). The positive effects of the EU and NATO enlargement processes cannot be overestimated both in terms of greater coherence in security and defence as well as stronger basis for the economic growth and intertwinement. The region has often been described as the one with the greatest growth potential in Europe, and sure there is every reason to believe in it. But wait, is that all? No frictions, no conflicting interests, no (hidden) ambitions? Let's face some facts and try to draw some conclusions.

The Baltic states are still quite a rare area in NATO with no balance of conventional arms across the Narva river in Estonian case. Russia has become visibly and worryingly active at its borders. There are more than 300 military instalments spread throughout the borders with the Baltic neighbours. Should we be alarmed or are we simply witnessing Russia filling the gaps that were left by somewhat disorganised, sloppy and western-forced pull-out from its Soviet era borders in 1990's. Russia has historically been severely allergic against any changes and dynamics concerning the border regions and thus often very defensive in behaviour. It should not be a surprise that the security concerns listed in the top of the agenda for Russian policy and strategy makers are the Kurile Islands in the east and the Baltic states in the west.

How should this influence the security thinking in the Baltic Sea region? First and foremost the region should be seen in the broader context, both geo-politically and in terms of the changes in economy and demographics that have led many nations to question the need and reduce the money and manpower necessary for security and defence. The Baltic Sea region is not unique in that sense. Since the understanding of Asia's increasing role hit almost a decade ago, the US's pivot towards the Asia-Pacific has been heavily debated by the Europeans, primarily. Americans seem to have much pragmatic view on the issue and are reserved in their explanations, denying the sudden loss of interest against Europe. The US interest in the Baltic Sea region is of utmost importance. How to maintain it? Co-operation and

common understanding among the states in the region is the primary option. There are number of regional initiatives (NORDEFCO, BALTDEFCOL and other Baltic Military projects) that may as well serve as good selling arguments. When the like-minded states in the region are able to pool their resources and give meaningful contributions where and when it's necessary, there is a chance we are still seen as someone punching above his or her weight. In addition the UK's initiative on the Northern Group may add another dimension to the Baltic Sea region co-operation. Signing of a Memorandum of Understanding on the Enhancement of Defence Co-operation between UK and Norway earlier this year may be seen as the first step in that path.

It's not a secret that countries like Finland and Sweden have contributed remarkably in NATO-led operations in the Balkans and in Afghanistan more recently. This is a strong argument for closer co-operation among the Baltic Sea region states both NATO/non-EU and non-NATO in military operations. Without any particular wish to cause allergic reactions, there is a stronger strategic interest towards the states that can form so called Coalitions of Willing when there's a clear demand.

The Baltic Sea region has the potential to attract interest. Baltic Defence College in Tartu, Estonia is surely one of the examples that deserve closer attention. Established by the three Baltic states with strong involvement from Denmark, Sweden, Finland and Norway it has become the only modern English language based multinational military educational institution in the region. And there is a wish to broaden the focus so that not only the Baltic states could benefit from its educational outcome but the Nordic countries and other regional players as well.

Finally, one can't discuss the security and defence affairs in the region without emphasising the prominent role of Poland. For the countries east of the Baltic sea, Poland has become a real and reliable partner and advocate in voicing and explaining security concerns. And it's not only words that matter, Poland is one of the very few countries in Europe to maintain the level of defence expenditures close to the 2% of GDP and to possess real military power. It is vital to envisage deeper involvement of Poland in the regional initiatives in order to gain more visibility and credibility. Let the numbers do the talking – Nordic/Baltic countries all together have a population of 32 million, Poland a population of 38,5 million people.

Riho Terras

Brigadier General  
Commander

*The Estonian Defence Forces*

Estonia



## European and Asian rivalries over the Arctic

By Stephen Blank

The Russo-Norwegian agreement of 2010 should have put to rest the ongoing controversy over the future of the Arctic Ocean in terms of sovereignty, exploration, and thus security. However, that has not happened. Despite this agreement many governments are making claims concerning the Arctic either to gain a material advantage, e.g. control of shipping routes or energy deposits, or to prove that they are still major players there and by extension in world politics. For example, the recent Anglo-Norwegian exercise, Operation Cold Response, not only tested the capability of those two armed forces in an austere theater with extremely difficult climactic conditions, it also was intended to show that the UK can provide a credible military capability in Northern Scandinavia and the Arctic and do so in support of or in tandem with its allies.

Neither is the UK or Norway alone in this posture. Russia's unilateral claims to an excessive amount of the projected Northern Sea Route are well known. Moscow also bases itself in the 2006 findings of the US Geological Society that suggested the Arctic is a treasure trove of energy deposits and minerals to the point where Moscow regards the Arctic as its future "treasure house", that is essential to its future viability as an energy power, and sees the Arctic as being perpetually menaced by foreign military threats. Russia's 2009 security concept and subsequent official and unofficial writings cling to the obsession that foreign governments covet Russia's energy holdings and entertain thoughts of seizing them by force. As a result there are equally large-scale Russian exercises in the Arctic and a comprehensive militarization of the Arctic is taking place in Russian defense policy. This militarization involves not only exercises but also deployments of the navy, also to provide maritime protection for Russia's SSBN fleet in the Northern Fleet based at Arkhangelsk, air, air defense, and ground forces.

Yet given the actual size of NATO forces the pressures on Europe to reduce defense spending and the utterly remote possibility of East-West military confrontation, Russia's obsessions seem excessive. Even if writers in the US or Canada are composing scenarios calling for development of forces possessing an Arctic capability, the budgetary and political pressures upon these governments in Europe and North America make it quite unlikely that such forces will be a priority or be built in large numbers anytime soon. In other words, the chance of actual use of force majeure in the Arctic from the European side seems quite remote if not literally incredible. Nevertheless this securitization of the Arctic, postulating it as a kind of threatened zone, and the ensuing militarization continues.

But it is in Asia that we may find the real challenges emerging to Russia's pretensions. Already in 2010 Russia's Commander in Chief of the naval forces Admiral Vladimir Vysotsky, warned China that Russia was prepared to defend its claims by force and chastised China for contesting the idea that Russia enjoyed sovereignty over the Northern Sea Route. Chinese diplomats have claimed that nobody should enjoy such sovereignty. Moreover, China has beefed up not only its overall scientific capabilities for exploring and navigating the Arctic, but also its military capabilities and has entered into serious commercial and diplomatic relations with

Arctic countries like Iceland, Greenland, and Norway. But it is not alone.

For example, South Korea has recently established a partnership with Norway to develop the Arctic and this agreement is merely part of a broader South Korean initiative to become a permanent observer at the Arctic Council and exploit the opening up of navigable sea routes through the Arctic. Obviously to the degree that the Arctic becomes increasingly navigable this presents South Korea, Japan, and China with immense opportunities to reduce the cost of naval shipping to Europe and Russia and to make substantial commercial profits. And to the extent that Asian governments' interests evolve from scientific and environmental issues to questions of shipping, energy, and defense of their commercial vessels and interests, these states too will likely contribute to the overall process of securitization of the Arctic and even its potential militarization. We have, as noted above, already seen the latter phenomenon in the case of Sino-Russian relations, and in the continuing programs of Canada, European governments, Russia, and possibly the US depending on the next Administration's perspectives.

These trends, taken in the context of the increasing centrality and dynamism of East Asia for international economics and security suggest that the future quarrels and competing claims concerning the Arctic are as likely as not to be more centered on the competing interests of Russia, China, Japan, South Korea, Canada, and the US that pertain to the Asiatic sector of the Arctic Ocean than the European side. Competing European claims will no doubt be a factor as will the long-standing and ingrained paranoia of Russian security perspectives. But it is more probable that the truly difficult struggles over the demarcation of a Northern Sea Route, the competing claims under the rubric of the United Nations Convention on the Law of the Sea (UNCLOS), and the potential for both securitization and militarization of the Arctic as a factor in world politics will originate largely from the Asian continent rather than Europe. Moreover, the two drivers of these competing claims are likely to be Russia and China. And that fact suggests that there is considerably more to Russo-Chinese relations than most observers have hitherto envisioned. Finally in the future it is unlikely that the vaunted identity of interests that Beijing and Moscow so frequently invoke will remain unscathed by the impact of rival energy and security claims, not only in the Arctic, but also across Asia.

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\*The views expressed here do not represent those of the US Army, Defense Department, or the US Government. Education and Culture.

## The great future of Murmansk is still based on visions

By Timo Rautajoki

Murmansk Region has been famous for good future expectations and visions. According to the recent listing of the Ministry of Economic Development in the Murmansk Region the total value of planned investments in the Kola Peninsula is more than 70 billion euro. The biggest problem is still in defining if these plans are realistic and when this investment boom is going to start.

Shtokmanovskoje (Shtokman) gas field has been more than 20 years the number one project with huge total value of 47 billion euro. This project has been postponed time after time. The establishment of Shtokman Development AG in 2008 was the first positive sign for a long time. Gazprom was the biggest shareholder and French Total SA and Norwegian Statoil were minority shareholders. Then the outbreak of global financial crisis some months later once again slowed down the project. Finally in the beginning of 2012 rumors had it that Shtokman is going to be postponed to the indefinite future because expected price level of gas was too low due to new innovations in the use of shale gas.

During the summer of 2012 several news from Shtokman Development began to confirm the rumors to be true. First Statoil left the company and announced to focus on a new cooperation projects with Rosneft. Then in August Gazprom confirmed that the Shtokman project was shelved for an indefinite period. Third shareholder Total made an exception and announced to continue in Shtokman Development. These messages were clear, but on the other hand the decision of Total was causing some confusion.

The general reaction in Murmansk was a big disappointment. Shtokman project had also been a base for other important investments and for better economic future. Among others the plan to establish new Murmansk Transport Hub in the seaport of the city was seriously endangered. Shtokman gas was also planned to be a new energy source in the Murmansk region. Now all energy efficiency plans based on this seemed to become impossible.

Also another arctic offshore project which has effects on the development of Murmansk seems to be in problems. The production of Prirazlomnye oil field on the Pechora Sea should have been starting this year, but the start has been postponed to the autumn of 2013 due to safety and environmental problems. The produced oil should be transported to the oil terminal of Murmansk Commercial Seaport. The future plans of the enlargement of the terminal and possible establishment of oil refinery were based on this new production.

The global media and also public opinion in the Russian Arctic was ready to declare Shtokman project deceased, but the meeting between President Vladimir Putin and the governor of Murmansk region, Maria Kovtun in the end of October 2012 changed once again the situation. President Putin told Governor Kovtun that Shtokman project is not put on hold indefinitely, but the decision to start the implementation is planned to happen

in the near future and the project launch is going to be before 2017. So the situation seems to be same as before 2008. Shtokman Development AG is going to be re-established. Gazprom and Total are continuing as shareholders, but one new partner is needed. The return of Statoil seems to be unlikely the solution, but new actors like ENI, Exxon-Mobil or even Shell have been active in other arctic projects. The future shows if the resurrection of Shtokman is realistic. Until then this never ending story with ups and downs continues.

Murmansk Transport Hub project is in danger to become similar to Shtokman. Expectations of the Hub have been based also on the increasing use of the Northern Sea Route. The navigation season of 2012 is closing now when two Finnish icebreakers Fennica and Nordica are returning from Alaska through this famous shortcut route. This season was a record season with 46 ships and 1.2 million tons of cargo. Murmansk is still in the pole position of the increasing arctic transport. This all creates great possibilities to investments, but also competition with some other ports is increasing. The port of Sabetta which is part of the Yamal LNG project of Novatek company, and the plan of new seaport in Arkhangelsk are so far the main competitors of Murmansk.

People in Murmansk are beginning to be impatient with all the big plans in the region. However the economical development in the region has been positive several years. Mining industry is the backbone of Kola Peninsula and the global rise of raw material prices has enabled better income. Secondly Murmansk region is area one of the most important military bases in Russian Federation. Military salaries have been rising because of the political decisions made by president Putin. This development can be seen today in Lapland in the growth of bordercrossings from the level of 100.000 people to almost 400.000 in this year.

The mining industry is also investing in Kola Peninsula. Companies like Norilsk Nickel, Severstal, Fosagro, Akron and Eurochem are renewing mining technology and opening new mines. Foreign mining companies like Canadian Barrick Gold Company are participating to these projects. Total value of these investments in Murmansk region is expected to be about 3.5 billion euro before 2020. Finnish mining technology has been very popular in the north. Therefore you should definitely keep an eye on all branches of business in Murmansk.

Timo Rautajoki

CEO

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## Times are changing for the Northern Russian town of Pechenga

By Anneli Ahonen

The rough beauty of Arctic nature is stunning. The Pechenga River runs wildly through the hills towards the Pechenga Bay on the Barents Sea. It was July 2012, but the temperature was only a few degrees above zero, as I was traveling with photographer Nikolai Gontar in the Murmansk region in Northern Russia. We were compiling material for a series of articles to be published in the Finnish newspaper Helsingin Sanomat.

The focus of our attention was the settlement of Pechenga near the Norwegian border. Only a couple of years ago it was still a restricted military zone where foreigners were not welcome. Since June, the residents of the border areas in Russia and Norway have been able to apply for a special ID card that allows them to cross the border without a visa. Pechenga is one of the territories included in the deal, so it felt like a current topic to cover: a once strictly closed military town that now struggles to meet the needs of the modern world.

At the same time, there is a great deal happening in the northern parts of Russia. For example, cooperation with Norway is rapidly increasing: Already in 2010 the two countries resolved their maritime boundary dispute, an Russian Rosneft and Norwegian Statoil have agreed to cooperate on oil and gas projects in the Arctic. In November the oil companies even declared their commitment to the preservation of the biodiversity of the Arctic – the true meaning of the promise remains to be seen. Norway is also planning to develop Kirkenes into a major port.

As we arrived in Pechenga from Murmansk, we were greeted by a huge statue of a Soviet soldier. Behind it stood Pechenga, consisting of run-down concrete buildings. According to the 2010 census, Pechenga has less than 3,200 inhabitants, of which over 70 percent are men. Almost all of them are soldiers or former military personnel. The only civilian building holds a health care clinic, a post office, a library and municipal administration offices. We were supposed to meet with Eduard Zatona, the head of the municipal administration. The contrast between his fully renovated office with its MacBook and iPhone and the surrounding town was obvious. His black leather jacket brought to mind the times when it was a necessary status symbol. Zatona did not have time to speak with us, even though we had made an appointment.

"You had better move on to Nikel," he said, smiling "They have more experience on international cooperation."

At the parking lot we met a middle-aged woman with a toddler. Olga Romanovskaya told us she had moved to Pechenga from Belarus two years ago. She was only supposed to visit her two brothers who were serving in the Russian army, but she ended up staying. Earning 20,000 rubles (500 euros) a month as a shop assistant, she can send money to relatives back home.

Retired soldier Konstantin, 50, was on his way to the grocery store. He thought everything was better than before.

"There's more money and more cars than before," he said. His pension is 35,000 rubles a month - a exceptionally good pension in Russia. He is one of the few who has actually obtained the ID card that allows visa-free travel to Norway. In Finland and Norway he shops for food and electric appliances.

Pensioner Alevtina Glinkina, 72, was leaning on her walking stick, as she told us her living conditions had not improved.

"Soldiers are being fired and people are moving away. Our apartment block was built in 1972, and it hasn't been renovated since. It's very cold in the corner apartments, when the wind is blowing hard," Glinkina said.

Glinkina moved to Pechenga from Novgorod after she met her husband, who served at the ice-free harbour of Liinahamari only a couple of kilometres from Pechenga. They had two children and life was settling down, but then her husband's drinking problem got worse, and eventually he left. Glinkina now lives alone in Pechenga, and the children have already moved away. Her 10,000-ruble (250-euro) pension is not enough for medicines.

"I have been writing complaints even to Moscow, but it doesn't help."

But life is not just misery for her, thanks to television and the entertainment it offers. And it seemed she was not the only one to feel that way. There were satellite dishes all over the grey block buildings.

Schoolboys Sascha, 15, and Danil, 13, were feeding pigeons with sunflower seeds near the local culture center.

"We want to go and study somewhere, but probably close to Pechenga, maybe Nikel," the boys say.

The Russian metropolises, Moscow and Saint Petersburg, are far away from Pechenga. During their free time, the boys ride around on their bikes or surf the internet.

The Arctic region is going through huge changes. Opening borders and the internet are changing people's daily lives, often complicated by lack of money and the poor quality of municipal services and health care. At the same time they hear constant promises of better life from politicians.

When it comes to Pechenga, there may be new work opportunities to come. In the beginning of December, the 200th independent motorized infantry brigade became part of the Northern Fleet. The headquarters of the brigade are in the settlement of Pechenga. According to the internet news service BarentsObserver, this means that the Kola Peninsula is about to get a powerful land-based force. There are plans to make the brigade in Pechenga one of the Arctic Brigades in 2015, which would mean special training programs and modern equipment.

Bearing this in mind, the opening of Pechenga to foreign tourists is not likely, even though the area has potential to attract foreign visitors. Suggestions that Finland could rent a harbor in Pechenga also seem rather unrealistic.

While we were doing our reportage in Pechenga, we were observed by black-suited men from a distance, constantly talking on the phone. As we were heading back to the center of Pechenga from the nearby German-Russian cemetery, we were stopped by four men, introducing themselves as representatives of the Russian Ministry of Internal Affairs. They checked our passports and press credentials and wanted to know what people had told us. In the center we were again told to stop and wait until the lieutenant colonel would come to question us. He deleted all our photos of military buildings.

Anneli Ahonen

Finnish journalist based in St. Petersburg

## The bridge over troubled waters of North West Russia

By Martti Hahl

In North West Russia you cannot use the water from the tap directly for drinking, not anywhere. And at the other end of the sewage pipe approximately 75-80% of the waste water is led to the surrounding natural waters untreated.

The whole system of water and waste water treatment is seriously outdated and needs immediate renovation.

In order to get the water and waste water treatment up to date you need financing. To get the financing there has to be a business plan, a plan how to pay the loan back. The normal practice in municipal water services is to make a long term forecast showing how the financing of the payback is structured with tariffs and potential local and state support tools. Though in North West of Russia there is not one decision making politician, who supports the raising of the tariffs. Raising of the tariffs would lead to protests, which could jeopardize any political career. Not raising the tariffs leads to a loss in operations so the water works are unprofitable.

This is where it gets tough in North West Russia, which is basically the area north of Leningrad Oblast to Murmansk. It has been operating with a sizeable budget deficit since the fall of the Soviet Union. In more simple terms, the area is insolvent. This in turn has led to a situation, where the local government and authorities have to act and operate in concert with the wishes of Moscow, which pays the bills the local governments cannot.

European Bank of Reconstruction Development (EBRD), Northern Dimension Environmental Partnership (NDEP), Nordic Environmental Financing Corporation (NEFCO) and Nordic Investment Bank (NIB) have been the active financiers of these kind of long term infrastructure supporting projects in Russia. The most well-known of their "water" projects has been the cooperation with St. Petersburg Vodokanal. This has become a prime example of successful cooperation between the Northern Dimension countries and the skilful Russian management of the project, for dramatic lessening of the harmful waste water effects in the Baltic Sea. This project was supported by all Northern Dimension countries and the Russian Federation on the highest political level.

This does not seem to be the case in North West Russia.

The Murmansk City Water and Wastewater Infrastructure Rehabilitation Project has been waiting two years for the governor's approving signature since the planned initial date of December 2010. The former, disputed, Murmansk Oblast governor has been replaced by Marina Kovtun in late spring 2012. The project size is 28, 7 M€, the self-financing part of the project amounts to approximately 5 M€ and grant funds to 8 M€. The project moves slowly, if at all, although a Public Investment of this kind would be the first concrete good news for the Murmansk Oblast citizens since the freezing of the Shtokman gas field, which was supposed to make the whole Kola peninsula fly. The package is prepared and ready, so the governor, as the insiders say, just decides if it is a go or no. If it will be a yes, it will be a major step forward in improving the infrastructure and signals the Oblasts willingness to make real progress.

In Archangel'sk the Municipal Water Services Development (Water Treatment Plant) received a financing package of 25, 5 M€, supported by NDEP, Finnish and

Swedish government grants (8 M€). According to sources in Archangel'sk the agreed loan repayment has been stopped a few months ago and the Archangel'sk Water Treatment Plant may end up in receivership or bankruptcy. This would lead to the Archangel'sk Oblast taking the hit of the loan repayment and the grants in full, due to Oblast being the guarantor for the loan. This would give the new Governor Igor Orlov a tough start in his new job and make the IFI: s to rethink their preparedness to finance Russian infrastructure projects.

But there is a positive exception, Petrozavodsk in Karelia. The Water and Wastewater Project agreement signatures and approvals had been off for a couple of years. The signature would give this project a Republican guarantee and therewith a go ahead. The total package was 32 M€, with NIB/NEFCO loans, federal allocations, and grant funds 5 M€ from NDEP and 2 M€ from the Finnish Government. The agreement was not signed by the two previous Heads of the Karelian Republic. When Alexander Hudilainen the new Head of the Karelian Republic entered the office late spring 2012, one of his very first Public Investment actions was to sign the agreement for Petrozavodsk Water and wastewater Project in summer 2012.

So what should be done? North West Russia is a group of traditional, hierarchically governed, oblasts acting under the Federal Government. The Russian governors talk with governors and ministers, and occasionally talk to directors. The closest neighbor to North West Russia, and an active grant provider, Finland got rid of regional county governors a few years ago, which left the Russian governors without an equal talking partner on the Finnish side. The Finnish ministers and ministries are the next acceptable level of contact.

By bringing up the issue with these infrastructure improvement projects in North West Russia to ministerial level, locally, and if needed federally, like it was already done in St. Petersburg, would help to get the projects started or back on track, improve the potential for other long term investments and boost the substance and credibility of the new governors.

The Finnish and Norwegian governments and ministries, which have had the most active contact and knowledge of North West of Russia, should now take an active role in supporting these projects and their completion and replace political rhetoric for something, that really improves the living environment.

N.B. The partner governments in Northern Dimension Environmental Partnership (NDEP) are Russia, France, Canada, Germany, United Kingdom, Denmark, Norway, Netherlands, Belgium, Belarus, Finland and Sweden.

*Martti Hahl*

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## Baltic energy infrastructure – from isolation towards integration

By Philip Lowe

History of the Baltic Energy Market Interconnection Plan (BEMIP) - cooperation of the countries around the Baltic Sea in energy - started in 2008 when European Commission President Barroso called for setting up a High Level Group to deal with security of energy supply in the Baltic region and to allow for integrated and functioning energy markets.

Since adoption of the 2009 Action Plan endorsed by the EU Member States in the Baltic region (along with Norway as observer), the progress is undeniable. New investments in energy infrastructure and advance in internal market issues prove this cooperation as effective, one that delivers tangible results.

At the same time, four years after the first steps taken, there are obvious signs of stumbling. It is up to concerned Member States to avoid the fall and to overcome actual and emerging challenges.

What were the reasons for grouping the EU Member States around the Baltic Sea? What made Denmark, Sweden Finland and Germany to participate in BEMIP and to deal with energy issues concerning mainly their Eastern neighbours? Beside the evident interests of Western Member States linked to increasing their security of supply and flexibility of their energy networks, the key element of the cooperation was and still is a principle of European energy policy: solidarity.

The challenges the Baltic Sea region faces are significantly different in West and East. While in the West main preoccupations are integration of renewables and ensuring better implementation of the internal market rules, the East lacks even the basic conditions for security of supply and functioning markets. In any case, being isolated from European energy networks while having monopolist suppliers and operators allowing for no competition, cannot be seen as proper conditions...

### So far, so good?

Implementation of electricity action plan appeared to be easier. A major aspect for electricity-related actions was the effort of the three Baltic States for strengthening their energy security situation through development of energy interconnections to Finland, Sweden and Poland and integration of their markets with the well-developed Nordic power market, with active support and help of Nordic countries. A condition set for political support was creation of an open and functioning electricity market in the three Baltic States. Market conditions – through the possibility of securing project financing without public intervention – would allow for bulk of necessary investments. Existence of a functioning energy market on both sides of the planned interconnections was required in order to maintain the well-functioning electricity market Nordpool undamaged. The roadmap for electricity within the BEMIP Action Plan identified major steps towards a functioning internal market in the three Baltic States and the integration of the Baltic electricity market into Nordpool. Implementation of the electricity actions is on good track. Electricity interconnections NordBalt (Sweden-Lithuania) and EstLink (Finland-Estonia) are under construction, LitPolLink between Poland-Lithuania seems to be also on track. Beside the infrastructure, regulatory aspects progressed as well. NordPool spots started their

operations in Estonia (2011) and Lithuania (2012), with Latvia expected to follow in 2013.

Baltic region's gas landscape is very diverse: some Member States are producers, some net exporters and some rely fully on imports. Norway and Denmark are net exporters of gas, Poland and Germany that have indigenous production (of around 4,3 bcm and 16 bcm per year, respectively) which can cover a certain share of their national needs, while Sweden, Finland and the three Baltic States rely on imports. These facts along with geographical and geopolitical differences called for customised solutions. Declining production of Danish gas fields necessitated investments in gas networks at the German-Danish border and – considering possible game changer unconventional gas production and the Swinoujscie LNG terminal in Poland – between Denmark and Poland. Although Sweden's sole interconnection to Denmark may be seen as a potential issue (as identified by TSOs' ten year network development plan), the real threat for security of supply and functioning of internal energy market is the isolation of the three Baltic States and – to some extent – Finland.

Due to their isolated status and existence of one dominant, derogations under the Third Market Package are in place for these Member States (except Lithuania). Relatively small gas consumption in the Eastern Baltic region (5 bcm per year in the three Baltic States, potentially doubled by adding Finland to the equation) hardly justifies considerable investments in infrastructure, due to economies of scale.

In the Eastern Baltic Sea area a vicious circle prevents availability of benefits of a functioning market: no development in security of supply and competition due to lack of required infrastructure elements and no investments infrastructure due to uncertain market conditions. This vicious circle calls for action: intense cooperation of concerned Member States is required in order to provide political and - as last resort – regulatory and public support for project promoters. To this end in 2009 the BEMIP High Level Group agreed on a minimum set of infrastructure projects in the three Baltic States and Finland, with a view to ending isolation and derogations. These projects are the Polish-Lithuanian gas link, the BalticConnector between Estonia and Finland, and a regional LNG terminal. Strengthening of the internal system in Estonia, Latvia and Lithuania and additional storage capacity in the region would also be required.

A recent study – prepared by the European Commission on specific request of the BEMIP High Level Group – identified the optimal location for an LNG terminal in the Eastern Baltic region along with linked pipeline projects. The project set proposed by the study would allow for competition and increased security of supply level.

### Outstanding issues

While the Member States in the Baltic region were struggling with implementation of the Action Plan designed back in 2008, new challenges aroused, resulting in additional questions and issues concerning Baltic infrastructure development. The economic crisis made financing of energy infrastructure cumbersome in the

whole world and made itself felt in particular in the Eastern Baltic region.

For historic reasons, the Baltic States power and gas systems are closely connected with the Russian Federation, a key neighbour and energy supplier of the EU. One should consider the inevitable role of Russia when shaping the future of Baltic energy policy. Russia is and will remain a key political and economic partner of the European Union in general and the Baltic region in particular. Integration of the Baltic States into EU energy markets and their development of energy relations with Russia are not in contradiction. The more the Baltic energy markets are integrated in the EU markets, the easier relations with Russia may become.

Political agendas sometimes constitute the biggest challenges. In electricity, recent political developments question implementation of a key infrastructure element (Visaginas nuclear power plant in Lithuania), calling for new options to assess when aiming one of the main long-term objectives, integration of Baltic networks into the main European grid. This swift change significantly impacts on-going negotiations with Russia and Belarus on operational rules and the study prepared by network operators on synchronisation of Baltic electricity systems with the European ones.

Baltic States – after a years-long deadlock – have to agree on implementation of key regional gas infrastructure projects. The urge for action requires governments' goodwill for cooperation and a flexibility level unfortunately so far unprecedented in the Eastern Baltic region.

#### Time to take decisions

Decisions on key energy infrastructure projects should ultimately be with the governments of concerned Member States. They are all aware of the fact that benefits of a functioning internal market and upgraded infrastructures are not free of charge. Investments are to be recovered through tariffs and ultimately paid by the consumers. Public support in legitimate cases can somewhat offset this burden. In the last years a large number of Baltic infrastructure projects received financial support from the

Trans-European Networks – Energy programme and no wonder that a significant part of EU funds provided through the European Energy Programme for Recovery in 2009 was earmarked for the Baltic region (533 million EUR for gas and electricity projects, 23.5 % of the financial envelope).

