



**KARMENU VELLA**

Now is the time to  
deliver sustainable Blue  
Growth in the Baltic



**SIRPA PAATERO**

The Finnish  
icebreakers in the  
Arctic region



# BALTIC RIM ECONOMIES

The Pan-European Institute publishes the Baltic Rim Economies (BRE) review which deals with the development of the Baltic Sea region. In the BRE review, public and corporate decision makers, representatives of Academia, as well as several other experts contribute to the discussion.

Pan-European Institute

ISSN 1459-9759

Editor-in-Chief | Kari Liuhto  
(responsible for writer invitations)

Technical Editor | Saara Majuri

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# BALTIC RIM ECONOMIES

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KARMENU VELLA

# Now is the time to deliver sustainable Blue Growth in the Baltic

Expert article • 1707

**M**uch like everywhere in Europe, the focus for the Baltic in the next five years will be on creating the jobs and growth needed to get the region back on the road to economic recovery. The new European Commission, of which I am part of under President Jean-Claude Juncker, will be making this our number one priority for Europe. But when it comes to the Baltic we cannot speak of jobs and growth without first talking about sustainability, conservation and biodiversity. Sustainability is more than an environmental duty but it is also the key to growth in the region.

Our seas and oceans have an enormous, untapped potential for creating jobs and injecting much needed impetus into the economy. If you add all of that potential together, Blue Growth can create upwards of 1.4m new jobs in Europe by 2020. But none of that can be achieved without protecting our environment and preserving our natural resources.

The Baltic is one of Europe's most competitive and innovative sea basins. Its maritime economy thrives on sustainability and innovation to ensure the long-term development of its maritime economy. The region must build on the assets it has – leading innovation and research, strong maritime clusters, a proactive approach towards marine environment challenges, and well-established cooperation. That potential is real. Recent growth rates in the Baltic are above EU average most notably for offshore wind, cruise tourism and marine aquaculture.

That's why the EU's strategy in the Baltic Sea Region focuses so much on the sea and coast.

We have already seen some successes such as the clean shipping projects or the Baltfish forum which provides a platform for the Baltic's main fisheries players to come together to discuss the challenges the region faces. Or the successful MARSUNO project which brought together maritime authorities from different sectors and countries in the region to improve surveillance and help protect the Baltic from disasters like oil or chemical pollution. Not only does this work help mitigate environmental risk but it creates a more appealing and investment conducive climate.

The focus must now turn to making the most of the funding opportunities out there to strengthen the blue growth part of the Strategy. This means focusing on the sectors which offer the greatest potential for innovation and growth such as offshore energy, short-sea shipping, aquaculture, shipbuilding, blue biotechnologies, maritime technologies and maritime tourism.

To that end, EU countries in the region are currently drawing up their programmes for the next round of funding via the new European Maritime and Fisheries Fund. Latvia has already completed its programme and we recently announced an investment package for the Latvian fisheries and aquaculture sector worth almost €184m, includ-

ing €139m of EU investment. This sort of funding will be instrumental to help create jobs by sustainably capitalising on the region's environmental assets. This is a great template and I look forward to the other countries following suit in 2015.

But to unlock this sort of potential we need more investment throughout the region. And that means creating a stable and predictable climate for investors who don't want to put their money into the unknown or uncertain. We must create those investment-conducive conditions by making sure that we know exactly what is going on in the Baltic Sea and its coasts.

We have already taken the first steps towards doing that with our Maritime Spatial Planning directive which came into force last year. It creates the world's first legal requirement for countries to create transparent planning-at-sea systems and to cooperate with their neighbours to make that happen.

The competition for space in the Baltic between all the different maritime sectors needs to be organised to mitigate the risk of environmental damage, of turning away investors, or simply of accidents. It needs long-term planning across sectors and borders.

This will be good for business, good for investment, good for the environment and good for jobs.

That's all well and good on paper but now we are faced with the challenge of making sure that it works on water. The requirements are new for many Baltic countries so we will work closely with them and help finance relevant projects. The aim is to ensure that sea-based activities follow the same principles of environment protection, economic development, and safety that onshore activities do.

The protection of ecosystems and biodiversity should not be seen as a limiting factor but rather as a positive driver of economic growth and welfare in the Baltic. Healthy ocean-systems and safe and secure seas mean we protect our coasts, fight against climate change, secure our food supply, and make our coastal resorts thriving tourist hubs. So when we speak of jobs and growth over the next five years, it's about making sure that we create the climate for growth by using our natural resources in a responsible and sustainable way. ■

The protection of ecosystems and biodiversity should not be seen as a limiting factor but rather as a positive driver of economic growth and welfare in the Baltic.



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European Commission

SIRPA PAATERO

# The Finnish icebreakers in the Arctic region

Expert article • 1708

**F**inland is the world's leading manufacturer of icebreakers. Of all of the icebreakers currently operating in the world, around 60% were designed and built in Finland. A long coastline, numerous active ports and the challenging ice conditions of the Baltic Sea have compelled Finland to invest in icebreaker technology. Around 90% of Finland's exports and 80% of its imports are transported by sea, so efficient icebreaking is vital to the Finnish industry.

The fleet that handles the icebreaking of Finland's shipping channels is incorporated in a state-owned company, Arctia Shipping Ltd. The fleet consists of five ordinary icebreakers, optimised for Baltic Sea conditions, and two multipurpose icebreakers. The multipurpose icebreakers, which utilise many leading-edge technological solutions, represent the peak of development in the world. They are capable of many kinds of tasks, ranging from traditional icebreaking to laying cables and pipelines, also in harsh Arctic conditions.

The absolute priority of Arctia Shipping's icebreaker fleet is to carry out icebreaking in the Baltic Sea. In terms of the cost structure of icebreaking, however, the low utilisation rate of Baltic Sea icebreakers is a significant challenge. In the Baltic Sea, the icebreaker fleet is required for only 4-7 months per year and for most of the year the ships designed for Baltic Sea icebreaking stand at the jetty, although they also play a role in oil spill response. For multipurpose icebreakers, on the other hand, there is demand in a variety of tasks, and outside Finland's icebreaking season Arctia Shipping charters them out to different customers for use as far away as the Gulf of Mexico and Africa, but particularly in the Arctic region for ice management tasks relating to oil and gas production.

The greater attention being paid to the Arctic region has been much discussed. The opening of new transport corridors and increasing exploitation of the region's natural resources will increase economic activity in the region. According to a much-cited analysis conducted by the U.S. Geological Survey, 13% of the world's undiscovered oil reserves and 30% of natural gas reserves are located in the Arctic. There is therefore demand for icebreaker technology that is capable of safeguarding transport activity and operations in the best possible way in the Arctic region.

Arctia Shipping's multipurpose icebreakers have been a success. While the annual utilisation rate of the company's ordinary icebreakers operating in the Baltic Sea is around 30%, the utilisation rate of its multipurpose icebreakers is nearly 80%.

Multipurpose icebreakers and their use in Arctic operations is becoming an increasingly significant issue, because Finland will gradually have to modernise all of its ageing icebreaker fleet in the coming years. This represents an investment of around one billion euros. If this investment remains a cost to Finnish shipping alone, it would have a very adverse impact on the competitiveness of the export industry. The state has accordingly sought ways of enhancing the cost-efficiency of icebreaking activity, and increasing the utilisation rate of the ships by chartering them out for use by foreign customers has been shown in analyses to be the most effective means of doing

so. Therefore, as Arctia Shipping prepares to modernise its fleet, the state owner has decreed that, of the seven new icebreakers currently planned to be acquired, four icebreakers should be new generation multipurpose icebreakers with the capability to engage in Arctic off-shore operations.

A modern multipurpose icebreaker will be around 15% more expensive than an ordinary icebreaker. Uncertainty is evident in the level of demand for offshore services, particularly in the Arctic region, due to the development of oil prices, among other things. Thus there is inevitably an investment risk connected with the acquisition of icebreakers. Increasing traffic in the Arctic, however, still means growing demand for icebreaking in the region, and comparisons made of different scenarios have shown that, with probable levels of demand for offshore services, the acquisition of multipurpose icebreakers will be profitable for Arctia Shipping and thereby for the Finnish state.

The Arctic activities of multipurpose icebreakers can be considered to benefit the Finnish maritime industry even more widely. Arctic shipbuilding and marine technology applications are important export products for Finland. The construction and operation of the new multipurpose icebreakers will help to maintain and further develop the high expertise in this sector, and they will also serve as a showcase for Finnish marine technology.

With respect to operating in the Arctic, it is necessary to be aware of the special risks presented by the region. The nature of the Arctic region is exceptionally sensitive, and activities in the region are subject to extremely rigorous safety regulations. A particular topic of discussion has been Arctic oil drilling and the associated risk of oil spills. In addition, drilling and exploration for new reserves in the Arctic region can be considered as promoting the use of non-renewable and polluting energy sources.

The issue of the Finnish icebreaker fleet's participation in offshore activities in the Arctic is therefore by no means easy or straightforward. On the other hand, it is realistic to expect that the natural resources of the Arctic will inevitably be exploited.

This being the case, such exploitation should be done as safely and as responsibly as possible. Ice management activities in connection with drilling for oil and gas are specifically about carrying out production safely and preventing accidents, and it is appropriate these tasks to be handled by the best available equipment and technology. This is what Finland has to offer to the Arctic region. ■



SIRPA PAATERO

Minister for International Development  
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BOGDAN ZDROJEWSKI

# Cultural diplomacy a tool to promote EU values in its Eastern neighbourhood in view of new geopolitical situation

Expert article • 1709

**A**fter a successful start of the Eastern Partnership project in 2009, the participating countries found themselves in a new geopolitical situation, and witnessed major changes in their domestic policies. As a result, their needs and expectations with respect to the European Union have changed. Focusing on the conflict in the Ukraine, the EU must not forget about its other neighbours.

Beside the current crisis in Ukraine, the situation in Moldova and Georgia has been destabilized too. On 25 November 2014, the Republic of Abkhazia announced the enhancement of its cooperation with Russia, signing the so-called alliance agreement and entering into cross-border partnership, which subsequently undermined the stability and the unity of the Georgian state.

Leaving aside the issues of autonomous and breakaway regions such as Transnistria or Gagauzia, Moldova also is struggling with a wave of pro-Russian sentiments. After 30 November 2014 elections, Moldova balances on the thin line of support for further integration with the European Union. The elections were won by a pro-Russian Party of Communists of The Republic of Moldova (PCRM) but the coalition is built on the foundation of pro-EU Liberal Democratic Party of Moldova (LDPM), the Democratic Party of Moldova (DPM) and the Liberal Party (LP), which brings hope for maintaining the continuity of the country's pro-Western trend.

The recent activities of Belarus aimed at the stabilization of the conflict in Ukraine and the refusal to participate in the Russian embargo on European products also deserve our attention. They may be a result of the uncertainty in relations between Belarus and Russia or an attempt to break out from the international isolation and attract new investments. They do, however, create a potential space for a dialogue with the EU.

Belarus participates in the Northern Dimension, an extension of the Eastern Partnership onto the areas of culture and regional dialogue, at the same time engaging in environmental protection and logistic projects. The full use of the mechanisms of this program and the commitment of the Belarusian people can contribute to the state of the diplomatic relations and lead to greater social cohesion in the border territories.

The areas of research education and culture, where youth policy is implemented, are crucial in this respect. School and student exchanges, study and research tours help to develop a better understanding of each other and promote European values. It is also an element of the formation of local identity and heritage, which is so important in understanding the needs and the perception of current changes in a given community.

Regional cooperation in the area of culture has already proved to be effective. The "Cross-border Cooperation Program: Poland-Belarus-Ukraine 2007-2013" and the project "Investing in culture: System measures for cultural education", which is a part of the program, raises awareness of the existence of a cultural community and a shared history of the border region, but primarily develops solid and sustainable mechanisms for the cooperation between the societies. Its main goal is the elimination of cultural barriers through engaging youth in cultural and educational activities.

The Chopin Year, launched in Belarus in 2010, served as a successful platform for the development of a broader cultural cooperation. Among others, it contributed to the discussion on the changes in the real estate law relating to properties owned by Polish families before the Second World War.

Another successful project is the European Stadium of Culture, an initiative created before the Euro 2012 Championships. The program is based on initiatives of local artists and the cooperation of border towns. The goal of the cooperation with EaP countries is to show their potential and popularize their culture in Poland and if spread also the EU.

If the European Union is, in view of the Belarusian people, often associated with the West, in other words, with distinctly different cultural circle, those differences and ways of understanding the European Community need to be changed.

Alexander Lukashenko has adopted a strategy of safe balancing between the European Union and the Russian Federation. In response, the EU should differentiate its policy taking it and the current geopolitical situation into account, and tune the EU policy mechanisms to constant changes taking place within the Eastern Partnership countries.

The above examples demonstrate clearly the importance of adapting the Eastern Partnership program to the expectations, needs, and challenges it faces in its partner countries. In view of the current security situation and the Ukrainian crisis, recognizing moods and close analysis of the internal situations in each of the neighbouring countries should be a determinant of the cooperation in the next five years. ■

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JOHANNES KOSKINEN

# Ukraine stresses the need to reform and enhance the OSCE

Expert article • 1710

The 1975 European Security and Cooperation Conference in Helsinki created the foundation for decades of positive activity across the vast area of the whole of Europe, the US, Canada and the former Soviet Union. Subsequently, the cooperation was established in the form of the Organization for Security and Co-operation in Europe (OSCE). It now consists of 57 countries after the accession of Mongolia.

This process has stabilized peace, made arms control and restrictions more effective, increased trust across the borders, and created cooperation structures on multiple levels. The most significant effect was, however, brought by those sections of the Helsinki Final Act that emphasized people's direct interaction and civil liberties, which gradually paved the way to the collapse of the Berlin Wall, and the liberalization and democratization of Eastern and Central European countries.

The Ukraine crisis, and Russia's pressure and use of force exacerbating it, have caused grave concern in Europe and neighbouring regions for how the future looks. The OSCE resolution on Ukraine condemns the actions of the Russian Federation, which have violated Ukraine's independence and territorial integrity, and calls on the member states that the annexation of Crimea to Russia would not be recognized. On the one hand, the OSCE has found a new vigour through resolving the crisis in Ukraine, and on the other, the organization is facing its greatest modern challenge with the crisis.

What makes this crisis particularly challenging is the harsh fact that one OSCE member state has ignored the Helsinki principles, violating the sovereignty and territorial integrity of its neighbour. One might say that the Ukraine conflict has generated an institutional crisis for the OSCE. What kind of role can the OSCE have in monitoring, mediating and alleviating tensions if countries that have pledged to play by jointly accepted rules decide to ignore them?

However, as the largest regional security organization, it was not an option for the OSCE to shy away from the challenge of settling this unrest in the middle of the European continent. The Swiss Chairmanship of 2014 deserves much recognition. President and Foreign Minister, Didier Burkhalter, intervened throughout the crisis to find a diplomatic solution. Seasoned Swiss diplomat, Heidi Tagliavini, represented the OSCE Chairmanship in the Trilateral Contact Group, which also includes Ukraine and Russia for negotiations aimed at ending the violence in Ukraine. The Swiss Chairmanship also proposed a roadmap for the implementation of the Geneva Joint Statement. An important element of the implementation is the National Unity Roundtables owned and led by the Ukrainian government.

On March 2014, the OSCE decided to deploy a monitoring mission of civilian observers to Ukraine. This was based on a request to the OSCE by Ukraine's government and a consensus agreement by all 57 OSCE member states. The monitors contribute to reducing tensions and fostering peace, stability and security. They also help to monitor and support the implementation of all OSCE principles and commitments. Amid the information warfare, monitors' reports will help all participating states take informed decisions. As of January 2015 the total headcount of the OSCE Special Monitoring Mission to Ukraine (SMM) is 559 with 359 international monitors, 158 national staff and 47 other international staff.

The Mission gathers information and reports on the security situation, establishes and reports facts, especially when there is a specific incident. The Mission talks with everyone - authorities at all levels, civil society, ethnic and religious groups, and local communities, with the ultimate goal to help reduce tensions on the ground. The key principles are impartiality and transparency. The mandate of the Mission covers the entire territory of Ukraine. Any change in deployment must be agreed by all participating states.

All OSCE participating states also decided to deploy an observer mission at the Russian Checkpoints Gukovo and Donetsk. The request for this was presented to the OSCE by Russia's government. Also in this mission the observers are to contribute to reducing tensions during the current crisis.

In addition to these special missions, the established institutions of the OSCE play a pivotal role. OSCE Office for Democratic Institutions and Human Rights (ODIHR) observed Ukraine's parliamentary elections in October 2014 with 80 long-term observers deployed throughout the regions and 600 short-term observers. The largest election observation mission in the history of ODIHR, including 1025 observers, took place during Ukraine's presidential election in May 2014. The OSCE Parliamentary Assembly sent extensive missions of parliamentarians to observe both the presidential and parliamentary elections.

In cooperation with the OSCE High Commissioner on National Minorities, the ODIHR compiled a report on the Human Rights and Minority Rights Situation in Ukraine in spring 2014. The report established that a number of serious human rights violations occurred during the reporting period. As a rule, these violations did not precede, but rather accompanied and followed the emergence of various armed groups, first and foremost in Crimea and eastern and southern Ukraine.

Furthermore, the OSCE has an active role in the Trilateral Contact Group, which also meets regularly with the separatists. The group has had a key role in reaching the Minsk agreement and its implementation.

The nature of the OSCE as a consensus organization poses challenges, but the requirement to reach unanimous decisions is ultimately a forte in solving these types of crises. However, a further boost is needed regarding new arms restrictions, solving frozen conflicts, peace mediation, conflict prevention and more agile and simple decision-making. The OSCE's 40-year milestone should be taken advantage of in order to bring the organization up to date and making it a stronger actor in 21st century peacebuilding. ■



**JOHANNES KOSKINEN**  
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BODO BAHR

# Parliamentary cooperation in the Baltic Sea Region

Expert article • 1711

25 years ago, in February 1990, at a time of fundamental political change, Kalevi Sorsa, then President of the Finnish Parliament, lay the foundation for parliamentary cooperation among all the Baltic Sea States by inviting both the national and regional parliaments from the Baltic Sea Region to come to Finland. The underlying question was how the parliaments of the Baltic Sea Region – after the dismantling of the borders – could make an active contribution to ensuring that this macro-region would once again grow together. The purpose of this parliamentary cooperation was to give this process additional democratic legitimacy and parliamentary authority. As a result, the first Baltic Sea Parliamentary Conference (BSPC) was held from 7 to 9 January 1991 in Helsinki. Owing to the farsighted commitment of the Nordic Council, which had taken the initiative for organising another conference in cooperation with the Norwegian Parliament, the second conference was held in April 1992 in Oslo. The final resolution adopted at this conference prepared the ground for the future parliamentary cooperation across the Baltic Sea Region.

The primary goal was creating a platform for a sustained parliamentary dialogue to overcome the Cold War, and to establish the Baltic Sea as a sea of peace.

Since then, cooperation in the Baltic Sea Region has become much more intense and has developed positively at all levels. This applies both to institutional cooperation and to project-related cooperation, the details of which are hard to compile given the density, the diversity and the number of projects.

It is due to this close cooperation that the Baltic Sea Region continues to be exemplary in Europe in a number of respects and that, from the perspective of other European regions, it is seen as a role model for successful macro-regional cooperation, which has led to deeper regional integration.

In this exceptionally strong network of institutions and projects, parliamentary cooperation is of the utmost importance, especially during times of crisis. In the past few months, this has been emphasised over repeatedly by Sylvia Bretschneider, the current BSPC Chairperson from Mecklenburg-Vorpommern, and by Janis Vucans, the Deputy Chairman from Latvia.

In the current period of time, cooperation at parliamentary level across the entire Baltic Sea Region is of paramount importance, as it based on long-standing cooperation and established structures. A dialogue at all levels is essential during times of crisis and diverging fundamental views about foreign policy issues. Furthermore, parliamentary cooperation across the entire Baltic Sea Region has intrinsic value because – in addition to the negotiations conducted at the top political level – this cooperation involves the elected representatives of the citizens of all the participating countries. For this reason, parliamentary cooperation usually has a stronger political impact than the various forms of cooperation in the context of a wide range of specialised administrative bodies and thus helps in a very special way to confer fundamental democratic legitimacy to this cooperation.

The priority issues that the BSPC has discussed and dealt with in its resolutions have covered all the core issues of Baltic Sea cooperation, including maritime safety, maritime policy and climate change, the environment, green growth and energy efficiency, the labour market and social welfare, education, research, tourism, trafficking in human beings, youth policy, the situation of minorities, security and traffic.

In line with the work done by its current working group, the BSPC's work programme for the next half year will be focused on strengthening cooperation in the Baltic Sea Region as well as innovation in social and health care. This topic has also been scheduled as the priority theme for the next conference, which will be held from 30 August to 1 September 2015 in Rostock-Warnemünde.

The BSPC gathers parliamentarians from 22 parliaments and 5 parliamentary organizations around the Baltic Sea. The BSPC thus constitutes a unique and comprehensive political platform for cooperation among all the EU and non-EU countries of the Baltic Sea Region on an equal footing.

For this reason, the resolutions which are adopted unanimously at the annual conferences are of particular importance, especially since an ever-increasing number of participating parliaments have started to submit these resolutions to their governments for their opinion or, going beyond this, to endorse the resolutions and to call on their governments to implement the political objectives pursued by the resolutions.

Adopting an annual work programme, establishing working groups with clearly defined missions, appointing a number of rapporteurs who monitor the developments in important policy fields, exercising the observer status at HELCOM, interacting with other governmental and non-governmental organisations in the Baltic Sea Region and in the Northern Dimension area, such as the CBSS, NDPHS, BDF and BSLF and synchronizing the priorities in which the BSPC and CBSS are engaged – all of these activities provide the foundation for efficient political work and contribute to a transparent, democratic and progressive political process, as well as to practical solutions, in the Baltic Sea Region.

In addition, the BSPC is closely linked with the other parliamentary cooperation institutions in the Baltic Sea Region, i.e. the Nordic Council (with its exemplary activities developed over several decades) and the Baltic Assembly (which also cooperate closely), and at regional level with the Southern Baltic Sea Parliamentary Forum (which encompasses the regional parliaments of Germany's coastal states, the Polish provinces on the Baltic Sea coast, the Kaliningrad region and the parliament of Skane in southern Sweden).

This ensures that priority issues discussed by the various parliamentary cooperation institutions in the Baltic Sea Region will also be included in the work of the other parliamentary organisations and better coordinated in terms of their issues covered.

Based on the close cooperation, coordination and networking which has evolved over more than two decades, parliamentary cooperation in the Baltic Sea Region is making an ever greater contribution and giving tangible momentum to deepening regional integration, while strengthening the democratic legitimacy of cooperation in the Baltic Sea Region in a unique way. ■



BODO BAHR

Head of the BSPC Secretariat  
Baltic Sea Parliamentary Conference  
Germany



ANDERS LIDÉN

# Strong links across the Baltic – the Swedish-Finnish relationship

Expert article • 1712

**T**he relations between Sweden and Finland are very special. For a new Swedish Prime Minister, the first foreign country to visit is Finland. The same applies to the Foreign Minister and the Minister of Defense. The relations are rooted in history, based on family ties and centuries of movement of people across the Baltic between the two countries. Going back three generations, more than 700 000 people or 8% of the Swedish population have a Finnish background. Many of them speak Finnish. If you go even further back I believe that quite a substantial part of the Swedish population has Finnish roots. There is also a Finnish speaking population in the Torne Valley in the north of Sweden. From the days of the Vikings, people have moved in the other direction too. Many Swedes, including myself, have relatives who settled in Finland, some of them trying their luck in the hotel and restaurant business.

Today, 5,4% of the Finnish population speak Swedish as their mother tongue. Hundreds of thousands more are bilingual – fluent in both Finnish and Swedish – for family reasons, professional advantage or due to studies or work in Sweden. Those bilingual on both sides are a huge asset for the relationship, which has helped tie Finnish and Swedish business and culture even tighter together. When the new Swedish Minister of Agriculture Sven-Erik Bucht visited Finland, he spoke in Finnish to his Finnish colleague Petteri Orpo. Likewise, Finland's Minister of Defense Carl Haglund speaks Swedish when meeting his Swedish counterpart. Bucht comes from the Torne Valley and Haglund belongs to the Swedish speaking minority in Finland.

Sweden's and Finland's economies are quite intertwined and mutually dependent. For Finland, Sweden is the number one export market, and for Sweden, Finland counts as number four or five. About 770 hundred Swedish companies are active in Finland and the number of Finnish companies in Sweden is about 600. They employ thousands of people in their neighboring country.

