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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

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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 the 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

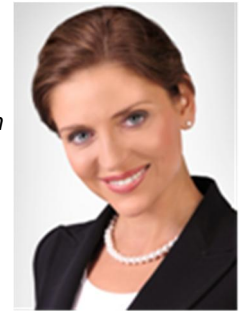
serve as a host to foreign tourists. Their impressions will, to a large extent, determine how the image of Poland, as the hosting country will look. After UEFA Euro 2012 that impression will be propagated on the international scene. The received image of Poland will, according to IMPACT, in turn influence 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.

Egemen Bagis

Minister for European Union Affairs and Chief Negotiator

Turkey

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 phosphor running into the Baltic Sea. It should absolutely be recycled and reused. Phosphor 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, phosphor 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 logistically 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 eco-nomically 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 Aleksii 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 synergetic 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.

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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

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Finland



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 summitry 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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Russia

Russian way to the World Trade Organization (WTO) – why did it take so long?*

By Sergei F. Sutyryn

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 publications¹ 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 enlargement². 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 17th position in the global ranking³. 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 (16th rank) and 2.9% share of world merchandise export (9th rank)⁴.

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 enough⁵. 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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¹ Sergei F. Sutyryn *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.

² 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.

³ "World Trade Report 2003. Trade and Development". WTO. Geneva. 2003. P.68.

⁴ "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"*

⁵ 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?"¹

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."²

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."³ 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, unspoiled 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.

Karina Pētersone

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¹ Identity Report 2011, Baltic Development Forum, p.3.

² Identity Report 2011, Baltic Development Forum, p.17.

³ *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-throughs 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 uprising 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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Russia



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 9th—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 Leidiniu 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 ryto 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 4th 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 24th 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.

Konstantin von Eggert

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Russia

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 20th century.

Konstantin Sonin

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New Economic School

Russia

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 13th 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 55th 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 25th 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 spend 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 LL.M.-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.

Dr. Gabriele Kötschau

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Germany / Russia



Turku Region – for future success

By Niko Kynnäräinen

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 the 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 a field, 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 ex-ample 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 believe 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 Kynnäräinen

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, contents 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 Mamonowo 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). In 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 Bełchatów 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 km². 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 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 stakeholder network. The manual can be obtained from Maritta Hiltunen (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 Umea 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 Umea 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 assignment 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 53rd 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 literary 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 Lithuanians 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 become 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* are 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 crumbled 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 is it 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 interweaved 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 2011¹ 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.

¹ The law firms participating in the Studies included SORAINEN, Raidla Lejins & Norcous, Tark Grunte Sutkiene, LAWIN, Borenienus, Glimstedt and Tamme Otsmann Ruus Vabamets.

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.)

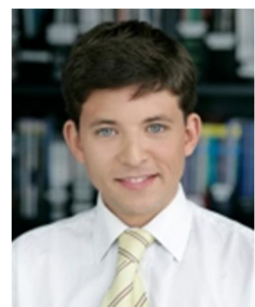
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When the focus is on international students, Finland can do better!

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 exciting – 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 origins 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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