Despite any financial solidarity, bulk of the costs shall be borne by consumers in the Baltic region. In a far-from-rosy economic situation, allowing for increased energy bills due to additional investments is the last on governments' wishlist, especially in the Eastern Baltic region, where energy poverty is an everyday reality.

Calculation is far for being simple. On one hand there are the inevitable and certain costs related to infrastructure projects (e.g. more than 600 million EUR for gas infrastructure developments identified by the study mentioned above), on the other hand the benefits delivered by them may be not immediate, especially when considering the relatively short political cycles. Benefits to welfare delivered by increased security of supply and competitive market conditions may be hard to quantify.

Experience of the BEMIP clearly indicates that though energy challenges in the Baltic region require regional answers, elaborated through regional cooperation. It is high time to understand that mathematics is an abstract science: best solutions for the region are not equal to the sum of national maximum programs. One should agree with the words of European Commissioner Oettinger: "now, more than ever, there is need for cooperation, understanding and compromise..."

*Philip Lowe*

*Director-General*

*DG ENERGY*

*European Comission*

# Natural Gas, LNG and the Baltic Sea

By Torstein Indrebø

## Cleaner energy for a changing world

Globally natural gas steadily increased its share of the global energy market from about 18% of primary energy consumption in 1970 to 23% at the end of the millennium, roughly the percentage share it still holds today.

Our human population continues to grow rapidly; it took little more than a decade to increase from 6 billion to 7 billion people in the world and there is little sign of this trend slowing down. Global energy demand will increase and low-polluting solutions, which involve a larger share of natural gas being used in more efficient applications, must be found.

My confidence in natural gas is founded on five key attributes:

1. Natural gas is Clean; producing no sulphur, no particulates and far less CO<sub>2</sub> and nitrogen oxides than oil or coal.
2. Natural gas is Affordable; with low capital cost for power generation and not requiring subsidies
3. Natural gas is Reliable; with many supplies and diverse routes to Europe, and well-connected flexible infrastructure within the EU that should allow gas to complement the use of less reliable, intermittent renewable energy sources.
4. Natural gas is Efficient; gas-fired plants are typically 40% more efficient than coal and require far less construction time than nuclear.
5. Natural gas is Safe and Secure; with the best safety record in the industry and with abundant conventional and unconventional supplies within economic distance of Europe.

In short, natural gas CARES about the world. It is a clean, affordable, reliable, efficient, and secure energy source that has a vital role to play in the sustainable energy future of our planet.

## Growth in Liquefied Natural Gas

During the last decade there has been an enormous increase in Europe's ability to import LNG, with new regasification terminals or major expansion of existing facilities in Belgium, Netherlands, France, United Kingdom, Spain, Portugal, Italy, Greece and Turkey. In 2000 Europe imported 32 bcm (billion cubic metres) of natural gas as LNG, by 2010 this had increased to 87 bcm. Looking to the future, construction of a new LNG import facility is underway in Poland adding new gas supply options from 2014 for a country with growing gas demand. There are many other European LNG projects in a variety of planning stages in Germany, France, UK, Ireland, Spain, Albania, Croatia, Italy, Cyprus and of course in the Baltic States.

Europe, however, continues to struggle with the effects of an economic downturn that knocked back energy demand. Gas demand in Europe fell but has started slowly to recover. Even if demand growth remains slow there is no doubt that Europe will need to import more natural gas as our indigenous supplies are now well in decline. It is essential, therefore, that political leaders provide the right signals that encourage business leaders to continue to make investment decisions. Consumers will only be supplied if new gas sources are developed with supply routes in place to bring natural gas to the market, and if we have the facilities ready to receive, store and distribute LNG and natural gas.

## LNG and shale gas

LNG ships have been operating for more than fifty years. In January 1959 the Methane Pioneer (5034 dwt) set off for Europe with a cargo of liquefied natural gas from the Louisiana Gulf coast of the USA. International LNG trade now uses a global fleet of over 350 active ships, the largest carrying up to 266,000 m<sup>3</sup> of

LNG. Annual worldwide deliveries are equivalent to more than 300 bcm of natural gas, about 10% of global consumption.

The global economic slowdown and the aftermath of the Fukushima nuclear disaster both caused shifts in regional gas demand, but probably the biggest and longest lasting influence on the trade of LNG is the rapid development of natural gas from tight shale formations in North America. This 'shale gas revolution' is now expected to endure sufficiently for the USA and Canada not to import LNG as expected five years ago, but to make potentially significant LNG sales. Contracts are already signed with several companies in Europe and in Asia, and most commentators expect deliveries to ramp up quickly from 2016-2018. It seems that only political concerns stand in the way of the US, and North America as a whole, becoming a net exporting region.

## LNG for the Baltic

Additional gas infrastructure and gas supply options in the Baltic region would benefit from security of energy supply and help long term sustainable development. The projects involved are challenging, not only because they are capital intensive, but also because international treaties and agreements often need to be negotiated. Can the Baltic States benefit through their own access to LNG, better integration and wider use of natural gas particularly for shipping? I think that there are some very positive signs: Major development of a fleet of LNG-fuelled product tankers still has some financial, political and technical challenges to overcome, but with the EU's new Emission Control Area regulations on pollution from ships in force from 2015 the momentum seems to be growing.

In October 2011 the LNG-fuelled product tanker 'Bit Viking' (25,000 dwt) was converted from heavy fuel oil to dual fuel engines running on LNG, supplied by two 500 cubic meter LNG storage tanks, and officially re-entered service. She operates along the coast of Norway, from Oslo to Kirkenes, with reported environmental benefits including greenhouse gas reductions of 20-25%, sulphur output cut entirely, NO<sub>x</sub> gases down 90% and particulate emissions reduced by 99%.

Use of LNG as a ship fuel will help to meet the environmental standards and promote a better ecological balance in the Baltic Sea. Like most aspects of the international gas business (which require investment in delivery & storage infrastructure as well as supply) the promotion of the use of LNG as ship fuel requires joint action between States, administrations, ports and the industry. There was already some progress on this in July 2012, when representatives of seven Baltic ports gathered in Copenhagen and signed a partner agreement related to "LNG in the Baltic Sea Ports".

Natural gas is a continuing success story. One of the most economically efficient ways of reducing CO<sub>2</sub> emissions is simply by using proven high-efficiency natural gas technology and switching to natural gas in preference to other fuels. If we want a clean and secure energy future at an affordable price then there needs to be an important role for natural gas throughout the world, and that includes Europe and use of LNG in the Baltic.

Torstein Indrebø

Secretary General

International Gas Union, IGU

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## Europe needs energy investments

By Esa Härmälä

Europe has set on the highest political level the ambitious target to decrease green house gas emissions by 85-90% by the year 2050. This means that energy production must become practically carbon free. Less than 40 years is a short time. It is often said that in energy business a quartile is 25 years. The expected life time of many energy investments is even longer – in many cases more than 50 years.

The way to a low carbon energy sector can only go through massive investments. They are needed not only for energy production but also for transmission and distribution. In the future the energy system will be a combination of both centralized very sizeable production concentrations and decentralized production units which must be connected by smart grids flexible enough to operate in a stable, safe and environmentally friendly way. For example off-shore wind parks or nuclear power plants represent the centralized production pattern and the solar panels on the roofs of private homes the decentralized way to do it.

The energy revolution cannot be realized in a way that threatens peoples' energy security. Our modern society sets very high requirements for example for the quality of electricity. Computer centers or hospitals cannot go up and down with the wind or sun!

The first problem is to find the money for the massive energy investments. We speak about thousands of billions of euro during the coming decades. As such there is a lot of money in the world. It is more about the readiness to invest in the energy sector. Today investors feel uncertain.

Investors are aware that there are political risks in investing in energy. Partly this is very natural because in very long term investments there are always considerable uncertainties. However, in the energy sector the political risks are even higher because since the climate policy has taken such a strong role they are not anymore "energy only" investments. Due to the linkage between climate and energy policy political interventions and steering is more dominant than before. This makes investors cautious.

The main problem is that the European energy and climate policy targets beyond year 2020 are open and it will still take a couple of more years before they will be set. Today the European targets for 2020 are 20% less emissions, the share of renewables up to the average level of 20% (in Finland 38%) and 20% more energy efficiency. The first two are binding targets for the EU Member States but the energy efficiency target is for the EU as a whole. The main policy tools of the EU to achieve these targets are emission trading, support schemes for renewables and the energy efficiency directives.

The open questions for years after 2020 are basically that how many targets there will be, are they binding for the Member States and what is the level of ambitions, in other words, how high percentages for 2030 and further on? These are very relevant questions for investors.

Today there are more and more demands that only one of the targets – emission reductions – should be binding. The others should be general EU-level targets. The main argument for this is that the more binding targets you have on an ambitious level the more difficult it is to cost optimize measures. One has to choose measure A although the same emission reduction could be achieved more economically by using B.

There is also growing criticism of different support schemes to renewables. The main argument is that subsidies cause disturbance to markets. Electricity or heat is the same product in spite of the fact how it is produced: by renewables, fossil fuels or nuclear. Investors feel that it is very demanding to make price scenarios beyond 15 years or so as there are different terms of competition; some are subsidized, the others taxed, and both are subject to changing political decisions. There are already some worrying EU-level examples on the changing decisions. So far the production of bio fuels for transport has been supported but now there is a proposal to put limits on the so called first generation bio fuels thus preventing the industry to expand its activities. There is also a proposal to change the rules for emission trading in the middle of the emission trading period till 2020.

It is of outmost importance that decision makers realize that investors need stability and thus decisions for years beyond 2020 must be made sooner than later. It is equally important that the political risks of changing rules in the middle of the game will be kept to minimum.

### Energy issues central in the Baltic area

The countries around the Baltic Sea are not very homogeneous in the field of energy. Societies, their history and structure of the economy as well as natural circumstances vary a lot. For the Baltic States connecting to the energy networks of the rest of the EU is the priority. Especially in the area of natural gas through possible construction of an LNG-terminal at the Gulf of Finland there is light at sight. Finland has an active role in this development because an LNG-option could make natural gas market more competitive in Finland.

Polish economy is strongly based on coal and it will take a lot of time and money to change this situation. The others should respect that. Germans are testing the sustainability of their own country, as well as that of their neighbors, with their Energiewende. The Danes are climate radicals relying more and more on wind as well as regulating power from the other Nordic countries.

Norway is the energy giant both in oil, gas and hydro. They do not have too much to worry about. Sweden is well placed, too. They have a lot of both hydro, nuclear and biomass. Finland has less hydro and nuclear than Sweden and thus still today more carbon in the energy system.

The Baltic Sea area is an area of growth in Europe with its relatively stable and well developing societies. If each of the countries alone, and all together, has the strength to invest in the energy systems area's future looks much better than that of the rest of Europe.

Esa Härmälä

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## LNG terminal in Lithuania – a small solution to a very large problem

By Rokas Masiulis

On November 23 the European Commission published a strategic vision on the construction of a liquefied natural gas terminal. The study by Booz & Company concluded that the regional terminal should be built in either Estonia or Finland. The study, which was undertaken at the request of the EU states working to implement the Baltic Energy Market Interconnection Plan (BEMIP), provides the strategic framework upon which the countries and project promoters concerned should base future decisions.

This document also identifies the infrastructure required for the internal market to function correctly and for the region's energy supplies to be secured.

The member states concerned are expected to agree upon an action plan for the implementation of the programme in the areas of infrastructure development and gas supply diversification at the next meeting of the high-level BEMIP task group. The plan will outline specific measures covering political arrangements, regulatory issues and commercial decisions, project development and the implementation of infrastructure projects.

A perfect chain of work – from study, through agreement to planning – should ensure successful project implementation. This project is highly significant and is a necessity for all the countries involved in BEMIP implementation.

The regional terminal would supply gas to the Baltic States and Finland, which are now completely dependent upon a single Russian supplier. The terminal would be eligible for financial support from the EU.

Accordingly, it should be large, located in a strategic position and served by well-planned infrastructure. The terminal could be opened in around 2030 but Lithuania cannot wait this long.

Therefore, Klaipédos Nafta AB is implementing a liquefied natural gas terminal project in the country. The terminal will be built in Klaipédá, the northernmost ice-free port in the Baltic States, close to an island bearing the somewhat ironic name of Kiaulés Nugara (Pig's Back). It will be relatively small and will not receive financial support from the EU.

Nevertheless, it has one huge advantage – it is already being built. At the moment, the project is on track and both the necessary coastal infrastructure and a floating storage and regasification unit (FSRU) under construction in South Korea, which Lithuania will lease from Norwegian company Hoegh LNG, will be operational at the end of 2014.

Moreover, I would guess that this terminal will be used as a small regional terminal in the near future, regardless of the implementation of European Commission-supported initiatives. Despite its relatively small capacity (between 2 and 3 billion cubic metres of gas per year), it will be big enough to be significant to both the Baltic gas import structure and the gas price. The Klaipédá terminal, which in theory will be able to meet up to two-thirds of the gas demand of the Baltic States is set to become a serious alternative and a useful asset in negotiations with gas suppliers.

The project implementation process suggests an increasing number of reasons that it has the potential to turn from a strategic project meeting energy security objectives into a real regional gas market player.

Such potential was not seen as a priority back in 2010 when the Lithuanian Government addressed essential project progress and timing issues. In the wake of the decommissioning of the Ignalina Nuclear Power Plant, Lithuania's dependence on gas supplied by Gazprom became a real threat to the country's energy security. Industry, the heating of households and electricity production became dependent on a single source and a single supplier. Therefore, in addition to the new nuclear power plant project which has a very long implementation period, a fast and efficient solution was required for the transition. The new terminal is in line with both strategic and economic objectives, as it will provide access to gas from alternative suppliers and will create the preconditions necessary for securing cheaper gas and negotiating better prices with the Russian supplier (Lithuania currently pays the highest price for gas in Europe – EUR 405 per 1,000 cubic metres while, since 2002, the price of gas has risen six fold).

Consultations with the other Baltic States have shown that a quick decision on a joint project is not possible because too many positions would have to be coordinated. After evaluating the situation and possibilities, the Lithuanian Government decided to implement the project in Lithuania, taking into account the situation in the country and possible alternatives. It should be pointed out that Lithuania has also decided to implement the EU Third Energy Package requirements for the electricity and gas markets. Therefore, the terminal should be seen in the context of this comprehensive energy sector reform.

The first decision to be made was over the type of terminal to be built. Two alternatives – land-based or floating – were considered for the type of LNG terminal. A working group set up to examine the alternatives recommended a floating terminal at a cost that is about EUR 100 million less than the land-based alternative. It would be built much faster and would allow its floating storage and regasification unit to be moved to another location if necessary.

This is an important factor as far as the project lifetime is concerned. Unprecedented gas market dynamics have meant that the FSRU along with the operator functions will be leased for ten years instead of being purchased. Moreover, the possibility of increasing the design capacity of the terminal in the event that Latvia or Estonia decides to buy more gas in Klaipédá in future was taken into account during the preparatory stage of the project.

The terminal project has already reached the point of no return – something which is focusing minds and imposing strict disciplines upon both the company implementing the project and the main decision makers. This is a very important factor given the changing political context, uncertainty in prioritising different energy sources and the actions and lobbying potential of other gas market participants. Moreover, the legal and political uncertainty that has arisen following an advisory referendum on the construction of a new nuclear power plant in October has further increased the importance of the LNG terminal project in the immediate future.

These are the factors that have been taken into account by the project promoters who recognise that the

LNG terminal project is in the spotlight when it comes to the energy system in Lithuania and across the Baltics.

The good news is that progress on the project is proceeding according to plan. South Korea's Hyundai Heavy Industries shipyard has already started steel cutting work on the FSRU – which will have a capacity of 170,000 cubic metres – as well as starting production of the unit's technical equipment. Meanwhile, the preparation and approval of the project financing structure is being finalised in Lithuania.

Having evaluated the environment, project progress and any changes, it is safe to say that the strategic Lithuanian energy security installation is becoming a timely project of benefit to the entire region.

This is extremely important when we consider the very significant but long-lasting and quite cumbersome processes within the EU. While the European Commission is forced to deal with assumptions and "what if" scenarios, we can prepare the ground for radical changes in the future with small but effective solutions. Even if we listen to those who prophesise the domination of the European

gas market by a few very large companies, we cannot ignore the fact that liquefied natural gas terminal infrastructure development and shale gas have radically altered the balance of power and possibilities in global gas markets – perhaps forever.

A lot of white spots still remain on the new map of the global gas market. Those who are first to market in new areas will be the winners.

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## LNG import terminals in Baltic Sea Region – review of current projects

By Monika Rozmarynowska

One of the most important energy source for economies around the Baltic Sea is natural gas. However, there are no large natural gas supplies in Eastern Europe and Russia is a dominant supplier of gas to the Baltic countries such as: Estonia, Finland, Latvia, Lithuania and Poland. That's why over the past several years diversification of natural gas supply has been a widely discussed issue within Baltic Sea Region. The technology that provides an excellent way to diversify Baltic countries gas supplies away from Russia is LNG. As there are several projects concerning LNG terminals within Baltic Region under way, it can be expected that liquefied natural gas may play an important role in the Baltic Sea Region in the near future.

It can be said that the history of LNG within Baltic Sea Region has already been started. The first LNG import terminal in Baltic Region was officially put into operation in May 2011 in Nynäshamn (Sweden). The terminal's owner and operator is AGA (Linde Group). It is a medium size import facility. It is equipped with one tank, which capacity reaches 20,000 m<sup>3</sup> (9,000 tonnes). Terminal can receive LNG carriers with a capacity up to 15,000 m<sup>3</sup>, and length up to 120 m. The natural gas for terminal in Sweden is sourced from the Stavanger LNG plant in Norway. Facility is used to supply with gas various customers in the Eastern part of Sweden. Terminal supplies for example the city grid of Stockholm and some industrial facilities, including the neighbouring crude oil refinery Nynas.

The second LNG import terminal within Baltic Sea is being constructed in Świnoujście (Poland). However, this terminal will be of a much larger scale than that existing in Sweden. According to the plans, the annual handling capacity of the terminal will vary from 5.0 to 7.5 billion m<sup>3</sup> of gas following the demand of the market. This capacity will constitute from about 30% to 50% of the current annual demand for gas in Poland (which is approximately 15 billion m<sup>3</sup>). LNG jetty will be adjusted for LNG carriers of a capacity up to 216,000 m<sup>3</sup> (Q-flex). Terminal will be equipped with two storage tanks, each able to store 160,000 m<sup>3</sup> of LNG. Terminal is planned to be put into operation in June 2014. The only company to have confirmed its will to use the terminal so far is PGNiG, which intends to import 1.5 billion m<sup>3</sup> per year of LNG from Qatar.

The construction of large scale LNG terminals in order to diversify energy sources and reduce energy dependence on Russia is considered also by other Baltic countries (Lithuania, Latvia, Estonia, Finland). Currently, Lithuanian project seems to be at the most advanced stage of implementation. In the first quarter of 2012 the Lithuanian government has accepted a bill, which covers all necessary conditions for setting up a LNG terminal in Klaipeda port. The central element of Lithuanians LNG terminal will be Floating Storage and Regasification Unit (FSRU). The unit is ordered by the Norwegian company Höegh LNG, but will be handed over to Lithuanian Klaipedos Nafta (developer of LNG terminal in Lithuania) under a time-charter agreement. The ship will be chartered for 10 years at \$189,000 a day (\$689 million for 10 years). After this period, FSRU may be bought by the

operator. The unit will be moored at port of Klaipeda and will be connected to a network of gas pipelines. The tanks' capacity will be 170,000 m<sup>3</sup>, while the annual capacity of a floating terminal is estimated at 2-3 billion m<sup>3</sup> (which is an equivalent of the 100% of Lithuania's current demand for natural gas). The FSRU will receive gas from ordinary gas tankers. According to plans, Lithuania's LNG terminal should be put into operation in 2014.

Construction of LNG terminal is also considered by Estonia. The terminal is intended to build on the east side of Muuga Harbour. The initial plans assume that the proposed terminal could be equipped with storage tank of a capacity of 90,000 m<sup>3</sup> and would be able to receive LNG carriers up to 75,000 m<sup>3</sup>. Also Latvia revealed its idea to build LNG terminal. Riga is indicated as a potential localization for such facility.

However, three large scale LNG terminals in the near vicinity that will be certainly too many. The most suitable option would be to build one regional LNG terminal for all of three Baltic States. And here the problem starts. All three countries persist that construction of LNG terminal in each own country would be the best option. However European Union will not co-finance the construction of a LNG terminal if an agreement is not reached for involving all Baltic States in the project. Latvia, Lithuania and Estonia were unable to reach a final agreement in autumn 2011, therefore, the European Commission hired consulting company (Booz & Company) that carried out an independent research in order to identify the most suitable location. The EC plans to reveal the findings of its research by the end of this year. However, according to the initial results the terminal should most likely be located in Latvia. Consulting company recommended also choosing Estonia for construction of the Baltic liquefied natural gas (LNG) terminal, on condition that Finland joins the project. On the other hand Finland also considers its own LNG terminal. Gasum considers construction of such facility in the southern part of the country. The potential localizations are: Jöddböle, Ingå, or Tolkkinen, Porvoo.

To sum up, the issue of LNG import terminals is a very present topic within Baltic Sea Region. Currently, there are two certain localizations of such facilities (Nynäshamn in Sweden and Świnoujście in Poland). It is still not sure, how the problem of LNG terminal localization in the eastern part of Baltic Region will be solved and whether there will be one or more LNG terminals. However, for sure LNG will play a very important role in future gas supply within Baltic Sea Region.

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## Environment projects in the Central Baltic Programme

By Juha Kettunen

The higher education institutions in Finland define their profiles and specify them by the focal areas of expertise. Turku University of Applied Sciences defined innovation pedagogy based on multi-field education as its profile, where applied research and development respond to the development needs and are integrated with education to support the innovations created in the work places in Southwest Finland.

Innovations are created in international activities and they are prerequisites for entrepreneurship.

The research and development programmes of the institution are based on the focal areas of the faculties. They are applied information and communication technology, biocompetence and business know-how, expertise in health care and medication, lifelong well-being services, marine environment and construction expertise, and working life based approaches to creative arts. The institution and faculties allocate financial resources to these programmes. External funding is sought to supplement the internal funding.

The Central Baltic INTERREG IV A Programme 2007–2013 covers regions from Estonia, Latvia, Sweden and Finland, including Åland. The Programme funds cross-border cooperation projects in the central Baltic Sea area, and allocates 96 million euros of project financing from the European Regional Development Fund. The Programme has three common priorities, which are Safe and Healthy Environment, Economically Competitive and Innovative Region, and Attractive and Dynamic Societies. Turku University of Applied Sciences has been an active partner especially in the environmental expertise projects, which matches the expertise of the institution best.

Turku University of Applied Sciences is a partner in 12 projects funded by the Central Baltic Programme, which is about 10% of the total number of 119 funded projects. According to the Act on Finnish universities of applied sciences, applied research and development serve education and promote working life and regional development, taking into account the economic structure. The following environment-related projects are examples of applied research and development:

The SUSBIO project (Sustainable utilization of waste and industrial non-core materials) aims to develop tools for the added sustainability of the food value chain in order to reduce the total environmental load on the Baltic Rim area. The project develops methods for the economic utilisation of industry byproducts and other biomaterials while applying the remains to energy production in integrated biofuel processes.

The BALTICSEANOW.INFO project (Innovative participatory forum for the Baltic Sea) aims to raise the environmental awareness, concern and commitment of the general public in the Baltic Sea environmental issues, to offer an arena for discussion, participation and information sharing and to promote the networking of educational institutions. The primary target group is the people living in the coastal areas of Finland, Sweden, Estonia and Latvia.

The general object of the DEVEPARK project (Sustainable historic park management and development in Finland and Estonia) is to improve the well-being and life quality of the EU citizens by developing historic parks. The Degree Programme in Design at Turku University of Applied Sciences has expertise in design and woodworking. The degree programme has agreed with the City of Turku to get the cut tree material for utilisation in park benches, signs and other products to promote sustainability.

The aims of the MINVA project (Minimization of wastewater loads at sparsely populated areas) are the exchange of knowledge and experience in the handling of waste water in sparsely populated areas, education and training and dissemination of good practices. The partners from Finland and Estonia develop models for common wastewater treatment systems, maintenance and service and follow-up systems.

The ProNatMat project (Promoting natural material know-how) promotes natural material know-how in Finland and Estonia. The aim of the project is to increase the use of natural materials in ecological building, handicraft, design and art and cultural heritage and increase the awareness of natural material know-how among all groups of population in Finland and Estonia.

The main objective of the project ACTIVE WETLANDS (Active measures on wetlands for decreasing the nutrient load in the Baltic Sea) is to generate knowledge and find out the applicability of different methods for increasing the efficiency of small wetlands. The project disseminates the latest wetland know-how and the outcomes of this project to farmers, agricultural stakeholders, rural advisers and decision-makers.

The objective of the PURE BIOMASS project (Potential and competitiveness of biomass as energy source in Central BSR) is to facilitate integrated and effective renewable energy resources (RES) usage in project regions by assessing RES potential and developing tools and solutions that help municipalities and companies in RES usage. The specific objectives are to assess the potential of renewable energy sources such as wind, biomass and solar energy in the project regions, to identify new RES usage possibilities and technologies, to determine the most effective RES usage (socially and economically) in the project regions and to develop cross-border competence tools for RES management and usage.

The objective of the COFREEN project (Concepts for using reed biomass as local bioenergy and building material) is to execute the sustainable managing of reed beds in southern Finland, Estonia and Latvia. The project also creates concepts for using reed biomass as a local source of bioenergy and construction material. The activities support Integrated Coastal Zone Management (ICZM) and counteract climate change. The project focuses on bioenergy production with reed, and looks for new ways to use reed in the construction industry.

The environmental projects are the most successful in getting funding from the Central Baltic Programme, but there are also four other projects titled CB JOB FERRY, eMEDIC, MIMO and VIRTU, where Turku University of Applied Sciences is a partner. All of these projects are examples of innovation pedagogy, which promotes radical innovations or incremental improvements of products, services or processes.

Juha Kettunen

Rector

*Turku University of Applied Sciences*

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## Responsible university education of business and economics in the BRE

By Markus Granlund

Turku School of Economics (TSE) belongs to the wide group of established and esteemed business schools in the Baltic Sea region that maintain high international standards in research and education. TSE has excellent relationships with a number of business schools in the BRE, but there is room for development in making these relations deeper. With some business schools we plan to form strategic partnerships, which would in a much more systematic manner create leading edge research and high quality, truly international learning experiences to students from bachelor to doctoral levels, without forgetting executive education. Co-operation may range from short period student exchange to long researcher and teacher visits to large common research projects, funded, for example, by the European Union.

The business schools around the Baltic Sea should also have a look at the mirror to reflect how they foster research based education of the future professionals and leaders regarding sustainability. It is more and more important to incorporate business ethics and other themes related to responsible business to the curricula of business schools. Furthermore, this should not only mean giving single courses on the topic, but incorporation of this thematic through the curriculum in a systematic way. All disciplines, from accounting and finance to law, marketing, management, and economics, should take this initiative seriously. In its part, such development would help in making the Baltic Sea region a safer and cleaner environment. Such development would eventually turn into a competitive advantage as well: the Baltic Sea region could be made a forerunner in environmental health, globally. Unfortunately, we are currently a long way from an environmentally healthy Baltic Sea. This projection necessitates radical actions, as it should be shown to the rest of the world that in this "laboratory" of ours we succeeded in a massive, almost impossible task. This is not possible without close co-operation between the BREs.

However, there is more hope if we induce this kind of responsible research based future orientation to current students, who will make decisions in the future. We need to carry on academic research together with the business life and public bodies in order to find cures for the current "diseases" of the Baltic Sea. We can also feed to the idea of life-long learning, and take future studies/orientation and sustainability to our adult education, especially executive education. The EPAS/EFMD accredited executive MBA program of TSE has a strong commitment to future studies and long term orientation. One facilitator and important partner in this work is Finland Futures Research Centre (FFRC), a special unit of the University of Turku. They also run a 25 ECTS study module on sustainable development that offers a multidisciplinary palette of leading edge courses on the global challenges of responsibility and sustainability.