The amount of mutual investments is also impressive. In 2012, there were about 27 billion euros of Swedish investments in Finland, and that same year Finnish investments in Sweden were worth about 23 billion euros. When Finns complain that Swedish companies buy Finnish industry, for example when the Swedish steel giant SSAB bought Rautaruukki, they forget the many Swedish industries that have been purchased by Finnish firms. Metsä Group, Outokumpu, Metso, Fortum, Cargotec and others actually own a number of Swedish factories or plants.

The industrial profile is quite similar. The forests, the mines and advanced technology, innovations and inventions have played an important role for both Sweden and Finland. Of course there is competition but there is also cooperation, and many big companies on the two sides of the Baltic have decided to merge. The result has been even stronger companies like Stora-Enso, Telia-Sonera, Nordea and Assa-Abloy some of them with a global reach and even world leadership. Others, like IDO and IFÖ cooperate closely. In spite of different leadership cultures, companies have been surprisingly good at working together. Maybe even the Swedish consensus culture mixes well with the Finnish leadership "by perkele".

Haparanda-Tornio is becoming one city with the border running through the middle of a square in the center and cutting the city golf course into two parts within different time zones. Haparanda is the only Swedish town where the euro is used in parallel to the krona. Lately, defense cooperation has been the most salient feature of Sweden's and Finland's rapprochement. Within the Nordic defense cooperation, Nordefco, there is room for bilateral Swedish-Finnish defense cooperation. It falls short of a formal treaty based military alliance, but is a pragmatic cost cutting endeavor that also aims at keeping all kinds of options open for the future. By procuring arms together and through joint exercises military costs can be reduced. At the same time, the armed forces of Sweden and Finland learn to operate together primarily in the air and at sea. Moreover, Finnish and Swedish forces are used to appearing together in various UN-contexts, including in NATO-led UN mandated operations in Kosovo and Afghanistan.

There are also other challenges for Swedish-Finnish cooperation, for example in the Arctic where we have similar security, environmental or commercial interests as well as a need to safeguard the wellbeing of our indigenous Sami people. We can also do more together in foreign policy or in EU affairs where we have the same overarching values. Steps have already been taken towards sharing embassy premises and infrastructure.

International tension near our borders brings Sweden and Finland even closer together, but regardless the ties that have been forged over centuries make it inevitable for the two countries to cooperate. ■



ANDERS LIDÉN

Ambassador of Sweden to Helsinki

SARAH PRICE

# British-Finnish relations in 2015

Expert article • 1713

This has been an intense few months for Finnish-British relations. Last September, we were delighted to welcome President Niinistö, Foreign Minister Tuomioja and Defence Minister Haglund to the NATO Summit in Wales. Finland has been a dependable partner for NATO for more than 20 years, most recently as part of ISAF in Afghanistan. So we were pleased that the Summit agreed to invite Finland to take part in the Enhanced Opportunity Partnership and we look forward to developing this further in the future.

In October, Prime Minister Stubb met David Cameron in Downing Street to discuss the many priorities that our two countries share, including EU reform, Russia and Ukraine and energy security. Mr Stubb also gave a well-received speech at the Shell Centre on energy and climate change.

One month later, Mr Cameron made a return visit to Helsinki for the fourth meeting of the Northern Future Forum. This group, which is David Cameron's initiative, brings together Prime Ministers from the UK, the Nordic and the Baltic countries to learn from each other's innovations in government and service delivery. In the informal setting of Aalto University's Start-up Sauna, the nine Prime Ministers shared ideas and listened to presentations from experts. The UK delegation was particularly interested in the Finnish online learning tool *Me and My City* which helps school children learn about social responsibility and entrepreneurship in a fun and accessible way.

Later in November, the UK was a partner at SLUSH, northern Europe's biggest start-up event. Mark Prisk MP, the Prime Minister's Envoy on Investment from the Nordic and Baltic region, gave a speech setting out why the UK was open for business and a great place in which to invest. The UK stand was a traditional British double-decker red bus where delegates could meet potential partners in the UK and find out about setting up business in London or Manchester.

The UK's commercial presence was further boosted in October by the opening of a new Marks and Spencer store in Helsinki. This is the first of a chain of shops across Finland and signals a very welcome return by this well-loved and much-missed British retailer.

2015 got off to an early start with a visit in January by Phillip Hammond, the British Foreign Secretary, to discuss our vision for Europe's future. What was clear from his meetings was that, as we discuss the big challenges facing Europe, there is agreement in a wide range of areas. Citizens in the UK, and across the EU, want an EU that focuses on delivering jobs and prosperity, respects the different preferences of 28 Member States and is more democratically accountable. And to deliver this we want solutions that benefit all Member States – whether inside or outside the Eurozone.

The UK is a pragmatic and committed partner in reform. The Prime Minister has made very clear that he believes Britain's national interest is best served in a flexible, adaptable and open EU. The Foreign Secretary has been travelling around Europe with this message – his visit to Helsinki was part of the latest leg. Mr Hammond set out three challenges for the EU:

- First, we need to make the EU more globally competitive. The Single Market is one of the EU's great successes, but it needs to reflect the economy of 21st century, with a stronger market in services, digital and energy. We should also free business to create growth and jobs by reducing the burden of unnecessary regulation. We also need to open up new opportunities for our businesses and consumers abroad. Completing ambitious trade deals with the US, Japan and others could add 2.2% (€275 billion) to EU GDP.
- Second, we must ensure fair treatment for the third of Member States which currently are in the Single Market, but outside the eurozone. The UK has a vital interest in the Eurozone's success and we support changes to structures and governance to ensure stability. But changes need to work for the entire Single Market, not just those in the Eurozone.
- And third, we must make the EU more democratically accountable. Turnout fell yet again in the May European Parliament elections. Regular polling shows a majority of people across Europe feel their voice does not count in the EU. We must ensure that decisions by the EU are proportionate and taken as close to the citizen as possible. This is not just a debate about sovereignty. It has real, practical consequences and goes to the heart of what should, or should not, be decided at a European level. We should follow the Dutch mantra of 'Europe where necessary, national where possible'.

These are just some highlights – the UK and Finland are close partners on a much broader range of topics, including the Arms Trade Treaty, stopping the Ebola virus, developing the Millennium Development Goals, combating ISIL, celebrating the 150th anniversary of the birth of Sibelius... doubtless the list will grow even more over the next year! ■



**SARAH PRICE**  
HM Ambassador to Finland

ALEXANDER OSTROVSKY

# Transit potential of Belarus

Expert article • 1714

The route from the Varangians to the Greeks was first mentioned in the Primary Chronicle, but its effects were reported much earlier, in the early 10th century. It was a major route between Scandinavia, Northern Europe, rich Byzantium and the East, which prompted the traders to use the logistics of present-day Belarus, Russia and Ukraine. That was a long-distance way which began in Scandinavian trade centres, crossed the Baltic Sea, entered the Gulf of Finland, followed the Velikiy Novgorod, and in today's Belarus – along the Dnieper, and passed through Kiev entering the Black Sea.

At the time of the collapse of the Soviet Union, Belarus served as a cargo transshipment base for the countries of the Council for Mutual Economic Aid and the EU. Given this history, the article is intended to brief on the level and quality of the logistics supply in Belarus in the context of global trends of these services development.

Located at the intersection of highways, Belarus endeavours to obtain the status of an international center for goods transfer. Its strategic geographical position is highly favourable to the development of logistics centers en route for Europe and Asia.

Belarus' high transitivity owes to five E-category roads of the 2nd and 9th international transport corridors that cross the country: Number 2 Berlin–Warsaw–Minsk–Moscow–Nizhny Novgorod; Number 9 Helsinki–St.-Petersburg–Moscow/Pskov–Kiev–Chisinau–Bucharest–Dimitrovgrad–Alexandropolis, Number 9B Kaliningrad/Klaipeda–Kaunas–Vilnius–Minsk–Kiev–Odessa. The key road corridors are now being upgraded to the 1st category standard with dual separated carriageway, paved shoulders and controlled access.

The present-day transit potential of Belarus is framed by geographic conditions and exploitation of the benefits. Transport is an important economic sector in Belarus. The sector generates large state budget revenues from transit services, facilitates internal and external trade, contributes to the country's balance of payments and accounts for about 6% of total employment in the country.

The annual European cargo turnover through Belarus exceeds 100 mln t, of which nearly 90% fall to Russia-EU share, whereupon Belarus fully ensures transit efficiency and safety.

Belarus has been a net exporter of practically all modes of transport services, which is especially true for automobile and railway transport. Most of the revenues in the roadway sector are provided by transit round-trip transportation.

One of the specific obstacles to the development of transport services sector, which according to the judgmental forecast will dominate world service market in the near future, is an underdeveloped transport logistics. However, there is certain progress. In 2009 the share of the logistics component in Belarus' GDP barely exceeded 1%. Today the logistics accounts for about 7.5%.

Belarus is set to increase investments into construction and development of the logistics centers and is drafting a "road map" for the sector development until 2030. It is expected that in 2015 these investments will amount to about \$1 bln, while financial investments into logistics development in 2014 – \$150 mln. The expected growth of the logistics space is 150,000 m<sup>2</sup>.

According to the Logistics Performance Index 2007 (LPI), Belarus outperformed its CIS peers in three areas: efficiency of customs clearance process, transport infrastructure, and shipment tracking and tracing (the latest LPI does not include Belarus).

It is clear that Belarus needs to make a more active use of logistics outsourcing. In that regard we study extensively the experience of our Chinese partners whose share of outsourcing for the transport service market is 48%.

Belarus does have the equivalent of a national transport strategy and action Plan, but the key pillars for its transport sector are: the Strategy for the Development of Transit Potential of the Republic of Belarus for 2011–2015, and the Concept of Belarus' Transport System Development. The latter defines the goal, priorities, tasks, key focuses and parameters of Belarus' transport system development until 2025 including mitigation of impacts generated by CO and CH<sub>2</sub> emissions.

Challenges in logistics facing Belarus today include:

- attracting investors in the transport and logistics sector;
- acceleration of logistics development through the use of foreign experience and adoption of the relevant technologies and guidance methods;
- ensuring legal conditions for the development of logistics services market;
- promoting competition in the logistics market;
- providing comprehensive and simultaneous development of logistics infrastructure facilities;
- ensuring the coordination of the various elements of the logistics market;
- simplification of taxation and workflow for logistics operators;
- liberalization of customs legislation in the field of transit of goods;

It is blindingly obvious that the development of the market of transit services in our country is inextricably linked to the general geopolitical and economic transformations in Eurasia. For the last 10-15 years, there has been a downward trend observed in the capital and service flows between Western Europe and the Asia-Pacific region as a share of the global volume. Nevertheless, Belarus is ready to ensure stock movement between West and East in present and even larger volumes. ■



ALEXANDER OSTROVSKY  
Ambassador of Belarus in Finland

ALEKSI RANDELL

# Baltic Sea Region Forum – a region on the move?

Expert article • 1715

**T**he Baltic Sea has always brought people together. The history of the region is not just a history of states and governments. It is a history of cities and towns – culture and people. The Baltic Sea region has shown for decades an example to many other regions on how to create mutual understanding and how different challenges can be tackled jointly. This past is our strength and also a key to our future.

The city of Turku and the Centrum Balticum Foundation have worked persistently and fruitfully in order to promote cooperation between the Baltic Sea region countries, as well as to promote co-operation across EU borders. Currently the need for an open and honest discussion is greater than ever. For this purpose the Centrum Balticum Foundation organizes The Baltic Sea Region Forum in the forthcoming June.

This year the BSR Forum is organized for the eighth time. During the past years the Forum has covered a wide-range of timely topics and this year will not make an exception. The Forum will concentrate on the relationship between European Union and Russia, and the topics will deal with the questions of security, economic relations as well as environmental and regional cooperation. In the past years the BSR Forum has become an important meeting place for a large variety of actors in the Baltic Sea region. This year we are welcoming even more international participants to join us. For this reason the programme has been drawn up for the most part in English.

The Baltic Sea region has seen better times in terms of cooperation. In addition to the international uncertainty, the economic and financial crisis has made the last few years turbulent and difficult for us all. The crisis dispelled any illusions about how interdependent European economies are. Hopefully we have seen the worst part of the crisis and we can move towards a better rate of economic growth. Although there is some reason for optimism, sustainable growth is yet to be achieved throughout the Baltic Sea region. Now is the time to push the new realities into real opportunities.

Eight of the nine states bordering the Baltic Sea are members of the European Union. The instruments and policies of the Union have provided frameworks for joint efforts between governments, parliaments and regional entities. Although there has been significant progress in many fields, the full advantage of the cooperation has not yet been realized. The greatest challenge lies still ahead of us. In 2012 the European Union received the Nobel peace prize for its role in transforming once a continent of war into a continent of peace. Now the achievements of the past should lead the way to a better and, once again, more stable future.

The Baltic Sea region is a unique combination of favorable natural and human resources together with a rich common cultural heritage and history. Given its great potential for economic and social development, the Baltic Sea region is better equipped than most others to enter the path towards more prosperous future. Local and regional entities are playing a significant part in promoting cooperation across and beyond national borders. In parallel with these, networking is going on between companies and civil society actors. We are hoping that the BSR Forum will encourage these networks and their activities.

We are fortunate to have functioning cross-border mechanisms in the Baltic Sea region. In the long term it is still clear that cooperation is the only way to achieve effective development in the region. The EU Strategy for the Baltic Sea Region (EUSBSR), endorsed by the European Council in October 2009, responds to the key challenges facing the region which no country can solve on its own. Turku has gained a formal role from the EU Commission in the EU Strategy, with the task of promoting effective cooperation with the neighboring countries. Now well into the implementation phase, the Strategy shows the value of this way of cooperating. The Strategy has facilitated new projects to tackle key issues in the region. It is in our hands to prove that The Baltic Sea region is a pioneer in the macro-regional approach and will continue to be a model for all the regions of Europe.

The state of the Baltic Sea region is on the move. Now is the time to take a new step to overcome barriers between partners, establish a common ground of cooperation and move from visions and words to joint action. It is my pleasure to invite all stakeholders to Turku and to join the Baltic Sea Region Forum. ■



ALEKSI RANDELL

Mayor  
City of TurkuChairman of the Board  
Centrum Balticum Foundation  
Finland

BO ANDERSSON

# The Nordic way might also be a way for the Baltic Sea Region

Expert article • 1716

Membership in the EU has created a broader arena for political dialogue, somewhat different than the one functioning in the Nordic countries. Many assumed that this would lead to a decline in the cooperation between the Nordic countries, but after all these years that thesis has been disproved. In the opposite, the cooperation is stronger and deeper today than just ten years ago.

We can also experience both in Nordic countries and the countries of the Baltic Sea region that the number of policy areas engaged into international cooperation and work is increasing.

This is some example of policy areas where international cooperation is increasing: Laws and agreements, economic distribution, cultural and social policy and exchange, democratic vitality, environmental concerns and - measures. The annexation of Crimea and the military unrest in the East of Ukraine actualized the need of security policy in Europe, also influencing the Northern part of Europe.

The new level of cooperation in the Baltic Sea region has emerged with the so called EU Strategy for the Baltic Sea Region (EUSBSR), adopted during the Swedish EU Presidency in 2009.

Its main goal is to address the common challenges that countries in the Baltic Sea Region faces today. The eight countries included in the strategy are Sweden, Denmark, Estonia, Finland, Germany, Lithuania, Poland and Latvia. The strategy is also cooperating with other countries in the Baltic Sea Region such as Russia, Norway and Island.

The Strategy has three overall aims: save the sea, connect the region and increase prosperity. There are no dedicated funds set aside for the strategy. Instead the flagships consists of one or more projects, which in turn is funded by various programs; EU, national, regional or local<sup>1</sup>.

EUSBSR in principle is equivalent to the cooperation within the Nordic region. This also applies to the Arctic and the Barents Sea regions. It is interesting to see how the Nordic countries, despite different membership in international organizations and participation in various networks after all hold together and increase collaboration even more in recent years. The governments in the countries of these four regions have large mutual interests and benefits from such collaboration with each other.

The Nordic countries, as well as the countries around the Baltic Sea, are part of not only regional integration but also globalization. It is impossible to return to a time when the state was absolutely supreme power.

These and other external factors have intensified Nordic cooperation. It has been strengthened on the basis of the political democracy and organization, openness and involvement of the civil society movements and NGOs. It is also a result of trust between all actors, the low level of corruption and respect for human right.

A good example of an NGO with a soon hundred year history and that have impact on the development of the Nordic cooperation are the Norden associations. Since its foundation in 1919, the associa-

tions have been working actively with supporting the development of the Nordic cooperation. The aim of the Associations is to stimulate and improve Nordic cooperation at all levels, and in all sectors, especially in education, culture, the labor market, industry, mass media, international aid and environmental care. The Norden Associations works with a broad variety of issues on all policy levels from local to transnational; policy-making, information, publications and mobility initiatives are all important for the Associations<sup>2</sup>.

The Nordic and the Baltic Sea Regions are linked together in many ways. One way is to see which countries are included in both the Nordic and Baltic Sea cooperation. Denmark, Finland and Sweden are part of both structures.

Which are the strengths of the Nordic countries compared with the other countries in the Baltic Sea region and the EU? Maybe it's just the feeling of belongingness and absence of insecurity and fear present in the Nordic countries? There is such a feeling also in the Baltic Sea Region, but it is a bit different, for historical reasons. It is different from the rational political project such as the EU cooperation.

Some people thought that the pursuit of fellowship beyond the regions, would lead to their decline. That did not happen. Regionalization is at full speed in the EU and the EU's neighboring countries.

Cooperation is a fundamental pragmatic tradition between the Nordic countries. It is cooperation among friends, which can be organized in different ways and with support of each other for a variety of reasons. It is a form of pragmatic problem solving in political democracy.

If we take a look at the Nordic cooperation and cooperation within the Baltic Sea Strategy, we find a number of motives for such cooperation:

- safeguarding common interests
- shielding economies of scale
- developing common financial and investment policies
- use of competence and expertise
- managing external dependence (risks, crises etc.)
- exchange of information and experience
- internationalization of education and learning
- facilitation of contacts, transactions and exchanges

Efficient cooperation is based on trust and commonly shared values that are based on a spirit of cooperation. The core of this cooperation is a long-term utility of investments in different policy areas in the whole region and in the EU. The benefits of cooperation in the Baltic Sea region may take longer time but they are proven to be much more sustainable as shown by the Nordic cooperation. ■

**BO ANDERSSON**  
Secretary General  
Norden Association  
Sweden

<sup>1</sup> For further reading about EUSBSR: <http://www.balticsea-region.eu/attachments/article/590663/Handbook%20for%20EUSBSR%20beginners.pdf>

<sup>2</sup> For further reading on Norden Association: <http://norden.se/>

TALIS LINKAITS

# Towards coherent spatial planning and territorial development of the Baltic Sea Region

Expert article • 1717

“A new regional structure of the Baltic basin is emerging. New connections between cities and regions will be established across national borders. Cities and towns will adopt new roles in the framework of the international division of labour.” - These words of Sirpa Pietikäinen, Minister of the Environment of Finland at the first Conference of Ministers responsible for spatial planning of the Baltic Sea Region in 1992 in Karskroona characterize aspirations and circumstances that laid a foundation of the VASAB network more than 20 years ago.

Two years later, in 1994 in Tallinn the first commonly agreed transnational vision of the Region was adopted by the 3rd Ministerial Conference which played a significant role for the spatial development of the whole Region. The title of the document “*Vision and Strategies around the Baltic Sea 2010. Towards a Framework for Spatial Development in the Baltic Sea Region*” (VASAB 2010) was later used as the name of the established spatial planning cooperation network. Among many innovative approaches the VASAB 2010 was the first policy document that mentioned the need for Rail Baltica corridor and energy independence of the Baltic States.

Two decades after the Tallinn Vision have shown uneven progress in implementation of pan-Baltic vision and large-scale infrastructure ideas. For example, the envisioned main high-speed long-distance railway line Copenhagen – Malmö – Stockholm is already functioning while *Rail Baltica* development has required much more discussions and agreements between involved countries and is still in a development phase.

Over the years VASAB has become stronger and more visible. It has become a part of the network of the CBSS. It is a recognized frontrunner in promoting maritime spatial planning; together with HELCOM it has a prominent role in the implementation of the EU Strategy for the Baltic Sea Region.

VASAB has also pushed forward macro-regional transport development perspective and implementation of crucial transport infrastructure projects. Moreover, VASAB has managed to raise political awareness of the territorial disparities and to communicate a need to include long-term policies in all planning levels based on appropriate monitoring schemes.

The 8th conference of ministers responsible for spatial planning and development of Baltic Sea Region countries was held in Tallinn on 26 September 2014.

The conference discussed the progress on implementing the VASAB Long-Term Perspective for the Territorial Development of the Baltic Sea Region, agreed by ministers in year 2009, adopted the Ministerial Declaration about planning and development challenges in the Region, as well as committed to the implementation of Regional Baltic Maritime Spatial Planning Roadmap 2013-2020.

The ministers had set new tasks and objectives, which will promote cooperation between the cities, improve the internal and external accessibility of Region, and enhance maritime spatial planning. However, the main goal remains unchanged – in 2030 the Baltic Sea Region should become a well-integrated and coherent macro-region, which has overcome the socio-economic development divides between its individual parts and turned the global challenges into assets.

As one of the main future goals, ministers decided to urge the Member States and the VASAB Committee on Spatial Planning and Development to initiate and support territorial development and maritime spatial planning projects. “*We have to concentrate our efforts in the issues important for us all: planning and balancing the use of marine space, improving accessibility and connectivity, ensuring energy connections, and the shift towards renewable resources and energy saving, applying the place based approach to the development, creating prerequisites for development of different types of regions. Without a doubt, one of the important themes for the next seven years is maritime spatial planning. We realised it already five years ago in Vilnius and made it one of the priorities for our cooperation. And it is an important priority up to today, even increasingly so,*” emphasized Minister of the Interior of Estonia, Hanno Pevkur.

The main territorial development challenges in the Region are adverse territorial consequences of population changes (ageing and migration); further growth of big urban areas and land take resulting in more commuting; increased polarisation between urban and rural areas; interconnecting Trans-European, national and regional intermodal transport networks; growing pressure on marine resources and greater conflicts over the use of the sea; diversification of energy resources and interconnection of energy networks; development of sustainable and green energy, as well as coping with the consequences of climate change. During the conference the ministers addressed all these challenges and suggested joint actions for the Region. ■

More information can be found at [www.vasab.org](http://www.vasab.org).



TALIS LINKAITS

Head of Secretariat  
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JENS STENBÆK

# Seizing the potentials for a strong, sustainable regional growth

Expert article • 1718

**R**egion Zealand is an optimal place in Europe to grow a business, to ensure an educated workforce and to create a balanced development. We want to ensure, that Region Zealand succeeds in the global economy, with the means we have. This is our ambition. I believe, we can achieve our goal.

In 2021, our region will have a fixed link to Germany, a link from Eastern Denmark to the European continent. The link will become an important stone in the missing link for a truly integrated cooperation and enhanced possibilities. I not only see lasting growth opportunities for us, I see potentials for many of the regions around the Baltic Sea.

The link represents substantial opportunities. However, the fixed link is not a godsend or the sole route to the Promised Land. It demands real initiative, hard work and determination, if we want to benefit and stimulate sustainable, economic progress.

Without an adequate approach and concrete initiatives, the benefits of the fixed link can be lost. Doing the bare minimum or having good intentions is longer not enough. To attract companies, a skilled workforce and new investments we must provide an ambitious framework.

## Investing in green skills, innovation and cooperation

Our recipe for a balanced economic growth in Region Zealand is not a miracle cure plucked out of thin air, but founded on our regional strengths. Our proposed action is based on the real possibilities, which soar from the construction of one of Europe's largest infrastructure buildings.

The main ingredients are education, cooperation and targeted initiatives served in a green, sustainable way. We cannot implement a successful or viable impact without a focused plan, the right skills and a strong partnership.

Investing in learning, skills development and apprenticeships is crucial. The qualifications attained should be relevant to life after school, regardless if you are young or old. Improving skills along green growth models is essential to building sustainability. A skilled workforce is necessary to stimulate all sectors, enhancing new jobs and prosperity for people.

There is significant potential in linking skills development and enterprise closer together. Learning schemes should be directed towards what companies are looking for.

We help facilitating the alteration of businesses facing new competence requirements. This implies a close partnership with companies and educational institutions in designing the future offers within competency building by creating growth with green solutions. An effect is optimised productivity. The hero in Region Zealand is resource efficiency.

Education is an important tool and we know that without it job creation and development are more difficult to attain. Nevertheless, education is not a philosopher's stone. Not alone.

Another aspect is innovation. The construction of the fixed link can provide new jobs and will require specific skill, both in regards to the construction and maybe most relevant for our region, within the secondary effects. The construction will enable new opportunities within training, apprenticeships and innovation. We must take an advantage of this opportunity together with capable partners if we want to fuel regional innovation and develop new products and services within our private and public sector.

We consider the construction as a driver for companies, entrepreneurship and new competencies, which can ensure growth and jobs beyond the construction phase in the corridor from Hamburg to Stockholm and Oslo. The corridor has the potential to be a leading locomotive for the Baltic Sea Region. We need to pursue this together to the benefit of our common Baltic Sea Region.

This is a focus in our cooperation in the STRING partnership. STRING is a partnership between regions in Sweden, Denmark and Germany. Our partnership is a platform for cross-border regional cooperation aiming for removing barriers for growth and stimulate sustainable development.

One of our up-coming initiatives is the project 'GREAT'. GREAT is to ensure a reliable infrastructure for alternative fuels in the corridor Hamburg to Oslo aiming to increase the use and market share of vehicles powered by alternative fuels.

This joint initiative will cover 1.852 kilometers; involve 4 countries, 7 administrative governments, 4 large cities (incl. 2 capitals) and 10 million inhabitants. It combines an infrastructure that connects the continent between East, West, North and South.

We stand before a central point of no return. We are about to build a new connection. It is an opportunity that we cannot miss.

We will not treat the fixed link as a blob in the sea of history. We will target this with a specific green plan involving private and public partners, building innovative initiatives with partners who can and will contribute. We hope you will be inspired on this common journey. ■

Jens Stenbæk is the chairman of the regional council in Region Zealand, one of five regions in Denmark, a population of 820.000, 17 municipalities, and a budget of approx. 2,3 billion Euro.



**JENS STENBÆK**

Chairman of the Regional Council  
Region Zealand  
Denmark

STANISLAV USACHEV

# Yegor Gaidar Foundation – changing the future

Expert article • 1719

**Y**egor Gaidar (1956-2009) – a prominent Russian economist, politician and statesman was a unique figure in the Russian history. As the acting Prime Minister and Minister of Finance of the first democratic government of Russia Gaidar led the country through its transition to the market economy in 1991-1992. He took full responsibility for economic reforms in times when Russia was on the brink of social disaster.

Gaidar established a world-known think tank *Institute for Economic Policy* and was among the founders of the leading Russian economic universities – *The Higher School of Economics* and *The Russian Economic School*.

Yegor Gaidar Foundation, established in 2010, aims to contribute to the development of Russia that needs activity, intelligence and responsibility of its citizens. Projects implemented by the Foundation are focused on creating new opportunities in economics education; encouragement of liberal thinking in the social sciences; adequate presentation of the recent Russian history; support of civic activity and promotion of Yegor Gaidar literary and scientific heritage.

**In 2014 the Foundation implemented 30 programmes involving 68 events across Russia and abroad that attracted participants from over 114 Russian cities and 20 foreign countries.**

The Board of Trustees and the Managing Board of Yegor Gaidar Foundation are represented by the outstanding statesmen, scientists - economists, artists and journalists who have contributed to Russia's development as a democratic and prosperous country. Anatoly Chubais - Chairman of the Board of Trustees, Boris Mints - Chairman of the Managing Board.

## Major programmes and projects

**Gaidar Forum** – aims at strengthening the image of Russia as a center of economic debate, attracting the world's scientific and political community to discuss urgent problems and to develop strategic ideas for the development of Russia's economy. Nowadays this major international conference has become Russia's central political and economic event annually attended by more than 3,000 visitors and over 200 experts from 30 countries. The topic of Gaidar Forum 2015 is *Russia and the World: New Dimensions*.

**Gaidar Readings** – regular scientific conferences on the most pressing socio-economic issues held across the Russian Federation and bordering CIS countries. Gaidar Readings facilitate fruitful dialogue between experts and local policy makers in order to provide a sound basis for decision-making.

From 4 to 6 conferences are held annually in close co-operation with Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration (RANEPA), local authorities and universities. In 2014 the conference extended its outreach and was hosted among others by Astana (Kazakhstan) and Turku (Finland).

**Yegor Gaidar Annual Award** is presented in four categories: for outstanding contribution to the development of civil society, promotion of liberal values, research in the field of economics and history, as well as for his contribution to the development of international humanitarian ties with Russia.

In 2014 the Award was conferred to *Yevsey Gurvich* – economist, member of the Presidential Economic Council; *Alexander Yanov* – historian, political scientist and publicist; *Vaclav Klaus* – a prominent Czech economist and the President of the Czech Republic from 2003 to 2013.

One of the top priorities of the Foundation is an **Educational programme** that aims at supporting development of a new generation of young professionals in economics and social sciences that will be able to face challenges of the global economy and play a vital role in the modernization of resource-oriented Russian economy.

**Summer School for young economists** – a 7-day intensive programme for 120 participants from 57 Russian regions and CIS countries that can improve their communication skills and get understanding of variety of problems faced by administrators and economists introducing reforms in the different spheres of public life.

**Summer Leadership Program** – a four-week annual programme

is to introduce 20 undergraduate students from the Russian regions to entrepreneurship and skills required to launch a start-up company.

**Distance Learning Course in Economics for University Lecturers** – a 15-week online course, which improves knowledge of microeconomics, teaching methodology and economic disciplines. Joint programme with the High School of Economics (University).

**In-service Training Programme on Economic Theory for Regional Academic Staff** – a two-year joint programme with the New Economic School (NES University) aims at improving the level of economics teaching in the Russian regional universities.

Extensive **International Programme** of the Foundation seeks to develop partnerships with foreign academic and public organizations; encourage dialogue with Western scientific and expert community on the topic of economic, social and political reforms; implement joint educational and training programs with leading international universities.

Yegor Gaidar books on economic and social history of Russia are highly acclaimed across the world and were published in the United States, China, Slovenia, Germany and in 2014 in Finland.

Yegor Gaidar Foundation is an effective and reliable organization with an extensive network of partner institutions across Russia and CIS countries. We are open to co-operation with international bodies, universities and think-tanks on humanitarian and educational projects. ■



TONI VANHALA

# Kymenlaakso region and its international co-operation in the Baltic Sea area

Expert article • 1720

**K**ymenlaakso in South-East Finland is a region with approximately 180 000 inhabitants, located at the Finnish-Russian border between the metropolitan regions of Helsinki and St. Petersburg. The main centres in the region include the cities of Kouvola and Kotka.

Kymenlaakso has been a stronghold of traditional industries, especially forest industry, as well as transport. Major structural changes in forest industry have caused a downturn in the regional economy, but also opened new doors and driven the region towards bioeconomy and ICT knowhow. Region's flagship in ICT is the Google datacenter in Hamina, by now an 800M€ Foreign Direct Investment opened in 2011.

Connections to international markets are very important to an export orientated region. Located on the coast of the Baltic Sea and at the external border of the European Union, Kymenlaakso identifies itself as a hub of logistics and logistics related businesses. Newly restructured E18 highway, Finland's largest export and transshipment port (Port of HaminaKotka), Finland's largest railway hub (Kouvola), and Finland's most important border crossing point (Vaalimaa) are cornerstones in this identification. Also Finland's main air transport hub, the Helsinki-Vantaa international airport, is easy and quick to reach from both regional centres. Passenger traffic by sea to Estonia and to Russia is foreseen in the future.

Due to its location, Kymenlaakso can be seen as a business gateway to two directions. For Europeans and for example businesses coming from the both American continents, the region can provide an easy access to Russian markets in a European business environment. And vice versa, for Russian companies opening business in Kymenlaakso can be a first step to access European markets close to their original home base.

In the beginning of 2015, with mutual EU-Russian economic sanctions in effect, this might sound not so relevant and realistic. However, the inhabitants of South-East Finland have a long history living as neighbors with Russia and we know that there have always been ups and downs in the relationship. At the end, Russia will remain Finland's neighbor and sooner or later there will be time for a better relationship and increasing trade. Meanwhile it is necessary to strengthen co-operation in other parts of the world to open new export markets to Kymenlaakso-based enterprises. The gateway-concept mentioned above has already awakened interest, due to activities carried out by our regional stakeholders, for example in the Portuguese speaking countries and to some extent also in the USA.

The EU-Instruments for regional development, especially cross-border co-operation programs are gaining importance for Kymenlaakso. The Baltic Sea Region Program and the Central Baltic Program are the main instruments for co-operation within the EU member states in the Baltic Sea area. Equally important is the ENI-CBC program for external co-operation with Russia, still under preparation. Although there are enough problems in the EU-Russia relations, the regional co-operation has not been affected and the programming process has been constructive.

During the 2007-2013 funding period stakeholders like the Finnish Life Boat Association and Kymenlaakso University of Applied Sciences, funded by Central Baltic and ENPI-CBC programs, did a remarkable work to improve maritime safety on the Gulf of Finland. The work was started with Estonian partners and was enlarged later to Russia. As a result, Voluntary Maritime Rescue system now covers Estonian and Russian regions and has been improved in Finland. Next step is to develop Water tourism, with the same procedure. There is much potential for it now that Russia has opened its territorial waters for foreign yachts.

A lot of work has been also done to improve the state of the sea as well as to manage the sustainable use of maritime areas. Kymenlaakso was the first region in Finland that elaborated a maritime spatial plan for its territorial waters. Marine spatial planning (MSP) is a process that brings together multiple users of the sea – including traffic, energy, industry, fisheries, conservation and recreation etc. Co-operation with neighbors is needed also on this field.

Well established professional partnerships between regional authorities, cities and municipalities, regional development companies, universities, vocational colleges, private enterprises and other stakeholders, as well as grassroots level people to people co-operation are all very important in international co-operation. Working with concrete issues helps the inhabitants of the Baltic Sea Region to learn from each other and to understand each other better. Being optimistic, one could hope that this example of well functioning regional co-operation could lead to improving relations also on the higher decision making level. ■



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MARKETTA MÄKINEN

# The City of Jyväskylä and its future cooperation in the Baltic Sea region

Expert article • 1721

**A** year ago, the cities of the Baltic Sea region were viewing their operations from a slightly different perspective than today. The crisis in Ukraine, terrorist attacks, continued economic difficulty in Europe and the threat of increasing inequality have emerged to overshadow our daily lives.

The importance of networks and networking can never be stressed enough. No city can thrive without international interaction. Today, cities must engage in international cooperation that is as extensive and effective as possible and work to strengthen this cooperation.

The City of Jyväskylä has good cooperation with the cities of the Baltic Sea region. It cooperates with its twin towns and in networks of cities. The most important of these networks is the Union of the Baltic Cities, which includes more than 100 cities and towns.

Cities are responsible for creating favourable conditions for business and industry, facilitating cooperation between universities and strengthening competence in their region. Cities are becoming increasingly profiled as experts in specific fields. What are Jyväskylä's strengths?

In the spirit of the Horizon 2020 programme, the City of Jyväskylä and the Jyväskylä region have selected three focus areas of smart specialisation: the knowledge economy, the bioeconomy and the digital economy.

Our region has top expertise in cybersecurity, the bioeconomy and education exports, as well as in sports, exercise and well-being. This expertise is used to diversify business and industry in the region. In these fields, we have excellent opportunities to network with cities of the Baltic Sea region and engage in even more extensive international cooperation.

Education is traditionally one of Jyväskylä's greatest strengths. Education has also become an excellent export product, and demand is increasing rapidly globally. EduCluster Finland, a subsidiary of the University of Jyväskylä, is a pioneer in education exports. Jyväskylä intends to establish itself as the most attractive, internationally recognised centre for education, expertise and events.

Jyväskylä is at the forefront of development in ICT. The latest example of this is the cluster of cyber-expertise in Jyväskylä. In 2014, the Ministry of Employment and the Economy selected Jyväskylä as the national coordinator of the cybersecurity theme in the Innovative Cities programme. The intention is to develop Jyväskylä into a national and international competence centre for cyber-defence. Located in Jyväskylä, the Defence Forces C5 Agency plays a key role in operational development in the field. Jyväskylä also has close cooperation networks, a university and a university of applied sciences. The cyber-security project at Jyväskylä University of Applied Sciences has generated Finland's only education, research and development environment for cyber-security. The first students in the field graduated recently. Cyber-security is an area of business that is growing at a significant rate. It offers and will continue to offer enormous potential for cooperation in the Baltic Sea region.

The near-term goals for the bioeconomy include creating an export-driven, diverse, sustainable bioeconomy that is based on using renewable natural resources and recyclable materials.

Metsä Fibre, which is part of Metsä Group, is planning to make the largest mill investment in the history of the Finnish forest industry in the Jyväskylä region. If the plan is realised, the mill will produce bioenergy and biomaterials in addition to high-quality pulp.

Our resource efficiency and wise use of resources create a competitive edge for us and make us stand out from the competition.

In 2013, the City of Jyväskylä and Sitra launched a two-year pilot project in resource wisdom. The project focused on practical applications in cooperation with local residents.

The applications were related to local renewable energy, saving energy, developing public transport and pedestrian and bicycle traffic, locally produced food, reducing food waste, local fertilisers, improving eco-efficiency in public procurement, more efficient use of space and local tourism, as well as reducing and reusing waste among companies.

Investment in local resource efficiency facilitates ecological sustainability, and the benefits are even reflected in increased economic and social well-being.

The areas of expertise mentioned here are strengths of the City of Jyväskylä and the Jyväskylä region. They make us stand out from the competition while also offering an excellent platform for cooperation with other cities. Each city strengthens its operations through its expertise and also brings its expertise to the network, which is a particularly good reason for fostering networks among cities in the Baltic Sea region.

All this has required, and continues to require, a great deal of work and collaboration, as well as a shared vision and a shared will for Jyväskylä and its cooperation with other cities in the Baltic Sea region to tackle the current threats. ■



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MONIKA CHOLEWCZYŃSKA - DMITRUK

# Pomorskie at the start of new financial perspective 2014-2020

Expert article • 1722

## Relatively good starting position...

In terms of the size and strength, Pomorskie (area 18 310 square kilometres, population 2 298,8 thousand) is an average economy with a relatively stable position in relation to other Polish regions (5th place in terms of GDP per capita). The region is characterized by openness of economic relations, as evidenced by, among others, high value of exports in relation to GDP (3rd position in the country) and a significant share of high-tech products in exports (2nd in the country). Pomorskie is, therefore, unusually sensitive to the effects of external shocks, especially given the high degree of concentration of export product. Due to the population growth in the region projected by 2020, the region's share in the Polish GDP should increase slightly. The rate of economic growth is still higher than the EU average.

## Economy

In recent years, Pomorskie region established strong position between dynamic Polish voivodeships. There were many infrastructure investments started, aimed at both strengthening the competitiveness and innovation of Pomorskie, as well as improving the quality of life of its inhabitants.

The most important infrastructure project is the construction of Pomorskie Metropolitan Railway that will revolutionize public transport Tricity, providing residents of the metropolis (including many peripheral areas) fast, economical and environmentally friendly rail transport. The project will cost more than 250 million euro. A major investment project is the development of high-speed rail in the Tri-city, whose total value will be approx. 87,5 thous. euro.

The project includes the modernization stops of Suburban Train, ST stop construction of a new Gdańsk-Downtown, modernization of 22 electric multiple units and rebuild the traffic control system. It is also worth mentioning the expansion of the airport in Gdansk as well as the ports of Gdansk and Gdynia. The number of passengers in Gdansk Airport in 2014 exceeded 3 million, ranking the regional airports on a 2-position.

Pomeranian ports are important hubs connected via shipping lines to other European as well as the worldwide ports, and through development of the hinterland with the economic centers, located on the route of Baltic-Adriatic Corridor.

Pomorskie is characterized by high economic activity of residents expressed e.g. in a large number of SMEs per thousand people (4th place in the country) and significant capital investment, including in the corporate sector (4th place as well), forming cluster structures, as well as the high, compared to the rest of the country, expenditures attributable to one industrial company running innovative activity (3rd place in Poland).

Self-government of the region strongly supports business. Thanks to the initiative Invest in Pomerania, whose leader is the Pomorskie Development Agency managed to attract many foreign investors in the region. The two resulting funds: Pomorskie Loan Fund Sp. z o.o and Pomorskie Regional Credit Guarantee Fund Sp. z o.o possible to obtain funds for the development of the Pomorskie SMEs, which have difficulty in obtaining capital from other sources. Both funds are using the JEREMIE initiative for their measures. The regional authorities are focused on running and using potentials relevant to the region and emerging sectors of specialization of the region.

Important for economic development in the region is to support the investments aiming to improve the energy security of the region: the construction of new electricity generation sources, as well as the promotion of investment in the transmission and storage of energy.

## Structure of the Pomorskie population

Compared to other regions, Pomorskie stands out with the highest birth rate (especially in the gminas located in Kaszuby) and positive balance of migration (3rd in the country). This results in the highest real growth in population in Poland. Residents of the region are also relatively younger than the national average, which is important for the labour market.

## Tourism

Regions in Pomorskie worth to visit: Żuławy, Powiśle, Kociewie, Tuchola Forest, Kashubia and Tricity. Tricity is a special complex of three different urban bodies connected due to their unique location on Gdańsk Bay (Zatoka Gdańska) and divided from the rest of the World by post-glacial moraines. Gdańsk is a thousand years old, is the capital of the Pomorskie Voivodeship with high architectural and cultural values, and is joined onto Sopot, the most famous health resort and spa, which is located next to Gdynia, a modernistic, cutting-edge city. The three cities are connected by a fast railway line, offering combined leisure and cultural packages and shopping bargains. It is well connected to land, air and sea transport and offers lots of attractions and a unique climate.

## Regional policy

The big challenge for all types of institutions in pomorskie is the effective implementation of the Cohesion Policy Objective 1 Programme – “Regional Operational Programme of Pomorskie Voivodeship for 2014-2020” (Regionalny Program Operacyjny Województwa Pomorskiego na lata 2014-2020) with amount of c.a 2 bln EURO (i.a European Regional Development Fund and European Social Fund) in the perspective, 11 thematic areas: knowledge commercialisation, entrepreneurship, education, vocational training, employment, integration, health, conversion, mobility, energy, environment.

Regional Operational Programme (ROP) will be one of the implementation tools of the Development Strategy of the Pomorskie Voivodeship 2020 (DSPV). Thematic content and intervention logic of the ROP are determined a.o by six Regional Strategic Programmes: economic development (Pomorskie Creativity Port), social and labour market activity (Active Pomeranians), transport (Mobile Pomorskie), energy and environment (Ecoeffective Pomorskie), culture and tourism attractiveness (Pomorskie Travel), and health (Health for Pomeranians), which are in line with the DSPV. All strategic programmes specify the way of implementation of development policy of Self-government of Pomorskie Voivodeship till 2020. ■



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MERJA SALMI-LINDGREN

# The Finnish marine industry – the forerunner of smart maritime technology solutions

Expert article • 1723

**T**he Finnish marine industry started to develop after the Second World War. The history of the industry can be divided into five development waves, which have made the industry as innovative and technically advanced as it currently is.

The evolution of the Finnish marine industry started after the Second World War as Finland was required to pay war compensation to the Soviet Union. This resulted in around a dozen new shipyards, as the compensation included 500 different vessels to be built in only one decade.

The marine industry had developed enormously as a result of the war compensation projects, and as political and trade relations between Finland and the Soviet Union had improved, the industry got a jump start for the second wave of development: In the fifties, Finnish shipyards built long series of cargo ships, river boats, tankers as well as ice breakers.

The first oil crisis in the early seventies effectively changed the focus from the long series of vessels constructed for the Soviet Union to more specialised ships such as ro-ro vessels, arctic tankers and cargo ships, arctic ice breakers and cruise ships. Moreover, the industry started to look for new international customers and Finland entered a new market, building passenger vessels.

Some of the most famous ships of the third wave of development are perhaps ice-going ferries between Finland and Sweden and the Urho-class icebreakers, of which, five were built. Other remarkable achievements were made in the eighties, when nuclear ice breakers, floating fish processing plants and advanced research vessels were sold to the Soviets.

The fourth wave of development began when the Soviet Union collapsed in the early nineties. Then, Finnish shipyards won orders from new customers to build very special vessels such as catamarans made of aluminium and gas tankers. The Finnish government invested in multipurpose ice breakers, which led to innovative technical solutions such as the Azimuth and the Azipod propulsion systems. Both of the systems are now world famous for saving fuel and making steering easier.

The financial crisis and the sulphur directive triggered the fifth and current wave of development in 2008. The Finnish marine industries can keep its substantial share of the cruiser market as 70% of the biggest shipyard Turku was acquired by the market leader in cruise ships, German Meyer Werft. The Meyer Turku shipyard is currently constructing two luxury cruisers for TUI cruises, and Tallink has signed a letter of intent regarding an order of an environmentally friendly car-passenger ferry.

**Structural changes in the marine industries are visible.** In 1980, nearly everything was made inside the shipyard. Back then, the industry consisted of 13 shipyards and a total workforce of 17,700. Thirty years later, in 2010, the industry had been restructured: shipyards employed only some four thousand persons in five main shipyards. Today, the shipyards are the ones who agree the ship-

building contract, organize the finance and take the responsibility of the whole project. Up to 80 per cent of a large vessel is built within the network. The flexibility and the skills of the network are clearly the top advantage of Finnish marine industries. However, it is a large network, included more than five hundred companies of different sizes. All these companies, including the shipyards, directly employ around 20,000 persons

**The leading position in cruisers and passenger ships** Finland achieved with the changes and systematic investment in passenger ship technologies in the first decade of the new millennium. Ships currently under construction utilize high technology. New innovations and enhanced specialization are created within ship projects. Today we have constructed some of the biggest and the most luxurious cruise ships such as the Oasis of the Seas for tourists in the Caribbean.

**Arctic technology**, the second foundation of the Finnish marine industries, has advanced in recent years as well. As Finland is geographically located so far North that all the harbours can freeze, and Finnish trade and welfare depends on export, Finland should position itself to be the centre of Arctic know-how. The continuous development of ice breaking and special vessels is in Finnish hands. Finland has long term experience and the technology and the knowledge of harsh Arctic conditions. Last year Arctech Helsinki Shipyard started to construct a groundbreaking vessel, the world's first LNG powered ice breaker for the Finnish Transport Agency. Another advanced additional feature in ice breakers is the oil spill recovery capacity.

Experience was also gained in many other marine industry sectors such as **oil platform construction**. Over a period of forty years, the majority of the floating, deep-sea Spar platform hulls have been designed and constructed in Finland.

**Green technology** has grown into the Finnish marine industry. New generation dual-fuel engines using LNG reduce almost 100 per cent of sulphur oxide and 85 per cent of nitrogen oxide emissions. Advanced Finnish technology provides lightweight, energy efficient ships and offshore wind farms which have become more and more sophisticated.

Maritime transport is the most cost effective and environmentally friendly mode to transport goods around the world. The need for transport is constantly growing, thus increasing the demand for all ship types. Safety, efficiency and low operating costs become more and more important for shipping companies. Climate change requires us to utilize wind and tide as sources of energy.

The strengths of the Finnish maritime industry have originated from **long-term research and development** that the industry has actively been involved in, nationally and internationally. For instance, the industry is one of the most active of Finnish industries participating in EU-programs. Now, the Finnish marine industries is positioning itself to be the centre of clean and safe vessels, Finland has compatible solutions to respond to futures challenges solutions and the state-of-the-art ICT know-how helps in this regard.

Expert article • 1723

It is also essential to develop **new funding and financial models** and use of the existing EU-funding instruments, to pilot and demonstrate matters also regarding to blue growth, including for instance, renewable energy sources such as biofuels and wind.

**Improved cooperation** among Baltic Sea countries is needed in order to influence rules and regulations both in the International Maritime Organization, IMO and EU level playing field. The Baltic Sea, its vulnerable archipelago and the shallow and sensitive waters, is strategically important to Europe. Finland can use its experience of the Baltic Sea in smart maritime sustainable technology solutions. ■



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# BALTIC RIM ECONOMIES

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SAARA MALILA

# A logo doesn't make a city, but a uniform look can build it

Expert article • 1724

**T**he look of Finland's oldest city, Turku, is currently being unified. We have modernised Turku's unique coat of arms, which dates back to 1309, to make it the look of the city. The one unified look will be adopted throughout the entire city from spring 2015. The background of the renewal is the city's new strategy, the spirit of which is emphasised by a unified look.

As is the case with many other cities, Turku has used dozens of different logos over the years. Different divisions have numerous logos and looks, different units, campaigns and even swimming pools all have their own. A logo is like a surname, its purpose being to act as a signature for deeds and acts carried out.

To those who live in or visit the city however, how some logo looks, on some wall or in the bottom corner of a poster, is fairly irrelevant. What is important for residents is that they get excellent services, and for the city it is important that residents recognise that these services were provided by the city, i.e. paid for with residents' taxes.