Responsible business or management, or sustainability by and large, imply, of course, much more

than simply environmental issues. Naturally, the environment is upfront in related discussions, because it is an urgent matter and everybody has a word to say in that regard. Responsible management is, however, about taking all stakeholders of the organization into consideration when making significant decisions. No matter of the increased "money talk" in the university environment, we should not forget that the personnel and students are the most important stakeholders of universities, not companies, for instance. There is nothing to contribute to the business life without these stakeholders. Similarly, responsible management considers the appropriateness of excessive executive remuneration systems in times when the same companies fire or lay-off possibly hundreds of employees. This is "hard talk" from a Professor in a business discipline, but I feel it is also our duty to contribute to the sustainable and responsible development of societies in the long run. I consider business schools to be in a core position in influencing future developments in business life and thus the society on the whole.

The prevailing, many times short term oriented, thinking patterns do not too often balance short vs. long term, quantitative vs. qualitative, financial vs. non-financial, and internal vs. external aspects of management. There is a true need for balanced strategic and operative management that goes hand in hand with sustainable development. Sceptics may state that by bringing in various stakeholders, instead of focusing only on shareholders, blurs the causal relations existing or believed to exist in business models, and thus undermines strategic management. This is partly true: the balanced, responsible approach makes it visible that – especially in the long term – things and their relations are complex. Sometimes we have to simplify things in order to be able to make decisions and act, but this should not be a rule; things should not always be considered in the easiest way. Besides, by admitting the complexity and giving all stakeholders a voice, even if a quiet one, facilitates learning in a totally different manner than "single voice" approaches. Indeed, strategic renewal and emerging strategies (bottom up) necessitate listening to the weak signals. This applies not only to companies, but also to public sector organizations, including universities.

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## Link in the Baltic Sea region chain

By Janis Stonis

For the last year Latvia and the success story how to recover from the deepest crisis are main news for the international society and partners. No doubt, such news for the Latvian government and Latvian people are very pleasant as everybody is happy to receive compliments. It was also proved by the election results and Prime Minister Valdis Dombrovskis kept the office. Many study and policy centers around the globe are explaining this situation how Latvian government and Latvian people have overcome crisis with internal devaluation, noticing and analyzing both positive and negative influences.

Besides the economic theories I would like to mark few more emotional aspects that made Latvian people to overcome hard times of the crisis. The majority of people have still life memories of difficulties during so called soviet time that have made Latvians patient but at the same time proud about the national symbols. I suppose it roots also in the emotional connection to the national currency as a symbol. It makes the border between "Our crisis" and the common euro zone problems, pointing out that we have our own state and we have to fight ourselves for our nation and currency, in spite that many inhabitants have left Latvia at that time.

Latvia has been also mentioned in different reports because this crisis has influenced very hard the public sector and the higher education sector specially. It is already known that Latvian higher education has had the biggest public budget cuts across the EU, almost 60% from the approved budget for 2009 within next 2 years. From one side we can look at this situation as to the great challenge for the higher education: possibility to become more effective and efficient. But today's situation in Latvia shows that nothing much has happened from that time. Only few small colleges theoretically were merged with the bigger higher education institutions and Latvian Academy of Police was closed down, what might be more political agenda but not the higher education policy.

At that point it may seem that Latvian higher education system has already been very effective and efficient! Probably that is not the case. One big parachute for the whole higher education system to overcome the years of crisis is private capital involved in the sector. In 2008 from the total number of students 27 % were financed by the state budget (2009-30%; 2010-34%) and all others were paying tuition fees. If we look at the higher education institutions income structure in 2008, the public fund share has been 52% (2009-45%; 2010-36%). As we can see the shift to the private funds happened again during the crisis. I would like to summarize, that the private funds share played the significant role at that time. We should remember and Eurydice publication "Key data on Education in Europe 2012" proves that Latvia has the lowest annual expenditure per student. Latvian higher education system has about 60 higher education institutions and now we can see that the crisis has not changed it almost at all. Even small public higher education institutions, in which the public funds dominated in the income structure, have overcome the crisis. The usual policies during that time were like: to decrease wages, to offer less opportunities to students (smaller elective part, no free choice course etc.), to cut services etc.

At the same time I would like to point out that the level of the institutional autonomy in the higher education sector is very high. Latvian higher education institutions have large variety of decision making power like they are free to set tuition fees, set admission numbers (for not public funded places) etc. what other EU institutions do not have. According to the European University Association publication "University Autonomy in Europe II" by Thomas Estermann, Terhi Nokkala & Monika Steinle the higher education institutions in Latvia have high or medium high level of autonomy in the most indicators. We only have to take into account that the governance structures remain unchanged from the beginning of the 90ties – democratic with the powerful Senate as the governing body and rector as the academic leader. However, the distribution of functions is not clearly defined and in

some cases overlapping. For example according to legislation rector "shall:

.... be responsible for the quality of education to be acquired in the institution of higher education, the quality of conducted scientific research and implemented artistic and creative work;

.... ensure the legal, economic and purposeful utilisation of funds from the State budget assigned to the institution of higher education, as well as the property of the institution of higher education; be personally responsible for the financial activities of the institution of higher education;

.... promote and be responsible for the development of the staff of the institution of higher education and ensure the academic freedom of the academic staff and students;"

Simultaneously the Senate: "is a collegial management body and decision-making body of the staff of an institution of higher education which approves procedures and provisions, regulates all areas of activity of an institution of higher education". In the situation when the Senate consists from such members as Deans, who are elected, to make the strategic decisions is very difficult, especially in combination with private funds like tuition fees which play the significant role in the faculty budget. The incentive based budget models help at the beginning, but later they become very dangerous for quality and probably the last step is internal competition.

Nowadays universities are trying to be on rankings and almost every presentation starts with it if a university is on it. The second issue which is rather popular within the last years is mergers. Mergers appear also as an indicator of success and effectiveness. Latvia can't use any of them. That is why Latvian higher education is rather unique in the region. It seems that Latvia is the only country around the Baltic Sea where the universities cannot be found in the most important ranking lists or there are not any serious merger examples.

In short, Latvian higher education can be characterized as the system with high level of autonomy, old and democratic (not to say meriocratic) governance, large number of higher education institutions (high level of defragmentation), significant part of private funds, but at the same time low level of funding etc. I would say that if not low funds, all other indicators could lead at least some institutions to be much better positioned as it is now. Why is it going on like this? We can find good explanation from Pāhl Ruin in his article "Well-educated Baltic states. Mergers have become a necessity", published in a quarterly scholarly journal and news magazine „Baltic Worlds“ June 2012. Vol. V:2. His conclusion is „Latvia has the furthest to go.“

My experience and conclusion is, that combination of high level autonomy (what is very good – no doubt), significant part of private income stream and democratic governance is the road to nowhere!

How can we make changes in the current situation? Contemporary Minister of Education and Science have announced many directions of necessary reforms in higher education: governance, financing, quality assurance, language (still on the agenda in Latvia) and learning process itself. Agreeing with that I would like to add that very important task is and will remain: how to attract well educated people into higher education sector (and not only) – on educational and research duties as well for administrative positions. Well educated - I mean persons with education and experience from the other countries who are able to bring new competencies and new "feeling of life" to our society. 2013 will decide will we move forward or not.

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## Child welfare with a double-headed eagle as a partner

By Ari Niemi

In recent months the Russian media have pitilessly reproached Finland and the Finnish social welfare authorities for taking children into custody. Although the biggest tumult has stabilised, the repercussions can still be seen.

The furore started when four children were taken into custody in Vantaa; their mother has both Russian and Finnish nationalities and their father is a Finnish citizen with a foreign background. The reason for taking the children into custody is not known, because the authorities are bound by absolute obligation of secrecy regarding the case.

The reason is definitely not that the father had slapped one of the children on the bottom, as the Russian media and Children's Rights Commissioner Pavel Astakhov have said.

Foreign Minister Sergei Lavrov took to pondering "how much of a violation of the principles of a civilised state it is to take a baby from her mother". Russophobia and racism have also been suspected.

This was not the first time that Russia, their local media and Mr Astakhov reacted on such a case. In spring 2010, there was a fuss in Turku, where Mr Astakhov and his entourage arrived to settle a taking into custody. The episode quieted down as the family returned to Russia.

Finland's official reactions have been conciliatory. Both the President of Finland Sauli Niinistö and Minister for Foreign Affairs Erkki Tuomioja have reminded that child welfare matters are decisions of the authorities, and politicians shall not interfere with them.

It has been suspected that Russia wants to test Finland's foreign policy leaders and Mr Niinistö in particular.

Some people have seen a traditional circle of interest aspect in the dispute, according to which Russia still places Finland under its umbrella. Russia aims to protect its citizens and advance its own interest by any means in its neighbouring countries.

A tried and tested method used in Russia is to direct the attention at external threats when there are problems within the borders of the country.

According to one theory, by intimidating Russian families with the arbitrariness of the Finnish authorities Russia wants to hold on to its educated citizens and tourists that take money abroad. With poor birth-rate and low life expectancy, 62 years for men, Russia is also fighting sustainability gap and dependency ratio problems.

One might think that a Children's Rights Commissioner could keep himself busy in his own country where some 650,000 children live without their parents, many of them on the streets of big cities.

There are more than 90,000 registered media outlets in Russia, three newspapers with a circulation of over one million, and more than ten magazines in the same league. As an advertising channel the Internet passed by newspapers last year. Television is incomparable in forming the public opinion. All three national main channels are directly or indirectly controlled by the state. Gazprom and other large corporations that are in friendly terms with the Kremlin are also media giants.

Next year, a public service TV channel will start in Russia; the editor-in-chief/director-general and supervisory board will be appointed by the President.

The tradition of independent media in Russia is short and thin.

There are similarities with the yellow press of the Western world, though. They know how to lean on just one source, and

they are familiar with the motto that checking the facts will spoil a good story.

The media have trusted the information provided by Docent Johan Bäckman who speaks fluent Russian, and have not bothered to check the facts. That trust has recently begun to crumble, though. Nobody knows about Dr Bäckman's motives.

Helsingin Sanomat made a few phone calls and found out that even the Russian families involved did not always know about the takings into custody listed by Dr Bäckman. The proportion of Russian children in takings into custody is not exceptionally high.

It is difficult for the Russian media to understand that the social welfare authorities cannot give background information on child protection cases.

It is equally difficult to tell that ending up as a customer of child welfare is completely different in Finland and Russia. In the latter the procedure is total, while Finland favours non-institutional services and soft means. Only some of the cases result in urgent taking into custody.

It is tempting to use the mother as the only source. Around the turn of the millennium the Finnish media were following a dispute over a child between a Finnish mother and an American father. The point of view of the father and the US authorities was pushed aside in favour of the mother's message.

We could take a look in the mirror. If a diplomat smuggles a child to Finland – however good his cause – his judgement has failed seriously.

At first Russia wanted to set up a bilateral commission for child protection issues which involve Russian citizens. Finland appealed to international treaties and would not agree. If necessary, the case will be solved in the European Court of Human Rights.

As the establishing of a commission did not proceed, Russia has tried to set up at least some kind of a bilateral advisory body that would be in touch with the Finnish social welfare authorities. It was proposed, for example, by Prime Minister Dmitry Medvedev on his visit in Finland.

According to former President Juho Kusti Paasikivi's basic course in political realism, the Kremlin is no district court, but a force to be reckoned with. Now Mr Paasikivi's teachings would be detrimental for us.

One cannot think of a situation in which Finns, Russians or people with dual citizenship would be treated in Finland in accordance with laws and official norms of a country other than Finland.

The thought that official decisions cannot be affected politically even by ministers and presidents is unfamiliar in Russia. In Finland we should keep that in mind.

In Russia, politics affects everything. Hence an open dialogue between key politicians is in order, even if it does not always change the mind of the media of the great power.

*Ari Niemi*

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## Why Gulf of Finland Year 2014?

By Hannele Pokka

Trilateral cooperation between Finland, Russia and Estonia regarding the Gulf of Finland has continued for over 15 years. The first Gulf of Finland Year was held in 1996, and now preparations are under way for the Gulf of Finland Year 2014. The background organisations are the environment ministries of Estonia, Finland and Russia.

In 1996, the focus was on determining the state of the Gulf of Finland and implementing cost-effective reductions in emissions and discharges. Today, the marine environment faces a variety of threats, such as climate change, eutrophication, pollution, risks associated with increasing maritime traffic, degradation of fish stocks, and the spread of non-native species. All this is leading to a decline in biological diversity. The threats and necessary abatement measures require more active interaction between decision-makers, researchers and other members of society, and, above all, strong commitment to protecting the Baltic Sea.

The Gulf of Finland Year 2014 provides an excellent opportunity to compile the research data needed. For the first time, the ecological status of the Gulf of Finland can be studied and analysed in great detail through a collaborative effort between three countries. We have the best experts from the three countries and modern research methods at our disposal, and a common plan of action. Obtaining fresh research data will certainly be helpful, as the Helsinki Commission (HELCOM), the European Union and other international and national parties monitor what has been achieved in terms of protecting the Baltic Sea, and what is still needed.

A number of research institutes and cities — e.g. Helsinki, Kotka and Turku in Finland — as well as other stakeholders in all three countries have already committed to collaboration during the Gulf of Finland Year.

Previously, trilateral cooperation has mainly been about cooperation between research institutes. Seminars have been held for researchers and publications on these seminars produced. The Gulf of Finland Year 2014 will also involve governmental decision-makers, cities, the private sector, people from environmental organisations and environmental education providers. In Finland, a delegation of citizens, headed by former Prime Minister Matti Vanhanen, has been established to serve as a link between the various parties. President Sauli Niinistö serves as the patron of the Gulf of Finland Year. It seems that high-level meetings between state representatives are going to take place during the year and a Gulf of Finland declaration is already being discussed.

It will be exciting for Finns — especially those living on the coast of the Gulf — to see what kind of local events are organised in cities and municipalities. Finland is a land of countless summer parties. It is likely that in summer 2014, the special theme of many of these events in the coastal region will be the Gulf of Finland, in some form or other.

In October, I participated in a meeting for researchers, which was held in Helsinki, to discuss the Gulf of Finland

Year. Some 200 scientists from Finland, Estonia and Russia were present. The mood was open and informal, as like-minded professionals talked in a collegial spirit.

Why do we need the Gulf of Finland Year? We should all have a good understanding of the ecological status of the Baltic Sea. We know that much has been done to improve its state, but much should still be achieved.

In 2007, the Baltic Sea coastal countries agreed on practical measures to reduce the phosphorus load and other pollutant loads into the Baltic Sea. The countries also agreed on how these measures would be monitored. Funding for protection has been obtained from both coastal countries and international financiers.

Two years ago, Helsinki hosted the Baltic Summit, which was attended by heads of state and high-level political decision-makers from all of the coastal countries, as well as business representatives. At the summit, the countries committed to actions they were prepared to take to boost protection. For example, Finland pledged to implement enhanced measures to improve the ecological status of the Archipelago Sea. This sea, located off the south-western coast of Finland, has suffered from agricultural discharges in particular. We have already initiated the enhanced measures.

Russia has promised to organise a follow-up meeting to the summit early next year. We will hear then about what progress has been made towards meeting the commitments.

For more than twenty years, Finland's most important target for reducing discharges into the Baltic Sea has been the St Petersburg wastewater treatment system. Finland has been helping to modernise the wastewater treatment system, together with Russian authorities, international financiers, supporters and the European Union. Only a few years ago, the waste water of this city of over five million inhabitants flowed untreated into the Baltic Sea. In Finland, we calculated that minimising these discharges would be the most cost-effective way of protecting the Baltic Sea. This work has been a great success. According to researchers, the eastern end of the Gulf of Finland is becoming cleaner.

Despite all the good news given above, the Baltic Sea is still very sick. That is why we need activities such as the Gulf of Finland Year, so we can continue to move forward with implementing protection measures.

Hannele Pokka

Permanent Secretary

Ministry of the Environment

Finland



## Integration of the Baltic Sea labour market

By Kari Häkämies

Until recent years, emigration had always been a characteristic of the Finnish labour market. At various points in history, many Finns have migrated to America, Canada, Australia and, most of all, to Sweden. On the other hand, since the era of Finnish autonomy, there has been foreign labour in Finland and, most of all, entrepreneurs and businessmen who have left an indelible imprint on Finland's corporate structure. Almost all of the major companies in Kotka, my city of birth, were established by Norwegian immigrants.

But after the Second World War, Finland closed in on itself. In the Finnish countryside, seeing a foreigner was considered unusual and exotic, something that only a few people had the opportunity to experience. Ever since those days, there have been areas in Finland where foreigners are not looked kindly upon and peculiar prejudices prevail.

In the 1970s, the emigration to Sweden of hundreds of thousands of Finns resulted in a labour shortage in Finland. However, it took a long time for Finnish employers to begin recruiting employees from abroad. It was only in the late 1980s that some Finnish companies began hiring employees from Estonia. Then Finland was hit by a recession, unemployment rates soared and foreign workers were no longer in demand.

The 1990s saw the arrival of many immigrants. This was now easier than before, but immigration was seldom work-related. Such immigration was caused by the breakdown of the Soviet Union and the increasing number of refugees. The Finnish Government's first Immigration and Refugee Policy did not focus on factors related to labour market policy.

In the early 2000s, it was realised that Finland was facing a serious shortage of labour due to its ageing population. We found ourselves face-to-face with a strange paradox: while Finland has many unemployed people, hiring Finnish people to do certain types of work has become impossible. In Sweden, this phenomenon has been well-known for long, and in many professions meeting a native Swede is regarded as something of a miracle.

One of the special characteristics of work-related immigration into Finland is that people do not actually "move" here because of work; instead, people stay here for a fixed period or, alternatively, they work here on a permanent basis but their families remain in their native country, while the person working in Finland visits them as often as possible.

Another easily identifiable feature of foreign labour is that it is not very highly educated. We are, after all, talking about people who are able to do many kinds of work, as in the construction sector, and, unlike Finns, they are not afraid to switch jobs just like that. You might find one of them working as a carpenter this week and painting a house the next, as if this was the most natural thing in the world.

In Finland, foreign labour is concentrated in certain parts of the country, mostly in southern Finland. In the Helsinki Metropolitan Area, one in every three construction workers is a foreigner. On many construction sites, you seldom meet a Finnish worker.

One of the peculiarities of recruiting foreign workers to Finland is that they are hired from abroad. Employers show little interest in foreign workers who already live in Finland.

Most foreign workers in Finland come from Russia, the Baltic countries and Poland. We could call this a sort of Baltic Sea labour market, the creation of which is quite easy to understand. As communism collapsed in many Baltic countries, there simply were not enough jobs for everybody in

the new society. The level of pay in Finland was, and still is, very attractive. Another reason was the fact that Finland was quite near. It is easy to visit your own country and the costs are reasonable.

However, the integration of this labour market has had its share of problems. Differences in income levels between states in the Baltic Sea region have created a number of undesirable phenomena, which are difficult to control. We still have a long way to go before we can talk about equal opportunities in working life.

The Baltic countries and Poland are Member States of the European Union, and coming to work in Finland is very easy for people living in these countries. A downside is that free movement of labour also creates opportunities for criminal activities. My current position is Director-General of the Regional State Administrative Agency for Southwestern Finland. One of the Agency's areas of responsibility is occupational health and safety, which entails ensuring that Finnish law is observed on all construction sites, whether pay, occupational health and safety, or some other obligation is the issue in question.

It has become increasingly difficult for Finnish authorities to carry out their work. Many sectors are now turning to subcontracting, which means that workers may be hired by different employers working side by side in the same workplace. This has led to an increase in the number of firms who pay their workers clearly less than the minimum pay laid down in Finnish collective agreements. In some cases, the workers are hired by a foreign company hiring leased labour, which makes it difficult even to determine which country's collective agreements should be observed.

There is no going back to the good old days. Movement of labour across national boundaries is constantly increasing. A few years ago, a major Nordic conglomerate had won a contract for a large construction site I was visiting in Tallinn. What caught my attention was that I did not hear any Estonian spoken on the site. "Of course not," said the project manager. "All the Estonian construction workers are working in Finland. Many of our workers come from Ukraine." This kind of situation is becoming the norm in the Baltic Sea region.

Owing to the Euro crisis, many European countries are beginning to entertain serious doubts about their membership of the union. Opposition to integration of the labour market is on the rise. Europeans would rather see their borders closed than opened to foreign workforce. This road is not only wrong, it is also unrealistic. The only way for us to create a better Europe is to ensure that differences in living standards between European nations are minimised as soon as possible. This kind of development would also be an efficient way of removing any undesirable phenomena from the labour market.

*Kari Häkämies*

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## Cooperation between Hamburg and other partners in the Baltic Sea region

By Stefan Herms

Compared to our earlier survey, real investment activity Hamburg is a major hub for innovation, dynamic economic development and employment in the Baltic Sea Region (BSR). Experience has shown that Hamburg and its surrounding districts are even stronger when cooperating with other regions, which are facing similar metropolitan opportunities and challenges. Hamburg has economically moved into the center of the BSR after the reunification of East and West Germany, the EU entry of Baltic States and the involvement of Russia into EU projects. So far Hamburg cooperates mainly with the Øresund Region, St. Petersburg, Stockholm, Kaliningrad and Uusima. Other regions like northern Poland and the Baltic States offer potential for further exchange.

One has to take into account the economic effects and challenges of the political reunification of the region:

Trade is a field that demonstrates how closely the BSR today is cooperating. The container handling with the BSR in the port of Hamburg accounted for 1.4bn EUR in 2010. It is the second most important trading area after Asia, accounting for 2m TEU (Twenty-foot Equivalent Unit) in 2011 and thereby having a promising growth rate of 26 percent compared to 2010.

In the light of the growing exchange of goods and services across the country boarders it is essential to adjust the infrastructure accordingly. This requires an active development of the train systems, the flight connections, the shipping ways and the highways. The Fehmarnbelt Crossing will be built between Denmark and Germany from 2015 onwards. Up to 12,500 vehicles per day are expected to use it on a daily basis. It will ease transnational cooperation and strengthen the bonds between the region of Hamburg and the Øresund Region and exemplifies the need to invest in the region's transport links.

To promote cooperation and to have a basis to develop new collaboration projects, Hamburg uses for example the networks of the Baltic Development Forum (BDF) and the Baltic Sea States Subregional Co-operation (BSSSC). While the first one focuses on cooperation between the public and the private sector, the latter one concentrates on cooperation between regions in the public sector. Thus, both of them foster the cooperation within the BSR and promote the regional interests within the European Institutions. Furthermore, the STRING partnership promotes regional development and green growth in the corridor stretching from the Øresund Region to Hamburg.

The subjects of regional cooperation are highly diverse, covering economic areas such as trade, infrastructure and logistics, but also important issues like education, science, research and development. Especially the latter subject has led to a political cooperation between the regions. It has been observed that "soft" fields of cooperation – education, research and science – have gained importance.

An example for a very promising political cooperation on a regional level is the Turku process. It is a joint initiative of the cities of Turku/Regional Council of Southwest Finland, St Petersburg and Hamburg with strong cooperation with the regional policy of the European Commission. Its main objective is to promote

practical cooperation with Russian partners, building on the trust accumulated during a significant period of twin city cooperation. It includes a diversity of actors: cities, regional authorities, scientific institutions, businesses and their bodies, social partners etc. It exemplifies multi-level governance in practice. The process is a bottom-up initiative, based on the commitment of various stakeholders to contribute to the development of the BSR.

The development of the infrastructure enables further cooperation between Hamburg and other BSR areas on the labor market. An international labor market has become more and more important, as globalization, financial crisis and demographic changes require employers and employees to become more flexible. Employees commute across country boarders to work, business travels abroad or opens up subsidiaries in other regions: Travelling has become a necessity and daily routine for many citizens.

In order to develop a sustainable and flexible transnational labor market, the Baltic Sea Labour Network (BSLN) has been founded. The project was so successful that it has been turned into a permanent forum which is located at the Council of the Baltic Sea States (CBSS). Thus, employers, employees and politicians from 22 partners and 9 countries are able to share their knowledge and work together.

A good example from the science sector, where joint research projects between universities, specialized institutions and companies lead to synergy effects, is the cooperation between the European Spallation Source (ESS) in Lund/Copenhagen and DESY in Hamburg in the field of materials research. These two institutions support each other by sharing their knowledge, creating a pool of highly skilled researchers and applying jointly for EU funding. As they are attracting companies to reside closely to these institutions they also stimulate each region's economic growth and provide scientific cooperation for research and development of small and medium-sized enterprises

The course of the past years has shown that Hamburg offers bright prospects for innovation. However, these prospects can only be tapped to the full potential if Hamburg cooperates with other dynamic key regions. As the BSR is highly heterogenic, many obstacles have to be overcome. There is still a lot of work ahead in order to provide a framework that enables smooth and fruitful transnational cooperation and I am sure that we are on a good way towards success.

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*Director General*

*Department International  
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*Free and Hanseatic City  
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## Patient mobility in the Baltic region

By Heikki Pälve

Patients' mobility in the European Union has been a much discussed topic more than a decade. Despite the fact relatively few patients are still willing to seek care in other countries. Patient mobility does not limit itself only to EU area. There has been some movement across borders also e.g. between Russia and Finland.

Patients who seek treatment in another country have potentially significant implications on the national health system and its costs. Therefore the issue raises many questions - even concerns - amongst health authorities and politicians. From the patient's viewpoint it is often question of swifter access to treatment or better quality treatment than in the homeland.

Currently ongoing implementation of EU directive on patient's rights in cross-border health care to national legislations forces governments in many Baltic region countries to find solutions how to ease patient mobility. Countries are now obliged to define – in one way or another – the national service basket in health care. The basket contains health services that are deemed to be part of the national health scene. For example, in Finland this definition is presently not clear. Countries also have to define the level of reimbursement the patient is entitled to. The directive is clear about this: the patient should get the same reimbursement as in the similar situations at home country in all the servicers that are deemed to belong to the national reimbursement and service basket. This is essential in order to reach the aim of the legislation which is to enhance free movement of persons in the EU. In the Finnish two tier health system (public vs. private sector supported by sickness insurance reimbursements) decisions on the reimbursement level are challenging.

Evolving EU legislation is one factor that encourages different actors to change their attitude towards patient mobility. Another is the patients themselves. People are used to get health services in a known and safe environment, close to their home. The awareness of the new possibilities in the health field is however spreading, and a more internationally oriented generation is growing, which will likely increase the number of patients crossing borders in the future.

Finland has been an island. Older generation is used to not been able to travel to Russia and there has been no personal connection to Russian people. To other European countries one has been forced top cross the Baltic sea. This has been cumbersome and expensive. This not the case in either instances any more.

Health care professionals are as well more willing to work abroad. In Finland the biggest foreign groups of physicians come from Estonia and Russia. As national borders somewhat fade, there is need to find new ways of cooperation between health care providers.

New initiatives to increase the patient mobility in the Baltic region emerge. For example, in October 2012 Finpro and the Finnish Ministry of Employment and the Economy launched a FinlandCare -program. The purpose

of the program is to promote patient mobility from Russia to Finland and to open the doors to Finnish health service companies in Russia. According to survey made by Finpro about 120 000 Russians travelled abroad to receive health services in 2011. However, only few hundred of them came to Finland. Russians are now given more information on the Finnish health care services in their own language on a website ([FinlandCare.ru](http://FinlandCare.ru)) developed for the program.

Finns have traditionally sought health care in the neighboring countries, Estonia and Sweden. Private health care providers in Estonia – some of them originally from Finland - offer e.g. dental care and plastic surgery services. There have been some unethical patient recruitment especially on the field of plastic surgery. This has lead to complications and mishaps and since the service has been given outside Finland's borders patients have not been under the coverage of Finnish patient insurance system. It is essential that patients are well informed not only concerning their rights but also duties, follow-ups, insurance and the way their patient information is conveyed back to their country of origin.

One can ask is Finnish health care system lucrative in the foreign patient's eyes? Health care in Finland is generally characterized as safe and quality of the services high. In Finland the nosocomial infection rate in hospital treatment is very low in comparison to all other countries. All these are important elements of safe and effective health care to the patients. There are cultural issues and language limitations that hinder excessive rush of patients to Finland. Geographically Finland is far away also to the patients seeking care in Finland. The situation may be somewhat different in very rare and high-specialized treatments like neurosurgery where university hospitals can give added value to foreign patients. There are now also very esteemed private health institutions for ex. in the field of cancer care and sports medicine.