The aim is for all of the City of Turku's divisions, service centres, institutes and units to systematically use the same logo, style, colours and fonts in the future. This will create a harmonious picture of the city – and give a professional impression to residents, tourists and even companies searching for a new location. Everyone should, however, know what the logo means, what its purpose is and what we want to represent with a unified look.

Jaakko Lehtonen, Director General of the Finnish Tourist Board describes well how just a logo and slogan are too often thought of as creating a city's brand. "What if Turku's slogan were Turku – a good place to live and do business, with services and nature nearby. It doesn't work, because the same sentence applies to every Finnish city and municipality. I would go as far as to say that the sentence could apply to the whole Baltic Sea area."

According to Lehtonen, places are complex and branding places reflects that. "A city is not a product, it involves a complete meaning and content, which a logo or look renewal will not change. A place attracts tourists, investors, support products, cultural offerings, housing services and study places. People live in a place, raise their children there, work, enjoy their leisure time, become ill, and have their illnesses treated. They are involved in social events, cultural events and charitable activities."

The thought that a logo or slogan could in this respect influence other people's awareness or the region's reputation is positively naïve.

Research suggests that people form an impression of a place primarily based on their own experiences. Next come others' opinions, social media, other media and education. Of least importance is commercial communications. Thus a logo is a weak commercial tool. But a unified look for the city is not.

Turku has good starting points for developing its own strong and bold look, which the city will be known for and which will be associated with strong images. Turku evokes emotions both for and against.

Turku is not alone in unifying its look. Many cities and companies have, in recent years, moved from the world of many logos to just one, with good examples of this being the City of Oulu and the conglomerate Bayer. The reasons are always the same: cost efficiency, identifiability and uniformity.

A unified look is particularly important externally too, beyond Finland's borders. In the Baltic Sea area, Turku is known in particular for the work it has carried out across various different areas for the good of the Baltic Sea.

In addition to its work in the Baltic, and in many ways linked to it, Turku is working, for example, on a major large-scale industrial policy project, i.e. the One Hour Train. The aim of this project is a train connection between Turku and Helsinki with journeys taking just over an hour, replacing the current two-hour connection. The project is a part of the TEN-T core network corridor between St Petersburg and continental Europe. This is by no means just a transport project, instead the One Hour Train promotes the generation of a unified dynamic economic area in Southern Finland.

Industry is associated with the most important crown jewels of Turku and the region – the maritime cluster. With the sealing of the Meyer deal, Turku's position as the Baltic Sea maritime industry's leading location was further strengthened.

A second, equally strong, sector is the pharmaceutical and diagnostics industry, in which Turku has strong expertise, with the city playing host to not only numerous companies, but also a great deal of development work and research. This, along with a resource-based economy in its different forms – cleantech, a sustainable recycling economy – is being developed to an increasing extent in the city.

Turku is also focusing on promoting its aim of making tourism a leading export sector. Turku wants to place the focus on building an internationally attractive country brand for Finland, with the help of four main areas. Turku's special expertise naturally lies in the Finnish archipelago, with the other main areas being Lapland, Helsinki and the Finnish Lakeland.

Turku's aims and messages are easy to promote with the new look, but we must ensure that it is always the content that determines and creates Turku's brand. We do things well, boldly and in cooperation – and our wonderful old coat of arms is a guarantee of the quality of our work. ■

*The City of Turku's coat of arms (left) is based on a Medieval seal from 1309. The gothic-style letter 'A' on the coat of arms refers to the first letter of the city's Latin name – Aboa. The lily is a commonly used symbol on coats of arms, and it also symbolises the Virgin Mary, to whom Turku Cathedral is dedicated. The current coat of arms was officially designed by Tauno Torpo in 1965. The coat of arms has been modernised (right) by Turku-based advertising agency Satumaa.*



SAARA MALILA

Director of Communications and Marketing  
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JOAKIM LUNDBLAD

# Time for the cities to step up

Expert article • 1725

In 2008, urbanization reached a landmark as a majority of the world's population lived in cities, and the number is predicted to rise to 70 percent in 2050 according to the World Health Organization (WHO). Moreover, cities are at the cross-section of globalization and digitization, making them the center stage of social and economic transformation. Although they have been along for a long while and played an important part in our history, cities will most likely never be quite the same again. Bruce Katz and Jennifer Bradley, authors of *The Metropolitan Revolution*, argue that American cities are increasingly outcompeting the state and the federal government to lead the nation, going from being "the children waiting for their allowance" to "experimenting, taking risk, making hard choices, and asking for forgiveness, not permission". The Baltic countries are experiencing the same urban momentum - in fact, Swedish urbanization is the fastest in the European Union according to Eurostat - but will Baltic cities be able to step up to the plate and take a leading role in the region? Could they even improve regional integration and economic development where their national governments have not?

In the late Middle Ages, cities and merchants in Northern Europe came together to form the Hanseatic League with the mission to protect their economic interests and trade routes around the North sea and the Baltic sea. Hanseatic cities shared a legal system and each contributed with its own army to protect other members. Although the Hanseatic League was founded on monopolies and policies that might seem a bit backwards today, it was a great leap forward for commerce in the 14th century. The Hanseatic League also left traces of social integration, for instance in the shape of pubs and merchants' houses. Most importantly however, it was led by cities, not nations.

As cities are on the rise in the 21st century, it seems worth considering what a modern day Hanseatic League could, or would need to, bring to the table. There are at least three policy challenges where cities could contribute significantly both to their own development and to cross-border integration: (1) Lobbying national governments and the European Union, (2) benchmarking urban issues, and (3) promoting intercity social networks.

The most intuitive policy level for cities to get involved in is benchmarking and peer learning with other cities. As urbanization gains momentum, demand rises for smart, sustainable, attractive and overall future-proof cities. Politicians and civil servants do well to help each other out in meeting these new challenges. The Union of Baltic Cities or the Baltic Urban Forum provide good examples of such intercity collaboration. The UBC has task forces devoted to issues such as education, youth unemployment and energy.

Second, cities across the region can jointly put pressure on national governments and the European Union to consider urban issues and the impact of regulation on cities. Few countries in the region have a minister devoted to urban affairs, and governments should welcome a metropolitan perspective on the national and international policy agenda. If for no other reason (there are several), because an increasing share of the voters live in cities.

Third and finally, Baltic cities need to connect not only their civil servants and policymakers, but also their most valuable resource: their urbanites. If cities are the economic engines of nations, then social interactions between people and firms are the engine of the city. Research has shown that growth, wages, and even walking peace seems to increase exponentially with population size in large cities - the city is more than the sum of its parts. These agglomeration effects are attributed to social interactions and their externalities. Accordingly, what drives urban growth is also hindering regional integration and development. According to the report *Searching for the Micro-Multinationals* by Microsoft, Baltic Development Forum and PWC, one of the divides between Nordic and Baltic startups is a lack of trust and networks. In the spirit of the Hanseatic League, Baltic cities can simplify networking and interactions between cities across borders, for instance by providing easier market access, testbeds and shared incubators or science parks. Interactions promote networks, and networks promote trust. Cities could play a key role in building trust by importing and exporting social ties across the region.

Unfortunately, many if not most exchanges between cities seem to begin and end with just one of these policy areas, benchmarking with other cities. Each is important in its own right, but none can substitute the others. In order to realize their own potential as well as that of the region, Baltic cities need to address all three policy challenges. Hopefully, the fact that most of them haven't so far is not an indication of their fighting spirit. ■



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ANDRIS JAUNSLAINIS

# Experience of consultations among central and local governments, social partners and scientists in Latvia

Expert article • 1726

European countries have several forms of dialogue between the national government and the associations of local and regional governments, as well as between the central government and organized civil society. In this context, Latvian experience provides innovative practice of amalgamation of both procedures.

The accelerator for introduction of those elements was the global economic crisis, which had maximal influence on Latvia during 2008-2011. Innovative form for consultations was the Reform Management Group (RMG), which was originally established for operative consultations with local governments and social partners about decisions of the central government during crisis. The accelerator for creating such innovative institution as RMG was the requirement of international donors (IMF, European Commission and others) to fasten structural reforms and do this using elements of participative democracy.

The meetings of the RMG during economic crisis have taken place once every two months on average. The members of the RMG were:

- The Prime Minister and the Minister of Finance;
- two representatives from the LALRG;
- two representatives from the Latvian Association of Free Trade Unions;
- two representatives from the Latvian Confederation of Entrepreneurs;
- two representatives from the Latvian Chamber of Trade and Commerce;
- a representative from the national Parliament.

According to our initiative, representatives from the Latvian Academy of sciences and representatives of universities were several times invited to participate. Several times all members of the Cabinet of Ministers were invited according to the initiative of the Prime Minister. Several times also the Alliance of NGOs participated in the meetings of the RMG.

It is very important to include representatives of scientists and universities in the discussion about macroeconomic and legislative issues. The voice of scientists and scholars can balance the domination of bureaucrats' opinions, based on their interests. Participation of local governments is principal for achieving balance between the interests of different interest groups by taking into account the local and regional priorities.

Taking into account that the RMG was a consultative body, the

main form was discussions. Each member of the RMG presented opinions about necessary elements of structural reforms, such as changes in tax policy, cutting of public institutions' expenditures, reorganization of institutions. Decisions of the RMG formed the basis for the elaboration of the National Development Plan 2014-2020.

Particularly interesting for other countries could be the Latvian experience of “express preparing” zero based budget.

Particularly interesting for other countries could be the Latvian experience of “express preparing” zero based budget. It was necessary to organize substantial cuttings of staff in the ministries and agencies in order to decrease the budget expenditure under pressure of international donors. Incremental budgeting, traditionally used for government policy implementation, was not suitable in this case.

Historically, zero based budget is extraordinary rare phenomenon. It is well known that zero based budget

- is more time-consuming than incremental budgeting;
- needs justifying every line item, and it might be problematic;
- requires specific training of staff due to increased complexity vs. incremental budgeting.
- needs huge amount of information backing up the budgeting process.

Practically, pure zero based budgeting for public sector is impossible. Applying innovative consultations process in order to solve the above mentioned problems, Latvia proves the possibility to use zero based budgeting for fast structural changes.

Qualitative expertise of organized representatives from employers, employees, local governments and higher executives allowed to reduce the time of elaborating the proposal for structural changes of policy to two months. Instead of research-based justification and bargaining among the interest groups, the budget lines were determined by comparing the partners' opinions with the interests of the ruling political coalition. Instead of analysis of a large amount of information, procedures were maximally simplified.

Another advantage of the Latvian consultations system was achievement of social peace. Decreasing of GDP during the first years of crisis in Latvia was higher than in other countries. There were preconditions for serious social tension. Regular consultations among social partners, central and local governments allowed to apply measures, softening crisis problems of households in time and in appropriate way. Latvia avoided problems of disrupting social order, which arose in many EU countries responding to crisis.

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Expert article • 1726

The LALRG has facilitated the elaboration of common opinions before meetings with the central government representatives. A simple principle applied to building common opinion was the inclusion of the main priority interest for any partner, if such priority is acceptable to the others. It demonstrated, that it is possible to achieve compromise and be much stronger in promoting the compromise on behalf of all the partners. One of the most important ideas preliminary discussed with partners then proposed to the central government and parliamentary political parties was introduction of common cycle for political responsibility (period of elections), programming (period for middle term programs) and budgeting. Optimal period could be equal to the election cycle of European Parliament – 5 years.

I believe that Latvian experience could be interesting as an example for widening cooperation among the main stakeholders of the economic and social dialogue. ■

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ANJA NYSTÉN

# Reduction of nutrient load in the Baltic Sea

Expert article • 1727

The largest areas of surface accumulation of cyanobacteria for ten years were detected in the Baltic Sea in summer 2014. Nutrients flow into the sea as a result of human settlement as well as industrial, agricultural and forestry activities – and have done so on a large scale for more than a hundred years. The Baltic Sea basins have become quite large stores of nutrients. In anoxic conditions, phosphorus stored in sediments is released. Autumn and winter storms lift eutrophic and phosphorus-rich water to the surface – which is great news for cyanobacteria when it is warm in the summer.

## External load

External nutrient inputs can be reduced by making old wastewater treatment plants more efficient and by building new plants in areas where one does not exist.

NEFCO has been engaged in a number of investments aimed at upgrading existing wastewater facilities in the Baltic Sea catchment area. For example the waterworks at Sosnovy Bor in Russia were recently upgraded and chemical phosphorous removal was introduced. This was achieved with the help of financing from the local waterworks Vodokanal, the Russian Federation, the city of Sosnovy Bor, NEFCO, the Finnish Ministry of the Environment, and the Northern Dimension Environmental Partnership. The project reduces discharges of phosphorus by around 22 tonnes per year.

In Belarus, the Baltic Sea Action Plan Fund (BSAP Fund), administered by NIB and NEFCO, has financed a project identifying cost-efficient ways to reduce Belarusian discharges of nutrients into the Baltic Sea. The priority list has identified wastewater treatment plants in ten Belarusian cities as well as a poultry farm.

There is a lot that needs to be done, in agriculture and livestock production in particular. Converting the manure produced in pig, chicken and livestock farms into biogas has been put forward as a possible solution for the problem. The idea of producing methane in this way is sensible as such, and we can hope that it will become more cost-effective in the future. A biogas plant without any other operations, however, is merely a location for collecting nutrients. The sludge from the plant still needs to be stored somewhere, and this could even be simply a field. The measures that are required to decrease the amount of nutrient inputs from agriculture include optimisation of the timing and amount of fertilisation plus construction of safety strips in the vicinity of waterways.

## Internal load

The external input of phosphorus from countries around the Baltic Sea has halved since the 1980s. Despite this, the phosphorus content of the Baltic is increasing due to the large internal source of phosphorus linked to anoxic bottom areas of the sea. It is estimated that the internal load is greater than the external load; 30,000 tonnes of phosphorus flows from land into the Baltic Sea every year, while 100,000 tonnes are released from the bottom of the sea.

The condition of the Baltic Sea is improved by saline pulses through the Danish straits, which oxygenise the sea's bottom layers. Currents of sufficient strength are rare, though; the last such pulse was in December 2014, and previously in 2003 and 1993.

In order to reduce internal load, the BSAP Fund and the Swedish Agency for Sea and Water Management have supported research on oxygenisation of sea basin by circulating oxygenated water close to the anoxic bottom. The BOX-WIN project has shown that cod reproduction in the Bornholm Basin, the only place today where Baltic Sea cod reproduce, could benefit from oxygenation of this basin. Other expected positive effects of oxygenating this basin are that the phosphorus discharge from deep sea bottoms could be reduced by 7,500 tonnes per year and the bottoms could be colonised with a fraction of the cost for land-based measures.

## Recycling of phosphorus

Phosphorus is one element in the circular economy. Phosphorite resources are limited, and recycling of phosphorus must be made more efficient. The BSAP Fund has financed a study on Pyrolysis for the production of bio-oil, fertiliser and energy from chicken manure by Scandinavian EnviroSystems. By the use of pyrolysis in a successful manner both energy, bio-oil and biochar could be used, i.e. three products would be produced from manure that otherwise is stockpiled and creating a potential source of further pollution of the Baltic Sea. Another interesting project is "Nutrient Retrieval from Seabeds" by TechMarket AB to validate a test rig for retrieval sediments from the oxygen-free areas of the Baltic Sea. The sediments contain nutrients needed for agriculture.

In order to reduce eutrophication in the Baltic Sea, we must radically decrease its phosphorus content, both in the external and the internal load. New methods of phosphorus reduction must be introduced to supplement traditional measures such as wastewater treatment. Cyanobacteria do not know whether nutrients come from the land or the sea bottom, or if phosphorus is originally from a phosphorite mine or is residue from a biogas plant. Cyanobacteria grow and flourish – it is their job. ■

Nordic Environment Finance Corporation (NEFCO) is an international financial institution established by the five Nordic countries. NEFCO finances green growth investments and projects primarily in Russia, Ukraine and Belarus as well as climate projects across the world. NEFCO's main focus is to generate positive environmental effects of interest to the Nordic region.



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LOTTA NUMMELIN

# 25 years for the Baltic Sea

Expert article • 1728

“That summer was a wakeup call. When I walked in the water I realized that there was something wrong. I could not see my toes”. In the summer of 1988 businessman Anders Wiklöf from the Åland Islands noticed that the water was not as clear as usual. The following year, now over 25 years ago, Mr Anders Wiklöf founded the Baltic Sea Fund (in Swedish Östersjöfonden). The purpose of the foundation is to promote and support research and other activities focused on the protection of the environment of the Baltic Sea.

The Baltic Sea Fund awards forerunners of Baltic Sea protection work through its annual prize. Persons or organizations that have done significant and progressive work in favour of the Baltic Sea are awarded. By highlighting the ones in the front line of the protection work the Fund wants to show that the individual's contribution is important and that it is possible to make a change and improve the state of the sea. It underlines the importance of the forerunners' work in particular, and inspires them to work on. In addition, the prize brings important Baltic Sea issues on the agenda of public discussion. The award winners over the years have been in academics, environmental activists, civil servants, politicians, corporate employees, etc.

In 1990 the first prize was given to researcher Stig Fonselius. In his doctoral dissertation from 1969 he directed attention to the increasing lack of oxygen in the deep bottoms of the sea and laid the foundation of the modern Baltic Sea research. On his initiative routine measurements of phosphorus and nitrogen were started in marine areas in the late sixties, which was a prerequisite for later assessments of the human role in eutrophication of the sea. Stig Fonselius was also one of the inventors of the Helsinki Commission, HELCOM.

The following year, 1991, Commander Raimo Tiilikainen was awarded for his leadership in the large operation when the ro-ro ship *TransGermanica* was rescued and salvaged outside the island Utö the year before.

In 1993, the Baltic Sea Fund prize was for the first time given to an environmental organization when Coalition Clean Baltic (CCB) received the award. CCB had been founded a few years earlier as a cooperation network of environmental organizations around the Baltic Sea. CCB had an important role in supporting civil rights in the Eastern bloc in the early 1990s. Today, CCB has 27 member organizations from around the Baltic Sea region. Throughout the years several other NGOs and environmentalists have received the award.

In 1999, Torsten Stjernberg from Finland together with Björn Helander from Sweden received the prize for their efforts to save the sea eagle. They were prominent figures in the WWF eagle project. The project managed to save one of the most endangered and characteristic of all Baltic Sea species. The project also strengthened public opinion against the emission of pollutants into the sea, prohibiting mainly DDT and PCBs.

During the 1970s, the paper industry had major problems with their emissions. In the 1980s the problems were brought to discussion and measures were considered. Reino Lammi and Rurik Skogman, who worked on cellulose factory in Pietarsaari, were pioneers in this work and were awarded in 2001.

In 2004, Director General Felix Karmazinov from Vodokanal, St. Petersburg received the prize. He played a key role in the development of wastewater treatment in St. Petersburg. As the justification text for the prize says: “Felix Karmazinov has shown great determination to implement the project even though it has been burdened by several complications and significant risks. Karmazinov's strong will, motivation and ability to work with a large number of stakeholders has been crucial to the project that can be said to represent a major breakthrough for environmental work in the Baltic Sea region.”

In 2009 journalist Isabella Lövin was awarded for her work for the fish stocks in the Baltic Sea. In 2007 her book about fisheries in the Baltic Sea was published. The nomination for Lövin stated “Rarely has an environment-related book had such a broad impact and committed as many as her”. The book has been widely debated about around dinner tables, on the TV couches, and within university institutions. One can say that the book changed the Swedish fisheries policy. Today Isabella Lövin is in politics and carries on her fight for the fish in our seas.

Last year the prize was given to Professor Hans von Storch from Germany for his work with climate change in the Baltic Sea region. He has been able to compile fragmentary information and knowledge into a comprehensive picture of the impact of climate change in the region. He has also been open for collaboration with other disciplines of science, e.g. with social scientists, and has an interest in the social and human aspects of his research.

This year's prize winner will be announced in April. ■

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ÅSA STENMARCK

# RECO Baltic 21 Tech – a project facilitating climbing in the waste hierarchy

Expert article • 1729

**R**ECO Baltic 21 Tech (RB21T) is a Waste Management initiative, dated back to 1999 and latest co-financed as a project in the Baltic Sea Programme Interreg IVB, 2010-2013. RB21T was acknowledged as both a EUSBSR flagship project and a CBSL Lighthouse project for its consistent and long-term work for improved waste management in the Baltic Sea Region. Its present collaboration scheme was finalised in December 2013 after three very exiting and productive years where the objective set up in the beginning of the project was accomplished:

“To improve the local and regional capacity to achieve sustainable waste management that catalyses the execution of the EU directives and supports the macro-region to climb in the waste hierarchy. And doing so by fostering sustainable investments”

Climbing the waste hierarchy (as set out by the EU to guide towards sustainable waste management with prevention as the most favourable option and landfilling as the least wanted solution) implies an indisputable challenge for Baltic countries since local and regional authorities often experience a lack of knowledge on how to go from knowledge of what needs to be done to action as well as capacity and well-directed funds to being able to actually perform the change needed. During 2010-2013 RB21T responded to these substantial challenges by, among other things, strengthening local and regional capacity to describe a way forward meeting these challenges.

One reason for being successful was the partnership and its composition of problem owners throughout the BSR area as well as knowledge based partners. It is very gratifying to conclude that together with our core partners and important associated partners from both the private and public sector truly have reached the decision-makers on regional and national as well as on BSR and EU level.

The possible outcomes and impacts from the project are far greater than we dared to wish for some 3 years back.

## Final results

Besides the improvement of communication and dialogue across borders, information sharing, funds identification and combination, introduction to the concept of “green procurement” in correspondence and turned to contemporary waste management, as well as joint management implementation, three main and reconciled specific results have been achieved:

- **A Joint Baltic Sea Region Strategy for Municipal Waste Management**

The Joint Strategy provides an opportunity to initiate one of the first regional high-level collaboration programmes in the field of waste management. The Strategy contains a set of recommendations for strategic action, including the needs to ensure timely compliance with the EU acquis targets and requirements by providing adequate policy and financial support to key players.

The Strategy sets a vision for the Baltic Sea Region:

The vision of the Baltic Sea Region is to become the flagship European region in sustainable municipal waste management with minimal impacts on climate change, nature and human health and without major disparities among the countries

- **Creation and implementation of a Baltic Waste Management Council (BWMC)**

In order to meet the perceived need for a forum for the national decision makers focusing on waste management, the BWMC was created. The Council members have acted as a reference group for the Strategy and have also assisted to link project results to decision makers.

- **Transnational implementation of 18 pilot projects**

Throughout the Baltic Sea Region 18 pilot projects were selected and undertaken, to improve their present unique and current situation and provide feedback to the Joint Strategy and other outputs. The pilots were also important to achieve the project's goal of unlocking funds for waste management investments. Activities that have been carried out are, for example, a comprehensive workshop with financing institutions, matchmaking activities and study visits.

- **Waste Management Planning System (WAMPS)**

WAMPS enables users to carry out calculations via a web interface which compare the environmental performance of different types of waste management systems. The application is based on life cycle assessment (LCA), and is easy to use and primarily aimed to be used as a tool and support for decisions in the planning process.

It can be used for designing the most suitable system from an environmental point of view for waste management in a certain region with specific conditions. The application requires that the user has basic knowledge of waste management and LCA competence.

- **EnviroBase**

A database on waste management-related information in the BSR, intended for companies dealing with waste management and treatment, for municipalities, consultants and any other stakeholders interested in waste management. The database covers information on companies and organisations which provide waste management technologies or deal with waste management themselves in the Baltic Sea region and on reference objects.

All outputs can be downloaded at [www.recobaltic21.net](http://www.recobaltic21.net). ■

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SUSANNE SCHERRER

# Funding cooperation – Interreg Baltic Sea Region ready for a new start

Expert article • 1730

Over the past fifteen years, Interreg has become a well-known brand for cooperation within and beyond European borders. Say it with figures for the Baltic Sea Region. Between 2007 and 2014, the Interreg Baltic Sea Region Programme had funded altogether 90 transnational projects involving some 1300 public authorities, academia and non-governmental organisations in the area. The programme budget added up to EUR 222,8 million from the European Union and Norway, not yet counting own co-financing from project partners.

Stimulating cooperation within the Union as well as building up close ties with neighbouring countries will remain a priority on the European policy agenda. Yet allocating money to cooperation does not come as a walk-over. Interreg projects create long term effects which are not always easy to count, and which are often difficult to sell to policy makers. On the other hand, there is a growing understanding that investing into cooperation will pay off. Public authorities will learn to work together, plan together, invest together. For the coming EU funding period, ending 2020, Interreg Baltic Sea Region expects some EUR 271 million EU funding plus contributions from Norway.