Private providers in Finland have already discovered potential patient markets abroad. For instance, cancer treatments in Finnish public hospital are marketed to Russian patients. Relatively new phenomenon in Finland, are private hospitals established, and mainly owned by public entities. Also these do look behind the national borders, and expect some of the "clientele" come from abroad, especially from the East.

*Heikki Pälve*

*CEO*

*Finnish Medical Association*

*Finland*

# Entrepreneurship as a source of growth and competitiveness in the Baltic Sea Region

By Jussi Järventaus

Finland is part of the Baltic Sea Region. Throughout history, the Baltic Sea Region has been essential for Finland. Economically speaking, its significance is illustrated by the fact that around 40% of Finland's exports and 45% of imports are connected to the economic region surrounding the Baltic Sea. The area is home to Finland's three most significant trading partners: Germany, Russia and Sweden. In terms of investments, around 70% of direct investments targeted at Finland come from the Baltic Sea Region, and around 40% of investments made from Finland are targeted at the region. Even today, over 80% of Finland's foreign trade is shipped through the Baltic Sea. This means that the development of the Baltic Sea economic region is vital for Finland.

The Baltic Sea Region has fallen on especially hard times due to the economic recession. One of the reasons for this is the export-based nature of the region's economies. The large production of investment goods in the Baltic States means that recovery from the recession will take longer, making the situation even more challenging.

The region is united by the sea, but it is nonetheless clearly divided. On the one hand, the area is made up of the wealthy and innovative north and west, and on the other hand the developing east and south. However, the differences between the most innovative areas of Europe, such as Finland, and regions such as the Baltic States, with their well-educated young people but weak infrastructure, provide possibilities for complementary cooperation and development which will strongly benefit all players. Cooperation could provide genuine possibilities, especially for innovative small and medium-sized enterprises.

The lack of competition due to limited national markets could be considered one of the most significant challenges of entrepreneurship and of using it to its full-potential. In order to solve the problem, the area must become more deeply integrated. This is, however, challenging, because institutional obstacles continue to limit the cross-border operations of enterprises in the Baltic Sea Region. Solving this problem requires the unification of entrepreneurial activities, which are currently too fragmented, in terms of legislation and the institutional environment, and above all their simplification.

This is understood in Finland and more broadly in the European Union. The Baltic Sea Region has the honour to be the first so-called macro-regional strategy. One important goal of the EU's Baltic Sea strategy is to increase the wealth of the area. Entrepreneurship has been identified in the strategy as an integral means for achieving this goal.

The strategy gives particular consideration to SMEs and improving their operational preconditions. Taking advantage of the potential of SMEs is seen as an important way to secure the growth and development of the Baltic Sea Region. The means highlighted in the strategy for achieving this goal include the implementation of the Small Business Act, the removal of obstacles to internal market in the Baltic Sea Region and exploiting the area's research and innovation capacity to its full potential.

In addition, the movement of goods across national borders must be made easier, public functions must be opened to competition, and administrative procedures must be streamlined.

Concrete measures that can be taken in order to reach these objectives include, for example, ensuring SMEs better access to the capital markets, particularly at early stages of development. Some examples of this could be cross-border venture capital funds and cross-border collateral security systems. In addition, the EU's financing instruments from the framework programme for competitiveness and innovation as well as the structural funds should be used broadly and efficiently in order to ensure sufficient financing for SMEs.

Promoting entrepreneurship among young people also represents great potential. In order to be successful in this task, there must be close cooperation between the administrators of the education system and business life. It is essential to identify the areas and sectors, which are the keys to creating sustainable growth for the future. This way it is possible to direct financial resources correctly and to encourage young people to seek out careers in sectors with large growth potential. All of this must be done in a way that simultaneously develops the mobility of young people and the creation of cross-border networks of young entrepreneurs throughout the whole Baltic Sea Region.

The EU is going in the right direction and identifies many critical points. The challenge is to develop the appropriate tools for solving the problems that have been identified. Despite the EU's internal markets, there are still obstacles in the Baltic Sea Region due to national legislation. The operations of authorities also make it difficult for SMEs to access the cross border markets.

A high level of production requires a great deal of innovation and sustainable economic growth. In addition to this, the participation of people and their integration into the job market must be improved in the Baltic Sea Region. A good employment rate, high-quality jobs, the continuous availability of a well-educated and flexible workforce and a low rate of marginalisation are all integral factors for the competitiveness and appeal of the area.

Better exploitation of the possibilities and expertise offered by the region would require an improvement in political commitment to the promotion of trade and innovation compared to the current level. In addition, it would also require the strengthening of the rule of law in the Baltic Sea region. By daring to try new things and be a forerunner, the Baltic Sea economic region can develop dynamically in a way that makes full use of the preconditions for growth created by entrepreneurship.

Jussi Järventaus

Managing Director

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## The almost forgotten digital single market

By Hans Skov Christensen

**The lack of a proper digital agenda for the Baltic Sea Region cuts 4 per cent in growth potential or more every year. Cross border barriers in the digital area cost yearly at least 45 billion EUR in the region alone, according to estimates in a report presented at the BDF Summit this summer. Nevertheless, it looks as if the economic crisis has led this important issue into oblivion. And that is a shame. The issues need to be relaunched.**

The Baltic Sea Region needs to develop its own digital agenda, simply because a number of the Baltic Sea States are already front-runners in the field – with well-developed information and telecommunication technologies, widespread application of e-Government service products and a well educated and trained work force.

The Nordic-Baltic countries are able to show the way to a digital single market in Europe. We are among the world leaders as regards public use of ICT, e-government and e-commerce. Preconditions like high ICT maturity, mobile penetration, broadband access, education level, innovation capacity and stable economy have brought the public sector in the global front. The Nordic-Baltic countries have widespread application of e-Government service products as well as a well educated and trained work force, providing a good basis for further expansion. Obviously, the region is the outset for quite many world leading ICT companies and new ones continue to appear.

The Digital Agenda is one of the flagship initiatives of the EU 2020 strategy to create growth and jobs in Europe. One of the top priorities in the strategy is the creation of a digital single market, whereby barriers between Member States are reduced or removed.

A digital single market is of great importance to the economies in the Nordic-Baltic countries and they have an interest and possibility to go ahead and show practical results in terms of providing a better integrated legal framework in the digital arena, allowing innovative companies in their home yard to grow and prosper from a larger and better integrated home market. And in the longer-term to benefit from an integrated market at European scale. There are large benefits at stake for growth and employment, but little is known about the practical steps to be taken to achieve these benefits.

### The growth drivers

That is the background for the initiative “Priorities towards a Digital Single Market in the Baltic Sea Region” whose first report was published and discussed at the BDF Summit June 2012 in Copenhagen-Malmö. BDF and Baltic Chambers of Commerce Association (BCCA) launched the initiative inspired by an idea of Estonia’s Prime Minister Andrus Ansip, concrete policy recommendations were developed, based on analysis by Copenhagen Economics and guided by the BDF’s Policy Advisory Group of public and private ICT actors. The recommendations are related to four issues identified as key growth drivers: E-procurement, Public Sector Information (PSI) and Open Data, Roaming, Online Intermediaries.

The estimated economic impact of these drivers is huge. The unreleased potential sums up to at least 45

billion EUR per year as regards only e-procurement and re-use of PSI. Reducing obstacles and developing new solutions will dramatically affect economic growth and competitiveness in the Baltic Sea Region and Europe.

EU studies have showed that there still are substantial differences in regulation between Member States which lead to a fragmented business environment for European innovators and entrepreneurs. As a result, few technology start-ups expand their businesses to neighbouring EU countries. Instead they prefer to expand in the US market. Lacking the benefits of large scale home market slows down the rate of innovation, and hinders that European firms can benefit fully from investments in high-speed internet infrastructure. This tendency has hit the Baltic Sea Region too. However, the Baltic Sea Region has also developed pragmatic solutions that may show new ways or even shortcuts to a digital single market.

### Keep up the speed

The EU strategy for the Baltic Sea Region is an obvious framework for promoting an active cooperation to harvest the benefits of an ICT Single Market. Within this framework – or complementary to it – the Baltic Sea Region countries can take joint initiatives for the benefit of welfare society and industry in terms of competitiveness, investments and growth.

Based on the recommendations in our report a few examples of such joint initiatives could be: Identify key drivers for decision makers to focus on for a better understanding of how ICT can contribute to growth, competitiveness and welfare in the region. Develop efficient, common platforms for e-procurement and e-commerce. Benchmark initiatives and case studies (“labs”) for publishing public sector information and working with open data. Develop a Baltic Sea Region e-governance Academy as a framework for exchange of best practice etc, etc.

Initiatives that can be taken in spite of the current crisis. The response to the report among experts and stakeholders has been positive and BDF is ready to take further steps, not least to ensure that the topics stays on the top of the crisis-management-ridden of the EU. Then there is a need to demonstrate that it is possible for regional actors to take practical steps in liberating the potential of the sector. The EU is negotiating the EU’s next multiannual financial framework at the moment and initiatives to stimulate the European economy in supposed to be included in this package, not least the “connecting Europe facility”. I hope that the funds will go towards liberating the markets. It is the recipe for true sustainable growth.

Hans Skov Christensen

Chairman

Baltic Development Forum

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## Management research on Central and Eastern Europe

By Thomas Steger

Almost two decades after the fall of the iron curtain, the concept of management seems to be well established in the post-socialist countries of Central and Eastern Europe (CEE). Moreover, the research interests of management scholars and the transformation of the scientific institutions in CEE have contributed to a steadily growing number of research projects and publications intended to understand the specific developments of management practice under the conditions of fundamental societal and organizational change as well as the emergent management structures of East European capitalism. This is also highlighted by the emergence of academic journals with a special focus on management issues in CEE, namely the Journal for East European Management Studies, the Journal of East-West Business, and the Baltic Journal of Management.

A recent survey exploring 286 articles published in 24 major international management journals between 1990 and 2008 provided some remarkable results in this respect. First, publications of management research on CEE show a clear dominance of Western researchers (72% of all authors). This finding is further supported by the fact that the authors with the highest numbers of articles are predominantly from the US and the UK. Among these top authors, nevertheless, three persons originating from CEE but affiliated with non-CEE institutions also play a key role. East-West migration of researchers obviously plays a considerable role in the field. In the articles with the highest impact, i.e., the number of quotations in other publications, a clear dominance of Western and particularly Anglo-American authors remains well visible.

Second, the list of the most successful publishing institutions also reflects a clear Western dominance. Indeed, institutions from the US and the UK cover 55% of all publishing institutions. In sum, Western institutions participate in 90% of all publications. However, the ranking also indicates that there are some management research institutions enjoying growing publication success in CEE countries as well (e.g., in Budapest, Moscow, Warsaw). Nevertheless, these articles are usually based on partnerships with Western colleagues and institutions while independent CEE publications are quite rare (about 7%).

Third, only about half of all articles are clearly based on theory. While 35% of articles include at least one reference to theory but do not develop an adequate framework, 16% of articles consist of simple storytelling, often based on personal experiences or on single case evidence. Over time, we have witnessed a significant increase in theoretically based studies, with cultural theories dominating (in about 20% of all articles). Further influential concepts are new institutionalist theory (12%), cognition or behavioral theories (11%), and learning theory (10%).

Fourth, more than half of the published studies can be considered to be using qualitative methodologies although many of them (particularly from the early 1990s) do not make a distinctive statement about their empirical methods. Over time, a clear trend towards the use of

questionnaires and hypothesis testing has been identified while the number of case studies has decreased.

Fifth, of the topics studied, the "change management" issue is ranked at the top most often (included in 32% of all articles), followed by "corporate strategy" (23%), "managerial behaviour" (19%), "HRM" (18%), "organizational culture" (17%) and "organizational structure" (15%). Meanwhile, the number of articles dealing with leadership or knowledge transfer is rather moderate. Moreover, only a very limited number of articles deal with issues of power, control, and conflicts.

Sixth, the main focus of CEE management publications is on the "usual suspects", i.e. on Russia (referred to in 40% of all articles), Hungary (27%), Poland (21%), and the Czech Republic (14%). Meanwhile successful transformers of a smaller size, e.g., Slovenia, Estonia, or Croatia, received only limited attention from management scholars.

Finally, to conclude these findings, four major phases with different patterns characterizing the development of management research on CEE can be identified: The early 1990s can be labeled the "How to change the red executive?!" phase and was dominated by storytelling cases and normatively driven proposals. The mid/late 1990s was the "Understanding the East!" phase and marked the start of in-depth scientific investigations and local knowledge inclusion through interpretive research. The early 2000s were characterized by the "Measuring the East!" phase, which saw a broadening of scientific research attempts as well as a growing generalization through quantification. Last but not least, the mid and late 2000s can be labeled the "Integrating the East into global economy" phase, with the academic community on the road to normal modernist research and hypothesis testing.

Although those findings must be considered premature and are limited to the field of academic journals, they clearly indicate that although management research on CEE has moved forward considerably, it still exhibits some striking deficits. A better integration of local and regional scholars in the international knowledge production process regarding CEE and a growth in the number of "really" intercultural co-operation projects must be targeted in the near future.

Thomas Steger

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European Management  
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## Latvia and the euro – a date with destiny

By Pauls Raudseps

It may seem paradoxical, but as most of the world watches the continuing crisis in the eurozone with perplexity and apprehension, the Latvian government's commitment to joining the common currency has never been stronger. The date for saying good-bye to the lats has been set, the necessary legislation is making its way through parliament, and it is certain that soon after celebrating the New Year the Latvian government will submit a request to the European Commission and the European Central Bank to evaluate whether the country fulfills the criteria for joining the euro. If all goes according to plan, on January 1st, 2014, the euro will become the official currency of Latvia and the eurozone will have expanded to 18 members.

The very fact that this is now a realistic prospect is quite astounding. After all, this is not the first time that Latvia has set itself this goal. Soon after joining the European Union in 2004 the country pegged its currency to the euro and announced that its target for joining the common currency was 2008. Unfortunately, the massive real estate bubble Latvia experienced in the following years drove inflation up so high that this aim quickly became unattainable. When the bubble burst and the international financial crisis hit, the main obstacle to euro entry quickly became the huge deficit which had opened up in Latvia's budget. Moreover, the collapse of the country's second biggest bank forced it to turn to the IMF and the European Commission for help at the end of 2008.

This might not seem to be the most promising starting point for joining the common currency. Nevertheless, as Latvia and the international lenders put together an economic stabilization plan, they set euro entry as the ultimate goal of the program. Introducing the euro would protect the economy from the periodic panics about a possible devaluation of the lats. Entering the common currency would also give Latvian banks access to liquidity from the ECB, providing a much larger and stronger safety net than the country itself could afford. It would also prove that the Latvian economy was on the same track to development and modernization as Estonia, which gritted its teeth, fulfilled the Maastricht criteria in 2009 and joined the euro at the beginning of 2011.

After three years of difficult, sometimes dramatic battles to regain its fiscal footing, Latvia completed its IMF program in 2011. In 2012 the country is enjoying the fruits of its labors. It has driven its budget deficit down to a planned 1.6% of GDP in 2012, well below the 3% threshold set in the Maastricht criteria for joining the euro. It has kept its total government debt comfortably below the 60% of GDP limit. Moreover, and most surprisingly, it has managed to be the fastest growing economy in the EU during the first three quarters of 2012, averaging growth rates over 5%, while simultaneously lowering inflation, which now meets this criterion for euro entry as well.

The toughest skeptics — the markets — have been won over. Back in February, 2012, Latvia sold ten year

bonds at a yield of 5.375%, which was already quite a respectable result in view of the yields on the bonds of some large, established, but crisis-stricken eurozone countries. In December Latvia returned to the bond markets and sold seven year bonds at a yield of 2.889%. Clearly, this is a resounding vote of confidence from the financial markets.

So the numbers look good. The politics are more complex. The Latvian population is attached to the lats and consequently rather skeptical about introducing the euro. Poll results on this issue show very divergent result regarding support for euro entry, varying between 30% and 50% in favor, but the doubters — those with a somewhat or very negative attitude — fairly consistently make up around half of the population.

Apart from a fear of increased inflation, the main reason for skepticism is the population's sentimental attachment to the lats as a symbol of Latvian identity. Yet, when it comes to practical matters, people shows a much greater commitment to the euro. 90% of all loans are in euros, and Latvian residents' bank deposits in euros are just as large as the ones in lats. Support among businesses for changing to the euro is high, as they see advantages to be gained both for exports and for saving money on currency conversion. So skepticism, while fairly broad, also seems to be quite shallow.

Some opposition politicians are toying with the idea of holding a referendum about joining the euro. Although the possibility of such a referendum taking place can't be completely ruled out, it doesn't seem to be the most likely scenario. A referendum would face a number of legal and constitutional hurdles, because Latvia already agreed to adopt the euro when it joined the European Union. Moreover, such a referendum could boomerang on the initiators. Prime Minister Valdis Dombrovskis, the driving force behind euro entry, is also the most popular politician on the national stage, and could turn the tables on the eurosceptics by portraying them as ready to harm the country's economic interests for narrow partisan advantage and willing to assist the Kremlin, which has consistently tried to prevent Latvia from integrating ever more deeply in Western institutions.

So the likelihood of Latvia introducing the euro in 2014 is quite high. Then the next stage of the test will begin — learning to use euro membership to bolster economic growth.

*Pauls Raudseps*

*Commentator*

*Weekly magazine Ir*

*Latvia*



## The Baltic Sea region needs more mutual trust

By Hiski Haukkala

The end of the Cold War heralded a wave of cooperative security in Northern Europe. For example, the rounds of EU and NATO enlargements have expanded the euro-Atlantic security community further to the East than was originally anticipated. This has brought manifold gains in economic, political and security respects. The heart of these processes in Northern Europe has been the Baltic Sea Region (BSR).

But the process has also had some unintended consequences. The biggest of them has been that Russia has increasingly felt sidelined and alienated from many of these processes. Although the hand of partnership has been repeatedly extended on both sides of the former East–West divide, both parties have in fact walked away disappointed and with growing mutual disillusionment.

There is hardly any reason to lay the blame in any direction. It seems obvious that both sides can make a convincing case to support their arguments. Yet the fact of the matter is that the dividing lines in the North have not been erased. On the contrary, they seem to be resurfacing and deepening again. This is worrisome as they have the potential to undermine, and with time also undo, the emergence of a budding security community in the North.

During the 1990s there were some signs of a security community that would have included also Russia being built in the North. The metamorphosis of security related debates in the North is a case in point. The old Cold War agenda of hard military security was quickly replaced with a host of soft security issues. In stark contrast to the previous era, security was no longer seen as a divisive issue.

Against this backdrop one of the most worrying developments has been the re-emergence of hard security related issues and even fears in the Baltic Sea. Often the Nord Stream gas pipeline is pointed out as an issue that has resulted in fresh divisions and concerns in the region. Yet it could be that the pipeline's significance is that it is a symptom and not the root cause of the lack of trust that seems to be the real underlying issue in the BSR.

On the Western (and Northern and Southern) shores of the Baltic Sea the main source for concern seems to be Russia. On the one hand Russia's domestic development is seen as worrisome. It is hard to find a country in the BSR that has not voiced concerns over Russia's development. On the other hand Russia's voiced ambitions to increase military spending and consequently also presence in the BSR is a concern. These worries have been accentuated by the August 2008 conflict with Georgia that showed that Russia does not shy away from using military force against its neighbours if it deems it necessary.

These concerns are compounded by the perceived decline in the internal cohesion and solidarity in the European Union and NATO. The EU has brought the positive forces of integration and regional cooperation to the fore while NATO and the US security guarantees have

brought the reassurance to some of the countries in the region to engage also Russia in these processes. Yet in recent years both the role of the EU and NATO has been questioned in the region and this is a factor that is breeding insecurity in its own right.

On the Russia side the lack of trust is clearly visible as well. Russia's drive to secure direct ways for shipping its natural gas and oil to world markets free of intermediaries is telling: Russia does not seem to accept nor appreciate interdependence and the positive win-win dynamics that regional cooperation and division of labour could bring but seems to prefer direct control over key infrastructure. This drive for control is a factor that breeds suspicion in the region while increasing Russia's leverage over some of its neighbours.

Russia has also become an increasingly vocal opponent to NATO in the region and is overall very keen to accentuate the harder spectrum of security over the soft one – another political and rhetorical move that betrays the lack of trust on the Russian side while increasing the feeling of potential vulnerability on the other side. The end result is the current vicious circle of diminishing trust and increase of mutual suspicion that, if left unchecked, seems set to bring the old security problematic and dilemma back to the Baltic Sea.

But what could be done? Perhaps the best way to move forward is to stop the pretence that the positive agenda of the 1990s is fully alive and well in the whole of the BSR. Many in the region would probably agree that Russia's domestic trajectory will be one of the key ingredients also in the future. Yet it seems far-fetched to expect Russia to radically change its course so we must start looking for ways to find a working modus vivendi based on current realities.

It may sound anachronistic but perhaps the countries in the region should re-visit some of the older debates concerning European security from the Cold War. The CSCE was the key in developing mechanisms for confidence-building measures and increased confidence in the objectives of others seems to be the key for restoring trust also on the regional level. The work should begin now: A good deal has been achieved in the BSR but it all could be in danger of unravelling if Russia does not find a role with which everyone is comfortable in the region.

*Hiski Haukkala*

*Professor of International Relations*

*University of Tampere*

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## Port of Turku takes strongly part in LNG projects

By Christian Ramberg

### Gasum is planning an LNG terminal in Pansio

In May 2012, Gasum and the Port of Turku signed a letter of intent on building an import terminal for liquefied natural gas (LNG) in the Pansio harbour. If planning and further decisions on the project are completed on the anticipated schedule, the distribution of LNG from the Turku terminal could begin during 2015. LNG is a clean fuel which may be used to replace oil-based fuels in maritime transport and industry and thus reduce the emissions caused by them.

### Clean fuel for the Baltic Sea transports

The use of LNG as a fuel in maritime transport is increasing globally as the environmental requirements become tighter. The Baltic Sea with busy shipping routes is part of the special emission control area (SECA), which has tighter emission restrictions for sulphur oxides. Furthermore, the Baltic Marine Environment Protection Commission HELCOM has proposed tighter emission limits for the area concerning nitric oxides.

LNG is in practice completely sulphur-free, it causes no particle emissions and its nitric oxide emissions are as much as 90% lower compared with heavy fuel oil used in current engines. The carbon dioxide emissions which accelerate the greenhouse effect are also more than a quarter smaller. In addition to the state of the Baltic Sea, the clean liquefied natural gas has a positive effect on the immediate environment of the Port, such as the Natura area in Ruissalo, and the air quality of the living environment.

### Planning proceeds quickly

According to a technical survey carried out by Gasum, the Pansio harbour is well suited as the site of an LNG terminal. The location of the harbour allows for efficient service to the Baltic Sea transports, and the harbour has a large enough area for the terminal. It is possible to place the terminal operations, including a storage tank of max. around 30,000 cubic metres in the area. From Pansio LNG can be transmitted to the Port of Turku by bunker vessels or tank trucks.

The letter of intent signed in spring allows for the project to proceed to the next phase. The City of Turku prepares an alteration of plan for the Pansio area which is a requirement for placing the terminal there. Gasum will continue the technical planning of the terminal. In addition to technical surveys, we have paid special attention to the environmental impacts of the terminal and safety issues. The aim is to complete the planning and permits so that the final decision on building the import terminal can be made in 2013, and the terminal could then start operations in late

2015. The value of the terminal investment is around 60 million euro.

### Industry will be the other important user group

Although we believe that LNG's share of maritime fuel will increase rapidly in the future, the new terminal will not be based on that purpose alone. The number of vessels that use LNG as fuel will increase slowly as the stock of ships is replaced, so they need to find users of the gas in other lines of business, too. We believe firmly that existing infrastructure will make shipping companies more interested in using LNG.

According to the plans, however, the Pansio terminal will also serve the industry in Southwest Finland and neighbouring provinces. It is possible to build a pipeline network from Pansio to the nearby industrial facilities, in which case the LNG can be distributed from the terminal to the places of use in gaseous form. In liquid form the gas can be distributed cost-efficiently on tank trucks within a radius of around 300 km from the Pansio terminal.

### LNG in Baltic Sea ports project

In order to develop LNG infrastructure for the needs of shipping, the Port of Turku is involved in a TEN-T funded project together with six other ports in the Baltic Sea region. The aim of the project is to equip each port with facilities to offer bunkering for LNG driven vessels. The project includes clarifying and planning different LNG terminals, bunkering systems and safety procedures with the aim of developing uniform systems in each port.

### The world's most environmentally friendly cruise vessel starts operating on Turku route

In January 2013 Viking Line's new vessel m/s Viking Grace will start operating between Turku and Stockholm. Representing a completely new generation of ships, the vessel uses liquefied natural gas (LNG) as fuel, which is unique for a passenger ship of this size in the whole world. Besides, the emissions from the vessel to the sea have been eliminated completely and emissions to the air are considerably less than from other vessels. The bunkering takes place at AGA's LNG-terminal in Nynäshamn. The 214-metre-long cruise ferry will be delivered from Turku yard to the buyer beginning of 2013.

*Christian Ramberg*

*Managing Director*

*Port of Turku*

*Finland*



## Port of Rosrock – serving the Baltic Sea

By Ulrich Bauermeister

### The Port of Rostock is Germany's largest and the deepest port in the Southern part of the Baltic Sea.

Although not directly located on the sea front it is easily accessible through a short canal. With a water depth of 14.5 meter and absence of locks and tides it is possible for vessels of up to 45 meter beam and 300 meter length to enter the port. The port is also conveniently accessible by air and by land via rail and a 4 lane motorway, the latter which will also soon connect directly to the eastern port area. It has got ferry links with Denmark, Sweden and Finland.

The Hafen-Entwicklungsgeellschaft Rostock as landlord port authority manages the port for the owners, the Federal State of Mecklenburg-Western Pomerania and the City of Rostock. Rostock has a long tradition of ship building and steel and plant construction and has also a long experience built up in the onshore wind sector.

The entire port area covers an impressive 750 hectares. There is a total of 11,000 meter of quays available. In total there are 47 berths of which 4, a total of 1,000 meter, are specifically dedicated to heavy loads with lifting capacities up to 1,200 tons by a mobile harbor crane. There are plans for developing more new quay sides and small new industrial sites in the port and there is also between 10-100 hectares available around the port.

In the middle ages, the port on the Warnow River was one of the most important locations for goods transfer on the Baltic Sea. A proud fleet with the Rostock griffin depicted on the bow was the agent of trade with Scandinavia, the Baltic States, and Western and Southern Europe. Following the prosperous times of the Hanseatic League, a century of vacillation followed. At the end of the 19th century and in the following decades, Rostock and its port lost its connection to the rapidly developing German economy. Rostock's port only had local significance up until 1945, and this significance was also lost due to the Second World War. In the post-war years, the port was redeveloped. The growth of the GDR's economy and the creation of a state trading fleet necessitated the construction of a high-capacity seaport, which was completed and put into operation in 1960.

It was continually expanded and developed to adapt to the needs of the GDR's economy until reaching a record cargo handling volume of 20 million tons – mostly bulk goods – in 1989. After German reunification, the difficult task was undertaken of converting the port, until then specially adapted to the needs of the GDR, to a similar functionality as the other German ports. In the past 20 years, the port has drastically changed its appearance and scope of services. Rostock's port is now a universal cargo handling point consisting of a wide variety of specialized berths and terminals: a modern oil port, facilities for grain, coal, fertilizer and cement handling, and terminals for project cargo, paper and general cargo handling. The ferry port with the adjacent terminals for combined cargo and ro-ro traffic has come to form the heart of the port. This area has exhibited tremendous growth since the early 1990s.

The convenient geographical location of Rostock, the excellent accessibility from both land and sea as well as

enormous investment in infrastructure have made the port on the Warnow number one in terms of universal cargo handling among all German Baltic Sea ports. Moreover, Rostock has topped all German Baltic Sea ports in passenger traffic between Germany and Northern Europe for many years. As was the case with ferry traffic, cruise shipping also began at a low level in the early 1990s. Today, Rostock's cruise port in Warnemünde is the most frequented German destination for international cruise ships. Hundreds of thousands of tourists from different countries throughout the world arrive in Warnemünde to explore the city and region, the state of Mecklenburg-Vorpommern and the German capital city, Berlin.