Yes, it seems that the new period of transnational cooperation in the Baltic Sea region stands on firm grounds regarding its strategic relevance and usefulness. There is only one aftertaste that could not be eliminated during the past two and half years of intense negotiations of the participating countries. The participation of Belarus and Russia is still pending. In Belarus, lengthy national approval procedures and non-compliance with national and EU legislation slowed down progress in negotiations. In case of Russia, the situation in Ukraine has had an impact also on the Russian participation in Interreg Baltic Sea Region. When and how full participation of Russian organisations in joint projects will be possible is an issue first to be solved by diplomatic efforts.

The close link between the EU Strategy for the Baltic Sea Region and Interreg Baltic Sea Region as one of its funding sources can be marked as one of the reasons why the Baltic area attracted special attention. The programme offers a well-established transnational funding mechanism for supporting flagship projects listed in the action plan of the Strategy. During the past period ending 2014, programme funds contributed to 25 flagships, and, all in all, supported 49 projects with clear links to the EU Strategy. It is however clear that programme funds are meant to initiate cooperation work in flagships. Large-scale investments have to be financed from other sources.

For the new EU funding period, the EU Strategy served as the immediate policy framework when drawing up the new thematic priorities for Interreg Baltic Sea Region. It does not come as a surprise that all three thematic funding priorities of the new Interreg programme match the three main objectives of the EU Strategy – but do not correspond to all its subordinated priority areas. Still, the three main objectives of the Strategy will hold true for many years to come.

“Increase prosperity!” is one of the three demands. Interreg Baltic Sea Region’s first priority is thus called “capacity for innovation”. Objectives include enhancing the market uptake of innovation by small and medium sized enterprises (SME) through sharing of research and innovation infrastructure. As a novelty, non-technological innovation as determining factor for economic development in the Baltic Sea region can be addressed as well.

By “Save the Sea!”, stakeholders of the EU Strategy called for joint actions to restore the natural environment of the heavily polluted Baltic Sea. Interreg Baltic Sea’s second priority “efficient management of natural resources” addresses the need for clear waters but also supports new ideas for “blue growth”, the key term to aquaculture, coastal tourism, or marine energy production. In addition, more cooperation is required to develop concepts for energy saving, and to stimulate the production of sustainable renewable energy.

“Connect the region!” is the third requirement red-flagged by the EU Strategy. Interreg Baltic Sea Region’s priority “sustainable transport” combines several aspects. Smoother, faster, cheaper, safer and greener transport modes are needed to overcome the typically long distances in the region. It is well known that the Baltic Sea was designated as model region for safe and clean shipping. Developing new technologies to meet stricter standards could boost technological development and create new market opportunities for companies from the region.

Programme funds have also been reserved to support the machinery of the EU Strategy, all in all EUR 13.2 million until 2020. During earlier years, the European Parliament provided funding to support the drivers of the macro-regional strategies, namely the Priority Area Coordinators (PAC) and Horizontal Action Leaders (HAL). With the new EU funding period, the European Commission expected the transnational programmes to take over this role. This is quite a new situation for the programme as well as the political leaders and practitioners of the Strategy. ■



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# The impact of the new ruble crisis on Russian FDI

Expert article • 1731

In December 2014, the Russian Federation plunged into a crisis again, the fourth one in a quarter of a century. Crises came in pairs, just like earthquakes and aftershocks: 1992–1996, followed by 1998; then 2009, followed by the current one. The new crisis will affect the economic prospects of Russia and its partner countries through two main channels: trade and investment. However, it will not have a systemic impact on the world economy, because the role of Russia is, though important, not pivotal (to borrow and turn around Thomas Gomart's expression originally developed for describing Europe's place in Russian foreign policy). Before the outbreak of the crisis, Russia was the 9th largest economy of the globe, producing about 3% of the gross domestic product (GDP) of the world. Its share in world exports is similar. Russia plays in more prominent role in global foreign direct investment (FDI), both inbound and outbound. In the latest year of full records (2013), inflows reached \$71 billion, about 5% of world total, and outflows reached \$87 billion, about 6% of world total. In both leagues, Russia is among the global top five (4th in inflows and 5th in outflows). Given Russia's prominence in global FDI, its interaction with the current crisis deserves special attention.

## Main features of the new Russian crisis

The current crisis shows certain similarities with the ruble meltdown of 1998 (to be developed in this section). It is less comparable with the long transition-related decline of 1992–1996, or with the drop in the GDP in 2009, provoked by developments abroad. It is to be noted here that history never repeats itself, and parallels have to be stopped at one point. For that reason, this analysis will also deal with the main differences between 1998 and the current crisis. Spotlight main differences will allow us to prove that this time the drop in production will be more severe and the crisis is expected to last longer (at least two years), with a double-digit drop in GDP in the first quarter of 2015.

To start with, there are various similarities between the two crises:

- Both of them manifested themselves as a currency (exchange rate) crisis, coming to the surface by way of a massive fall of the ruble on a specific day (4 September 1998 and 16 December 2014). In 1998, the rate to the dollar dropped from 6 in early summer to 19.5 on 4 September and 21 by the end of the year. In 2014, the summer started with a rate of 33, and an accelerating decline reached a temporary peak of about 80 on 17 December, to bounce back after a massive central bank intervention, to 56 at the end of the year.
- Both crises resulted in a massive increase of interest rates by the central bank. In June 1998, interest rates were hiked to 150%. On 16 December 2014, the central bank increased its key interest rate from 10.5% to 17%. Both attempts prompted inflation and a drop in GDP.
- In both cases, the structural problem of relying on oil and gas production for revenues, combined with a decline of oil prices on world markets, made the Russian economy vulnerable to the shock. In the pre-crisis year of 1997, 26% of export revenue was derived from oil and gas, while between October 1997 and December 1998, the per barrel price of the UK Brent crude petroleum dropped from \$20 to \$10. Oil dependence decreased in 1998

but paradoxically bounced back and accentuated afterwards. Russian became the showcase of the country with an enormous scientific and technological potential not being able to transform it into productive means. By 2013, the share of oil and gas in exports rose to 63%. The price of the same type of Brent oil started to drop in August 2014, from a peak of \$100 and above, to around \$50 by the end of the year.

- In both cases, the situation of public finances was aggravated by war. In the first case, the costly First Chechen War had just been concluded in 1996 and the country was heading towards a Second Chechen War. In the intermediate period, military costs remained high. In the second case, the annexation of the Crimea (March 2014), and military involvement in the ongoing conflict in eastern Ukraine further added to the bill.

There are also at least two main differences between the two crises that in most cases make the second one potentially more severe:

- At the beginning of 2014, the reserves of the Bank of Russia were much higher than at the beginning of 1998: \$510 billion versus \$18 billion. In principle, it would be positive news. However, the increase margin of manoeuvre of the central bank also meant more spending on the defence of the exchange rate at the expense of structural measures to revive the economy. In 1998, reserves declined by \$5.5 billion only; in 2014, by \$121 billion.
- In 2014, Russia faced a hostile world vis-à-vis its military actions, unlike in the 1990s, when the Chechen wars were considered by the international community as domestic matters (even if some human right groups expressed critical views, too). In 2014, the annexation of the Crimea and the (half open) intervention in Ukraine met an almost unanimous condemnation from the international community, encouraging the European Union (EU) and the United States to impose sanctions on the country. In principle, those sanctions would not necessarily hit a large country like Russia too deep; however, the equation is different if we consider those sanctions together with Russia's structural vulnerability and the concomitant fragility of public finances.

## Both inward and outward FDI will fall

The FDI inflows and outflows of Russia show a broad variety of characteristics, which makes in principle their reaction to the crisis differentiated. Inbound FDI includes privatization-related which may in principle behave differently from non-privatization-related FDI. Within the latter category, natural resource-, market- and efficiency-seeking investors may show divergent motivations, and we should not forget about the specificities of round-tripped capital (money leaving the country and coming back). In outbound FDI, firms that the Pan-European Institute has classified as motivated by expansion abroad may be hit strongly, especially natural resource-based firms suffering from a concomitant blow from the drop in oil prices. Outflows motivated by exodus (to use the twin term developed by the Pan-European Institute) could be deterred less, and probably round-tripped capital, too. In turn, another special form, namely transhipped capital, may face various problems, including the effects of international sanctions.

Type of FDI	Impact of ruble devaluation	Impact of Russian crisis on business prospects	Russian policy effects	Western policy effects (inc. sanctions)	Expected balance of effects
<i>Inbound FDI</i>					
Privatization-related	+	0	.*	-	.*
Non-privatization-related					
Natural resource-seeking	+	-/0	--	-	-
Market-seeking	+	--	-	-	-
Efficiency-seeking	+	-	--	-	-
Round-tripped capital	+	-	-	0	-
<i>Outbound FDI</i>					
Motivated by expansion abroad					
Natural resource-based	--	--	-	--	--
Technology-based	-	-	-	-	-
Motivated by exodus	-/+	+	+	-	0
Round-tripped capital	-	-	-	--	--
Transhipped capital	-	-	-	--	--

Note: \* except in case of fire sales.

On balance, important drops are expected in both inward and outward FDI, to feed back to the crisis itself. The main channels of transmission can be summarized in a table, presented above.

- In principle, the decline of the ruble stimulates new inward FDI (although it hits already established affiliates), and discourages new outward FDI, especially by natural-resource-based firms, which are also plagued by the fall in oil prices. A potential exception is exodus capital wishing to establish safety nests abroad, although these actors, too, will have to pay more rubles for the dollars to be invested abroad.
- The deteriorating prospects of the Russian economy will hit again most of the forms of FDI, especially market-seeking inbound FDI and natural-resource-based outbound FDI. Potential exceptions can be identified in privatization deals, which depend more on government decisions, natural-resource-seeking inward FDI, which will react more to international market prices of raw materials, and exodus capital.
- In general, Russian policy towards FDI and its reaction to the crisis are expected to hinder all FDI but exodus projects. Natural-resource-seeking will continue to face all the restrictions of the strategic sectors law, and efficiency-seeking projects will be plagued by the skyrocketing prices of access to capital. Privatization will also probably stall, unless the country is obliged by the circumstances to engage in fire sales at artificially low prices (see the asterisk in the table).
- Finally the increasingly hostile Western attitude towards Russia, including economic sanctions, will hinder both inward and outward FDI, with the exception of inbound round-tripping as it is carried out by foreign firms owned by Russians. In turn, certain transactions, especially by natural-resource-based State-owned and State-related firms put on the sanctions list, as well as outbound round-tripping and transshipment, which will be seen as attempts towards circumventing the sanctions, will face strong scrutiny and opposition in the EU and the United States. And if the clash with the West goes on for a longer time, even technology-based outbound FDI may face negative policy reactions in host countries.

In the 1990s, the recovery of FDI took a long time – five years for inflows and four years for outflows – before it exceeded the level of the pre-crisis year (1997). The circumstances of today indicate an FDI crisis which may be at least as harsh and as long. Over the first three quarters of 2014 (for which data were available at the moment of writing this analysis), inflows declined by more than 60% compared with the same period of the previous year (from \$62 billion to \$24 billion), with both equity and intra-company loans turning into negative. This is deeper than the decline in 1998 (40%). As for FDI outflows in January–September 2014, they dropped by 38% vis-à-vis the same period of 2013 (\$45 billion versus \$73 billion). This is less severe than the drop of 1998 (60%). However, the interpretation of these numbers should take into consideration that in 1998 the crisis already broke out

in September, while in 2014 it hit the surface only in the second half of December. Therefore under the new crisis, further deep decline in FDI is to be expected in 2015, the first full crisis year.

**A crack in a BRIC**

The new Russian crisis may worsen the prospects of the BRIC countries for overshadowing the Group of 7 in global economic governance. It is difficult to see how matters of the world economy could be decided by a group in which one of the members is structurally vulnerable, and falls victim of crises relatively frequently. It does not mean that Russia could not count on solidarity of other BRICs, especially China. However such help will re-write automatically the bilateral power relations of the two countries. Because of those changes in power balances, one can even wonder how internal cohesion of the BRIC group can be kept in the future. The new crisis also worsens the prospects for the Eurasian Economic Union, dreamed by Russian leadership as a counterbalance to the ever expanding Euro-Atlantic group (EU and NATO). It is no longer the question of who signs the treaty (Armenia, Belarus and Kazakhstan have done so, Kyrgyzstan will do soon; others may still consider joining), but who will provide the necessary leadership among partners and what kind of leverage the new Union will have in international economic matters. The Russian crisis does not augur well in those matters. ■

The views expressed in this article are those of the author and do not necessarily reflect the opinion of the United Nations.

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KURT BRATTEBY

# The Swedish Institute – fostering territorial cooperation

Expert article • 1732

The Swedish Institute (SI) has a long record of cooperation in the Baltic Sea Region. After the demise of the Soviet Union, SI concentrated on building relations with the Baltic countries, Belarus, Poland, Russia and Ukraine. Initially, the focus was on cooperation in the cultural and social fields. SI later introduced the ambitious Visby Programme, initiated by the Swedish Government in 1997. It was the basis for a still ongoing regional cooperation in education and research.

In 2009, when the EU Strategy for the Baltic Sea Region (EUS-BSR) and the Eastern Partnership were launched, SI reoriented its activities to be in line with the priorities of these EU policies. Today SI's work in the Baltic Sea Region is at the intersection of the EU cohesion- and neighbourhood policies and Swedish foreign policy and public diplomacy objectives. The main target groups are decision- and opinion makers, experts, students and researchers.

The increasing tensions in the region due to the Russian aggression in Ukraine have highlighted the importance of working with people to people contacts and building relations with change makers. The promotion of democratic values in our close neighbourhood is becoming a key priority for all the EU-countries in the region. This is likely to persist for a long time, alongside building a sustainable knowledge economy. SI will continue to address these challenges by developing programmes that facilitate exchanges of knowledge, values and experiences among our target groups.

The Swedish Institute is also actively involved in strengthening multilevel governance in the Baltic Sea Region. This implies encouraging collaboration between businesses, academia, civil society and the public sector. In line with this, SI supports international projects involving actors from different sectors and addressing key challenges that have been identified in the EUSBSR. Recently, SI funded a project on landfill mining, in collaboration between researchers and organisations in Sweden, Estonia, Latvia, Ukraine and Russia. This project led to a transformation of Kudjape landfill on the island of Saaremaa in Estonia. Hazardous materials were removed and valuable resources re-utilized. Today Kudjape is a recreational area. Project coordinator on the Estonian side, professor Mait Kriipsalu, is a former SI scholarship holder. He maintains his relations with Sweden by working on environmental projects together with Swedish colleagues. This is just one example of how Swedish Institute's work with people to people contacts leads to a positive impact for the region.

At the Swedish Institute, we recognise the need for sustainable solutions in a globalised world that faces climate change. In 2014 we initiated a new leadership programme together with Stockholm Resilience Centre. The LEAD programme targets future leaders and change makers who want to know more about how concepts like the Anthropocene, resilience thinking and social-ecological systems can be combined with the latest advances in technology. The pilot programme brought together leading professionals from eight countries of the Baltic Sea Region and provided them with tools for designing innovative projects.

No country can afford to lose out on global competitiveness in the long run. The ability to attract and retain talents - students, researchers and qualified professionals - will define the success of the individual countries as well as the region as a whole. The EU-project One Baltic Sea Region (ONE BSR) focused on regional branding. The vision of ONE BSR was to promote regional identities and encourage people to face common challenges together.

The Swedish Institute coordinated the Talent retention work package within ONE BSR. SI and Tendensor, a strategy consulting company, examined how countries in the region are working with talent retention. This resulted in a study, 'Talent retention policy and initiatives in the Baltic Sea Region: a situation analysis.' At present, Denmark and Finland have the most experience when it comes to working with talent retention. In Germany, the main focus is on retaining local talent. There are few initiatives targeting international talents in Estonia, Latvia, Lithuania, Poland, Russia (Saint Petersburg) and Sweden. Very little is being done in the Baltic Sea Region to retain and re-attract highly skilled local talents, despite the fact that many young professionals are leaving the region. National policies and laws are a challenge: it is often difficult to obtain a work or a residence permit. There is a need to increase collaboration between government organisations, universities and the industry, involving social entrepreneurs and non-profit organisations in quadruple helix projects. SI will continue to work together with stakeholders in the region in order to address these challenges. ■



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# Flying over the landslide

Expert article • 1733

Russia's aggression towards Ukraine will go down in history as a turning point for everything that has taken place in Eastern Europe since the collapse of the Soviet Union. But other things are also happening in Eastern Europe, the consequences of which seem to be as important as the war in Ukraine. In the shadow of the Russian-Ukrainian conflict, we are observing the twilight of the post-Soviet model of economic development, which for the past 25 years has – to varying degrees in different countries – guaranteed economic growth and relative political stability. It is too early to draw definitive conclusions, but what has happened over the past year to the world's economy and politics is changing not only the main assumptions of policy in the region and towards the region, but is also posing a whole new challenge.

Firstly, we are witnessing a political discontinuity in relations between the Western world and Russia on the one hand, and the rest of the post-Soviet states (with the obvious exception of the Baltic states) on the other. Secondly, the war in Ukraine is closing off a ring of political and economic instability in Europe, reaching around the Mediterranean and the Balkans. Thirdly, this process is endemic; its driving force is a series of insurmountable post-Soviet socio-political and economic tensions.

The exhaustion of the impulses towards development – based on draining post-Soviet resources and industrial assets, subject to shallow modernisation, and fed by the proceeds from the trade in raw materials – means the gradual disintegration of the structures of political and economic interdependence. Already Ukraine and Moldova, and soon Russia, Belarus and Armenia, will be unable to honour the social contracts that guaranteed their citizens a relatively prosperous life (or at least existence) in exchange for them not interfering in politics.

The process of exhaustion of the post-Soviet model of socio-economic development is most advanced in Ukraine. Although the events of the last year have played a large role in this, the first signs that Ukraine's economy had reached its ceiling were already apparent two to three years ago, during the rule of President Yanukovich. The slowdown in capital inflows and investment, together with the absence of reforms, pathological corruption, and increasing social and political tensions created a mixture that had to explode sooner or later. The war is not the cause of the current crisis; it has merely accelerated the process of Ukraine's economic crash.

A similar phenomenon has been observed for many years in Belarus, where the economy is subject to direct top-down control by the authoritarian regime. The collapse of the Belarusian rouble's exchange rate in December 2014, as a result of the collapse of the Russian rouble, also shows the extent to which Belarus lacks immunity to its eastern neighbour's sickness. Added to this is the aging industrial base in Belarus, as well as the fact that about 30% of its budget revenues come from exports of petroleum products based on cheaper Russian crude oil.

However, the situation in Russia will be decisive, where (with the exception of 2009, when GDP fell by almost 8%) Putin's rule has so far brought about a period of sustained economic growth. This increase has been translated into an improvement in the quality of life and the satisfaction of a large part of the population. Even if the goods have not been distributed fairly – and they most certainly have not – the pie has been growing every year (Russia's GDP has doubled since 2000), which has enabled the state to meet the needs of an ever-wider mass of society. Yet, already in 2012 Russian economy

began slowing down despite the average oil price above 100 USD per barrel. It was a first sign that the oil-driven economic growth was reaching its limits.

Russian politicians today are facing not only the problems of falling oil prices, the collapse of the rouble, a recession combined with double-digit inflation, and a gigantic outflow (estimated at \$150 billion in 2014) of capital, but also the problem of social expectations. The professional experience of the thirty-something generation of Russians has been closely connected with continuing rises in standards of living – and therefore in salaries – resulting from increases in commodity prices, most notably oil.

The problems of the Eastern European economies may seem temporary. Growth throughout Europe is limping along, China has come over somewhat short of breath, and in the background a global technological revolution is continuing, in which the energy industry is just one of the areas undergoing changes. Expecting Eastern Europe to grow despite this general trend would be senseless. But the problem lies even deeper, and its consequences are more serious than it may seem – not only to us, but also to the elites of these countries.

Firstly, if the causes of the crisis are being called into doubt for political reasons, it will be difficult to make preparations to take the necessary remedial steps. In Russia and Belarus, the belief reigns that the current problems are of a transitional nature, and are the result of actions organised by the markets and Western countries. Meanwhile, Ukraine and Moldova still lack the determination to repair and reconstruct their economies.

Secondly, the inability to deal with the socio-economic challenges is further enhanced by the lack of a generational change. In the countries of the former Soviet Union (again, with the exception of the Baltic states), politics is still dominated by a generation that took its first professional steps in the political institutions and economy of the late-period USSR. These people's ability, not only to adapt, but in general to understand the changes taking place in the world, is very limited. Their successors, brought up under 'sovereign democracies', whose careers were the result of political and business manoeuvring, and not public competition, are certainly better at moving around the world, but they also lack the knowledge, skills and confidence from the public which would be necessary to implement real change.

So what lies ahead? It seems that on a macro level, we will probably observe a progressive process of gradual collapse in Russia and the area it considers to be its natural sphere of dominance, on the periphery of the periphery of the world, a region defined by the EU's eastern border and northern China. This will be a process of evolutionary, geographically diverse decay of the socio-economic structures, with elements of possible revolts and wars at the micro level.

To conclude, after 25 years since the end of the cold war eastern Europe has yet again entered a turbulent period of time. EU and NATO need to be prepared for that challenge. ■

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TOMAS RIES

# Baltic insecurity in a new Europe

Expert article • 1734

It is now clear that the two decades after the Cold War in which the West enjoyed global predominance was only a threshold towards a far more difficult and dangerous world. Globally, Hobbesian history is returning with a vengeance and in Europe Russia is returning and the west is in deep decline. All of this will affect Baltic security deeply.

At the global level we face four dark trends. Two of them are in the social dimension. At the level of grand politics, the 'west' (actually the OECD community) is getting weaker and more divided, particularly Europe. At the same time a host of new rapid transition economies are gaining power, ranging from China to India to Brazil. This in itself is not a problem, and in many ways their rising middle classes are a blessing. However it means that global leadership has gone from a homogeneous G7 to a very diverse G20, making it more difficult to reach agreement on the two big global questions which they must address: the rising ecological crisis and the global economy.

At the societal level we witness the increasing internal destabilisation at almost all global socioeconomic levels, as former social orders crumble. From the richest societies to the poorest we see increasing domestic tensions and in many cases total collapse. This is fuelling the three great transnational problems we face: global organised crime, global revolutionary movements, and uncontrolled human flows. All of which will likely grow in coming decades.

The third global problem we face is the fragility of the global economy. It is currently hovering on the brink of depression, and a whole host of shocks could bring it crashing down: internal mismanagement (Wall Street 2008); technological failure (Y2K); deliberate systemic sabotage, either by a transnational movement or a state; a serious pandemic that choked the free movement of goods and peoples, etc. And if the global economy crashes societies will collapse, and with them the political order as we know it.

The fourth global problem is the deepening ecological crisis. This is foundational – everything rests on it. And it is now clear that is irrevocably going to get worse. This will have two big consequences in coming decades. First, a growing scarcity of natural resources. Second, the increasing turbulence of the global ecosystem. Both of these will exacerbate tensions within societies, between societies and at the level of grand politics.

Thus the global backdrop to Baltic stability is becoming increasingly dangerous. At the regional European level we also see three very dark trends. First, western Europe is in a deep long-term economic and social decline. We are still very rich, but we are regressing: a shrinking middle class, rising rich-poor gaps; increasing unemployment; declining standards of living; partially failed immigration policies; and states indebted over their ears. With declining societies we will face increasing social problems, increasing political radicalisation and, at worst, a collapse of the EU and the return of mutually hostile nationistic states. The second deep European problem is the return of Russia, not as a great power, but as a regime unable to modernise its economy, with increasing domestic problems, yet also rising brute force. From energy to economic pressure, to subversion and propaganda, and now also in terms of sheer military power. The third European problem is our military weakness. Europe today is unable to defend itself, while the US commitment to rescue Europe is increasingly strained.

Finally we have the situation in the nordic and Baltic region itself. The key security factor here is of course Russia. In its present guise, under the Putin regime, Russia is a great danger. First, because it is deeply alienated from the west, and sees us as an enemy rather than a partner. Second, because being unable to modernise its economy it will face increasing domestic hardships, which will make the regime even more repressive at home. Third, because everything the EU stands for – democracy, an independent judiciary, free press, respect for human rights, etc. – is of course a direct threat to the sort of brutal repressive techniques that the Putin regime needs to stay in power.

And finally we have Russia's military rise. Ever since the collapse of the USSR Russia has maintained as strong strategic nuclear forces as possible. This means that she has the capacity to deter the United States if need be. As of the late 1990's she has modernised her European nuclear forces, at the same time as NATO has practically dismantled her European nuclear forces. This gives Russia considerable nuclear coercive pressure in Europe should she wish to use it. Something she has practiced in her military exercises. Finally, as of 2011, Putin launched a major ten-year modernisation of Russian conventional forces. Even if it only goes half as far as planned this will give Russia an unmatched military superiority in Europe, and the power to coerce or invade those states lying along her land frontiers. Until 2014 this was considered unbelievable. But after the Russian occupation of the Crimea and invasion of the Donbass in the spring of 2014 this is no longer so far fetched. Putin has demonstrated a willingness to use brute military force in Europe.

On the western side we have almost only weakness and uncertainty. Europe itself is, as noted, incapable of defending itself against military attack today. Most of Europe – 'east of Berlin' – is even incapable of thinking in those terms. And yet Russia is building up a military capacity to do just that. Second, the traditional US guarantees for Europe are, as noted, uncertain. The Obama administration has shown no resolve to engage in European security. Partly for the good reason that in times of austerity it feels the Europeans should take the lead in handling their own problems. And partly because of a lack of will and resources.

At the same time we see a Europe deeply divided and fragmenting on almost all levels. Countries are even on the verge of fragmenting internally, from Scotland to Catalonia. At the level of grand politics Europe is unable to reach more than temporary partial agreement on minor issues.

The net result is a nordic-Baltic region that is increasingly isolated next to a dangerous Russia. NATO's crucial US guarantees are uncertain and the EU is impotent and declining. In the north itself we see two crucial weak points. The first is the NATO gray zone of Finland and Sweden. On the one hand these two countries have no Article 5 guarantees. Even if weak, these do constitute a considerable deterrent towards Russian aggression. At the same time it is likely that the Russian military already considers both countries as being secret NATO allies. Thus we are in the worst of two worlds – no deterrent guarantees, and major targets in the event of a crisis. Not being NATO members also makes especially Finland vulnerable to any Russian show of force, should Putin wish to demonstrate his military power to Europe without risking NATO – ie US - involvement.

This situation is compounded by Finland's and Sweden's military weakness. Sweden today is in practice demilitarised and incapable of defending itself. At the same time key parts of Sweden – notably Gotland – are of crucial importance in any Baltic military crisis. Finland has not disarmed unilaterally like Sweden, and has retained its traditional territorial defence system with a huge reserve of some 350,000 men. However, as Finland's Chief of Defence has pointed out, too little money has been provided to the Defence Forces and they are constantly shrinking. As a result Finland too is becoming increasingly vulnerable in the face of growing Russian military power. Since Finland has a 1,300 km land frontier with Russia this situation is extremely serious.

The second weak point in the nordic-Baltic region are Estonia and Latvia. Though NATO members, they are essentially tiny islands, isolated next to Russia. They are entirely dependent upon NATO deterrence or defence, but this in turn rests on the resolve of countries like the US to come to their assistance, and the ability to do so. And as the recent Russian military exercises demonstrate, Russia is developing the capacity to close the Baltic Sea and airspace to the west. Finally Estonian and Latvian vulnerability is compounded by the large Russian minorities, over 25% of the population, which offers Putin ample opportunity to engineer a crisis.

Last but not least, to the north the Arctic is emerging as an increasingly militarised region. Russia has announced ambitious plans to build up its Arctic military capability, at the same time as key Arctic economic and political issues remain unresolved.

The net result is that we are moving towards increasingly dangerous times globally, in Europe and in the nordic-Baltic region. Finland and the Baltic states today constitute the only direct frontier between western Europe and Russia. With an increasingly insecure and aggressive Russia, with rising military force, and an increasingly weak west this makes the nordic-Baltic region highly dangerous. ■

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# BALTIC RIM ECONOMIES

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OLLI-MATTI MIKKOLA

# The military reform in Russian newspapers

Expert article • 1735

In October 2008 the Russian leadership launched the military reform which appeared to be more in-depth and successful than the previous reforms after the collapse of the Soviet Union. In my doctoral thesis (*Military Policy on the Kremlin Olympus. The Discursive Construction of Russian Military Reform in Russian Newspapers 2008–2012*) I dealt with the discussion on this military reform in Russian newspapers. The goal was to find out what kinds of discourses were used to justify military reform and how these discourses worked as a tool of power. The study was multidisciplinary. Linguistically, it discussed the role of language and discourse in Russian decision making. From a social science perspective, the study focused on the Russian media and decision making system, and from the point of view of military science, the development of the armed forces and military policy were dealt with. The primary source material consisted of 220 articles which were collected from nine Russian newspapers published during the years 2008 to 2012.

The Russian leadership and the newspapers supporting it justified military reform in public discussion primarily with five reasons: *the growing threats, the transforming nature of war, the technological and functional backwardness of the armed forces, the low level of personnel professional skills and the need to rationalize processes*. The implementation decisions were justified by stating that *the decisions were well prepared, the personnel would be treated appropriately and the reform was economically secure*. The Russian society had reached a rather wide consensus about the necessity of the reform. The consensus was arisen from the previous breakdowns in the reforming the armed forces. The newspapers expressed lots of different points of view about the needed direction of development. The majority of the critical discourses criticized the implementation, not the existence of the reform. The criticism focused on *the lack of publicity and democratic decision making* as well as on doubts related to *the preparation process of the reform*.

The publicly expressed threat perception of the Russian leadership is identical to one of the Communist Party of the Russian Federation. The discursive construction of western threats helps to legitimise the leadership domestically because the most of the population lives with the traditions which are originated from the Soviet Union. The conceptualization of the nature of war is something which has been criticised on the high level. In the source material Army General Nikolay Makarov expressed his disappointment to the interpretation of the nature of war which has been maintained in Russia after the collapse of the Soviet Union. *The Russian military science has been unable to see the trends which could have been analysed in various conflicts during the last 25 years*. That is why the trends have had only minor, if any, impact on the armed forces before the current reform.

The implicit goal of the military reform is to put Russia on the track where it can catch up the western countries' lead in the technology and the effectiveness. Publicly, Russia simultaneously counts the United States as a threat and an ideal of warfare. The Russian concept for the ideal is called *the sixth generation warfare*, in which precision-guided weapons, air and space defence and information-related capabilities plays crucial roles. Russia rates those capabilities as a more credible and usable deterrence than nuclear weapons.

It is challenging to analyse news about the Russian armed forces and military policy without taking discourse practices into consideration. *The goal of the discursive use of power of the Russian leadership and the newspapers supporting it (e.g. Rossiyskaya Gazeta, Krasnaya Zvezda, Izvestiya) is to make Russia appear stronger and more unitary than it really is*. Even though the Russian media, especially television, are not free, the newspaper media is a relatively good source of information. During the gathering period of source material for my study, the rather wide ownership of the newspapers allowed different perspectives to get published. *The newspapers which did not see western countries as a threat to Russia and represented liberal values like transparency and democracy in their discourses (e.g. Nezavisimoye Voyennoye Obozreniye, Novaya Gazeta, Vedomosti), published the most analytical articles on military reform*. Nevertheless, the small role of the newspapers in the Russian media weakens their influence on the public opinion. Analysing newspapers' discourse practices by covering ideologies and use of power can help to analyse the predictability of the Russian leadership's decisions. ■

The author defended his doctoral thesis in December 2014.

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CHRISTIAN OPITZ

# (How to) Put the Baltic into the Nordic Defence Cooperation?

Expert article • 1736

**D**rastically increased military tensions in the Baltic Sea have sparked a heated debate in all Nordic states about regional security. Ramifications can already be seen in the national context in terms of increasing defence budgets. But Nordic decision-makers largely agree that security in the Baltic Sea can only be achieved through a regional approach. The starting point for such a regional defence integration is the Nordic Defence Cooperation (NORDEFECO). While currently comprised of only the five Nordic states, ambitions have already been declared to draw the Baltic states closer to NORDEFECO. Indeed, as Sweden takes over the structure's presidency in 2015 one of its top priorities is to deepen the Nordic-Baltic defence cooperation.

NORDEFECO is a comprehensive framework of political and military cooperation, by which the Nordic countries intend to strengthen their national defence, explore common synergies and facilitate common solutions. Founded in 2009, it merged various trans-border defence projects, which had considerably intensified after the end of the Cold War, into one single structure. Importantly, in the absence of a formal headquarters, the cooperation is essentially based on close contacts and biannual meetings between the defence ministries of the five countries. A rotating presidency enables the chairing country to select priorities for its one-year term.

The track record of NORDEFECO so far is mixed. On the one side, under its framework a large number of collaborative projects are undertaken, especially in the field of joint trainings and exercises. The biggest challenge, on the other side, concerns joint armament and procurement efforts, which have experienced several severe setbacks in the last years. This suboptimal efficiency of NORDEFECO is mainly rooted in prevailing different national priorities. For the three NATO countries Denmark, Norway and Iceland, the Nordic structure is only a complementary tool for their preferred transatlantic option. Sweden and Finland, however, are most active in advancing NORDEFECO as their way to a closer cooperation with NATO. This leading role of Sweden may translate into a significant boost for the Nordic-Baltic dimension during its 2015 chairmanship, given the current tensions in the region.

The Nordic-Baltic collaboration in security matters can build upon a successful recent history. Throughout the 1990s, the Nordic countries provided a significant political and military contribution to their Eastern partners, supporting the development of the Baltic armed forces and admission into NATO. Today, the Baltic states are invited to join the NORDEFECO meeting once a year in autumn. The last meeting in November 2014 authorised the Baltic states to join concrete NORDEFECO projects, which was welcomed by Baltic officials as a significant step.

The Swedish NORDEFECO presidency can further deepen the Nordic-Baltic defence cooperation in various ways. First, joint capability development and procurement efforts yield great potential. Exchange possibilities during the professional military education to increase mobility, foster a common identity and transfer best practises would be an example. Changes in the respective national procurement plans for facilitating common material acquisitions represents another option. Second, Sweden could push for more cooperation regarding deployable forces and commands. While the different institutional affiliations certainly set certain limits, important Nordic-Baltic training and exercises could be conducted without affecting NATO doctrines.

The most straightforward way to increase Nordic-Baltic defence integration would be to let the Baltic countries join NORDEFECO as full members. In light of its flexible and non-bureaucratic structure, there are in fact no major practical hurdles speaking against this step. Also, the Baltic defence forces, in terms of size and structure, would not essentially affect the possibilities for cooperation. From a military standpoint, a NORDEFECO membership of eight countries would therefore undeniably have some merit.

However, decision-makers would be well advised to bear in mind the political dimension of the Nordic-Baltic defence cooperation. Under the current circumstances enlarging NORDEFECO may lead to a lose-lose situation. For the Baltic countries because joining a NORDEFECO without full NATO-integration would seriously weaken their collective defence. And Sweden and Finland could live under a false sense of security and solidarity in case of an attack. In many ways, full Nordic-Baltic defence integration will indeed only be possible when Stockholm and Helsinki decide to join NATO, which seems unlikely for the time being.

In the absence of a real convergence of national security doctrines, the most likely, and perhaps the best, way forward in Nordic-Baltic defence cooperation is therefore a pragmatic approach of small yet incremental steps – which no other region has perfected as much as the Nordic. ■



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# How to restore trust?

Expert article • 1737

It is necessary to impose a moratorium on “breaking the news”, causing tension in the world provided they lack evidence. This concerns both the world media and expert community. Then it will facilitate the process of negotiations and, in addition, for example, in the framework of UNESCO it will help to agree on recommendations (“Code of Honor”), so that journalists could follow certain rules of ethics in the information policy. The expediency of this step is obvious, especially after the tragedy provoked by the French weekly “Charlie Hebdo”. Freedom is not permissiveness and not the right to insult any other culture, different from West European one. Freedom of speech is a huge responsibility.

Today’s media war of the West against Russia is a component part of an even more destructive policy of “soft power” and “controlled chaos.” This is a part of the upcoming “hybrid war” called “DIME”: diplomacy, information, weapons, economy.

To begin with we should look into the possible use of traditional tools of information policy. Unfortunately, today there are some but not many. In the opinion of one economist having an experience both in international organizations and business, statistics being a modest the so-called technical part of information policy could become such a tool. Recently this fact was admitted by the participants of the “round table” in Vienna on Ukraine, and in fact it concerned the relations between EU and Russia, where there was appeal for “just the facts and figures” as a remedy for total lies and disbelief.

The most urgent task today, as I see it, is the return of trust to resume a partnership in EU–Russia relations. At the international workshop in Turku in September 2014, where 200 participants took part, his co-organizer, Director of the Pan-European Institute Kari Liuhto expressed a common view on the need to find ways to overcome the crisis in Russia’s relations with the West, according to the formula: listen to each other to understand, despite differences in values, to restore trust. I, a participant of the workshop, expressed my point of view that nothing would disorient business so much as lies, myths and false statistics and everybody agreed with it. Also during another workshop in Finland in May 2014 at the RF Trade Representation devoted to “Myths and Realities in East-West relations”, Doctor of political sciences Esa Seppänen, while presenting his book “Russia. We discard the myths!”, pointed out that President Urho Kekkonen was the first to propose to get rid of myths about Russia. As a result Finland has got great political and economic dividends.

Statistics of the United Nations, OECD, WTO, IMF, World Bank, integration unions, finally, the national government statistics are considered a recognized and credible evidence base, which is still trusted. Nevertheless, the data themselves do not mean anything. Before you process them, it is necessary to deal with the technical side of their manipulation. Data quality is a central issue.

Let us make an experiment “to find out the truth” by using statistics as an example of the key issue of the Russia-Ukraine-EU relations as to the economic consequences for Ukraine if it joins the European Union in 2016. We are comparing forecasts of Russian experts, the authors of a large study, commissioned by the Committee of Civil Initiatives of Alexei Kudrin with the forecast of a well-known western expert Anders Aslund.

Forecast developers, referred to the same sources and made different and even contradictory conclusions. Aslund, a Swedish economist and diplomat, former state adviser to Yeltsin-Gaidar (1991-1994), to the Baltic States (1991-1993) and during Kuchma’s power in Ukraine (1994-1997), and later an employee of Peterson Institute for International Economics and Georgetown University (USA), gives a forecast, based on “the Polish and Ukrainian research centers”, the Eurasian Development Bank and the World Bank. He forecasts a GDP growth of 11.8 per cent in Ukraine after its joining the EU. What an exact figure! He must have forgotten, however, that this membership does not occur in a vacuum, but against the background of deteriorating relations with Russia and other CIS countries which are forced to take measures to protect their economic interests.

Assessments of Russian economists are basically different from those of Western ones. The main reason for the differences is that Russian experts analyze the real situation, namely, a systemic crisis in Ukraine and around it caused by short-sightedness of the Eastern Partnership project, and not as any ideal state in which the association concerns only Ukraine and the EU, this harmonious couple being in complete agreement.

The representative of the developers of the Committee for the study of civil initiatives, Corresponding Member of the Russian Academy of Sciences, Director of All-Russia Market Research Institute (Moscow) Andrei Spartak believes that the losses of Ukraine due to a decrease in economic cooperation with Russia and other countries of the Customs Union in a negative scenario, being implemented so far can amount to 20 per cent of GDP annually. The fall of the GDP could be even worse if it is complemented by the growing fiscal deficits, sharp decline in the population’s purchasing power, the actual investment collapse and crumbling currency market. In the end the drop in the GDP could be catastrophic.

In this situation, an ideal image of future Ukraine in association with the EU, portrayed by Western experts is not only counterproductive, but also extremely dangerous. Unbiased evaluation is required. For everybody, including in the West, to recognize that European civilization will have to assume a great responsibility for the state, which needs a large scale financial, economic, trade and humanitarian assistance, the restoration of regional cooperation, which is mutually profitable for its traditional participants. The well-being not only of Ukraine, but also of Europe depends on that.

The world will never remain the same. The crisis in Ukraine and the anti-Russian policy of sanctions means not only a turning point in Russia’s relations with the West but the end of the illusions of its integration into the “community of Western democracies.” At the same time, these events show the birth of a new, post-crisis international system, more balanced between the developed and developing world.

West no longer remains the main vector of attraction for Russia, although it still remains an important source of technological modernization. Nowadays, however, the meter of trust between Russia – West is “frozen” through no fault of Russia, and it will take a lot of effort and time to restore it. How could it be done in an atmosphere of intimidation, provocation and cynical media war? It does not seem an easy task.

Therefore, it is proposed to introduce a moratorium on “breaking the news” and except the “code of honor” for the world media. Frankly, there is a little hope for the success of this proposal, but it is worth making an attempt to do it. Restoration of trust in relations between Russia and the West would contribute to improving the work of such an important institution, which assigns the international ratings to countries. Objective, politically unbiased ratings are good statistical data for comparison, a useful vector for the development of any country.

However, the ratings of Western agencies are often used as an instrument of pressure and blackmail. The downgrade in the country’s rating is followed by the downgrade in the firms’ rating with the appreciation for their loans and even the emergence of large financial losses.

In October 2014 the Moody’s agency began to intimidate business by upcoming reduction in Russia’s rating to “junk”, despite the lack of evidence for that. In the end, Russia’s rating was downgraded by one point by the agency with a “negative outlook”.

According to many experts, including Minister of Economic Development Alexei Ulyukayev, the rating downgrade was the result of either incompetence or bias compilers, because there were no grounds for this, particularly when the external debt of the country is only 3 per cent of the GDP. An example of a biased rating policy, *reductio ad absurdum*, was a recent British “scientists” product – compiled by rating developers “prosperous countries in the world”, in which Ukraine bypassed Russia by 5 points!

At the same time, the World Bank rating “Doing Business: 2015” was once again raised for Russia by more than 20 points for a total of two years, which is primarily the result of the reforms carried out in Russia. According to this key indicator of comfort business climate as “registration of property”, Russia is now in 12th place and it is recognized to comply with the criteria of transparency and exchange of tax information, along with the United States, Britain, Germany and Italy. In Russia, the issue of the establishment of independent and collaborative rating companies, such as the Chinese “Dagong Global Credit Rating”, which assigns a stable level of Russian ratings of “A”, sometimes even higher than the United States, is under discussion now. The Bank of Russia has developed a mechanism of protection of Russian issuers from the reduction or withdrawal of the ratings.

Philip Pegorier, the Chairman of the Association of European Businesses, considers that crisis in Ukraine must not threaten prospects for the relations Russia – the European Union even by the “cold war”, as far as the degree of integration between Russia and the European Union is much higher than in the Soviet Union. This is the prime cause of the resistance of the European Business sanctions against Russia. A recent meeting of the Consultative Council on Foreign Investments under the Government of Russia (51 heads of leading foreign companies) confirmed this idea: investors do not intend to lose such an important asset for them as the Russian market.

Russia will have to form a new geopolitics, using favorable “transit” position between Europe and Asia-Pacific Region (APR).

One element of this policy was the agreement on Vietnam’s accession in 2015 to the Customs Union of Russia, Belarus and Kazakhstan through the creation of a free trade zone.

President Vladimir Putin does outline in his Address to the Federal Assembly that for the further success of a balanced Russian geopolitics, the consolidation of Russian society and its new quality of economic growth is needed today. ■

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TATIANA ROMANOVA

# Institutional aspects of EU-Russian energy relations – from diversification to primitivisation?

Expert article • 1738

In today's international relations there are three levels of institutions. Intergovernmental one consists of top-level contacts (that is among heads of states and governments and ministers) and is most visible. The transgovernmental level includes daily contacts among lower officials; they are used to exchange information, facilitate policy convergence and enforce agreed decisions. Finally, the transnational level describes non-governmental contacts, which intensified due to technological developments and globalisation. They include business, NGOs and so-called epistemic communities. The density of transgovernmental and transnational relations among states is an indication of how close their relations are, and of their ability to withstand the crisis. What does this yardstick tell us about EU-Russian energy relations?

## Before 2014: Diversification of the relations

The intensification of EU-Russian energy relations started in the early 1990s after the re-emergence of sovereign Russia and the start of the EU internal energy market construction. Initially the Energy Charter Treaty (ECT) served as the linchpin. It created intergovernmental structures but also Secretariat and working parties, which carried out day-to-day activities. In other words, gradually transgovernmental structures were bolstered. The ECT also established a task force to assist companies with cross-border contracts and an industry advisory panel to facilitate business dialogue. Thus transnational contacts have also been encouraged.

As Russia never ratified the ECT, the Energy Dialogue was established in 2000 to make up for the vacuum in the energy governance. Similarly to the ECT, the Dialogue started as an intergovernmental forum (two top level energy officials drove it). However, gradually the parties established secretariats, an Energy Centre as well as permanent thematic groups on scenarios, trade, investments, infrastructure, energy efficiency. Those groups involved low-level officials as well as business representatives and energy experts of both sides. Moreover, the parties also set up structures for crisis management, following the interruption in natural gas supply in 2006 and 2009. Finally, Moscow and Brussels set up a Gas Advisory Council, bringing together various stakeholders and contributing to certain EU-Russian policy convergence.

In other words, the EU and Russia gradually strengthened their transgovernmental and transnational energy structures until 2014. The maturity of these links became obvious in 2008 when following the Georgian crisis transgovernmental and transnational structures cushioned the crisis.

## Since 2014: Primitivisation of the relations

The 2014 events challenged these positive achievements. The disagreement on what happened in Ukraine and difference in the reactions to those events drove Moscow and Brussels apart.

Firstly, negotiations on a new agreement, which would substitute 1994 Partnership and Cooperation Agreement, were frozen in March 2014 and the subsequent summits were annulled. In theory, the freeze of intergovernmental relations had to be cushioned by transgovernmental and transnational relations. However, instead, the EU chose to postpone most meetings at this level (Energy Dialogue thematic groups, Gas Advisory Council and its working parties). That happened despite the recommendation of the European External Action Service to maintain technical contacts. Hence, a certain self-censorship of EU bodies can be diagnosed. As a result transgovernmental relations, which were previously established, did not help to overcome crisis. (The only exception was made for the EU-Russia-Ukraine meetings on the gas supply to Ukraine, as this was a crisis to manage immediately.)

Secondly, the EU also introduced a new series of sanctions in July 2014 (further upgraded in September). These steps were targeted against Russian companies, limiting their access to financial services as well as to some technologies. Hence, the sanctions negatively affected EU-Russian transnational relations as well. Even when contacts are not forbidden, most EU companies choose to postpone their projects because of legal uncertainty of doing business with Russia. These trends were further exacerbated by the fears of the energy dependence on Russia, nurtured by recent Commission documents. In sum, the crisis in Ukraine has so far led to the gradual destruction of the positive achievements of the previous 22 years. Instead of serving to dissuade the crisis, transgovernmental and transnational relations fell the first victim of the crisis.

Why has it happened? One reason is a low level of delegation in Russia from the federal centre to the regions and from the top to lower levels of government as well as its state capitalism. This system limits the flexibility of Russian government officials and independence of Russian business. The EU easily understands it and does not value transgovernmental and transnational structures with Russian participation. Russian traditional insistence on its special status, including in energy, has also played a role in weakening transgovernmental and transnational institutions. On the other hand, the EU's propensity to politicise energy cooperation, in particular by integrating it into its overall international relations, has also contributed to the negating of transgovernmental and transnational relations.

Even if the sanctions are (partially) abolished soon (as a result of the amelioration of the situation in Ukraine), the pre-2014 level of cooperation will not be easy to restore. Participants of transgovernmental and transnational institutions will maintain an extra-careful attitude to each other for months, if not years. In turn, it will limit the prospects of closer relations and strategic partnership between Moscow and Brussels. ■

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# The importance of local border traffic between Poland and Russia in the era of sanctions on Polish food products

Expert article • 1739

The special significance of the market of the Russian Federation as a partner Polish entrepreneurs and convenient location Kaliningrad District to the organization promoting and selling Polish products, in gaining importance in the context of the agreement on local border traffic between the Kaliningrad District and part of Warmia, Mazury and Pomerania, in force since July 2012. There are new lower demand and new opportunities for the development of Polish-Russian economic cooperation. Increased activity in the region and interest in cooperating Polish producers should be a priority in the development of Polish-Russian economic cooperation. Regional markets have a greater potential for growth and are not penetrated by the competition.

Import the Kaliningrad District in 2013 amounted 12,124.5 million USD, including the import from Poland - 920.3 million USD (an increase of 12.5%, share in imports OK 7.6%). Agri - food products accounted 25% of Polish exports to the Kaliningrad District (it was the increase in exports by 24.7%). The largest items in Polish exports to the Kaliningrad District were: meat, dairy products, processed foods and pickles, vegetables and fruit, grain products, sugar and confectionery products.

In the first quarter of 2014 import the Kaliningrad District from Poland amounted to 161.4 million USD (down 3.1%). During this period, twice increased supply of dairy products. Significantly decreased Polish export of meat products, mainly pork due to the prohibition Polish meat exports. Next months in 2014 resulted in the suspension of Polish exports of fruit and vegetables to Russia.

Following the ban on imports of Polish food products, especially meat and dairy products, fruit and vegetables, significantly increased the carriage of the goods by the citizens of the Kaliningrad region, crossing the border as a small border traffic. The growth rate of movement of foreigners on the Polish-Russian border crossings is large and increases from month to month. Based on the statistics of the Customs Chamber in Olsztyn, from the start in the small border traffic is from July 2012 to December 2012, the Polish-Russian border has exceeded 2,408,995 people. In 2013 there was 6,194,479 crossings (2,907,294 Poles and 3,287,185 foreigners). From January to May 2014 Polish-Russian border has exceeded 2,660,001 people.