Hafen-Entwicklungsgeellschaft Rostock is, under the name Rostock Port, primarily concerned with the forward-looking expansion of the infrastructure as well as its maintenance. As the owner of the property and facilities, quays and water surfaces, the company works closely together with the shipping industry and the companies active at the port to ensure that Rostock meets all requirements to allow it to continually improve its competitive position.

Attracting businesses to the port grounds is a keystone of the company policy. Therefore, the company implements this policy in leasing property and buildings, generating more competition at the port, acquiring new customers and cargoes and opening new business areas. Rostock Port is the single operator of the ferry and cruise terminal. In addition, it is a shareholder in the company which operates the terminal for combined cargo. A further responsibility is to provide and market additional services that aim to improve the competitive position of the company or the location. In this capacity, it can found or acquire companies, own shares of companies, serve other companies, establish, acquire or lease auxiliary or companion facilities, or open branch offices.

The declared purpose of Rostock Port is to develop the port into a modern, competitive logistic center even further. Excellent conditions for this are already in place. Since 1991, hundreds of millions of Euros have been invested in the improvement of the port infrastructure. Rostock will continue recent successes such as the establishment of a new production facility by the company Liebherr and the establishment of additional companies in the production, cargo handling and distribution industries.

*Ulrich Bauermeister*

*Dr., Managing Director*

*Rostock Port*

*Hafen-Entwicklungsgeellschaft  
Rostock mbH*

*Germany*



## Maritime memories, history and experiences at the same place

By Jaakko Tikka

**The Forum Marinum Maritime Centre is a lively and versatile centre for maritime activities, comprising a national specialist maritime museum, and the Finnish Navy Museum.**

The whole complex stands in an excellent place the middle of the Turku City, beside the River Aura, close to Turku Castle and the city's harbour. The Forum Marinum is easy to get to. There are plenty of free parking spaces in the yard, and the bus running between the airport, the centre of Turku and the harbour stops next to the maritime centre. The harbour is just a short walk away and the slightly longer route along the Aura to or from the city centre is very pleasant on foot or by bike.

The Forum Marinum Maritime Centre is the result of the development of the maritime museum activities in Turku. Its predecessors were the Åbo Akademi Maritime History Museum, established in 1936 and the Turku Maritime Museum and Astronomical Collections, founded in 1977. There was a division of responsibilities between these museums: the former focussed on research and on enlarging and maintaining its library and archive collections, while the latter concentrated on organising exhibitions and on enlarging and preserving object collections. These functions now all continue at the maritime centre. The Åbo Akademi Maritime History Museum is now the Åbo Akademi Institute for Maritime History, which is now located at the Forum Marinum.

In 2002, Forum Marinum was appointed the Finnish Navy Museum, and in the 2004 a national special maritime museum. The Military Museum advises our Navy Museum activities and the National Board of Antiquities those pertaining to the national special museum tasks. In 2009, Forum Marinum joined the network of museums within the transport and communications sector – the Trafikki museums – which is supported by the Ministry of Transport and Communications.

Forum Marinum is also member of the Finnish Museums Association, the ICOM (International Council of Museums) and the ICMM (International Congress of Maritime Museums).

The Forum Marinum basic exhibition "From Hoy to Ro-Ro, from Galley to Hovercraft" tells the history of seafaring in South-West Finland and of the Finnish Navy. It includes themes such as the Turku shipping companies, vessel types, archipelago culture, peasant shipping, merchant shipping and tourism, and the history of the maritime administration, coast guard, the customs and the history of the Finnish Navy. This exhibition is located in the Kruununmakasiini building, which was built in 1894 as a state granary.

Furthermore the museum provides several interesting temporary exhibitions during a year and displays also a very interesting leisure boat collection. The maritime centre has a considerable collection of museum vessels: two tall sail ships, four naval ships and several smaller vessels, ranging from a steam harbour tugboat to a police boat.

The museum ships are open during the summer months only, while the exhibitions are open throughout the year. On the yard and on the other side of the river there are four museum Cranes, three from the late 1940s and one from the 1960s.

During the summer, the exhibition "The Five Lives of Our National Treasure" will be open on a full-rigger, the Suomen Joutsen, as well as an exhibition presenting the history of the ship on board a wooden barque, the Sigyn. There are also temporary summer exhibitions on the tween-deck of the Suomen Joutsen.

The research area of the Forum Marinum Maritime Centre is primarily defined by its role as a national special maritime museum and as the Finnish Navy Museum. The documentation responsibility of the Forum Marinum Foundation is defined in its regulations. The aim is to preserve the maritime cultural heritage of Finland's south-west coast, the Archipelago Sea and the Baltic Sea. Forum Marinum primarily focuses on preserving and documenting the history of professional seafaring in South-West Finland and that of companies, institutions and persons involved in it, as well as of the seaman profession, and on a national level, the history of the Navy. In addition, the centre preserves and documents the culture and history of maritime rescue, the Coast Guard, maritime communities, maritime hobbies, boating and leisure sailing and of institutions connected to these.

Forum Marinum is easily accessible for learning and doing. The museum is suitable for learners of all ages from pre-school to adult students. We offer various set educational packages, or we can design a programme to meet the needs and timetable of your group.

In addition to being a maritime place of interest, the Forum Marinum is also a venue for meetings and public events. The Café Restaurant Daphne serves café delicacies and a tasty, varied buffet lunch. The Museum Shop offers maritime gifts and other articles, literature

The Forum Marinum Maritime Centre is the perfect place for organising pleasant family parties or gathering and an inspiring seminar. We have facilities for groups of various sizes and for various needs, from small meeting rooms to an auditorium seating 100. Our facilities can be hired throughout the year. All events thus include the opportunity for participants to visit our versatile exhibitions!

A suitable side event is a guided tour matching the theme of the event, for example for a children's birthday party, or an independent visit to the museum. The windows of the meeting rooms open onto the Suomen Joutsen and our other museum ships, whilst lunch may be enjoyed in the presence of an authentic sailing boat, housed in the Daphne Restaurant. Our shop welcomes visitors to browse the maritime selection of gifts and memorabilia. We organise over 600 different meetings and functions annually.

The operations are maintained by the Forum Marinum Foundation (est. 1998). The founding members were Turku City, the Åbo Akademi Foundation, the Finnish Maritime Administration, the Finnish Border Guard the Ministry of Defence and 13 private enterprises. These institutions also provide the financial bases for the Forum Marinum: 50 % of the annual budget is financed by the City of Turku, 30% is provided by the Forum Marinum foundation and 20 % is financed by the state of Finland.

Jaakko Tikka

CEO

Forum Marinum Foundation

Finland

[www.forum-marinum.fi](http://www.forum-marinum.fi)



## Eurasian Economic Integration – different this time?

By Julian Cooper

Those who have been monitoring economic developments in Russia and the other countries of the Commonwealth of Independent States (CIS) over many years are well aware of the many attempts to promote economic integration. In September 1993 most member countries signed a treaty for the creation of an Economic Union, providing for a phased process of integration, a progression from a multilateral free trade area (FTA), to a customs union and then a common market with free movement of goods, labour and capital, culminating in a monetary union. This was followed in April 1994 by an agreement to form a CIS FTA, which Russia failed to ratify. In 1995 the creation of a 'customs union' was declared, initially involving Belarus and Russia, but later extending to Kazakhstan, Kyrgyzstan and Tajikistan.

All these initiatives met with little success. The first priority of all the ex-Soviet countries was market transformation, not integration, and the integration efforts took no account of the implications of potential WTO membership. In reality, CIS economic relations were regulated by a complex network of bilateral agreements, often of a non-transparent character.

An ambitious proposal of 1994 by Kazakh President, Nursultan Nazarbaev, to form a Eurasian Union, was not well received, for Boris Eltsin of Russia and most other leaders it was too reminiscent of the USSR.

After the 1998 financial crisis, as economies stabilised and began to resume growth interest in economic integration revived but now on a more realistic basis. The formation of the Eurasian Economic Community (EurAsEC) in 2000 by the members of the 'customs union' opened a new stage of development. As Putin acknowledged at the time, it was Nazarbaev who first proposed the new organisation. Its basic purpose was declared from the outset, the creation of a customs union and then a single economic space (SES).<sup>1</sup> Serious preparation of the establishment of a Eurasian Customs Union (ECU) of Belarus, Kazakhstan and Russia within the framework of EurAsEC was undertaken from 2006, with agreement that this time trade practices would be in full accordance with WTO rules and norms. The Commission of the Customs Union was organised in 2009, with the well known Russian economist and political figure, Sergei Glaz'ev, as executive secretary. (In July 2012 Glaz'ev was appointed Putin's advisor on Eurasian economic integration). The ECU was declared to exist formally from the beginning of 2010. Given the likelihood of early Russian accession to the WTO, the harmonisation of customs duties was facilitated by adopting Russian rates whenever possible. In July 2011 all border custom controls between the three countries were eliminated.

In August 2012 Russia finally joined the WTO and the accession of Kazakhstan is now progressing well, with membership by the end of 2013 a possibility. Belarus, until recently a laggard, has stepped up its efforts to join and government representatives have recently spoken of accession in 2014. Thus there is now a functioning ECU

formed on WTO principles, although much work remains to complete the process and ensure its fully effective operation. A working group for Kyrgyzstan's accession to the ECU, expected in 2014, is operational, and it is likely that Tajikistan will apply to join once WTO membership has been secured, now in prospect by the summer of 2013.

Since early 2012 it is the newly formed Eurasian Economic Commission in Moscow that has responsibility for the development of the ECU and future initiatives for economic integration.

Chaired by the former Russian industry minister, Viktor Khristenko, the Commission has developed rapidly and has already gained authority as a supranational agency. However, it still remains to be tested whether the legal basis of the Commission is fully adequate to the requirements of a genuinely supranational agency and also whether the EurAsEC court in Minsk is competent to handle any legal challenges to its authority. From the outset, an active programme of international engagement has been pursued. Over thirty countries have expressed interest in associate relations with the Customs Union and negotiations are well-advanced for the creation of FTAs with New Zealand, Vietnam and the EFTA countries.

A major focus of activity is now the development of the single economic space (SES), formally declared to exist from 1<sup>st</sup> January 2012. The intention is to secure the free movement of goods, services, labour and capital, and harmonised policies for macroeconomic management (with Eurasian counterparts to the Maastricht criteria), competition, industry, agriculture, energy and other spheres. A considerable volume of new legislation has to be drafted, approved and ratified. The aim is to have a fully functioning single space by 2015, but the 'roadmap' for its formation suggests that this is over-ambitious, 2018–20 being more realistic.

The next stage of integration, agreed in principle at the end of 2011, will be the formation of a Eurasian Economic Union. The evolution of the idea of the Union is instructive. From available documentation, it is clear that the initial preference of Russia had to be amended to meet the objections of Kazakhstan. In early 2011 Russia favoured a Union concerned not only with economic issues, but also defence, border security and foreign policy. This was opposed by Kazakhstan, insisting that it had to be only an Economic Union. Notwithstanding Nazarbaev's authorship of the idea of a Eurasian Union, Astana in September wanted to drop the word Union and call it simply a Single Economic Space. In the end, the designation Economic Union was retained, but it appears that it will be little more than a fully functioning SES. Astana insists that its administrative headquarters must be located in Kazakhstan.

In comparing the development of economic integration in the CIS with the experience of other regional economic groupings such as the European Union or Mercosur, one important consideration should not be overlooked. Because of the common past over several decades of the participant countries, what is involved is quite as much re-integration as integration. The fact that only two decades ago the economies were part of the same coherent economic system, albeit of a non-market character, and

<sup>1</sup> Note, in the 1990s the idea of a common (*obshchee*) economic space was promoted, but more recently it has been termed a single (*edinoe*) space, suggesting a higher degree of integration.

shared common infrastructures and systems for transport, communications, energy, health, education and research, plus a common language for administrative purposes, undoubtedly simplifies the process of integration, making it, in principle, less demanding and time consuming than, say, the formation of the EU. In this connection it is worth noting the role over many years of the CIS itself, as an organisation. It could be argued that its diverse and extensive activities promoting coordination have helped to create the foundations for meaningful economic integration. Now, the CIS FTA being created anew on a WTO-compatible basis, has a much better chance of success than it had in the 1990s.

It is sometimes argued that the Customs Union will bring little benefit because it is formed, currently, of three rather disparate economies of medium levels of development without an evident dynamic leader able to promote active institutional modernisation and drag the weaker economies forward. However, it is already apparent that competition within the Union is playing a role. As shown by the World Bank's Doing Business rankings, Russia has the least business-friendly economy. Indeed, some Russian companies have been reregistering in Kazakhstan. Awareness that the country lags far behind Kazakhstan and even Belarus is now promoting activity in Russia to improve the situation, with Putin to the fore in calling for change, often with explicit reference to the higher rankings of the two partner economies. Meanwhile, in Kazakhstan Nazarbaev is also calling for improved performance by local companies. There is keen awareness that with the development of the ECU and the SES conditions should improve for foreign direct investment. While members of a common ECU, the three countries are becoming rivals in creating conditions favouring FDI. In these circumstances, the potential benefits of integration cannot be judged simply on the basis of the impact of the new customs regime, although as duties are progressively lowered in future years worthwhile benefits may accrue. In this connection it is

worth considering the experience of regional trade areas (RTAs) more generally. Until recently scepticism about such arrangements was widely met. But contrary to frequently met claims that RTAs generate significant trade diversion and welfare losses, research suggests that to date they have proved to be beneficial and have furthered external liberalisation. 'Empirical analyses indicate that trade creation, not trade diversion, is the norm'. (Caroline Freund and Emanuel Ornelas, *Regional Trade Agreements*, World Bank Policy Research Working Paper, May 2010, p.41)

In the author's view the development of Eurasian economic integration merits close study. For some, the experience of the 1990s has cast a shadow, leading to the conclusion that beneficial integration is unlikely. There is also the spectre of the 'restoration of the USSR', which still haunts a few observers of present-day Russia and its relations with CIS partners. Clearly, much depends on the commitment to keeping the focus of integration exclusively on the economy, leaving security and other potentially contentious issues to other structures, national and supranational. The ECU and the Commission are now realities with which governments, international organisations and businesses are have to work. A learning process is underway. A new degree of pragmatism and flexibility is already evident. This time Eurasian economic integration could indeed be different.

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## Do Russian innovators need creative cities?

By Irina V. Starodubrovskaya

It's widely recognized now that the better conditions for innovative economy are being formed in those places where life is comfortable, dynamic and interesting. These places are attractive for young and creative people, so they concentrate high level of human capital which is critical for innovations. The research of the Gaidar Institute for Economic Policy had a goal to test this hypothesis for Russia. Three Russian provincial cities were selected for this research – Chelyabinsk, Perm and Novosibirsk. Students of prestigious provincial universities, young people involved in innovation economy, people from creative industries, representatives of local authorities and local intelligencia were interviewed to study their migration strategies, understanding of comfortable life, feelings about the city where they live. The results of this research are the following.

*Comfort of life is not the important factor in the migration strategies of this segment of "creative class".* Opportunities to use their professional skills, career perspectives, partly – level of earnings seems to be much more important. Even those who really like their place of living are ready to migrate if they can not find working place which corresponds to their specialization. The word "ceiling" was often used in the interviews to express the limited career opportunities and vertical lifts in provincial cities. If the "ceiling" has not been reached young people prefer to stay in the place where they live. But if they feel there is no space for career growth they start to think about migration. For example, Moscow is considered as the most uncomfortable place of living by vast majority of our respondents. But they understand that migration to Moscow in future can be inevitable because of the growth of business or career perspectives.

At the same time for artists, for people from creative industries the city atmosphere is much more critical. For example, when Perm started to develop actively the city culture and the image of creative city it was the reason for some people from creative industries in Perm to change their migration plans. And Perm appeared to raise its attractiveness for this kind of people from other cities (for example, several artists moved from Novosibirsk to Perm). But people involved in IT sector, though some of them are quite enthusiastic about the cultural policy of Perm's regional government, were determined that if this policy is reversed it would not stimulate them to migrate from Perm.

*Big Russian cities are not compared by the criterion of comfort of life.* It's the general feeling that all Russian cities are uncomfortable. There are two types of comparisons according to this criterion: between cities and periphery and between Russian and foreign cities. Periphery is generally considered as more quiet place with better ecology. Cities provide more opportunities for jobs, earnings and upbringing of children. According to the common feeling foreign cities are much more comfortable than cities in Russia. But this factor as such is not a critical incentive to migrate, at least for the creative class. It's important in the combination with better professional and career perspectives. The additional reason to consider migration abroad is the perspective of higher density of professional contacts and better accessibility of innovation centers.

*To sum up, according to their migration strategies young people with high human capital can be divided into the following groups:*

- those who are not ready to migrate because they prefer to use already established system of connections and contacts in their home place and are not ready to face higher competition as a newcomer in new place;
- those for whom place of leaving is not important at all, they are ready to move if there is perspective of more interesting work with better utilization of professional skills;

- those who are ready to stay as long as they have not reached "ceiling" and then consider migration as a possible option;
- those who prefer to combine better professional opportunities with better comfort of life.

For the last group migration to the foreign country is the preferable option. For the others it's only one of the possibilities.

*Being not a serious incentive for migration, comfortable city atmosphere at the same time is considered as an important factor of quality of life.* But usually young people do not use a standard set of criteria to assess these factor. For example, an important criterion is speed of life. Almost in all the interviews people mention this aspect of city life as very important. But there was no uniformity in the assessment of how dynamic city life should be to be comfortable. For those who come from periphery even the provincial capital is too speedy. The inhabitants of big Russian cities often consider as comfortable the speed of life which they have got accustomed to, but sometimes they prefer more dynamic atmosphere. At the same time for a considerable group of creative people life in green and quiet suburb is a preferable alternative for more dynamic but less comfortable city centers. They are ready to accept much more limited cultural life for better ecology and substitute it by sport activities.

*Openness to the global world also started to be felt by young people as a part of quality of life.* Different aspects of this issue were mentioned in the interviews: accessibility of European countries from local airport, lack of lectures of foreign professors in the local university, etc. The inclusion of this factor in perceiving of comfort of life is still not universal, on some territories there is serious opposition to any attempts to increase openness (for example, in the suburb of Novosibirsk local community resists the initiative of the group of students to create the statue of Steve Jobs). But for creative class it appeared to be more and more important. In this context local authorities face an important dilemma. If they increase contacts with foreign countries, stimulate the development of language skills, they will decrease barriers to migrate abroad and outflow of young creative people can grow. At the same time it will raise comfort of living on their territory for the same group of people and can stimulate decrease of outmigration.

These results of the research demonstrate that connection between comfort and creative city atmosphere, on the one hand, and attractiveness of the territory for young and creative people, on the other hand, in Russia is far from linear. It's not the main factor, which determines migration strategies. And the factors of city attractiveness which appeared to be important, do not always coincide with the standard list (education, health, opportunities for culture and sport, creativity, ecology, safety, etc.).

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## Innovation in and for Russian markets

By Marko Torkkeli

Innovating for emerging markets significantly differs from innovation in so-called developed economies. In contrast to the latter, emerging economies are in need of genuine novelties, ranging from new products and services to drastic improvements in production processes and organisational innovations. As can be pointed out, disruptive innovations are critical in emerging markets, as some of the more basic needs are not yet fulfilled by existing offerings. Traditionally, these markets inherited from innovations that were originally developed for leading economies and later transferred and adapted. This implies that most of the innovations that so far flourish on these markets have been developed relying on the analysis of market and customers' needs in developed economies, which may be far away from those of emerging markets. Russia exemplifies this approach, as it has benefitted from high technology and high ecologically performing log houses by Honkarakenne, which features include low CO<sub>2</sub> emissions, ability to absorb and release moisture in the atmosphere so as to ensure good air quality. The widespread diffusion of reliable, good quality and at the technological edge Nokia mobile phones is another example of innovation that migrates from Finland to Russia in the past decades. Functional dairy products such as flavoured fresh cheese by Valio have also been widely imported to the country, bringing new offerings to the market and winning twice the "product of the year" award.

As a commodity-driven economy, which has a significant economic potential, Russia should rank high in the agenda of innovation and business leaders alike. As the country experienced significant changes in the last decades, innovation should also take new forms and facets. One critical feature of innovation in this market should be its customer-driven nature, which has so far been lacking. Beyond adopting a customer-centric approach so as to detect, elicit and anticipate customers' requirements, firms should consider the potential effects of opting for an "open innovation" strategy. Coined by Chesbrough in 2003, the term refers to the exploitation of external sources to innovate internally (also called inbound open innovation) as well as the external exploitation of internally developed innovations by other firms (outbound open innovation). The conventional, closed innovation approach, by contrast, has grown out of a rather understandable desire to keep the value of innovations and ideas to oneself. Traditionally, firms have kept a tight lid on their internally generated knowledge and hardly exchanged such knowledge with others – this was for a

good reason, as the field of strategy has taught us that in order to create a competitive advantage, we must create unique sources of value for our customers. The "unique" part of this prescription has usually been interpreted to mean that whatever technologies we generate, we must keep to ourselves lest we lose our differentiation advantage. The Open Innovation model, however, suggests that, if done judiciously, (selectively) sharing knowledge and innovating jointly with others, even competitors, can improve your competitive advantage. A growing body of academic research strongly supports this claim. As recently pointed out by Yablonsky, while the Russian population is not unbanked, it remains relatively conservative about using electronic payment means. Novelties such as multi-sided platforms for e-finance, which rely on a large degree of openness, both from the inbound perspective in integrating customer's concerns about security and cultural issues, as well as from an outbound perspective by cooperating with other market players to jointly disseminate the new offerings, are now well positioned in Russia. To some extent, these innovations fulfil basic needs, while further integrating customers' requirements and concerns as well as specific features of this economy, and contribute to the maturity growth of both the supply and demand sides. In doing so, innovation first of all performs its social function, i.e. to bring novelties that increase the utility function for the consumers, while simultaneously contributing to the development of the overall infrastructure for the entire economy.

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## Neoliberalism meets economic nationalism – the Skolkovo *innograd*

By Anni Kangas

Economic nationalism and neoliberal globalisation are conventionally treated as juxtaposed dynamics. However, it can be argued that it is also possible for nationalism to provide a symbolic system that produces a cultural susceptibility to and a discursive field for the introduction of neoliberal standards. The Russian Skolkovo *innograd* – an innovation city being built in the Moscow metropolitan area – provides one illustration that there is no necessary contradiction between economic nationalism and neoliberalism.

Skolkovo, to use a phrase by Dmitri Medvedev, is underpinned by the idea of a ‘common technological and innovative space’ which links it to the image of an emerging borderless world often promoted by famous neoliberal thinkers. Instead of centring on the Westphalian vision of global space divided into sovereign nation-states or enforcing an idea of the territorial integrity of the Russian nation, the *innograd* is envisaged as a key ‘node’ in a global network of significant places. The project is motivated by the idea of flexible accumulation and spatial deconcentration going hand-in-hand with a reconcentration of finance, management and innovation in hotspots that form supranational networks among themselves.

In order to develop Skolkovo into such a hotspot, a number of procedures, instruments and tactics that enforce ‘neoliberal exceptions’ (Aihwa Ong’s term) over Russia’s state space have been introduced. The exceptional character of the *innograd* as a ‘geographically separate complex’ is explicitly affirmed in the law. The law exempts participants from various legal norms and regulations in the fields of customs, taxation, immigration and administration. The characteristically neoliberal aspect of this is the fact that the activities that Skolkovo is intended to house rely on a cascade of interventions that privilege specific groups of people depending on their capacity to engage global market interests.

Moreover, rather than as a characteristically Russian location, Skolkovo is advertised as a place where the ‘globally mobile elite’ can feel at home. It is represented as immune to problems that are perceived to hamper foreign investment inflows to Russia: corruption, weak investor and property rights protections, and opaque judicial and administrative processes.

Although the Skolkovo project is in many ways premised on a set of neoliberal ideas that downplay the scale of the nation, the mobilisation of the discourse of nation in discussions over the *innograd* simultaneously serves to reproduce the image of Russia as a nation and a sovereign state.

The construction of the *innograd* is motivated by the idea of Russia lagging behind in international competitiveness. International competitiveness is one of the benchmarks imposed by neoliberal globalisation, but it also has the potential to turn issues into questions of national importance. Envisaging Russia as one among several nations engaged in economic competition reproduces an image of the world that consists of nations

and their relations and replicates the myth of a nation’s citizenry sharing a common economic fate.

The discourse of nation is also mobilised to constitute Skolkovo’s activities as particularly desirable and commendable. In the spirit of country branding, the types of business activities that reverberate with the demands of neoliberal globalisation are promoted as a means that enables people to change their perception of Russia, to stop approaching it as an ‘oil barrel’ or a ‘lump of firewood’.

The discourse of nation also serves to represent the activities that form part of the Skolkovo project, and that are expected to appeal to foreign investors, as natural for Russia and Russians to engage in. Russia’s reputation as the successor state of the first country to put a man in space and develop nuclear technology, and as home to many world-class physicists and engineers, is frequently invoked. The country’s Soviet past is employed in attempts to generate competitive advantage and carve out a strategic niche in the global economy. It functions as proof of the ability of the Russian population to produce commercial innovations.

Critics argue that although the Skolkovo project circulates many neoliberal tropes, its practices illustrate that Russia’s modernisation does not involve institutional changes that would lead to the emergence of ‘real competition’ in the economy and politics. In counterarguments, the discourse of nation is mobilised to dispute the importance of modernising the political system. Russia’s modernisation is said to follow a unique path of development due to which foreign models – such as ‘Western democracy’ – cannot simply be replicated in Russia.

The discourse of nation is also taken up to defend the central role of the state and its head against accusations of Skolkovo being an illustration of the state intervening in the sector of innovations where its involvement is harmful. For example, the top-down character of the Skolkovo project is legitimised by arguing that in order for anything substantive to work in Russia, the head of state has to be involved. The discourse of nation thus serves to uphold the idea of a strong state within a project whose ethos is in many ways neoliberal. Arguably, such a combination of elements may enable Russia to take part in neoliberal competition for footloose capital without jeopardising the system of ‘sovereign democracy’.

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## The geography of innovation in the Baltic Sea region

By Teemu Makkonen

Innovation is commonly considered as one of the most important factors behind economic growth and regional development. Therefore the issue of geographical variation of innovative activities has been studied intensively in the recent years the European Union (EU). Similarly, territorial cohesion has become one of the leading policy guidelines of the European Commission and in the development rhetoric of the EU. This applies also to Russia in form of the heightened importance given to the neighbourhood policy in the EU development framework. The question, whether it is feasible or not to strive towards a EU-wide cohesion of economic and market relations, is an issue itself well worth of serious thought. However, here the issue is discussed through a more practical standpoint, namely how well are the countries in the Baltic Sea Region integrated and how balanced are their innovation performances when compared with each other. A sign of the successfulness of cohesion policies should imply a catch-up between the least and the most innovative countries inside the Baltic Sea Region.

Germany, Finland, Denmark and Sweden are constantly ranked among the most innovative nations in the EU, whereas the Baltic States and Poland have clearly fallen behind, when their innovative capacities are benchmarked against those nations with "top-of-the-class" performances. Of the Eastern member states, when measured for example by patents or research and development (R&D) expenditure, Estonia, however, has performed reasonably well in overall comparisons of innovation. After their EU-membership, the statistics have shown some signs of convergence, between the new member states of Eastern Europe and the core of the EU (at least) in innovative terms. However, the catching up envisioned by some researchers is not that evident when the most recent years are brought into the fore. The contemporary European-wide economic recession has had a more profound negative impact on the innovative inputs (R&D investments and government science- and technology budgets) of the new Eastern European member states compared to the situation for example in the Nordic States.

When it comes to Russia, comprehensive innovation policies directed at improving the national innovation system are fairly new phenomena. Although, the country has succeeded in sustaining certain strengths of the past science and technology system, there is a marked difference between the innovative capacities between Russia and its Western neighbours in the EU in terms of e.g. patents per inhabitant. The economies of scale do favour Russia, but at the moment a more systematic treatment to assess its former weaknesses and emerging

challenges is called for to achieve a successful innovative future.