The effects of the functioning of the local border traffic are visible not only in the number of people crossing the border, but also in the number of people coming to Poland to go shopping. Poles travel to Russia for fuel. Russians in Poland make very large purchases of various goods, from food, clothing and shoes to electronics, building materials and furniture. Comparing the periods before and after the introduction of an embargo on imports of agri-food products should be noted that significantly increased transfer of Polish food products to Russia made by individual tourists crossing the border under the local border traffic.

Shopping tourism Russian citizens is growing rapidly, which can provide data on purchases recorded in the system Tax Free. Until September 2014, registered at the border of goods bought in Poland worth 30 million USD, while in the same period last year it was 14 million USD. Almost every traveler from Kaliningrad exports of Polish food products, especially meat products, dairy products, confectionery, vegetables and fruit. Found only a few cases of smuggling of goods, which mainly consisted of cigarettes transported from Kaliningrad to Poland.

Paradoxically, the introduction of the Russian embargo on Polish food products, results in a greater intensity of traffic on the Polish-Russian and an increased amount of transported goods, mainly in the food industry. Currently, customers of Russian buyers in Poland, definitely greater interest are the fruits and vegetables. It is necessary to open in the Warmia and Mazury vegetable and fruit market, where the local agri-food producers could sell their products. ■

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# Arctic growth requires risk management

Expert article • 1740

Plans for northern growth are dependent on non-renewable natural resources, utilisation of gas, oil and minerals, and climate change. Plunging oil prices have pushed the Arctic Eldorado farther into the future. The oil sale may continue for a long time or end quickly. In terms of oil and gas production, it has, at the very least, already delayed investments and caused investors to re-examine their risk premiums.

The strong ice winter of 2014 and cold political winds have also decreased the number of ships sailing the northern maritime routes. At the same time, sanctions have reduced interest in investing in the infrastructure needed to promote the opening of the routes. The new logistical world order slipped a little further into the future.

Risk management has always been the core competence for Arctic life. A Northern traveller is prepared for freezing temperatures, swirling blizzards, long periods of darkness, and unreliable transportation, thus minimising the likelihood of accidents.

Plans for Arctic growth also have to take risk management into consideration. Investments in Arctic competence, solutions and Arctic areas will happen once there is faith in the market. Now, as an Arctic market based on exploiting natural resources moves further into the future, it becomes even more important to build a diverse business structure in the north. Companies must simultaneously be encouraged to expand the customer base for solutions that target the Arctic market. Good risk management supports growth.

Networking is a good tool for enhancing access to new markets. Synergising markets provide benefits of scale, allowing companies to achieve efficiency by means of work distribution inside the network. Networking increases understanding of end customer needs and the added value that the company's solution has for the customers. Furthermore, innovations are often created at the interfaces between industrial branches.

The key target of the Arctic Seas programme launched by Tekes in 2014 is to increase client insight in Finnish companies and network them with the value chains of companies operating in Arctic areas. At the same time, the programme encourages companies to also seek customers for their solutions outside ice-covered sea areas. A solution or competence that can tolerate Arctic conditions often produces added value in other challenging conditions with, for example, poor transportation or tough environmental conditions.

Winter navigation in Finland is a good example of diverse utilisation of Arctic competence. Finland is one of the world's leading countries in terms of Arctic shipping and the related development work and research. Winter navigation has provided worldwide recognition for Finnish competence in the design and manufacture of vessels that can travel in ice-covered conditions, as well as their operation. Our expertise in measuring, modelling and understanding snow, ice and weather conditions is at a very high level.

Calculation of ice loads and productization of weather and ice competence for the needs of the maritime industry and Arctic oil and gas production is already in progress. That same competence can also be exploited in Arctic renewable energy, such as constructing offshore wind power. It can also produce forecasts and safety for Arctic tourism and route optimisation for freighters. Expertise also exists in the rescue and oil-spill prevention. The emerging market of underwater mining would benefit from accurate information and analyses of the conditions. Winter navigation education could become an export product.

The potential of local Arctic markets is underexploited in Finland. Despite the risks, the opportunities for this market will increase significantly in the future. We have internationally interesting and difficult to copy competence, the value of which could multiply. Close international cooperation is the key to developing this area and opening up the market. It is just as important to promote company cooperation and networking. Networking can allow a company to reduce the market risk of Arctic investment. Good risk management increases the desire to invest in tomorrow's Arctic market. ■

The author is the Programme Manager of the Tekes Arctic Seas programme. The four-year programme was launched in 2014. The aim of the programme is to strengthen Finnish Arctic competence and create new business for industry and society that is related to utilisation of Arctic Sea areas. The scope of the programme is EUR 100 million, with public funding accounting for EUR 45 million of this sum. Key business areas are the maritime industry, Arctic shipping, offshore industry and environmental technology. The goal for the products and services created in the programme is to promote sustainable and eco-efficient business on a global scale. The programme aims to strengthen Finland's position as a leading concentration of competence for Arctic technology and to also make the Finnish Arctic competence innovation environment even more attractive to foreign investment.



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# Science and technology parks – a promising part of the Lithuanian innovation ecosystem

Expert article • 1741

In today's knowledge-based economy, competitive advantage in the technology area has an increasing impact on the country's competitiveness. Therefore, counties are engaged in the creation and development of efficient innovation systems, and seek to devote most resources for the investment into research and development as well as innovation. After all, the application of the latest technology and innovative ideas for the benefit of the country may lead to the achievement of astounding results.

According to global trends, being active innovation system participants, science and technology parks (hereinafter - STP) are one of the key factors promoting the creation and use of competitive technologies. Activities and infrastructure of these organizations must be focused on the transfer of technologies, activation of innovative partnerships, development of international networking, promotion of the establishment of start-ups and innovative culture education, which will ensure sustainable operation of the innovation system and modern technology dissemination in all modern production and service areas.

Physical STP structure has been systematically created and developed in Lithuania for over a decade now. In recent years, huge investments were allocated for funding STP activities. Since 2002, Lithuania has already invested into the STP infrastructure and activities more than €46 million. Such a period of time already allows expecting return on investment, however, new challenges emerge as well, i.e. an emerged need for STP specialization, initiation of the additional infrastructure and of the development of skills of STP employees, allowing STP to actively contribute to smart specialization strategy.

The concept of smart specialization has led to some fundamental changes, when the development of the regional innovation policy was started in Europe. Large goals are set based on the smart specialization guidelines, thus joint efforts of innovation representatives are necessary in order to achieve them. This requires a "bottom-up" principle. Being regional innovation policy implementation tools, STPs have good prospects for the promotion of regional partnership in innovation area. However, they do not automatically become a part of the implementation of smart specialization goals. STPs have to win this position by showing that they are prepared for that and properly contribute to the achievement of smart specialization goals. In order to be full-fledged participants of the implementation of smart specialization goals, STPs must be pioneers at the following levels:

- at the domestic level by promoting unique and innovative cooperation forms of business entities set up in STPs and transferring such experience to the entire region in which they operate;
- at the regional and international level, by activating their international relations in order to contribute to the implementation of smart specialization goals;
- at the sectoral level by promoting a close cooperation of clusters and those sectors where the critical mass of companies has already formed.

These actions will also require for STP strategic management changes emphasizing:

- the approach based on the creation of high value added and innovation ecosystems; in such a case, STPs would act as innovation creation and implementation intermediaries instead of being real estate managers only;
- the ability to plan a long-term perspective setting priorities and defining the services provided;
- the ability to improve the monitoring and process of evaluation of STP activities focusing on the improvement of ecosystems related to STP activities, the value added created for the entire region, long-term sustainability of STP activities and an ability to attract private funding sources to STPs.

Only having fulfilled these conditions, STPs will be able to strongly say that they contribute not only to the transformation of the Lithuanian economy but also of the economy of the entire Baltic Sea region, and are active participants in the implementation of the smart specialization strategy.

In confirmation of its systematic approach to the development of STPs, the Government of the Republic of Lithuania will in the nearest future approve an updated concept for the development of Science and Technology Parks aimed at creating a purposeful STP activity policy focused on greater value-added services: transfer of knowledge and technologies, promotion of clusterization processes, commercialization of ideas, promotion of innovative entrepreneurship and performance of technologic audits. Especially we strive for STP activities and the created infrastructure to be more focused on experimental, demonstration and production activity processes - they should ensure sustainable functioning of the innovation system. STPs must provide environment for the intensive development of innovation to be implemented by new generation commercial companies.

Lithuania is one of the few countries, where the state is participating in the management of as many as 4 STPs (under the shareholder's rights), indicating a particularly high attention to these innovation ecosystem participants. Seeking not only for the optimization of STP activities, but also for a greater STP impact on the development of the region, the Government of the Republic of Lithuania made a decision back in 2012 to establish an STP by combining the competencies, activities and infrastructure of three currently operating organizations. The new Kaunas Science and Technology Park will start its operations this year, and it will be one of the strongest and largest STPs in the Baltic countries. ■



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# Biobanks – driver for innovations in Europe

Expert article • 1742

**H**ospital integrated biobanks with new and emerging analysis technologies will enable novel methodologies to tackle in an unprecedented manner several disease areas such as cancer, autoimmune and respiratory diseases to mention but a few. The current expenditure of cancer and immunomodulating drugs in Finland is approximately 500 000 000€ (25% of all drug expenditure). A considerable proportion of these drugs is ineffective, or in worst cases, harmful in individual patients.

Personalized and more predictive medicine are today generally seen as the future of medical care, and while many actors are currently claiming to pursue activities towards this direction, few have adequate resources, and fewer have demonstrated tangible results. Auria Biobank approach, which relies on the singularly powerful Finnish clinical biobanks and associated clinical information, has unique features, which makes it highly competitive.

Briefly, Auria Biobank is the first hospital-integrated biobank established in Finland by University of Turku and the hospital districts of Southwest Finland, Satakunta and Vaasa and accredited under Finnish biobank legislation on 2013. It represents a globally unique concept, in which population based diagnostic tissue samples are connected with clinically relevant information including treatment modalities and follow up, with a focus on providing a research and innovation platform for both academic investigators and pharma/biotech companies.

Currently, Auria Biobank holds over 1 000 000 human samples with information from hospital and certain national health registries in a decoded fashion to protect the identity of the sample donors. The unique aspect of Auria is the implementation of the so-called “capture all newcomers” approach, an ambitious and innovative plan to collect an extra biobank specimen at each incident patient visit. The number of annual patient visits in the catchment area being approximately 300,000, so the sample collection is expected to grow rapidly. To our knowledge, Auria biobank is the only resource worldwide which can provide the population-based collections of specimens, and the medical and genetic data needed to build effective models for more stratified health care, so far.

Having such an advantage, we can look beyond the typical biobanking challenges, such as sample and data collection, and instead focus on the public-private partnerships and potential collaboration in this context.

Biobanking resources that have been assembled over the years primarily in the academic sector, and often with a commitment to public health could importantly support this need. If we can successfully align the agendas and interests of those seeking to find new treatments, i.e. by and large the pharmaceutical and biotechnology industry, with those interested in basic disease biology and with access and commitment to the collection, proper preservation, and curation of large numbers of samples in biobanks, i.e. primarily academic investigators, a powerful win-win scenario could be created. As clinical biobanks play such a significant role in understanding the mecha-

nisms of disease and intervention pathways by providing the crucial bridge between molecular analysis and clinical studies they should logically serve both purposes. Rapid advances in translational medicine have generated a massive need for clinically meaningful biomarkers, necessitating access to a large number of high-quality human biosamples which are the quintessential resource for the discovery and assessment of such markers and ultimately for the success of personalized health care.

In conclusion, Auria Biobank aims to develop novel platform between Hospital Districts, universities, business community, and local stakeholders by improving mutual learning and exchange of experience and best practices between the actors. The business model development activities will play a major role in the Auria Biobank operations, along with active collaboration with the related technological development in an intertwined manner. The impact of the proposed activities is to share existing knowledge to generate the new knowledge - translating new knowledge – by creating a new way towards personalized medicine by industry and academia. ■



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# The future *as* now – when innovation is not enough

Expert article • 1743

**A**re we in the Baltic Sea region ready for innovation across sectors and disciplines? The potential of the Baltic Sea region lies in the capacity of a group of selected countries in the Northern reaches of the European sub-continent to innovate – the ontological discussion of being, of becoming innovative often discusses potential as a state that will bloom in the future. What if we viewed the future as now, the present, right here already – bubbling under the radar.

Do we have the habitat in place to sustain innovative ideas and prototypes? Does the public sector have the ability to work *across the aisle* with the private sector? The research community often forges inter-disciplinary collaboration or even multi-disciplinary cooperation but in our perspective it is only the art world that has truly managed transdisciplinary hybridization. It is here the unexpected happens – it is not form or function, it is both.

Do we have a common definition of innovation in the public sector in the Baltic Sea region? Away from the sectors of clean-tech, transport infrastructure, health and digital service provision, the role of innovation is considered a feature produced or created elsewhere by others. What would a regional strategy for innovation hence look like? Who would formulate one and without common understandings of innovation, who would have the mandate to go about developing one? Answers to questions such as these have begun to be explored by programmes in the BSR, which have focused on the feasibility of and necessity for peer-review of national strategies; connections between the BSR – South East and the BSR North West; development of a more venture capital centered approach to investment (as well as potential failure) and the necessity of smart specialization in R&D.

However, innovation, be it in the public or private sector, is difficult. To innovate and develop a sense of newness and freshness for either something that did not exist before (and that the general public may not know is needed yet) or to take on a different angle with an existing familiarity requires many facets. A lot of the discussions note the importance of an eco-system or supply chain of infrastructural functions that serve, bolster and encourage the start-up community; the tech hub, the creative cluster, the entrepreneur co-working space and even the artist run collective. In the Baltic Sea region realization has emerged on the necessity of innovation clusters to nurture and create innovation. Yet what happens when one's prototype or innovative service leaves the incubator – does it have enough oxygen to survive in the outside world or is the life supply cut short?

All of these spaces exist in a context – *a habitat*. The question that needs to be asked is whether the habitat is nourishing enough for innovative ideas to take root in our current regional framework and what will it take for it to become the *natural environment* for supported ideation.

Talent and leadership are core in the ability to engender change and innovation but changes and innovation can get stuck or stalled unless the talent and leadership are sustained. The Swedish Institute (SI) has a number of talent and leadership programmes in Northern Europe and the Baltic Sea Region and Balticlub is the first one of those to be curated in joint partnership with another organization. The Council of the Baltic Sea States (CBSS) and SI value the Balticlub ideation programme for its creation of a space to build innovative concepts, prototypes and knowledge across discipline and border.

Balticlub is ultimately a methodology, which focuses on the shift of mindset in our region. The ideation programme is in its third incarnation and as we step forward into spring 2015 we will be moving onwards with all these questions on our mind. That is why we will be working on a Balticlub Manifesto.

We believe a manifesto of Balticlub generated values for these areas should lead the way towards a strategic basis for enacting a Baltic Sea Region Strategy for Innovation that attempts to concentrate on the habitat for the innovation community and represents a bottom-up approach when it comes to designing innovation-friendly policy across regional borders.

This ultimately demands new ways of seeing the region and taking a role in the region's shape in the future, to ensure the habitat for innovative ideas is a rich one. A setting which allows for multiple definitions of innovation beyond tech, research and education; one that is transdisciplinary in its nature. ■

Balticlub is a joint initiative by the Council of the Baltic Sea States (CBSS) and the Swedish Institute (SI) to create a network of interdisciplinary talent in the Baltic Sea Region, who collectively link the region, as well as act as future front-runners and innovators in their respective fields.

The Ideation Programme brings together cultural operators and entrepreneurs from Norway, Sweden, Finland, Russia, Estonia, Latvia, Lithuania, Belarus and Poland in diverse international groups to prototype ideas that reflect their own field of work as well as benefit innovation & integration which hold the key to our collaborative future.

<http://vimeo.com/balticlub/>  
<http://balticlub-online.eu/>  
<https://www.facebook.com/BalticLab>



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# Dual systems of vocational training to overcome skills mismatch and increase innovation in the Baltic Sea Region

Expert article • 1744

Most member states of the European Union are suffering from high rates of youth unemployment in the recent years. Even though the highest rates of more than 50 % must be noted today in Mediterranean countries, also the rates in northern and eastern countries around the Baltic Sea Region are on an unhealthy level. Although they are today lower than during the crisis 2008–2011, they are far from acceptable, for instance in Lithuania 21,9 % or in Poland 27,3 %. The average rate is alarming and represents a huge un-tapped resource that Europe cannot afford to squander. At the same time, the number of open jobs is growing. Especially small- and medium sized enterprises (SMEs) are urgently seeking qualified workforce and report an increasing lack of skilled employees. This is in particular significant, since the economy around the Baltic Sea Region consists of more than 99 % of small and medium-sized enterprises. Since 2002 about 85 % of all new jobs have been created by SMEs in the region and they provide up to 80 % of all training positions. Yet the small companies are hardly in the headlines, but the ones that truly form the backbone of our economy. To stay competitive versus low labour cost countries, the companies need to be innovative – this is hardly possible without qualified people. Innovation starts in the minds, innovative companies need innovative, well-educated people. It is often a misunderstanding, that well-qualified workforce is seen as academics only. In fact, the biggest lack in skilled work force exists in the sector of vocational training. While in some countries, like Poland, almost 70 % of the young people go to university, resulting in an increasing number of overeducated unemployed, the biggest lack exists in non-academic jobs. All over Europe, administrations and policy makers try to find the right solution to overcome this skills mismatch and get more young people into qualifications that actually fit the demands of the labour markets. On the one hand, this is an image problem. Especially in eastern countries vocational training like apprenticeships does not seem attractive, besides the fact that they often result in higher salaries and guaranteed jobs compared to academic careers. On the other hand, it is in fact a structural problem. Many national systems of vocational trainings are too theoretical and strictly based in vocational schools. Companies complain that the trainees have not enough practical knowledge. To overcome this, a closer cooperation between the vocational schools and the companies is needed.

Since 2013 the thematic network “Work Based Learning”, funded by the European Commission, is working on models to guarantee a higher impact of practical learning in a company as part of the vocational training. One model that is looked at is the so called “Dual System of Vocational training”. This dual system combines the training in a vocational school with a qualification on the job in a company. A coordinated curricula makes sure, that the theoretical content fits the

practical training and vice versa. Different models exist, but a close cooperation between the business world and the school is in common. In some variations the trainees visits the vocational school on Monday and Tuesday and spends the remaining days in a company. Other models use a block system, i.e. four weeks of school training, followed by six weeks of company training etc. It is evident, that the graduates of dual systems have a higher understanding of market ready innovations, due to their practical knowledge.

The dual system is not limited to vocational training, but is also increasingly popular on academic level, for example in Germany. While studying at a university the bachelor student is also getting practical training on the job. Graduates of these courses have excellent job opportunities. Such work based learning or dual systems do not exist in most countries in the region. However, the national ministries of most countries strongly expressed their interest and adapted their national laws on education or are in this process in order to realise this. The Hanse-Parlament, an umbrella organisation of 55 Business Chambers, co-founded a network of universities and colleges called Baltic Sea Academy, that is strongly determined to support the development and implementation of work based learning in the Baltic Sea Region. The European countries that are already implementing a dual or similar system of vocational training for decades are the Netherlands, Germany, Austria and Denmark – and the statistics prove them right: All four of these countries not only report the lowest youth unemployment by far, but also a high level of innovation. Work based training plays also an important role in Sweden and Finland – also countries that rank well on the innovation score boards. ■



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# Development of key competences of adults in Lithuania – challenges and solutions

Expert article • 1745

Lithuania has been participating in the global and European economic competition and undergoing different processes of European integration for 25 years so far. Entering the Eurozone since the 1st of January 2015 is expected to be favourable for the competitiveness of economy and strengthening of economic growth. However, the key preconditions for sustainable economic development and growth of the country are sufficiency and quality of human resources. In this regard Lithuania faces multiple and very complex challenges, starting from the declining population (especially of youth cohorts), high and not declining emigration rates and insufficiency of investments in development and sustaining of human capital at the level of enterprises, sectors of economy and state. Despite that statistical indicators evidence rather impressive educational achievements of young population comparing to the other European countries, this competitive advantage fails to be exploited due to existing skills mismatches, lack of communication between education and business, inadequacy of predominantly short-term oriented competition approaches and human resource management and development practices to the challenges and requirements of international competition.

Adult education and development of key competences play crucial role for the improvement and development of the human capital of the society. Investment in the development of key competences of adults becomes strategically important seeking to respond to the challenges of economic competitiveness and social cohesion in the above outlined social and demographic conditions, when there is an increasing demand of skilled workforce in the labour market.

Group of researchers from Lithuania have recently conducted a research study on the development of key competences of adults in the country. This research was carried out in the framework of the research project "The platform of key competence development of adults in Lithuania" (Project No. VP1-3.1-ŠMM-07-K) funded by the Research Council of Lithuania. The research sample was composed of 8000 adults from all regions of Lithuania. The surveyed respondents comprised 3 main target groups (unemployed persons, retired persons, employees and small businessmen) The survey aimed to disclose the main obstacles and modalities of development of the 4 types of generic competences (communication competences, entrepreneurship, information society competences, cultural and intercultural awareness) amongst the different groups of adult population by referring to the processes of acquisition of these competences and their application in the fields of employment, professional career, engagement in the civil society and personal development.

The European Reference Framework of Key Competences for Lifelong Learning distinguishes eight key competences, which citizens require for their personal fulfilment, social inclusion, active citizenship and the ability to work in the knowledge society. All these

competences are considered as equally important for every citizen assisting in lifelong learning (LLL) processes and successful functioning in the knowledge society. These competences are directly linked with each other, overlap and complement one another. (Key competencies for lifelong learning, European Reference Framework, 2007). The research team referred to the types of key competences proposed by this document, but reduced the number of types to 4 by merging some similar ones.

The research included analysis of scientific literature and policy documents related to key competence development. The main instrument of the research was a structured survey executed online and by distributing paper questionnaires. Analysis of the data was executed by using SPSS 16.0 software.

Although development of key competences is commonly regarded as highly important factor positively influencing employability, employment, career pathways and participation in the civil society, this influence highly depends on the types of key competences and their relevance to the interests and needs of particular target groups, for example, youth, unemployed persons, employees, retired persons. This was the main assumption of the research.

The survey findings disclosed, that development of key competences is regarded by adults as highly important factor in seeking for employment, career and active participation in the civil society. The findings also revealed rather important contradictions between the interests of adults related to development of key competences and existing institutional, economic and social opportunities to acquire these competences.

Quite interesting findings were disclosed concerning development of some particular types of key competences. For example, the survey indicates quite high level of information society skills of the surveyed population, in particular the skills related to the use of internet and mobile communications in the professional activity, everyday life and civil participation as well as high interest in the further development of these skills. People increasingly use ICT in their job search, for career development and independent business start-ups.

Regarding the use of communication competences, the results indicate that development of communication skills in the native language seem more important in the areas of employment and semi-skilled work, while higher skilled respondents stress the importance of communication competences in foreign languages for their employment and career prospects.

On the basis of the survey results the experts of the project developed 5 open access online modules for autonomous learning aiming at developing key competences for the purposes of job search, employment, career development and participation in civil society. Online platform will be also used for the exchange of know-how, expertise and research results in the field of key competence development.

Expert article • 1745

The survey results will also provide the background for development of policy guidelines and recommendations on how to enhance accessibility and effectiveness of key competence development for adult population seeking to contribute to the development of entrepreneurship, employment and active citizenship. ■

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# BALTIC RIM ECONOMIES

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MARK GALEOTTI

# Transnational crime in the Baltic states

Expert article • 1746

One of the more dubious blessings of democratization and greater integration into the global economy experienced by the Baltic states after achieving their renewed independence from the Soviet Union was a dramatic upsurge in organized and transnational crime. In the 1990s, foreign gangs briefly dominated the Baltic underworld before being stemmed by a combination of strengthened police and judicial systems, and even a fight-back by local criminals unwilling to remain in the shadow of Russian, Chechen and Ukrainian gangsters.

Nonetheless, serious challenges remain, and the Baltic states—close by, with still-developing institutions, and substantial local Russian-speaking populations—continue to provide opportunities for the Russian gangs. Whereas in the 1990s they sought “conquest” of the Baltic underworld, now they use the Baltic states for criminal services, ranging from money laundering through to gateways into Europe.