When the discussion is broadened to encompass educated (or skilled) human capital, an important facilitator of innovations, the situation is equally unbalanced. The Nordic States excel with their highly successful schooling and educational system, whereas the situation is not that developed in Poland and the Baltic States, except for Estonia which performs well in educational attainment (e.g. number of highly educated workers and participation in life-long learning). Germany still has some imbalances between the East and the West, but these differences have been levelling off and in general the situation is fairly good.

In order to meet the territorial cohesion goals set by the European Commission these imbalances between the most and least innovative countries in the Baltic Sea Region have to be taken into account, but the allocation of resources directed at achieving convergence has to be done with care. A mere increase in the amount of development funding directed at innovative activities is not enough, as lagging areas do not have the necessary absorptive capacity to gain from increasing R&D expenditure transfer. Therefore, the development should be directed first at infrastructural and educational cohesion. Strengthening of the cooperation inside the Baltic Sea Region is highly advisable to tap into the full potential of the possibilities that collaboration and knowledge flows can offer. Moreover, benchmarking (policies, funding, schooling systems etc.) allows countries to improve their practices through comparison with top-rated nations. However, the best practices cannot be replicated as such: the particular characteristics of the countries have to be taken into account before outright application. Thus, development has to begin within, not outside.

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## Russia and WTO – challenges after accession

By Alexander Dynkin

On August 22, 2012, after an 18-year long accession negotiations Russia became 156th member of the World Trade Organization. Russian Federation was the last major economy outside the WTO, accounting for over 2% of global trade. As a result of many years of negotiations, Russia will enjoy acceptable and balanced – from the economic viewpoint – terms of membership.

Some historical view would be useful to understand better the issue. In 1947, the Soviet Union refused to sign General Agreement on Tariffs and Trade (GATT) for political and ideological reasons that were too obvious. However, by the mid-1970s, the Soviet leadership decided to establish a relationship with GATT because of an urgent need for access to foreign markets. Regrettably, Russia was denied a chance to negotiate. The main obstacle was the Soviet invasion of Afghanistan in December 1979.

Only, in 1990, by the end of Gorbachev period, the Soviet Union gained observer status in GATT. Furthermore, there were more than a hundred parties to that agreement. Countries outside the system of trade negotiations lagged increasingly behind.

Russia filed an application for accession to GATT in 1993, and after establishment of the WTO in 1994 it applied for accession to this new body. Accession negotiations started the following year. By that time Russia was nearly half a century behind.

In the early 2000s, in accordance with official declarations, accession to the WTO was a top priority for the country's economic policy. Almost all countries that joined the WTO had negotiated with its members on a fairly high government level. Initially, Russia did the same. The Russian delegation at the Geneva talks in 1995 was made up of four government members, including a deputy prime minister and an economics minister, and at further talks the Russian delegation was led by first deputy minister for foreign economic relations. However, starting in 2004 as a result of administrative reform in the country, the status of the chief Russian negotiator was lowered from deputy minister to head of a department at the Economic Development Ministry.

As a similar demotion concerned most of the deputy ministers – not only in the Economic Development Ministry, but in other ministries too – the government simply did not think about the possible consequences of this purely bureaucratic decision. Meanwhile, this move immediately caused puzzlement abroad. Knowing well that Maxim Medvedkov was a true professional in trade policies, Russia's partners naturally interpreted the lowering of his status as a clear sign of a decline in Russia's interest in WTO membership. No assurances to the contrary could yield the desired effect. Sometime later, in 2008, during the next stage of administrative reform, trade policy functions were split between the Ministry for Economic Development and the Industry and Trade Ministry, which once more complicated national trade policy including the trade negotiations.

The initiative to accelerate the creation of a Customs Union among Russia Kazakhstan and Byelorussia, in early June 2009 and the intention to join the WTO collectively were not right decisions at all. This flaw became evident only a month later, when Russian President Dmitry Medvedev, after a meeting with the head of the WTO

Pascal Lamy within the G8 summit in Aquila, Italy, admitted that the idea of joining the WTO collectively by the Customs Union was unlikely.

The news that Russia might withdraw from the bilateral format of accession talks at a time when the completion of the process was no more than six months away stunned the negotiating partners. In late September 2009 Pascal Lamy told The New York Times that the new configuration greatly complicated Russia's application, and its accession to the WTO would take much more time. "The fundamental reality is that there is no energy in Moscow to join" any more, he said.

There was one more cause of blocking accession talks for some time. The political atmosphere between Russia and western countries worsened after military conflict in Caucasus in August 2008. The bilateral negotiations really resumed only in spring 2010. Then more than a year was spent to adjust the Russia's commitments to the WTO with legal basis of the Customs Union with Kazakhstan and Byelorussia.

Many analysts in Russia and abroad have observed that in recent years the attitude of the Russian authorities towards accession to the WTO has been inconsistent and ambiguous. Official top-level statements of commitment to the accession policy went along with the tightening of customs and tariff policies, the growth of protectionism, departures from already negotiated obligations, undue delays in fulfilling pledges to the negotiating partners, slow adjustments of national legislations to WTO rules, etc.

It would be also necessary to note that the position of Russia's main partners, western countries, was not impeccable at a critical time. Example: by the end of 2006 after completion of bilateral talks Russia-US there was a real chance to finalize the whole process of Russia's accession in 2007 since the bilateral with all main trade partners of Russia were also completed. But it never happened. Some new countries suddenly manifested their intention to join the bilateral talks. No one understood the real motivation of that movement.

As a result, Russian business, on the whole favorably disposed to WTO membership, was confused in terms of the real intentions of the authorities in 2008-2009. Domestic lobbyists were quick to jump at the opportunity in 2009 to adopt a series of protectionist measures. The attitude toward WTO accession remained ambiguous even in September 2011 i.e. two months before the completion of negotiations (!) when the head of Russian Ministry of Economic Development said that business had to be ready to one of two scenarios: Russia into WTO or out. Certainly, the great majority of Russian business believed in the second one.

There was also nearly unknown side of the process of Russia's accession – activity of the so-called domestic anti-WTO lobby. It has been around to derive strength from the shadow economy and corruption, the large number of monopolies in the country, the merger of business with the authorities, and the suppression of sound economic competition. This lobby has certain resources to defend its selfish interests in the government, to the detriment of Russia's movement towards WTO membership.

Today, when Russia became member of the WTO a new goal emerges - to ensure that Russia's membership in the WTO would be effective in all respects. To achieve it, Russia should modernize the existing system of managing the foreign economic sphere, including trade negotiations.

The main organizational problem with Russian government agencies is that they are not plugged into a single structure that would be responsible for conducting negotiations and implementing international treaties in the sphere of trade policies. Such structures have long paid off in the U. S. (the Office of the United States Trade Representative – USTR), in the EU (the European Commission's office of Trade Commissioner), and in many other countries with developed market economies. Several prominent Russian economists with work experience in the foreign trade segment of the government have repeatedly urged the establishment of a similar extra-departmental agency in Russia.

In order to somehow sort out the existing organizational problems and achieve the desired level of representation at the WTO accession talks, the Russian government has developed a way of delegating – at critical moments – an official of ministerial rank, either a deputy prime minister or a first deputy prime minister. The current curator of WTO negotiations is First Deputy Prime Minister Igor Shuvalov. But can this practice produce effective results? The negotiations on the accession to the WTO are only one of his responsibilities, and not the primary one. A look at Shuvalov's extremely tight schedule makes it evident that the WTO membership talks have never been a top priority for him.

Over the past decades, GATT/WTO member-countries have gained extensive experience in trade negotiations. Several generations of commercial diplomats have alternated, national schools have been formed, and

modern systems of state governance for foreign economic relations have been built. It is obvious that in order to derive full benefit from WTO membership and be able to influence the situation within that institution, Russia must have approximately the same components. With its potential Russia intends to become an important and active player into the WTO. That's why the experience accumulated by other WTO members is of great interest and importance for it in terms of rapid involvement in the WTO work.

One of the big problems Russia to face now is an important need in national specialists of trade policy and WTO law. Only several Universities on Moscow and St. Petersburg have a basis to educate students in trade policy. It is clear that the historical delay in this area will be difficult to overcome within the shortest possible time. One of the concrete steps in the right sense has been just taken – the Centre of WTO Competence is being established.

To conclude, I would say the accession to the WTO is a very important step for Russia towards an open, competition-driven economy. But more work is yet to be done.

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## Russia as an investment destination – the recent accession of Russia to WTO and its impact on the investment in Russia

By Grigory Dudarev

Russia as an investment destination is never an easy topic as one can see many dimensions to the subject. It is a very dynamically evolving economy that changed tremendously in the past 20 years. And the change continues. Notwithstanding achievements in the transition it is still more of a norm that a discussion of investment climate in Russia focuses on matters that have to be done, on the fact that development of certain areas is not carried out in understandable and most efficient way. Although understandable, this approach leaves crucial issue without mentioning, that in order to achieve changes of such magnitude one should allow for "trial and error" in the process, for creation of the necessary informed and well-prepared, educated layer of people that will implement the changes. And this, in its turn, will take substantial time.

Since the collapse of the Soviet Union and its independency, the Government always positioned Russia as a very investor friendly place. However, as we know from the anecdotal evidence, the real picture is more mixed. On one hand the world has seen spectacular success stories of foreign (telecoms, Baltika brewery, etc) and domestic investment (retailers: X5, Magnit, OK; IT players: Kaspersky, ABBYY, Digital Sky Technologies, etc). On the other Russia is still struggling with its image as a country that is difficult to operate environment and is risky for investments. There are a lot of well-publicized issues related to corporate conflicts, red tape, increasing capital flight, etc. Hence it was easy to understand why most of commentators cheered the recent accession of Russia into the WTO as an important step and solution. Quite some hope was placed in positive impact of accession on major economic and consumption growth, growth of foreign investment and trade. It is expected that the investment barriers will lower as the country soon will develop its domestic regulations to comply with the WTO "rules of the game" and regulations.

In the present short article we argue that there are many more, mainly domestic factors that might have a major impact on evolution of the investment in Russia in the near future, that the positive effects of WTO membership could be less pronounced and substantially delayed in time.

As one the factors of the major importance we see the emerging nationalistic trend in the domestic politics and overall business sentiment. We refer here to the noticeable shift in economic, social and cultural preferences of majority of population that is based on certain disappointment in western countries and firms as allies and partners, to the attitude of setting the limits to foreign participation in the economy. Strong nationalistic agenda in politics that is observed in the rhetoric, state policies of self-sufficiency and security of supplies in certain industries, tendency to "protect" domestic producers by introducing direct or indirect forms of trade barriers, etc, is expected to have a toll on the speed and path of convergence of practices with the WTO. Decisions and legal acts related to the above, overall market

sentiment biased along the same lines could lead to elaborate rules and practices, deeply embedded in the economic system that might make some of the foreign investment uncertain and will certainly take quite some effort and time to overcome or dismantle.

Another important domestic factor is its underdeveloped and inefficient institutions and procedures. In particular the regulations and procedures related to the construction of facilities and establishing of certain types of activity that requires local permits seem to be evolving in the direction of becoming impeding force behind delayed realization of the projects and development of business.

It is true that the large and growing consumer market will continue to attract foreign investment. And that convergence of rules and regulations, change of the tariff policy and other issues brought in by WTO membership, when finally enacted may lead to increase in domestic consumption of foreign goods, flow of technology and solutions to Russia. This is expected to influence investment allocation and focus. However involvement of state as a market participant that is more pronounced in Russia today, in addition to the effect from factors listed above, may also lead to the foreign investment being rather subdued and gradual. It is expected that a lot of arms twisting with WTO will take place until Russia firmly sets on the path of integration and convergence. Hence substantial time shall be added to the expectations and projections.

Notwithstanding the above said we believe that WTO accession is very important step towards an open economy model of development in Russia. We suggest that the process of associated adjustment is seen as a "tug of war" between the pressures of the open market and forces of the domestic nature. Since the major effect from membership is expected in the service (in particular in banking, insurance, telecom and transportation) we would expect this segment to follow an easier path than in certain manufacturing industries and will have a better chance of success in short term. Hence, hopefully, also it will bring more positive sentiment towards openness and gradual shift of attitude as well. It might be too optimistic to expect straightforward and rapid development but the direction is set in the right direction, change is inevitable and will follow, later than expected. When and at what cost...?

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## Russia – is there a way out of the dead end?

By Lilia Shevtsova

As Vladimir Putin left his role as informal wielder of power to take his place once more in the Kremlin as official personification of a monopolist power system, Russia has found itself caught in a systemic trap. Not only is Putin's regime unable to offer society the modernization opportunities it needs, it is having trouble even just guaranteeing stability. But at the same time, Russia has not yet developed an alternative system in the form of a political opposition with broad public support and a real program for moving beyond the personified power system. What's more, Putin's political regime has started showing symptoms of decline just as the current liberal democracy model is going through a crisis or at least a sort of malaise, and this is making it even more difficult for Russia to develop a liberal alternative.

This situation raises a number of questions: does crisis in the Russian political regime (Putin's leadership and government) automatically translate into a crisis for the Russian power system built on personalized power and all of its accompanying instruments, traditions, stereotypes and outlook as a model of thought among the political class and the public? What would give the impetus for the transformation needed to bring about a genuine renunciation of monopolized power in one set of hands and a system in which the bureaucracy dictates its will? What are the conditions needed for developing a system capable of providing an alternative to Putin's regime and the traditional Russian power matrix?

### How the regime attempts to prolong its life and with what consequences

The Russian authorities have got over their initial shock and confusion following the first protests in late 2011-early 2012 and have now found their second wind and put together a new survival mechanism. This has led them to effectively reformat the political regime. The Kremlin has performed a transition from what we could call soft electoral authoritarianism, which tolerated the existence of an opposition ghetto and a small measure of political competition (provided it did not threaten the ruling team's monopoly on power), to a more hard-line authoritarianism with repressive trends that could in the future take on elements of a dictatorship. In carrying out this revamp of its government mechanisms, the Kremlin has abandoned efforts to imitate democratic institutions and give Russia the image of a liberal country that follows European norms, shifting its focus instead to threats, force, and suppressing any dissent in society that might undermine the ruling team's hold on power. The Kremlin is now openly borrowing from Stalinist repressive tactics and using the kind of strong-arm laws typical of emergency situations or wartime scenarios.

The authorities have renounced the civic rights and freedoms enshrined in the Russian Constitution, which amounts to an anti-constitutional coup. They passed a number of laws limiting freedom of assembly, freedom of the press and the internet, and possibilities for NGOs to receive funding from foreign sources. They have expanded the definition of state treason, following on from the expanded definition of political extremism brought in during Medvedev's presidency, and have shown their readiness to introduce make blasphemy and insulting

others' religious feelings criminal offences, thus creating grounds on which to press criminal charges for even the most innocent motives (it would be possible to press charges against individuals providing consulting services to international organizations, for example).

In the past, the Kremlin tried to reach out to all social groups and used modernising rhetoric to draw in liberal circles, but now it is increasingly turning to its traditional support base and appealing to the most archaic part of society. In its attempts at political consolidation, the updated Putin regime has started openly trying to implement the 'besieged fortress' model based on a constant search for an enemy in order to mobilize the loyal sections of society. The authorities are now following a policy of provoking confrontation between the traditionalists and the minority that supports modernization, are promoting a union between the state and orthodox fundamentalism, and more active in using militarism and seeking to establish a 'sphere of interests' in the post-Soviet area. Putin's regime is essentially returning to the most reactionary methods of government that completely reject liberal and reformist goals and would turn Russia once again into a civilization hostile to the West.

The authorities' tactic of political intimidation and the weaknesses within the protest movement itself saw the first wave of protests fizzle out in the end. The authorities have managed to hold their ground for now without having to resort to any large-scale violence or bloodshed. Limited use of force and intimidation was enough. The protest leaders and ideologues hoped for fragmentation within the political elite, but this has also not happened.

The Kremlin looks to have eliminated the threat to its power. But the paradox is that in the absence of serious threats to their power from the public and the opposition, the authorities have begun to undermine their own position, setting the suicidal statecraft mechanism in motion. This new situation could be seen as an example of the law of unintended consequences in action. The very factors that only recently were helping to keep the authorities in power are now starting to weaken and delegitimize them. Completely clearing all opposition from the political stage, for example, creates a situation in which the new and active generation of citizens coming to the fore, with no institutional channels through which to express their will, is forced to take to the streets. The discrediting of all political institutions, from blatantly fraudulent elections to a parliament that has become a circus, and a multi-party system made up of dwarf parties designed by Kremlin spin doctors to put the public off creating parties, also fuels the street protests.

Until recently, corruption helped the authorities to satisfy various interests through deals within the system and between the system and society, but it has now become one of the biggest causes of people's anger. The authorities' turn to repressive, albeit still selective for now, has had the effect of radicalizing the protests as a counter reaction to government force. By giving up soft-line tactics in favour of force as a means of prolonging its survival, the regime is creating a new opposition wave, only this time more radical in nature. Of course, being pragmatics, Putin and his team are hardly likely to want to use mass force.

They realize that they cannot rely on the thoroughly corrupt law enforcement and security agencies. Nor do they want to close Russia off and isolate it from the outside world, which would anger the Russian elite, which has already integrated into the West at the personal level. But the Kremlin has become a hostage of the personalized power system's survival needs, and if it takes too soft a line the current discontent will only grow and the regime will soon find itself swept from the political stage.

What's more, by casting aside the modernizing rhetoric with which it long tried to woo the groups in society pressing for a modernizing agenda, the authorities have shrunk their support base even further and deprived themselves of a source of reformist impetus. The Kremlin's shift to a policy firmly focused on preserving the status quo has destroyed hopes for reform from above and the public is increasingly aware that only movement from below will bring about change. Public consciousness is undergoing a shift from hopes placed in a leader to realization that support for reform has to come from below, and this in turn means growing awareness of the need of the need for revolution. Of course, society still fears revolution, still lives with its memory and knows that in Russia revolution was always fierce and cruel. The question now is whether society can find a means of achieving peaceful exit from the Russian matrix and avoiding violence. This could be possible if a strong opposition emerges and accepts the consensus principle of peaceful action, and if the political class fragments, enabling potential links to be established with pragmatists who would be willing to support new rules of the game. But so far, neither of these developments are evident.

It would be naïve to imagine that Putin's regime is about to topple in the coming months or even years. The regime still has administrative, security, and social resources it can draw on. These resources enable the ruling team to keep not only the traditionalists under their control but also a substantial share of the discontented, who so far fail to see any alternative leader or system. At the same time however, the support pillars on which the 'Putin consensus' was built (above all, society's tacit and informal consent to hand power over to Putin and his elite in exchange for growing prosperity and greater security) no longer perform their job. People have lost faith in Putin's ability to guarantee higher living standards, and many no longer have confidence that the regime can ensure stability and personal safety. The vast majority of people dislike and are suspicious of Putin. Even the traditionalists (around 15% of the population) give Putin only conditional support and consider him too 'soft' and 'pro-Western'. Majority of the population of the population still express support for him because they do not see any alternative and fear chaos (with about 15 per cent minority that is ready for fight for new rules of the game). But this support could vanish at any moment. The elite's support of Putin is also conditional. In the eyes of some parts of the elite, Putin has gone from being an asset to a liability.

The Kremlin's decision to resort to forceful methods in a bid to maintain its hold on power is symptomatic of the regime's imminent demise, but at the same time, an end to Putin's regime does not mean that Russia will take a democratic road. As fate would have it, even among Putin's opponents and in the liberal camp quite a few people support the idea of a new regime that would play a firm hand and be capable of carrying out long-awaited reform from above. The possibilities for the traditional Russian power scheme to reinvent itself in a new guise go

well beyond the current regime alone. It is possible that a new personalized power regime could replace the current one, either through a coup or through consensus among part of the ruling elite. It is also possible that this new regime could be an outright dictatorship. The one thing that we can say for certain is that leaving power in the hands of the current elite, which is attempting to neutralize society by demoralizing it, will only increase the tension and violence, thus making future confrontation between the authorities and society all the more unavoidable.

### Crisis as the Factor of Change

Socio-economic and political crisis is the key factor that will determine whether Russia takes the road of endless stagnation or whether Russian society attempts to stop this process and finds the energy and strength to look for new forms of life. With an elite that seeks not renewal but only to protect its own interests, and without any alternative force in society, crisis is the only thing capable of stirring the swamp and snapping people out of their lethargy. So far, crisis is producing ripples that rock the Russian boat but it seems are not yet waves sufficiently large to threaten the status quo.

What could set off full-scale crisis in Russia and what would this mean for the country? Russia could head into full-scale crisis if, for example, oil prices fall to \$70 a barrel, public sector workers dependent on the state see their living standards take a steep downturn, the urban population becomes increasingly politicized and the gap between them and the authorities widens, local conflicts build up, signs of splits emerge within the political class, and executive power ends up in a paralyzed state. Setting all of these exacerbating factors into motion and making them converge in time would require some kind of tipping point, some foolish act on the authorities' part, as back in 2005, for example, when the decision to replace social benefits with cash payments brought pensioners into the streets. Other tipping points could be unjustified use of violence against the population and clashes in the streets, electricity blackouts in Moscow, which would paralyze the capital's life, corruption scandals in government, growing student activism and so on. In a full-scale crisis we could see executive power become paralyzed, underscoring the authorities' inability to keep the situation under control, the mass protest movement could swell and the law enforcement agencies could refuse to use force against the public. Crisis could cause dissension within the political class and erode the authorities' support base.

If an explosion does take place, a package of conditions is needed to channel it in peaceful stream and ensure that transformation begins. These conditions are: consolidation of all anti-regime and anti-system forces; readiness on the part of pragmatists among the authorities to enter a union with the non-systemic opposition; adoption of new laws on free and fair elections and immediate organisation of such elections; convocation of a constitutional conference to adopt a new constitution that would curtail excessive presidential power (or have constitutional amendments approved by a newly elected parliament). This would be inevitably be followed by a new stage during which the anti-system coalition would fall apart and a new round of drawing up the political boundaries would begin, only this time it would take place under new rules of the game. This is the optimistic scenario. But making this happen would require not just convergence of several trends but also consistent effort by the opposition forces to prepare for transformation on the

basis of de-monopolizing power and guaranteeing political competition.

Unfortunately, Russia is moving in a dangerous direction at the moment. The authorities still have enough resources at their disposal to keep the country in a state of indefinite 'controlled decline'. What's more, the ruling class has deliberately chosen to deepen degradation and demoralization in society, hoping in this way to prevent the emergence of a constructive alternative that would threaten its survival. This atmosphere of continued decay in which moral principles and taboos that act as restraints are eroded and total mistrust and cynicism spread through society could push the country onto a path of slow collapse, and in this situation, popular protests could end up turning into ruthless and destructive mutiny.

No matter what form continued degradation takes, no matter whether the country runs into worsening crisis or implosion, the trend that has undermined the country's territorial integrity will inevitably continue, even if transformation begins. It will be very difficult to maintain within a single country, all the more so one built on a unitary construction, regions that belong to such different civilizations (the North Caucasus, say). The future of Tatarstan and Bashkortostan is also unclear, although their lack of any external borders would make it harder for these regions to secede from Russia. In any case, we need to be prepared for a new spiral in the collapse of the still partially intact old empire.

The developments I have outlined for Russia over the nearest perspective would see the country become a

turbulent region, and Russia's turmoil would impact on stability across Eurasia and the European continent. Russia's future will say a lot too about the possibilities and influence of Western civilization, which has so far failed to answer the Russian challenge. But even more important is the fact that the Russian society is approaching the test that will demonstrate its ability to say farewell to the civilization based on the priority of the stats but not individual.

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## Russia increasing its military expenditure

By Tommi Lappalainen

In recent years, Russia has markedly increased its expenditure on defense and the re-equipment of its armed forces. According to current plans, state funding for defense will almost double over the next few years, while defense expenditure grows by one fifth annually. In international comparisons of funding allocated to military expenditure, Russia comes third after the US and China.

The State Armaments Program (Gosudarstvennaya programma vooruzheniya), which reaches up to 2020, will form part of the program to reform the armed forces. Within the framework of the armaments program, EUR 550 billion will be set aside for rearmament. The armaments program forms part of Russia's reform of its armed forces, which covers broad structural, operational and equipment-based renewal of the national defense. Political commitment to increased military expenditures is strong. The program is viewed as indispensable to national security.

### Major rearmament underway

The war with Georgia in 2008 provided a concrete demonstration of the deficiencies in the Russian army's armaments and command systems, and of the need for the long-planned reform of the armed forces. Under the armaments program, focus areas for rearmament include strategic nuclear weapons; the development of a new, modern fighter; a surface and submarine fleet; and the development of modern air defense and command systems.

The intention is to earmark almost half of the program's funding for the upgrading of nuclear weapons. While strategic nuclear weapons are chiefly regarded as providing diplomatic leverage, Russia regards a credible nuclear deterrent, and the country's ability to maintain nuclear parity with the US, as crucial.

Another key goal is to renew the mass-deployed, Soviet-era equipment of Russia's conventional forces with modern military hardware. The objective is to achieve a level of 70% modern equipment by the end of the decade, from the current level of only around a tenth.

### Are the goals of the armaments program overly optimistic?

In fulfilling the program, a key question concerns whether Russia's defense industry can indeed produce modern defense equipment at the planned pace and in line with the program's goals. After the break-up of the Soviet Union, very little industrial R&D was being carried out within the defense-industrial complex. R&D ground was lost and closing the gap with the West now presents challenges of its own. In many regards, arms manufacturers are unable to produce the modern weapon systems required by the armed forces, at least on a rapid schedule. Lack of competition and profitability, non-availability of educated labor force and the widespread corruption afflicting society are additional scourges of the defense industry. According to estimates, up to a fifth of the armaments program's funding is lost to corruption. Fulfillment of the armaments program therefore also requires the broad-based modernization of Russia's defense industry.

Another factor in the program's fulfillment clearly depends on Russia's general economic development. An acknowledged structural weakness of the national economy lies in growth's dependence on energy price trends in the global markets. During the current decade, this 'formula' looks unlikely to change.

### Why is Russia rearming?

Russia's leadership has repeatedly emphasized the need to grow military expenditure and re-equip the armed forces. For its part, a substantial armaments program is a sign of the reinforcement of Russia's status as a major power. Russian security thinking emphasizes that the armed forces are not being developed to meet existing threats only. Major-power status requires considerable potential to wage war. Without strong, modern armed forces, major power status lacks credibility. Over the next few years, no significant changes are to be expected in strategic choices concerning security; defense issues will remain a key guiding principle behind the orientation of Russia's foreign policy.

In the future, it will be interesting to see whether societal pressure increases to devote ever more state funding to social infrastructure development projects and improving the general wellbeing of citizens. The evidently increasing dissatisfaction with the current administration may lead to additional funding for various social programs, at the expense of the defense budget and State Armaments Program.

In sum, many uncertainty factors hover around the fulfillment of the armaments program. It may be that, in its current condition, the defense-industrial complex is incapable of carrying out a broad-based armaments program. In many respects, money, or foreign purchases, will not suffice to paper over the defense industry's weaknesses.

For their part, the sheer variety of perceived threats to national security, and unwillingness to prioritize, pose a problem to the upgrading of Russia's armed forces. Russia has no natural allies in the area of national security policy. Partly for this reason, it has no choice but to prepare for many different types of threat.

Extensive reform of the armed forces is sure to require the whole of the current decade. However, in practice the current armaments program is no panacea for the Russian armed forces' problems.

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## Russia's WTO entry – consequences for higher education

By Irina Novikova

Russia officially joined the World Trade Organization (WTO) on August 22, 2012 as the protocol on its accession to the Marrakesh Agreement, the foundation document for the world trade club, entered into force. This document was signed in Geneva on December 16, 2011 after 18 years of negotiations and made Russia the global trade body's 156th member. Russian President Vladimir Putin signed a federal law that authorizes the protocol on July 21.

Consequences of the WTO entry are the subject of the most heated debates in Russian society. As part of its accession, Russia has initiated a number of measures designed to open up its economy, including tariff reductions on a range of industrial goods and measures to liberalize the Russian services sector, including phased liberalization of the Russian financial and professional services sectors. The World Bank estimates that Russia's WTO membership will boost the country's GDP by 3.3 percent annually for the first three years, with that figure likely to increase later. On the other hand, critics have claimed that Russia's accession to the WTO is detrimental to the country's national sovereignty and security and could ruin entire sectors of the domestic economy.

However, WTO entry is not limited to consequences for the national economy, but it also concerns education sphere, in this case higher education. Nowadays the Russian higher education system is under reform. At the heart of this transformation lies modernisation and internationalisation. For Russian academic institutions internationalisation becomes a sort of «survival» and development tool, a method for adjustment to requirements of innovative economy.

In this connection, Russia's WTO entry creates favorable prerequisites for internationalisation of the national education. It could be identified several positive features, which will appear in the Russian higher education system after Russia's accession to WTO: firstly, boost of the Russian universities' integration into the international education space; secondly, increased opportunities for Russian students and scholars in terms of academic mobility; thirdly, anticipated inflow of foreign investments into the Russian universities. Educational standards will be adjusted to the labor market requirements. Finally, students will get the maximum freedom of choice in their education. Education becomes life-long and adaptive process: each student is entitled to determine the educational path by his own, depending upon the personal preferences and market requirements.

Some consequences of the Russian entry to WTO could bear both positive and negative character. For example, foreign universities get an opportunity to create its branch offices in Russia. This situation can drive their competition with Russian universities for students' choice. Herein the basic value will be the quality of services provided. Russian state universities, which get used to the state's paternalism, will have to accommodate to new

realities and search for the new approaches to attract students. Also the smart marketing policy will bear huge significance for success of university's recruitment policy. One should expect that the commercialisation process in universities will go much more rapidly. New opportunities for investments into the education sphere arise, particularly on the part of foreign business. Private companies will be able to exert more influence on the specialist training, which are in demand on the labor market. Ability to use new information- and communication technologies (e.g. distant learning, on-line courses, research networks, social networking as an education tool) by Russian universities will also play significant role in their competitiveness increase.

In the short-term perspective above mentioned factors could have a negative impact, particularly for regional universities. For example, only leading universities in Russia are ready for a full-fledged integration into the Western education system. Furthermore, the brain drain of the most promising young Russian scientists to foreign research organizations is likely to increase.

Effective forms of overcoming the negative consequences of Russia's WTO entry for the national education system could be the establishment of joint educational programs and strategic alliances between several universities in the joint degree program format. A good example here could be the Barents Cross-Border University (BCBU), established in terms of the cooperation between the universities of Northern Finland and North-Western Russia. The major goal of this project is the creation and development of international multi-disciplinary Master degree programs, whose content reflects the specifics of the «Northern dimension». Another example is the CIS Network University, founded in 2008 with the aim of development and implementation of the Erasmus Mundus program equivalent for the common educational space of CIS member-states.

Generally speaking, accession to the WTO puts before the Russian education system both challenges and opportunities. In the long-term perspective and by means of wise management WTO membership is likely to promote the quality increase for the Russian education.

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## How to get more boost to the Northern Dimension?

By Jari Jumpponen

The Northern Dimension Policy of the European Union was adopted in 1999 as a new approach and practical tool for cooperation between EU and North-West Russia. In 2001 the Northern Dimension Environmental Partnership (NDEP) was launched, and followed in the next year by the Support Fund, which finances environmental and energy efficiency projects in Northwest Russia and Kaliningrad, and nuclear safety projects in Kola Peninsula. The most significant environmental projects supported by the Fund are flagships of the Northern Dimension – St. Petersburg Southwest Wastewater Treatment Plant and the Neva Program.

The revised Northern Dimension policy in 2006 introduced equal cooperation between the EU, Russia, Norway and Iceland. For sure, this has accelerated Russia's involvement and engagement in the Northern Dimension.

Analyzing the NDEP success reveals also, what the other ND partnerships lack to date: sufficient financing, clear focus, and active participation of all the partners involved. Firstly, the role of EBRD and other IFIs (EIB, NIB and NEFCO) has been crucial in the success, and guaranteed effective management of the NDEP. Also the willingness of the Russian Federation to direct funding through NDEP has been a strong endorsement of its success. Secondly, focusing on wastewater has brought evident results. However, widening activities to energy efficiency has proven to be more demanding. The results of reducing pollutants entering the Baltic Sea are easily measurable and in the interest of all the countries which have shoreline, while reducing CO<sub>2</sub> emissions is global benefit instead. Thirdly, active participation and support from the all parties has been available, because the results have had undeniable benefits to all.

### How the NDEP success could be replicated in other spheres?

The Northern Dimension has emphasized the principle of utilizing existing financial instruments as efficiently as possible. The expectations for EU funding have been evident, even though officially "no additional budget line for Northern Dimension has been demanded". Understandably but unfortunately, the North is not the main direction for the EU policy. Thus, EU has wanted to see member state contributions before committing to financing. The focus of Northern Dimension has been rather "all-inclusive" than selective. Or how should one characterize the agreed priority sectors of the Northern Dimension in economic cooperation, which include "promotion of trade, investments, customs, SMEs, business, innovation, well-functioning labour markets, financial services, infrastructure, energy, agriculture, forestry, transport and logistics, telecommunications and information technology"? In principle, it is good not to exclude any important elements of economic cooperation, but for creating new flagships certain focus would be beneficial. In addition, focusing activities could add some passion to the Northern Dimension, which in many ways has been neutral – all participants agree that as a political and practical tool it is harmless, but at the same time achievements seldom spring from neutral atmosphere.

There are currently four partnerships in Northern Dimension, namely aforementioned NDEP, NDPS (public health and social well-being), NDPL (transport and logistics), and NDPC (culture). In addition there are stakeholders complementing the cooperation – Northern Dimension Institute as a university network and Northern Dimension Business Council (NDBC) gathering together businesses operating in the ND region. Could the business view bring boost to Northern Dimension? Firstly, NDBC is a platform for interaction, experience-sharing and networking between companies. Secondly, NDBC ensures that the view of business community will be taken into account in developing the Northern Dimension policy. Thirdly, NDBC is a platform for the dialogue between business and government structures. First of all it should be remembered that all the platforms which gather European and Russian companies and decision-makers around the same table are good opportunities for dialogue. Companies do not allocate their time to activities, which do not benefit them. The clear indicator that NDBC is needed is the active participation of the companies in the annual forums; the next takes place in St. Petersburg in April 2013. Moreover, all the platforms where European and Russian companies present their joint statements on how to improve the investment environment of the European North should be carefully taken into consideration by political decision-makers and authorities at federal and regional levels.

The topics arisen by NDBC are often down-to-earth. For example, human capital has become scarce resource for both European as well as domestic companies operating in Russia. During the next decade the number of those entering to the working life will be smaller every year. The attractiveness of the blue-collar work should be increased while labour efficiency has to be improved. Maybe improving training practices and introducing apprenticeship – through European-Russian cooperation – could bring new solutions to the common challenge we face in the European North.

I believe more boost to the Northern Dimension could be got from the grass-root level. Now it is about the time to support the initiatives of various stakeholders, such as universities, research institutes and business by providing them sufficient financing. And one should accept that results might be more global than local of the nature. In the end, it is all about the competitiveness of our common region in the environmentally sustainable way.

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# Russian higher education reform – designed to approach world top universities

By Katja Novikova and Maija Kuirī

The past five years have been an era of strategic reforms in the Russian higher education sector. The main target of the reforms is to adjust the Russian higher education processes to reach the top level of western universities. The latest economic crisis has shown that under times of uncertainty, new innovative ideas are needed when competing on the global market. Hence, the active involvement of universities and their top scientific research in the development of national economies is crucial.

The Russian university sector was built up during the soviet era and met the requirements of the soviet state-planned economy well. At present, the Russian government faces additional challenges in transforming the national university structure and functions to meet the requirements of the contemporary Russian market-economy driven society. This means, for instance, world-wide international cooperation in science and education, which in the soviet time was not a priority. Other challenges of the Russian university sector, stated also in the new state program "Development of Science and Technology," are insufficient research results, poor business and science cooperation, generation discontinuity due to weakened support to science in the 1990s followed by the withdrawal of the younger generation from universities, and outdated facilities.

However, many reforms in the Russian university sector have been realized during the past five years, such as:

- Establishment of **Russian federal universities**. The federal universities have been created to enhance the development of the higher educational system by optimizing regional educational structures and by adjusting the educational processes in accordance with the economic and social needs of the federal regions. The strategic mission of a federal university is the creation and development of competitive human capital in the federal region by inventing and realizing innovation services. At the same time, each federal university supports all government social and economic programs in the corresponding area. There are currently nine federal universities in addition to two state universities: Lomonosov Moscow State University and St. Petersburg State University.
- Establishment of **national research universities**. The mission of national research universities is to effectively integrate education and research for the application of new technologies in the national economy. Both national research and federal universities aim to be among the world's 20 leading universities and provide the best educational and research practices to the world through innovations and highly cumulative human capital. At the moment, there are altogether 27 national research universities in the different regions of Russia.
- **Development of an innovation infrastructure.** Altogether 57 Russian universities have been selected to be so called "innovation universities". The status is awarded through national competition and means additional funding for improving the innovation infrastructure in these universities. Innovation universities aim to create innovation development processes and cooperate closely with companies to create competitive advantages on both the national and world markets.
- Development of **cooperation between universities and industrial companies**. Russian universities have been allocated additional funding by the government with the

target of developing closer cooperation with industry. This is realized through specific scientific and educational projects in order to stimulate innovation activities in the Russian economy.

- **Invitation of the world's top researchers.** The Russian Ministry of Education has special funding for attracting world leading researchers to the most promising Russian universities, i.e. federal, national research or innovation universities.

These five initiatives of the Russian government have been implemented in the national higher educational system and the first results can already be seen in the QS World University Rankings: 14 Russian universities have been included on the list in 2012. The most famous and dynamic Russian university, Lomonosov Moscow State University, is number 116 on the list, being the best Russian university.

The five above-mentioned initiatives were used additionally to other indicators in order to evaluate all Russian higher educational institutions with the target to select the most ineffective ones to be either merged with more developed institutions or be bankrupted in the case of the weakest results. The results of the evaluation were published on 1 November 2012: altogether 136 universities out of 502 institutions did not pass the evaluation. As a result of this, the Russian government will decrease the number of universities and concentrate the best human resources and infrastructure in the best ones, which have already been improved by the five initiatives above.

Lappeenranta University of Technology (LUT) is one of the leading universities with expertise in Russian affairs and therefore constantly follows the development in the Russian educational sector. Accordingly, LUT has created the largest network of Russian universities in Europe. LUT's Russian partners have been selected through careful analysis, paying special attention to the clusters of Finnish companies in the Russian regions. LUT's advantage is its unique combination of business and technology, which enables providing the best expertise and support to Finnish companies in Russia.

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## Party-system reform in Russia

By Sean P. Roberts

Political parties are considered essential components of democracy. For this reason, it is significant that the Kremlin's relaxation of party registration procedures in the spring of 2012 stimulated, what can only be described as an explosion in party-building. By late 2012, the Ministry of Justice had registered 36 new political parties. But with dozens more seeking registration, the Russian party-system appears to be entering a fluid phase of development.

What were the changes that led to this resurgence? The main drivers were the amendments to the 2001 law 'On Parties' signed by outgoing president Dmitri Medvedev in April 2012, in the wake of significant protests following December's State Duma election. What was surprising was the extent of these changes. The long-standing requirement that new parties have at least 40,000 members to register was quickly reduced to an almost negligible 500 members. How are these changes likely to affect Russian politics? The effects of party-system reform are difficult to gauge at this early stage, but no analysis is possible without an appreciation of what exactly is being reformed: in other words; what kind of party-system emerged in Russia prior to April 2012?

The aforementioned law 'On Parties' passed by the Duma in 2001 formed the basis of, what may be termed, Russia's 'pyramid' party system, with the all-national, pro-Kremlin United Russia party at the apex. In fact, this law was an important component of Vladimir Putin's early centralisation efforts and by establishing control over the party system, the Kremlin was able to promote United Russia and cement the authority of the federal centre over the regions.

Lower down the pyramid or at the next level of importance we have a group of 'soft' opposition parties, namely the socialist A Just Russia, the nationalist Liberal Democratic Party of Russia (LDPR) and the Communist Party of the Russian Federation (CPRF). These parties have parliamentary factions and relatively stable electorates, but they are typically fringe players, collecting the protest vote and occasionally causing an upset in regional elections by beating United Russia into second place. They are 'soft' opposition in the sense that their leadership engages in constructive dialogue with the authorities, although lower-level party activists are typically less complicit. It should be noted that the political system is significantly enhanced by these parties, whose presence confers an air of pluralism to the electoral process.

The bottom of the pyramid is home to a number of minor organisations, such as the nationalist Patriots of Russia and the liberal-leaning Yabloko party. They have an ambiguous relationship with the authorities, but the fact of their registration indicates a relationship none the less. The bottom of the pyramid is also home to a collection of 'hard' opposition groups which struggle to gain registration due to their antagonistic relationship with the authorities.

Examples include the liberal-leaning Republican-PARNAS party, which was de-registered in 2007.

Overall, the liberalisation of registration procedures will see an increase in the number of parties at the bottom of the pyramid, as has already happened. 'Hard' opposition parties will also have an opportunity to formally register, compete in elections and even unite like-minded opposition – as with the Republican-PARNAS party, which was finally re-registered in May 2012. However, the net, short-term effect of this party surge will be to bolster parties at the top of the pyramid. United Russia will disproportionately benefit if, as expected, most of these new parties fail to pass the minimum threshold in regional elections and when their votes are subsequently redistributed to those that do. The political flux generated by these new parties will likely enhance United Russia's conservative message among a confused electorate.

As for long-term effects, there are reasons to be sceptical that more parties will translate into more democracy. The problem in Russia is that despite characterising the party system as a pyramid on the basis of the power differential that exists between parties, there are grounds to argue that Russia does not have a party-system at all. The combination of formal and informal institutions severely limits the entire representative function to the point where parties cease to be meaningful bridges between society and power.

In formal terms, the 1993 Constitution affords so much power to the President that parliament represents, at best, a mild check on power – that was before United Russia came to dominate the State Duma, Federation Council and most regional assemblies. But United Russia, despite its undoubtedly pre-eminence at the top of the pyramid, is not a ruling party in any meaningful sense of the term. While United Russia has party members and 'supporters' in federal government and the presidential administration, the party is strictly subordinate, possessing little, if any, independence as an organisation. Russia persists with a so-called 'professional government', so the ability of any party to aggregate societal interests and translate votes into real power is largely absent.

By the end of 2012, political reform has led to new parties and new choices for voters. But, in Russia's post-Soviet political-system, it is the President that remains the unrivalled leader who resides above and beyond the party pyramid. No amount of party reform will change this fact.

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## Russia and migration in the light of the demographic crises

By Roger Roffey

Russia's population had continued to fall from 149 million 1995 to just over 143.2 million 2012 and UN projections indicate a serious population decline in the next 10-20 years. Russia's potential workforce, 15-64 years of age, is estimated to decrease faster than other groups by 1.0-1.2 million per year, by as much as 18-19 million by 2025. Characteristic for Russia is the very high mortality rate for males in working ages with a life expectancy 2011 for males of only 64 years. The severity of Russia's population decline has been masked somewhat by an influx of immigrants from the former Soviet republics<sup>1</sup>.

It is difficult to get reliable migration data in Russia and most of the data is not very reliable. During the period 1981–2009 a total of 17.8 million immigrants (many ethnic Russians) were estimated to have arrived in Russia. The figure for emigration under the same period was 11.6 million. It is estimated that in 2010 more than 12 million residents in Russia were born abroad<sup>2</sup>. There were two types of immigrants ethnic Russians or economic migration, which now dominates, 90 per cent from former Soviet republics.

The number of migrant workers in Russia has rapidly increased 2005 – 2010 from 1-10 per cent of employees. A large part is illegal immigration. The number of migrants in Russia also depends on how the term migrant is officially used and in 2011 it was anyone who came to Russia for longer than nine months.

Migrants including internal migrants are concentrating in the largest cities and their vicinities, particularly in Moscow or St. Petersburg. A large share will be there illegally and Russian officials have not been able or willing to regulate this flow adequately as many businesses depend on them for cheap labour. A significant proportion of those immigrants come from Central Asia and the Caucasus, causing public concern in cities due to anti-immigrant feelings. There is also a fear of mass immigration of Chinese into Siberia and the Russian Far East. Estimates range from a modest 200 000 to 400 000 Chinese working in Russia<sup>3</sup>. The numbers are not well documented, frequently exaggerated and the issue is highly politicized.

The scale of internal migration fell by over 50 per cent from 1989 to 2007, leaving Russia with one of the least mobile populations among advanced countries. There has been a trend of a 'western drift' of migrants to the European parts from eastern regions like Siberia and the Russian Far East accelerating population decrease there. It will become increasingly difficult to keep up economic development and secure control over natural resources in these areas if the population continues to decrease and this is seen as a national security issue.

Russia has faced emigration, including a so-called brain drain, since 1991. Some experts claim that 100 000 persons with academic degrees left between 1991 and 2011 and there are no reasons to expect an end to this. Emigration has not so far taken place on a large scale in recent years, but can become a serious problem in the coming years.

### Anti-immigrant sentiments

The influxes of immigrants have already caused strong anti-immigrant and nationalistic feelings in Russia not least in major cities. Nationalist rallies and inter-ethnic clashes in 2010 has not helped. Despite the introduction of various new initiatives there are many ambiguous political messages being voiced that

<sup>1</sup> Roffey Roger (2012) *The Russian Demographic and Health Situation: Consequences and policy dilemmas*, Report FOI-R-3396-SE, Stockholm, Swedish Defence Research Agency, FOI.

<sup>2</sup> Ioffe, Grigory and Zhanna Zayonchkovskaya (2010) *Immigration to Russia: Why It Is Inevitable, and How Large It May Have to Be to Provide the Workforce Russia Needs* (Washington, D.C., The National Council for Eurasian and East European Research), January, p. 1.

<sup>3</sup> Repnikova M. and H. Balzer (2009) Chinese Migration to Russia: Missed Opportunities, Eurasian Migration Papers, No. 3, Woodrow Wilson International Center for Scholars, Washington D.C.

increase ethnic tensions. This ethnic polarization can become a potentially serious problem. How the government can handle large increases in immigrants will become a sensitive political issue in Russia for the next five years. Politicians and media have for a long time sown resentment against non-Russian immigrants from the Caucasus, Central Asia or from China.

### Immigration policies

The *Concept for Demographic Policy* was introduced 2007 to boost Russia's population to 145 million and increase the birth rate by 50 per cent in relation to 2006. It assumed a life expectancy of 75 years by 2025 and a total birth rate of 2.0 children per women. There was a goal of migratory gains of 200 000 person per year in 2016 and more than 300 000 persons per year in 2025<sup>4</sup>.

The new migration laws 2007 defined quotas for migrant-sending CIS countries and high penalties for employing immigrants illegally, resulting in increased legal immigration. Russian experts were also encouraged to return but with very limited success. Russian immigration policies need to achieve a balance between the economic need for migrant labour and the widespread xenophobia in the society. In June 2012 President Vladimir Putin endorsed the new concept of national migration policy for the Russian Federation until 2025. Russia is to become more open to immigrants and it aims to alleviate the negative effects of Russia's demographic decline and to fill the gaps in its domestic labour force. Can promoting immigration be combined with a political leadership that at the same time seem to promote nationalist feelings?

### Conclusions

An efficient solution to the demographic crises in Russia, though controversial, would be to increase immigration, 25 million needed for the next 20 years, so as to compensate for the working age population shrinkage and to supply the labour market with the workforce it needs. This will probably not be achievable. The required high numbers of immigrants will be accompanied by increasing socio-political and ethno-cultural tensions that are already well known in Russia. Demographic projections indicate a continuing decrease in population. It will be difficult for Russia to support high economic growth while the population, especially in working-age groups continues to decrease. It has been proposed, though unpopular, to raise the retirement age to 62 years (now 60 for males and 55 for women) that would lead to decreased numbers of pensioners from 36 to 30 million by 2025, thus increasing the domestic working force and keeping the pension system solvent.

It is a serious problem for the government how to overcome the widespread anti-immigrant sentiment, xenophobia that remains very strong, not only among the general population but also among politicians.

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<sup>4</sup> Vishnevsky, Anatoly G. et al. (2009) *The National Human Development Report 2008 for the Russian Federation: Russia Facing Demographic Challenges* (Moscow, UNDP).

**Euroregion Baltic – tool to tackle common challenges in the South Baltic area**

**By Roland Gustb  e**

Euroregion Baltic (ERB) is a platform involving local and regional authorities in Denmark (Bornholm), Lithuania (Klaipeda County), Poland (Pomorskie voivodeship, Warmińsko-Mazurskie voivodeship), Russia (Kalininograd oblast) and Sweden (Blekinge län, Kalmar län and Kronoberg län). ERB was established in 1998 and was the first Euroregion to have formally involved Russian partners.

ERB initiates joint activities contributing to the development of the whole Baltic Sea Region and with particular attention to the South Baltic area. The significance of the cooperation has been reflected by joint political initiatives resulting, among others, in the attraction of funds to support the cooperation area, implemented strategic projects based on the ERB Joint Development Programme, and improved intercultural dialogue benefitting the integration processes in Europe.

ERB stakeholders believe that added value of their cooperation is reflected by the two factors: ERB is a tool to tackle common challenges observed by its members, as well as a strengthened political leverage in the cross-border cooperation of the Baltic Sea Region. Joint activities carefully designed in the rolling biannual action plans, are streamlined into the three strategic focus areas: lobbying activities, strategic actions, and exchange initiatives.

## Cooperation areas

As a lobbying platform ERB takes an active role in the shaping of EU policies which include, but are not limited to, EU Cohesion Policy, EU Strategy for the Baltic Sea Region (EUSBSR), Europe 2020 Strategy, and TEN-T Policy. The ERB Executive Board has initiated a number of discussions, seminars and joint lobby activities promoting European Territorial Cooperation, arguing for the Motorways of the Sea in the Baltic, proposing to improve transport accessibility to peripheral and maritime areas and calling for multi-level governance in the EUSBSR implementation. ERB has coordinated joint lobbying efforts with BDF, BSSSC, B7, CPMR, and UBC and directed them at the European Commission, European Parliament, Committee of the Regions, and national governments.

Strategic initiatives within ERB serve a multi-fold function. By enabling networking among a variety of partners and providing complementarity with the regional development strategies, such actions upgrade added value of the cooperation. By inviting high political representatives of the regions and involving other important stakeholders, such actions strengthen the vitality of the cooperation. Today, a focused coordination of joint strategic objectives within ERB concerns the implementation of the ERB Joint Development Programme (joint projects like MOMENT and DISKE), accomplishment of prioritised institutional activities (investigation of a possible legal status), and development of platforms supporting other forms of cooperation and actors in the ERB area (enhancing cooperation between businesses, improving labour mobility, promoting investment in

transport corridors and improving ferry and air links, promoting people-to-people cooperation).

The stakeholders of the ERB cooperation are strongly convinced that significant progress in innovation and in operational efficiency can be successfully generated when knowledge is exchanged. Therefore, they commit themselves to exchange activities in belief that collaborative approach to common challenges by local and regional politicians, decision-makers, experts and practitioners will lead to deepened relations between the ERB member regions and strengthened cooperation. Such exchange initiatives also result in the development and improvement of competence and skills of everyone engaged and provide an integrating stimulus to the organisation.

#### **South Baltic CBC Programme**

ERB actively promotes a greater role of the European Territorial Cooperation within the EU Cohesion Policy, advocating for the equal importance of cross-border cooperation along maritime borders to that along land borders. ERB was a key actor in the establishment of the South Baltic Cross-Border Cooperation Programme in 2007 and since then has actively participated in its implementation, both as a partner in projects co-financed by the Programme, and as a member in the Steering, Monitoring and Joint Programming Committees.

ERB supports the continuation of the South Baltic Cross-Border Cooperation Programme in the new financial perspective, including all the ERB member regions (with all NUTS 3 level regions involved in the current programme), thus enabling the whole Pomorskie and Warmińsko-Mazurskie voivodships in Poland, Kronoberg county in Sweden and Kaliningrad oblast of the Russian Federation to take full part in the programme implementation. The inclusion of the whole ERB area will reinforce the strategic programming and effectiveness of the programme, and hereby strengthen the performance and added value of the projects to be implemented.

Taking part in the current discussions on the future of the Programme, ERB stresses the need for an open dialogue involving local and regional actors in order to define a specific profile of the programme. Such a profile should address well the most urgent joint challenges within the programme area and be enforced by carefully selected thematic priorities with a strong and clear focus. These thematic priorities should include: protecting the environment and promoting resource efficiency, as well as enhancing the competitiveness of small and medium-sized enterprises.

Roland Gustb  e

President

Euroregion Baltic



# Borders and foreign labor – the importance of foreign labor at the Danish-German land border

By Torben Dall Schmidt

## Introduction

"They steal our jobs". When talking about foreign labor, this may be a first response. As foreign labor enters the Danish labor market, one may expect this to result in crowding-out native employment. On the other hand, foreign labor may have positive effects on native employment. Finding out about the nature of effects to be expected from including foreign labor into the Danish labor market is therefore of interest from two perspectives. The present crises has increased unemployment and thereby strengthened a negative assessment of foreign labor. Further, the ageing society puts emphasis of solving bottlenecks in labor markets potentially through foreign labor.

Taking a point of departure in the Danish region of Southern Denmark including the Danish-German border makes such considerations of particular interest. The Danish part of the border region is geographically close to labor market resources not having a Danish background. The issues relating to foreign labor will in the following be pursued in three steps:

1. Is cross-border commuting of importance at the Danish-German land border?
2. Does foreign labor represent a positive effect on regional employment?
3. Are networks important in recruiting foreign labor and does this point an importance of path dependence?

## Foreign labor: Why positive or why negative?

What arguments may be presented pointing to positive effects of foreign labor on native employment and what arguments may be presented pointing to negative effects? A nearby possibility is the employing a person with a foreign background gets a person with a native background fired, because the person with a foreign background is in some way preferred. This preference for persons with a foreign background may arrive from many sources such as lower wage demands or more flexibility. Such sources are often mentioned in the public debate. This would lead to a crowding-out of native labor. Without any other effects of foreign labor, this may lead to a substitution between native labor having a Danish background and foreign labor.

Another possibility is that employing labor with a foreign background leads to some competitive advantage for firms leading to even more native employment. This implies a complementarity between foreign and native labor. This may be rooted in particular competences embedded in foreign labor that increases productivity or that it solves for bottlenecks on the labor market which could have damaged productivity.

While this in a stylized manner represents some of the arguments concerning foreign labor, the three steps pointed out in the introduction, will be dealt with next.

## Step 1: Cross-border commuting of importance at Danish-German land border?

Cross-border commuters in the Danish-German border region represent an immediate source of labor with a foreign background. Limiting this to nearby sources, a focus is set on German or Danish citizenships. Danish backgrounds are included, as Danes may have moved to Germany, while maintaining their job in Denmark. Over the period 1998 to 2005, the number of cross-border commuters with either German or Danish background to the Danish regional labor market at the Danish-German land border increased from 1,013 persons to 2,589.

This reflects an increase in the use of labor with a German background increasing from 55.9 per cent in 1998 to 70.3 per cent in 2005. While one may argue that a total of 2,589 persons is

moderate, it represents about 2.2 per cent of total Danish regional employment at the Danish-German land border. For a comparison, cross-border commuting from Sweden to the municipalities of Frederiksberg and Copenhagen represents 1.1 per cent of total employment in the two municipalities. Step 1 therefore clearly suggests that foreign labor is of importance at the Danish-German land border.

## Step 2: Is foreign labor positive for regional employment?

Does native employment increase as more foreign labor is employed? This has been analysed using employment data for 15 Danish counties in the period 1997 to 2006. A set of model specifications have been applied to control for different regional business cycles and characteristics of regional labor markets.

The results indicate that employing a person with foreign background increases native employment. The size of the effect depends on the specification of the model varying from a moderate positive effect around 1.43 persons to a larger effect of around 2.90 persons. As such, the results do not support a strong crowding-out effects on native employment from foreign labor.

## Step 3: Network effects and path dependence using foreign labor

Are networks important for the recruitment of foreign labor? If so, this may expectedly lead to important path dependencies. A survey among 971 firms in the region of Southern Denmark concerning the recruitment of foreign labor for the period August 2006 to July 2007 offers the following insights.

Networks are the dominating mode of recruiting foreign labor among firms, being used by 41.4 per cent. Regions with large shares of foreign labor in employment would constitute stronger networks, which may lead to path dependence. Regions with a large number of foreign labor employed will recruit even more foreign labor, which enhances the network still more. The analysis reveals that a relatively larger share of foreign employment in a given region in 1997 will lead to a relatively larger increase in foreign employment between 1997 and 2006 indicating path dependence.

## Discussion

The importance of foreign labor through cross-border commuting at the Danish-German border is clear. Based on estimation results for all Danish regions, the use of foreign labor appear to increase job opportunities for native workers. The employment of cross-border commuters may therefore constitute a special type of growth potential at the Danish-German land border. Furthermore, networks are particularly important for the recruitment of foreign labor, which leads to a path dependence. Having a long history of increasing cross-border commuting, this may be taken to show a building stronghold in terms of extensive networks among employed with a foreign background from which further recruitment can be lubricated.

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## The Swedish Institute's role in Baltic Sea cooperation

By Robert Hall

Parallel to and in the wake of its bilateral development assistance, Sweden created a number of non-ODA instruments to promote mutually beneficial regional cooperation with its neighbours over the past 15 years. The academic and scholastic Visby programme (1998), Sida Baltic Sea Unit (2005) addressing common regional challenges, and the business leadership Management Programme (2008) were created and operated independent of each other. However as a result of the Swedish Government decision of 14 July 2011, Sweden has now consolidated its state support to Baltic Sea cooperation within the Swedish Institute. While the government decision clarified that the EU Baltic Sea Strategy (EUSBSR) was a central focus for SI's new assignment, it was not the only one. Alongside the EUSBSR, the Swedish Government assigned the Swedish Institute as well to facilitate the regional cooperation component of EU Eastern Partnership (EaP). On top of this, the Swedish Institute with the same funds should support the EU-Russia Partnership. Thus the EU Cohesion Policy's pilot test with a macro-regional strategy should be facilitated parallel to two policies within EU external relations and its overarching Neighbourhood Policy. This equated well with the broader geographic focus the Visby and Management Programmes had always had.

The government assignment, while admittedly complicated, is the logical result of various foreign policy processes. Sweden and Poland were behind the initiative of the EU Eastern Partnership. Initially the EU-Russia Partnership for Modernisation had given high hopes of a new progressive relationship with the largest Baltic Sea country which was not included into the EUSBSR. But any quick replacement of the EU Russia Common Spaces agreement has been elusive. Sweden has however long seen the role of Russia as key to the success of Baltic Sea cooperation, even if it proved impossible to combine Russia's participation in the then highly experimental concept of a European macro-regional strategy. Therefore Sweden has seen its support for including EaP and Russian actors into Baltic Sea cooperation as mutual beneficial for both EU Cohesion and Neighbourhood Policies.

Sweden is thus actively facilitating multilateral cross-border cooperation from the north-eastern Northern Dimension area to the south-eastern corner of the Eastern Partnership, including all the EUSBSR. What is unique is that the Swedish facilitation promotes cooperation across the EU's external borders between EU Member States and the EU's eastern neighbours. It does this at the same time as it stimulates internal cohesion among the Member States. The logic of this unusual combination is two-fold. Solving problems of the EU Baltic Sea Region require neighbour country involvement. EU policies towards the eastern side of the EU's "Outer Edge" need well-functioning Member State cooperation on the western side in order to be able to attract our eastern neighbours to

productive collaboration and when possible deeper integration. Increasing cross-border interaction between the EUSBSR countries and eastern neighbours within the drainage basin thus benefits both EU Cohesion Policy and Neighbourhood Policy.

More specifically, the Swedish Institute focuses on international cooperation in the broad fields of environment and energy, governance and civil security as well as business development. These are issues found in the Europe 2020 strategy as well as in the geographically-specific policies such as the EUSBSR, EaP and the EU-Russia Partnership for Modernisation, PfM. SI utilises a palette of different instruments to stimulate cooperation, including educational scholarships, financial grants to network start-up and cooperation projects, training programmes in leadership, advisory services to project initiators, journalist study visits, communications initiatives and SI participation in strategic partnerships and events. To do this the Swedish Government annually allocates over 13 MEUR to the Swedish Institute and SI employs over 20 persons at its Visby and Stockholm offices to execute these Baltic Sea operations.

Some key features of the Swedish Institute operations is a combination of bottom-up and top-down initiatives, an SI demand in most cases of mutual cost sharing to ensure "ownership" and lasting relations. The Swedish Institute relies heavily on the interest and enthusiasm of actors all around the Baltic Sea, but more so, on the Swedish actors which in most cases are the applicants for support. Actors involved in the work are individuals in the case of scholarships, leadership programmes and networks, but more often are organisations, state and local authorities, universities and research centres, NGOs and branch organisations, and in some cases private companies.

Sweden has seen that in today's interdependent world our success is intricately connected with the success of our neighbours. Facilitating new thinking and innovative behaviour regionally is socioeconomically beneficial to Sweden as well as to our neighbours. During the current economic downturn, investing in efficient problem-solving and result-oriented cross-border cooperation on shared opportunities and concerns should be a preferred approach to handling macro-regional challenges we all face.

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## Estonia and Finland diverge over Europe, but cherish Nordic-Baltic ties

By Kristi Raik

During a recent visit of Estonian Prime Minister Andrus Ansip to Finland, the question of differences between the two countries' EU approach rose to the fore in the Finnish public debate. There was a good reason for that: over the past years, Estonia has become increasingly pro-integrationist and Finland increasingly reserved about the Union. As a consequence, for the first time since the 1990s, Finland seems to have become more Eurosceptic than its southern brother. Emboldened by its triple-A credit rating, it has pursued a tough line in addressing the eurocrisis, aptly described by the Finnish EU commissioner Olli Rehn as a position of "ei, ei, ja ei" in Finnish – that is, "no, no and no". The mainstream political parties have adjusted their rhetoric to a more EU critical tone in response to the spectacular rise of the "Finns" party.

By contrast, the Estonian leaders nowadays talk about the need to be at the core of the EU, quite like former Finnish Premier Paavo Lipponen did years ago. And according to the latest Eurobarometer survey published in spring 2012, the Estonians display one of the highest levels of trust in the EU in comparison to the other Member States.

The leadership of both countries downplays the differences, stressing that Estonia and Finland remain close partners in the EU and continue to agree on many things. It is quite simply not in the interest of either Estonian or Finnish political leaders to highlight the opposite trends in the two countries' EU policies. Yet noting the differences is not just a matter of academic exercise, but can have significant political implications for the future role of these countries in Europe.

At the same time, the Nordic countries remain a key reference group for both Finland and Estonia, no matter what happens to the crisis-ridden EU. Estonian President Toomas Ilves declared back in the 1990s that Estonia aimed to become another "boring Nordic country". It is unlikely that the deep social and economic differences between the Nordic and Baltic countries will disappear any time soon. In spite of the differences, traditional Nordic cooperation has been increasingly extended to the three Baltic countries, and the label of "Nordic-Baltic" has been elevated by new patterns of collaboration.

Since the accession of the three Baltic countries to the EU and NATO in 2004, the relationship has become more balanced and equal in comparison to the 1990s when the Balts were the target of assistance and advice from the

Nordic big brothers. For example, the six Nordic and Baltic members of the EU have developed regular practices of coordinating their positions in the Union. The habit of coordination has not led to increasing convergence of positions, but it does help to create trust and promote joint interests whenever they exist.

Another fresh example of practical cooperation extended from the Nordic to the Baltic group is co-location arrangements of diplomatic missions. The Nordic countries are sharing diplomatic premises abroad in close to thirty locations (in different configurations, in most cases among two countries), and new arrangements are being planned. A framework agreement for diplomatic co-locations was signed by the eight Nordic and Baltic countries in 2011. For instance, since September 2012, a Finnish diplomat has been working in the Estonian embassy in Tbilisi, where Finland does not have a diplomatic representation. Such arrangements require and reinforce a certain level of trust and common identity.

Hence, the differences between Finland and Estonia, and more broadly within the Nordic-Baltic group, regarding EU policies and many foreign and security policy matters have not prevented the countries from enhancing practical cooperation and coordination. There is nothing extraordinary about the Nordic-Baltic group diverging over issues such as the EU's proposal for a financial transaction tax, for example. However, the differences mean that the Nordic-Baltic cooperation tends to run into difficulties whenever it tries to go beyond the safely boring level of low politics (a recent case being the debate over monitoring Iceland's air space by Finland and Sweden). It remains hard to deepen substantial foreign and security policy cooperation, even though regional and global uncertainties may have made the Nordic and Baltic countries increasingly inclined to work together.

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## Slow recovery of Latvian labour market – shaped by lack of demand, not by labour market institutions

By Anna Zasova

During the 2008-2009 recession Latvia experienced the world's largest GDP contraction, unemployment rate more than tripled reaching 20%, employment losses exceeded 20%, in some sectors being as large as 30%-50%. Labour market started to gradually recover in 2010, though the pace of recovery has been modest - by the 3rd quarter of 2012, unemployment rate declined only by about 6 percentage points in seasonally adjusted terms. This persistence raises concerns about the increase in the unemployment rate being structural, which implies that the future pace of reduction can remain slow. What determines the speed of adjustment of the labour market?

Academic literature in this field suggests that the pace of labour market adjustment is determined by labour market institutions, or the rules stipulated in legislation. First, the speed of adjustment of aggregate employment depends on how costly it is for an employer to fire a worker in a recession: if the costs are small (e.g., a short notice period, a low severance pay), employers are less reluctant to hire workers in the periods when the economy is growing. Another channel through which the employment protection legislation (EPL) affects labour market recovery is the speed of adjustment in wages. If the firing is costly, employed workers have a stronger bargaining power in wage negotiations, which limits adjustment in the aggregate wage level and thus constrains employment recovery.

The index which is perhaps most extensively used to assess strictness of EPL is the index compounded by the OECD, by aggregating various norms embedded in national legislation<sup>1</sup>. This index suggests that EPL in Latvia is less flexible than in EU-15 on average (which on the world scale is classified as rigid), being particularly strict with respect to collective dismissals. But to what extent the strictness of the legislation affects employers' behaviour? Another widely used index, estimated by the World Economic Forum, is based on the employers' subjective opinion about the ease of firing workers and, according to this index, Latvian employers' flexibility in determining hiring and firing is much higher than in most EU member states. This suggests that the incidence of circumventing the formal rules in Latvia might be quite high. High degree of flexibility in firing workers is in line with what happened in Latvia at the outset of the recession – unemployment increased very rapidly, moreover, flows from the private sector initially accounted for a larger part of the increase. Thus, one inference is that it is not the strictness of EPL which creates barriers to a more rapid labour market recovery.

Another dimension of the impact of labour market institutions on the pace of recovery is through its effect on

the job match quality. A standard result in the literature is that generous unemployment benefits create disincentives for job search activities and increase the reservation wage of the unemployed, thus reducing flows from unemployment to employment. An initial unemployment benefit which an unemployed person in Latvia is entitled to is relatively high, however, the initial amount tapers off quite quickly and the maximum duration of the benefit is short. In 2009, to alleviate the consequences of the crisis, the maximum duration of the benefit was temporarily raised to 9 months for all unemployed, but for those with a shorter length of service a fixed amount of 64 EUR was paid in the last several months. As of 2012, the maximum duration of the unemployment benefit is 4 to 9 months, depending on the length of service.

After the end of the unemployment benefit entitlement, an unemployed can be eligible for means tested social assistance benefits. Yet the size of the benefits is rather modest – despite the share of severely materially deprived population in Latvia is one of the highest in the EU, per capita budget expenditures on social assistance are one of the lowest in PPP adjusted terms.

Accordingly this suggests that unemployment support scheme is not likely to create major disincentives for job search activities and is not to be blamed for a slow reduction in unemployment. This inference is also in line with recent dynamics of the vacancy rate, which, although has increased slightly, still remains very low at 0.4% (the lowest among the EU states for whom the Eurostat has data), pointing to weak demand.

To conclude, the considered labour market institutions are not likely to have delayed recovery of the Latvian labour market. This result, together with the stagnant vacancy rate suggest that the observed persistency in unemployment is a consequence of insufficient demand, rather than a result of disincentives created by stringent employment protection legislation or a generous unemployment benefit scheme. Thus the future speed of labour market adjustment will depend on the pace of economic growth.

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<sup>1</sup> For some non-OECD countries, including Latvia, this index was calculated by Alexander Muravyev, a senior research fellow at the Institute for the Study of Labour (IZA).

## What is the WOW of your region?

By Jessica Ålgars-Åkerholm

What is the wow-factor of your region? Find it and be a winner!

Regions in Europe are competing to attract inhabitants, tourists, students and investments. To get attention it's not enough to be green, family friendly or cultural – you must be unique. At the same time the branding must be based on truth, not fairytales.

The last few years all the 28 municipalities in Southwest Finland together have promoted the strengths of this region. And there are lots of strengths: Southwest Finland has the oldest history in Finland, a rich urban culture, culture and education in Finnish and Swedish - including three universities - great nature and excellent living conditions.

But above all these there is one strength, which is special worldwide: the sea and the archipelago.

### **The Archipelago Trail leads to wild nature**

The archipelago of Southwest Finland with its 20 000 islands is the largest archipelago in the world. When starting branding Southwest Finland we asked 2000 people, what the strength of this region is. The answer was clear: the archipelago. In a time when many people seek unique experiences and stillness, the potential of the archipelago is enormous. Here you can enjoy nature by for example sailing, canoing, birdwatching or fishing. You can even find an island of your own. Feel free to camp or pick berries - in Finland we have something called everyone's right, which allows anyone to enjoy nature.

Wild nature and silence are resources that are harder and harder to find, but sitting on a cliff by the Baltic Sea you can find peace of mind. A popular way to visit the archipelago is by travelling the 200 km long Archipelago Trail. The trail attracts 20 000 tourists every summer and was named "Finnish touristattraction of the year" in 2011. The Regional council of Southwest Finland is proud to tell, that the Archipelago Trail was started with project-money granted by the regional council. It is one of the most successful projects we have ever financed. The route goes through idyllic landscapes, it passes historical buildings, ruins and boathouses and leads over small bridges. On most ferries you travel for free, for example by car or bike. In wintertime the archipelago-experience is as unforgettable; would you ever forget going swimming through a hole in the ice from the sauna, or skiing on the frozen sea from one island to another?

### **Good IT-connections make distance work possible**

There are people who don't just visit the archipelago, but live there all the time. In Finland 60 000 people live permanently on islands, 27 000 of them in Åland. Even the Finnish president lives on an island in summertime, on Luonnonmaa in Naantali. In Southwest Finland there are three municipalities on islands: Pargas, Kimito Island and Kustavi. 4 500 people live on islands without road-connections.

In the archipelago good connections by ferries and wireless internet –networks are essential. The Regional Council supports building IT-networks, so that people can live on islands and business prevail. Good IT-connections

also make distance work possible. After all, the time-distances are huge in the archipelago. In Pargas with 500 km of coastline, it takes two hours to go from Pargas city center to the island Houtskär. If you want to go to Utö from Pargas, it takes six hours! On the mainland you travel through half of Finland in six hours... And these villages are all part of the town of Pargas.

For many people the dream scenario would be to live by the sea and work from there. Pargas has the largest amount of summer cottages in Finland and many summer inhabitants want to live in their summer houses half the year. Making distance work possible would enable this and keep the archipelago alive. There are families who take a "time out" from their lives on the mainland and move to Utö, the southernmost island of the Archipelago Sea. Besides a lovely lighthouse there is a Finnish school on Utö, founded in 1884. Here it is possible to distance work, because one of Finland's fastest netcables leads from Sweden to Utö. Far from the urban life the family members finally have time to be together.

### **Independent persons who take care of themselves**

"There is something about going to sea. A little bit of discipline, self-discipline and humility are required." The words spoken by Prince Andrew, British Duke of York, also tell something about people living by the sea. The European Union supports regional development that is built on the regions own cultural originality. In the archipelago of Southwest Finland the people are part of the regions cultural heritage and strength.

People who live by and from the sea are usually independent and used to taking care of themselves, often in harsh conditions. They don't have all the comforts of the city, but are satisfied with what they have. The sea is part of their mental structure, it is loved and respected and it also means connections to the outside world. At the same time everybody on the island is depending on each other. You find a large amount of tolerance; people are judged by what they do and how things work – not how they look. The balance between strong individuals, who take care of themselves, and communities where everybody depends on each other seems to work.

Here you find strong individuals who manage their own lives, but know that in times of trouble nobody is left alone. Maybe this is the true wow-factor of the archipelago of Southwest Finland.

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## Important meetings and passion since 1229

By Sari Ruusumo

Turku is the oldest city in Finland, already mentioned in literature in the year 1229. Like many other medieval cities, Turku was never founded, but it was a natural location to live in. The archipelago of some 20 000 islands and the delta of the river Aura formed a protected region for the first Finnish people to live and trade in. Today, the same Scandinavian Islands still form a beautiful route to the Åland Islands and Stockholm, Sweden. It no longer takes a week to sail to Sweden. Nowadays, one can even organize an international conference of 200 delegates while watching the most beautiful scenery in the Nordic countries.

Today, Turku is the second most popular city of international congresses in Finland. The congresses are a vital and a well-organized part of the academic life in Turku. There are approximately 40 000 scientists and specialists working in the universities and the University of Applied Sciences. In a city of 178 000 inhabitants and a region of 300 000 people, this is quite remarkable.

Finland placed 21st on the list of the world's top international meeting organizers in 2011, according to an annual survey conducted by the Union of International Associations (UIA). A number of 183 countries were listed in the survey. Helsinki placed 25th on the most popular international conference cities list. The Nordic rivals Copenhagen and Stockholm reached the top 15. Oslo placed at 22nd and Turku placed at 99th position.

How are such results accomplished? How is this simply possible for a small city of under 200 000 inhabitants and a country of five million people? My explanation is determination and passion. International congresses are basically several day meetings organized by scientific specialists. However, there are many types of specialists. Some love their own privacy and solitude. Some tend to work in groups and are members of a scientific associations just to share information and to learn from others.

Finnish success in international congress statistics is due to the fact that the Finns genuinely believe in working in groups and networks. If a Finnish leading specialist is a member of an international association, he also believes that the success of the association is in his personal interest. Therefore it is very common to meet a Finn who is responsible for the association, working as the president or the chair of the association. It is natural to trust a Finn: we are rational, calm and reliable people who have a passion for our work.

The University of Turku is an internationally acknowledged, multidisciplinary scientific university. With over 21 000 students and 3500 employees, it is one of the major universities in Finland. Åbo Akademi University offers both undergraduate and graduate studies and extensive research opportunities to some 7000 students on three campuses.

Turku region has had a multitude of connections to the Nordic countries, especially during the six hundred years

when Finland was a part of the Swedish empire. Åbo Akademi University is still the only Swedish-speaking university outside of Sweden. The strong Nordic connections and an active Swedish-speaking community give congress city Turku a particular advantage in bidding for the Nordic congresses. Having reliable Nordic colleagues is an advantage also when competing for the globally circulating congresses. Nordic colleagues often agree in advance that it is for example Turku's turn to bid for the congress. And there you are, well prepared and believing in the same Nordic goal: having already all the Scandinavian votes when the board starts to vote for the next congress destination. This is not a game for a solo artist.

Organizing congresses is a perfect example of teamwork as well. The City of Turku granted its Congress 2012 Award to Professor Juhani Knuuti and the Working Group of Turku PET Centre. The Award is granted for long-term commitment in organizing the PET Symposium over the course of three decades. The PET Symposium has been organized 12 times since 1977. During the past decade the Symposium has brought 1400 international congress delegates to Turku. In the past decade the estimated value of tourism revenue from PET Centre international meetings is approximately 24 million euros. Juhani Knuuti is a Professor of Medicine and the head of Turku PET Centre, a Finnish National Research Institute for the use of short-lived positron emitting isotopes. The core functions of Turku PET Centre are based on the agreement between University of Turku, Åbo Akademi University and Turku University Hospital. The PET Symposium is famous for always having a sauna party. These evenings are something to remember: everybody takes part in warming up the sauna, carrying water from the well and serving food. The Symposium is nowadays better known as the Sauna Symposium. This is passion, if something.

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## The Hanseatic League – past and present

By Mika Kallioinen

In the Middle Ages, the Baltic Sea was a border between several spheres of influence, where overseas trade was regulated by different kinds of privileges. From early on, the Hanseatic League used to be the supreme power in the Baltic Sea region. The most important aspect of the formation of the Hansa was that it was able to control, from the thirteenth century onwards, the commercial axis between Novgorod, Tallinn, Lübeck, Hamburg, Bruges, and London. This main stream of trade connecting the East and the West remained the foundation of the Hansa all through the Middle Ages. This axis was fed by the Finnish foreign trade as a tributary stream, too.

The organization of the Hansatic League was not self-evident. As a matter of fact, its definition was a problem already in its time. According to a widely held opinion, the Hansa was a community of North German towns whose merchants participated in the Hanseatic privileges abroad. One might have expected the Hansa to take the trouble to draw up an official list of member towns and keep it carefully up to date, but nothing of the sort can be traced. Nevertheless, despite the loose organization, contemporary foreign merchants recognized their Hanseatic competitors as belonging to a group sharing exclusive privileges they themselves would have liked to share.

For many generations of historians the Hansa had the image of a huge trading empire, a false interpretation to which even nowadays observers still are sticking to. Yet in spite of its structural weaknesses and the "virtual" characteristics of its organization, the Hansa survived nearly 500 years, until the seventeenth century. It is extraordinary that so many towns, so different and so remote from one another, should for such a long period of time have been able to engage in so many corporate activities, and remain so loyal to a community of which they were only voluntary members.

The community's long existence resulted, in the first place, from the favorable geographical situation of the Hansa towns between North-East and North-West Europe, forming a line of communication and trade between the regions. Secondly, the common interests bound the mixed collection of towns together. The Hansa succeeded in, more often than not, satisfying the desire of the merchants of the North German towns for mutual aid and support in the protection and advancement of their interests abroad. The league remained viable as long as the solidarity based on the interdependence of the member towns continued, keeping in check the mutual disagreements and disputes. The weaknesses became more apparent in the later Middle Ages, both because of internal conflicts and the external rivals (Holland, England), including the rise of the new national states (Denmark, Sweden, Russia).

In the later Middle Ages, regulation became the Hanseatics' most important way to fight back. Although never systematized, regulations dealt especially with three points: the exclusion of all non-Hanseatics from sharing the Hanseatic privileges, the limitation of the activity of non-Hanseatics in Germany by various measures that together were labeled as the "guest law" (*Gästerecht*), and

the strengthening of the Hanseatic *Kontor* in Bruges in order to hinder the Dutch trade. Several measures to defend Hanseatic interests were intended to clarify the distinction between the Hanseatics and the non-Hanseatics. In 1434, for example, the enjoyment of the privileges was restricted to citizens by birth only. These prohibitions show clearly that the aim of the legal measures was to prevent foreigners and foreign capital from reaping the benefit of the Hanseatic privileges, fundamentally that of the monopoly of trade of the commercial axis connecting the Russian markets to Western Europe.

Thus, because of its monopolistic, protective, and exclusive nature, the Hansa can hardly be considered as a model for today's cooperation in the Baltic Sea region. As a matter fact, medieval and pre-modern trade in the Baltic was similar to later colonialism, because the regions outside the Hansa, including Finland and Sweden, produced mainly raw materials and the West more advanced "industrial" products. There was also a considerable difference in the stages of economic progress: Finland was a peripheral and underdeveloped region compared to the much more advanced Northern Germany.

In the grass root level, however, the Hansa was able to introduce forms of cooperation that have had a deep impact on later development. Due to the close trade connections alone, many urban activities, town plans, and daily life were to a great extent identical on all shores of the Baltic Sea. Whether it was Turku, Stockholm, or Tallinn, the same Low German language was heard in the streets. Although politically scattered, it was this cultural and linguistic homogeneity that made the Baltic Sea a relatively uniform trading region. The frequency of spontaneous partnerships and agency relations between the Hanseatic and the Nordic merchants shows that mutual, personal interests knit together merchants residing in distant towns. More importantly, the Hansa established economic institutions that provided security and enhanced trust when trading crossed the geographical, cultural, and political boundaries that separated town communities. The so called inter-communal conciliation mechanism, for example, successfully secured contracts and property rights, encouraged cooperation and enhanced trust between merchants, and thus promoted trade. The legacy of the former Hanseatic League in the present day Baltic Sea region is above all based on these informal mechanisms of interaction at the local level, rather than on any model for political integration of the Baltic Sea region.

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## Pharmaceutical retail as a part of healthcare provision in the future

By Anna Karhu

The healthcare sector is going through changes due to the growing demand, high costs, and opportunities created by scientific and technological advancements. Health-care expenditures, on average within OECD countries in 2010, comprises of inpatient care (31 %), outpatient care (30 %), medical goods (23 %), long-term care (10 %) and collective services (6 %). There is a common need in all these areas to reduce costs and yet offer widely accessible and high quality services. Current health care processes and applications must be developed further to be able to provide healthcare services efficiently to those in need in long term.

Pharmaceutical expenditure has a complex relationship with other healthcare expenditure. Increasing costs in pharmaceutical expenditure may reduce the costs in other areas, as more diseases are treated with pharmaceuticals and the need for costly hospitalisations decreases. Thus, the increase of pharmaceutical consumption during the past decade both in terms of expenditure and in terms of the quantity of medicines is not necessarily negative development in health care cost perspective. In closer examination the growth of pharmaceutical consumption has focused on emerging markets and this trend is expected to continue. According to IMS Health report on global use of medicines, Russia is one of the future markets for pharmaceuticals. The growth of total spending on pharmaceuticals is expected to increase around 10 % in Russia by 2016. The ageing population and growing income level are a basis for future market opportunities in these fast developing countries. Also the impact of growing availability of generic drugs will have impact on the positive growth of spending in emerging economies.

Most countries within the Baltic Sea Region are facing tightening governmental budgets and thus need to cut costs also in health care sector. The impact of the economic crisis has been significant on pharmaceutical spending: the average annual growth in EU member states was 3.2 % between 2000 and 2009, and decreased to close to 0 % in 2010. The slow or even declining growth in EU countries is expected to continue. Also important markets like US and Japan are facing slow growth rates due to the expiring patents for a number of significant brand-name drugs, slower increases in spending on branded products, and increased cost control measures by payers.

To respond to the challenges of tightening budgets and retaining accessibility and high quality of healthcare services co-operation between different parties is necessary. Currently the healthcare sector seems to be divided into separate sub-sectors: one focusing on delivering pharmaceuticals, second delivering medical devices, and third delivering healthcare services. A possible future avenue would be stronger co-operation between these processes or even integration in some extent. This would enable more holistic management of healthcare service delivery and would create possibilities for cost reductions and increase the quality of the service for patients. Already currently the trends towards prevention rather than just treating diseases and encouraging patients to take a more active role in managing their own care are evident. Both these trends

will continue as better and more specific medicines will be available to larger amount of patients. Many diseases currently treated in hospital could be treated at home in the future.

These possible future changes will also change the role of pharmacies in healthcare systems. Pharmacies are, in most European countries and in all Baltic Sea Region countries, the most widely distributed healthcare facility and the most frequent contact point with patients. As the pharmaceutical treatment of diseases increases and, thus becomes more complex, the professional guidance for patients in medicine usage and the management of use of multiple medications can be provided by pharmacies. This would emphasise the role of pharmacies as a crucial part of healthcare delivery and support the active role of patients in managing their own care. Also, in the case of rural areas the current relatively tight pharmacy networks will ease out the availability and accessibility of healthcare.

Issues currently under discussion include increasing commercialisation in the sector and reducing the public health regulations. These decisions will have important consequences for healthcare system quality and costs. Pharmaceutical Group of European Union (PGEU) calls for wider discussion on the future opportunities of developing the role and operations of pharmacies, which would bring further efficiency to patient care. Pharmacies need to be able to operate economically sustainably and the changes in factors impacting the sustainability of pharmacies should be carefully considered.

Within Baltic Sea Region, healthcare systems and regulations vary. In case of pharmacies, the operational environment varies from the tightest regulations in Finland to more liberal in Norway. However, the common interest for all the countries in the region is to improve the accessibility and quality of health care at affordable costs. In an attempt to control pharmaceutical expenses, discussions on a mix of price and volume controls and deregulations have taken place in many Baltic Sea Region countries. The region could co-operate in larger extent to create common vision for the future of healthcare provision and take advantage of the different experiences and backgrounds, as the Baltic Sea Region shares also other common interests to develop the area and jointly solve common problems.

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