Three distinct forces are currently reshaping the underworlds of what Europol calls the “North East Hub” of European organized crime:

1. Improving law enforcement. Despite pressures on resources, over time local and national police forces are becoming increasingly effective, and this has been matched by developments in the institutional structures such as courts and prisons. Even though Lithuania continues to lag—Europol has called its gangs among the “best-resourced groups” in Europe, key traffickers of a variety of narcotics and smuggled or counterfeit goods, especially cigarettes—across the board, organized crime is coming under pressure. One unexpected consequence has been a Darwinian process whereby smaller and less efficient gangs are swallowed by larger and more effective ones. In the short term, the result is actually a more challenging crime threat. For example, according to Andrejs Sinavins, head of the State Police’s Organized Crime Department, there have been some 70 organized crime gangs operating in Latvia, a country of little more than two million citizens. However, some estimates suggest that half of these gangs are really now subsumed within perhaps a dozen networks.

2. The lingering effects of the 2008 economic slowdown. All three countries recovered relatively well, with income levels are converging toward those of Europe’s more advanced economies. However, especially given that this has been a recovery eschewing credit, many financial institutions have been left eagerly seeking new business. This has especially hindered attempts to reduce the region’s potential involvement in the moving, caching and laundering of criminal funds, as short-term business interests vie with long-term policy. This has

been a particular problem in Latvia, where the large boutique banking sector aggressively markets its services in post-Soviet Eurasia. Although again progress is being made, especially in Latvia, the relative ease with which dirty money can be laundered has not only helped local gangs, it also ensures that the major Russian crime networks retain a business interest in the region.

3. The “new Cold War.” While in truth it is more a “hot peace” than a new Cold War, the new tensions between Russia and the West following Moscow’s annexation of Crimea and intrusion into eastern Ukraine, especially the sanctions regime, have had a perverse effect on Russian and Belarussian organized crime’s activities in the region. Gangsters and corrupt officials alike have been seeking to move their assets out of Russia, leading to an upsurge not just in the movement of money into and through the Baltics but also efforts to buy local businesses and property and thus acquire residency rights. The financial crisis in Russia and Kremlin counter-sanctions on Western food imports has also meant greater smuggling into Kaliningrad and through Belarus, further strengthening ties with local gangs.

As a result, although the overt organized crime threat in all three Baltic states appears to have become increasingly controlled, at present local underworlds are becoming increasingly coherent and efficient. Furthermore, old links to Russian gangs are being developed, as the Russians seek to protect their assets and bypass sanctions. What makes this especially significant are the growing signs that Moscow is using organized crime as an instrument to gather intelligence and exert influence abroad. Estonia’s Kapo Security Police, for example, have highlighted this as a key security threat. Thus, it becomes doubly crucial that the Baltic states continue to wage an unrelenting struggle against corruption and organized crime. ■



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# Electoral authoritarianism in Russia – what's next?

Expert article • 1747

By 2014, the electoral authoritarian regime in Russia seemed to have been consolidated: Putin had controlled the executive office for almost fifteen years, and the key posts and sources of rents had been rearranged among major special interest groups; the regime's "fellow travelers" as well as major parts of the general public agreed with the preservation of the status quo; political protests were no longer perceived as a dangerous challenge to the regime. But this equilibrium is partial and unstable: the annexation of Crimea and the following confrontation with the West over Ukraine has shaken it to a great degree. The Russian leadership received *carte blanche* from its fellow citizens, and used this support to strengthen its dominance by "tightening the screws," targeting the opposition, jamming public dissent, and toughening regulations, with the goal of reducing the opportunities for undermining Putin's rule. The regime became more personalized and securitized, its policy-making became more spontaneous, and its reliance upon the inner circle of cronies and security apparatus increased many risks, making the Kremlin's next moves less and less predictable. Still, the possible future trajectories of the regime's further evolution are worth further analyzing. There are three potential scenarios: (1) the preservation of the status quo regime (and its further decay); (2) the turn to an "iron fist" with the systematic turn of the ruling group towards a more repressive regime; and (3) a step-by-step creeping (and quite probably, inconsistent) democratization. The real practice could develop as a combination of these scenarios or as a shift from one scenario to another.

The preservation of the status quo is assumed that the political environment for Russia's regime will remain nearly the same in terms of the constellations of key actors and their opportunities for rent-seeking, while the pressure from the opposition and the scope of mass protests will be limited. Under these conditions, the ruling group will have no incentives to make major changes. Their calculations would be based on the idea that inertia-based preservation of the status quo is the lesser evil for Russian elites and society. But maintaining this equilibrium would be a difficult task for Russia's rulers, who have to balance the simultaneous use of sticks and carrots. Ensuring this balance would require a tremendous rise in side payments to the regime's loyalists, so the costs of equilibrium will increase, raising doubts about the durability of this scenario, especially against the background of Russia's increasing economic troubles. The lack of major changes may continue until the physical extinction of Russia's rulers or at least as long as the costs of maintaining the equilibrium will not become prohibitively high.

The "iron fist" scenario assumes that the ruling group will be faced with major challenges in terms of large mass protests, rising perceptions of growing threats from the West and the domestic "fifth column", a further decline of public support for the regime, and growing and more open dissent among previously loyal supporters who cannot be co-opted any longer. In these conditions, the Kremlin's temptation to employ a full-fledged use of the stick might become irresistible. In the long run, this strategy rarely brings positive effects for the regime, but for the short-term, the regime's reaction could postpone major negative consequences at the expense of rising conflicts and violence in the future. Thus, the ruling group can openly take the "iron fist" approach and demolish the façade of democratic institu-

tions. These changes are likely to depend not upon real challenges and risks for the ruling group, but rather upon its perceptions about their imagined consequences. This choice would inevitably result in increased agency costs due to increasing side payments to the coercive apparatus of the state. At the same time, a tough crackdown will not necessarily lead to risks of disequilibrium for the regime. The possible turn to the "iron fist" could also increase the risk of intra-elite conflicts, especially given the notorious inefficiency of the law enforcement agencies and their deep engagement to rent-seeking economic activities. In this context, the reliance on repressions might result in the regime's collapse.

Finally, a step-by-step creeping democratization through a set of strategic choices of both the ruling group and the opposition, whose strategies and constellations of actors might change over time is based on the following sequencing: under pressure from the opposition and society-at-large, the ruling groups might pursue some partial liberalization, and then the widening room for political participation might contribute to the promotion of open divisions within the ruling group, their interactions with the opposition in one way or another, and to the opening of political competition. Judging from this perspective, one might consider the wave of 2011-2012 protests as an initial move toward this scenario. In fact, the strategy of the ruling group could change only if and when societal pressure will not only increase over time, but also be enhanced by simultaneous and cumulative efforts by the opposition, providing that it will be able to mobilize various segments of Russian society on the basis of a negative consensus against the regime. So far, the current state of affairs in Russia is nearly the opposite and conditions for this turn are seemingly unlikely. However, the very existence of democratic institutions in Russia (irrespectively to their current functions of maintenance of electoral authoritarianism) does not preclude this possibility entirely. ■

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# When decaying empires strike back

Expert article • 1748

International systems may become unstable when an emerging power demands a larger slice of the pie, or when an existing empire undergoes decay. When both types combine the system gets doubly unstable. The alliance of an ascending Germany with a decaying Austria led to World War One, because it encouraged Austria to attack Serbia, and Russia's response to Austria drew in Germany. The tail wagged the dog. The present marriage of convenience of an ascending China with decaying Russia carries similar risks. It looks far-fetched to imagine that, in its gamble against the West, Russia could draw in China. But Austria drawing in Germany also looked far-fetched in spring 1914.

How do empires react to decay? It is psychologically easier to give up on overseas holdings than on contiguous ones, however disparate these may be ethnically. This is what Polish, Austrian, Ottoman, and Russian empires faced. While losing vigor, Poland-Lithuania and Austria-Hungary largely maintained their territory, until their final collapse. In contrast, Ottoman Empire slowly began to lose ground already in the 1700s.

When one compares Russia with these three, the Ottoman trajectory looks the closest. Both held huge territories, some densely populated, some almost empty. Early area loss was fitful. It involved some of the most densely populated parts, Turkey losing the Balkans and Egypt, and Russia losing Poland, then the former Soviet Union republics.

Prior to final collapse, Turkey was reduced to ethnic core area, Fertile Crescent, and the wastelands (pre-naphtha) of the Arabian Peninsula. As of now, Russia is reduced to ethnic core area, Caucasus, and the wastelands of Siberia. Both fell far behind other world powers in economic development. It would be risky to conclude that a Russian collapse is imminent. The parallels are more remote. Empires rarely can stand still. They initially outrun their internal flaws through external expansion. Once they stop growing, these flaws accumulate. Expansion is self-reinforcing, and so is decay. To change course, one must give up on previous glory and start anew.

Under Kemal Atatürk, Turkey gave up on empire and focused on building a new nation state. This flip was easier for Turkey than it would be for Russia. Atatürk could shift from Islam to ethnic Turkish pride. The post-Soviet Russian leaders had no such alternative, because language-based nationalism was already at the very core of the empire ever since Moscow's "gathering in Russian lands".

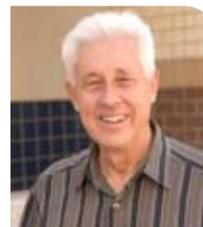
Charles de Gaulle may offer a more feasible script for Russia's emancipation from its past. He understood that, in the present world, colonies were a burden to be dispensed of. But he dealt with overseas colonies. Compared to Algeria, contiguity makes it harder to forget about Ukraine, not to mention letting go of Northern Caucasia and Tatarstan. Russia is still waiting for such a leader.

History rarely shows empires that stumble but rise again. Egyptian, Assyrian and Hittite repeat empires were new formations, long after thorough breakdown. French colonial empire comes closest to a second breath. Kicked out of Canada and India, France built up a new empire in Africa. Today's Russia lacks such an option. Trying to recoup its habitual sphere of domination only wastes resources that should go into starting afresh.

Like with the Ottoman Empire, no external power wishes Russia to collapse – the result would be too messy and unpredictable. Yet, what Putin sees as his Near Abroad is slipping away through attraction of Western wellbeing and lack of appeal of the Russian model. Putin sees this as sneaky Western plot, because in his imperial mindset Ukraine cannot have a mind of its own. One can understand Russia's frustration. Putin genuinely feels on the defensive. Yet, by clumsily trying to strike back, Russia is inducing a defensive circle around it.

Aggression must be contained, even when launched by understandably frustrated people. But when facing a decaying rather than an expanding empire, one can afford a more elastic response. The decaying empire has limited capability. Containment needs little active use of force. It suffices to refuse to recognize conquests and to reinforce defenses elsewhere, waiting for the empire either to reform or crumble. What this means for the Baltic Rim countries is: speak with a soft voice but avoid looking weaker preys than you actually are.

What does history of empires tell us about Russia and its current actions? This is another socio-economically decaying society, still mired in nostalgia, still capable of plenty of mischief. It is up to Russia to free itself from the chains of imperial history. This will take time – generations, unless speeded up by some de Gaulle. Meanwhile, the tension has to be managed. ■



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# Jokerit and KHL – an essential new trade bridge to the East

Expert article • 1749

**J**okerit – it is one of the best known Finnish sport brands. Since 1967 the club has played an important role in history of Finnish hockey and contributed the community with legends – Teemu Selänne and Jari Kurri. October 2013 was a historical month for Finnish sports: Jokerit announced that club will join the KHL. At that moment the Finnish community gained a new unique route to Russian markets via KHL and ice hockey in general, the number one sport in Russia and Finland. KHL is the second most competitive hockey league worldwide with aggregate markets of approx. 200 million people and geographical coverage from Vladivostok to Zagreb.

The role of sports diplomacy in international relations cannot be undervalued. Universal passion towards sport with appropriate rhetoric transcends sociocultural and linguistic differences between nations, helps to increase understanding and thus creates better grounds for dialogue, cooperation and prosperity. At the same time it decreases the likelihood of tensions and international conflicts. Major athletic events are platforms for informal diplomacy and an outstanding tool for improving intercultural awareness. Participation of Jokerit in KHL offers grounds for such diplomacy on constant basis year-round, with its active phase from September to May.

Russia – rich in culture, traditions, historical value and natural resources – will always be Finnish neighbour. Rather than a threat, it is a great opportunity. Finland succeeded in utilising that opportunity wisely for decades before 1990-s. That practice must continue and evolve to a higher degree of cooperation.

Russian trade surplus grew from 5 to over 20 billion USD during the past 14 years. Main export commodities have been natural resources, primarily oil and gas (68%). Main import commodities are food (13%) and ground transport (12%). With constant decrease of the oil prices from July 2014, within six months Russian trade surplus dropped by approx. 6,5 billion USD.

Current and future trends of Russian economy clearly indicate opportunities for Finnish businesses. With shrinking oil revenues, Russia is not capable of maintaining current levels of importing. However, its industrial capacity is not able to satisfy internal demands either. For that reason the Russian government actively pushes the program of replacing imports with domestic production. It creates grounds for industrialisation, which is vital in maintaining internal stability. Russia hardly can achieve such goals without help from foreign companies. One of the reasons is poor financing of R&D programs since 1990-s. Finland, on the contrary, was highly effective in the development of engineering and modern technologies. There is demand for the know-how in Russia, politically supported programs and special conditions for strategic investments. Cheap local currency makes investment costs even more attractive for foreign companies. All of the above, in addition to Finland's positive image in Russia, close historical and economic ties and an advantageous geographical position, creates sound opportunities for Finnish businesses targeting new markets. Future prosperities lay in cooperation in constructional sector, clean technologies, shipbuilding and arctic regional programs, logistics - the North Sea railroad and Northeast Passage to Asia, healthcare and industrial sectors.

“Jokerit trade-bridge” plays an important role in linking Western supply with Eastern demand under the universal umbrella of sports. Besides providing a transnational meeting platform and outstanding visibility and marketing tools, Jokerit commercial department conducts market researches, assists in finding needed contacts using its extensive networks in Russia, Finland and other KHL countries, arranges business meetings and conferences, promotes companies, creates good grounds for business development and a lot more. We are active and open for communication with our main goal of providing as much assistance to EU companies in their trade to the East as possible. We believe that Finnish business will realise the value of our product and will start reaping its benefits with us at Hartwall Arena and other KHL venues. It is time to act now in order to maintain existing market shares and realise opening opportunities in Russia, before Asian and local competitors take them over. We call Finnish businesses to join Jokerit community and start doing business with us, what is easy, entertaining and effective at the same time.

Besides commercial value, Jokerit makes a significant socio-cultural input and brings relationships between neighbouring countries closer. While Russian shopping tourism suffers, we contribute to the industry with hockey fans from different places of the KHL continent. We open Russia for Finnish travellers. Our hockey fans meet locals, communicate and learn their culture, helping them in creating own opinions and breaking prejudicial stereotypes.

KHL teams have large businesses behind them. Top management of such companies often travel with teams to away games. This way Jokerit attracts small segments of the wealthy part of the population with major decision making power to Helsinki, what creates grounds for local businesses to meet them here.

However, one of the most visible cultural benefit Jokerit does is the development of Finnish hockey. We provide grounds for Finnish youth to grow to the major hockey league without having to leave the country in the early ages. We bring top level hockey to Helsinki and offer the community world class entertainment and a possibility to follow the Finnish “dream team” for the entire season. Today we can confidently state that Jokerit is the hockey club of the whole Finnish nation. ■



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THORSTEN KOHLISCH

# Towards tangible results for blue and green growth – the South Baltic Programme 2014-2020

Expert article • 1750

Serving the policy objective of European Territorial Cooperation (ETC/INTERREG), the South Baltic Programme offers funding for cross-border cooperation between the coastal regions of Denmark, Germany, Lithuania, Poland and Sweden. The chosen motto “going local – meeting your needs – connecting people and ideas” underlines the soft cooperation character of the Programme that enables local and regional actors to boost regional development processes through know-how exchanges, good practice transfers and the joint testing of innovative solutions.

Made available by the European Regional Development Fund (ERDF) since 2008, the Programme budget of EUR 60m allowed nearly 450 partner institutions to join forces in 69 project partnerships. In the fields of Liquefied Natural Gas technologies (LNG), tourism marketing, vocational training, culture and forest management, the South Baltic Programme directly contributed to the implementation of the Action Plan for Baltic Sea Strategy. Having reached the final stage of programme implementation, should we thus lean back and rest on the earned laurels? By no means! In fact, while the implementation of cross-border projects undoubtedly benefits from the enthusiasm and motivation of highly committed stakeholders, cooperation often still remains a niche in local and regional development policies, perceived by decision-makers as “something in addition” requiring significant resources without guaranteeing visible results. Indeed, one may correctly argue that networking is not an objective in itself. Without question, cooperation projects shall thus be measured against their capacity to achieve tangible results for the benefit of citizens, businesses and the environment.

Looking back at the Programme’s trial phase between 2007 and 2013, the first generation of projects has indeed not been without success in this regard. Already purchased by more than 7.000 customers, the InterCombi Ticket developed by the Interface project allows for travel between Germany and Denmark with just a single ticket, covering public transport in Rostock, the ferry passage between Rostock and Gedser as well as public transport to Nykøbing on the Danish island of Falster. In the field of cultural heritage promotion, the multimedia tools, ticketing systems and digital guides jointly developed under the label of “Baltic Museums” significantly raised the attractiveness of the four participating oceanographic museums in Gdynia, Kaliningrad, Klaipeda and Stralsund for international visitors and thus became best practice examples for the added-value of museum cooperation, acknowledged within the programme area and beyond. Turning towards business opportunities, the information, advisory and training services provided by the consortium of MarTech\_LNG clearly met the needs of local maritime industries, effectively putting companies from the South Baltic area in the position to benefit from the increasing demand for LNG-driven products and services.

Building on initial success stories like these, the South Baltic community paved the way for the second edition of the South Baltic Programme, equipped with EUR 80m of ERDF funding for the programming period 2014-2020. Following the European Commission’s call for increased thematic concentration and result orientation, the available funds will be streamlined towards cooperation for blue and green growth, putting the economic potential of the sea (blue growth) and the need for sustainable solutions at the heart of the Programme (green growth). Consequently, an increased impact on blue and green economy sectors which are key for the future of the South Baltic area shall be achieved, in particular by facilitating cooperation for increased internationalisation and innovation capacity of local companies, sustainable tourism beyond seasonal mass phenomena, an increased uptake of green technologies and renewable energies, sustainable mobility and the availability of skilled labour force. In the spirit of multi-level governance, the Programme will furthermore provide incentives for local actors such as municipalities and NGOs to join small-scale projects with simplified procedures, thus allowing them to “trial and error” the challenge of cross-border cooperation in practice.

Of course, looking at the Programme’s total budget, miracles cannot be expected. The Programme will neither double economic growth nor cut the unemployment rate by half. Nonetheless, the power of soft cooperation to unlock unexploited development potential should not be underestimated, especially if used complementary to local activities and supported through broad and continuous stakeholder involvement. At Programme level, targeted advice to beneficiaries, result-oriented monitoring and the creation of synergies with other stakeholders and Programmes in the Baltic Sea Region will accompany the path towards tangible results for blue and green growth, thus emphasising the South Baltic Programme’s ambition to strengthen the impact and value of cooperation policies in times of limited resources and global competition. ■



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# The EU's Strategy for the Baltic Sea Region – a Baltic model for Europe

Expert article • 1751

With the endorsement of the EU Strategy for the Ionic-Adriatic Basin in October 2014, there are presently three operational EU macro-regional strategies. Provided that the EU's Alpine Strategy is approved at some point later this year, all EU member states – with the exception of the United Kingdom, Spain, Portugal, Malta and Cyprus –, together with a significant number of partner countries, are engaged in the macro-regional adventure. Hence, the Lithuanian Presidency of the EU Council in the second half of 2013 was correct in speaking of an emerging 'Europe of macro-regions'. Although macro-regional strategies are subject to the 'three noes' (which deprive them of any exclusive financing, legislation or institutions), they are capable of setting-up a 'platform for coordination' and a 'framework for reference' ready to be used by its participants in order to better link regional, national, and European action and funding from different sources. From this angle, macro-regional strategies identify the common challenges of a macro-region, becoming a regional building bloc for the coordination of the member state-EU nexus as well as implementation of EU-wide policies.

In the context of macro-regional strategies, the case of the Baltic Sea Region is very peculiar: In the past, politicians, scholars and policy experts alike have acclaimed regional cooperation in the Baltic Sea as the model for Europe – particularly after the Cold War. By relying on a close network of transnational actors at all levels – including the local, regional and international sphere – and by focusing on concrete functional needs for cooperation – often in the area of environmental protection and infrastructure – amongst the countries on the shore of the common sea, it was expected to contribute to peaceful relations and economic development in the region. This approach perhaps constitutes the very core of the 'Baltic model' in terms of regional cooperation. Over time, however, regional cooperation not only became densely populated by both actors and actions, but most of the countries partaking in it have opted for EU membership. It is towards this background that the EU Strategy for the Baltic Sea Region was endorsed in 2009 as the EU's first macro-regional strategy, and as a 'new model for co-operation to inspire other regions' as expressed by the then Commissioner of Regional Policy Johannes Hahn. It is only now that the Baltic model of regional cooperation has for the first time been in a position to inform other schemes of 'regional cooperation' in the EU. This is particularly relevant with regard to the set-up of the governance architecture, its trans-governmental network as well as inter-macro-regional contacts.

Although the still-evolving governance architecture of macro-regional strategies certainly remains complex, its main purpose, which is to build a platform for 'soft coordination', is about to be achieved. Existing regional organisations, such as the Council of the Baltic Sea States, the Nordic Council of Ministers, the Northern Dimension, Helcom and VASAB have become partners and coordinate with other actors in order to avoid duplication of work and in order to enforce effectiveness of policies by taking a cross-sectoral perspective. Together with EU member states from both the regional and (in the case

of the 'Turku Process') municipal level, regional organisations have also been integrated into the system of Priority Area Coordinators and Steering Groups that provide a venue for active coordination as well as shopping for new ideas and funding. All of this has not been done in the way of enforcing a specific hierarchy between the regional organisations.

Most actors involved in the set-up of other macro-regional strategies have looked into the Baltic example, in particular the ones from the Danube region. Representatives from the Council of Danube Cities and Regions, for example, have actively sought advice and inspiration from the Union of Baltic Cities in terms of the involvement of municipalities in regional cooperation. Furthermore, there have been several meetings of Priority Area Coordinators or Horizontal Action Leaders from both macro-regions, assuming similar responsibilities, such as for instance in the priority areas 'energy' and 'competitiveness'. Fabrizio Tassinari has identified the lack of bureaucratic autonomy in the south as one of the key explanatory factors why states, such as Greece, are not in a position to effectively cope with the rising socio-economic gap after the Euro-crisis. If regularised, these meetings and contacts could provide an opportunity to help reduce the rift between Northern, Southern and Eastern Europe as they are venues for the exchange of best practices and, possibly, learning in the realm of 'good governance'. ■



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# 25 years of Interreg cooperation – going for concrete results

Expert article • 1752

A quarter of a century ago the European Union launched a funding mechanism known as Interreg. Since then Interreg has facilitated cooperation and work on common issues between different countries. The nature of cooperation and the set-up of the programmes have during this time undergone a remarkable change. The 25th anniversary is a good moment to look back at what Interreg has achieved and how it has evolved over time. Examples to illustrate this development will be brought from the Central Baltic programme (covering parts of Finland, Estonia, Latvia and Sweden).

Interreg is the umbrella for EU funding mechanisms for inter-regional, transnational or cross-border cooperation. Currently there are more than 100 such programmes. Interreg is part of the EU cohesion policy, with the aim to reduce disparities between regions in the EU and produce a more balanced and sustainable development across them.

The Central Baltic Programme for cross-border cooperation was launched in the 2007-2013 programme period. The programme is characterized by a large partnership and the fact that most borders are on sea rather than land. The programme built on the experience of Interreg programmes between Southern Finland and Estonia and Archipelago and Islands regions in Finland and Sweden.

Many projects funded by the Interreg programmes have been so-called soft projects. Although investments into roads or infrastructure have taken place in some cross-border regions, these funds are always small compared to national investment funds. This has especially been the case for the Central Baltic Programme and its predecessors with hardly any land borders.

Up until 2013 the programmes were open in their nature. Each programme could design the objectives that were most suitable for it. This often resulted in compromises and the objectives of the thematic priorities being broad. That in turn led to great variety of projects funded within any one of the priorities.

One consequence for that type of programmes was the problem of measuring the results or impact of the programmes. For the Central Baltic 2007-2013 programme there were more than 30 different environmental projects funded, each with their own objectives and results. It is almost impossible to accumulate a measurable impact from them.

After several periods of programmes with little hard evidence of their impact, the European Commission and the programmes have taken action. In the Interreg world the action may even be considered radical. For the period 2014-2020 all Interreg programmes have had to choose only a narrow set of themes from a menu that has been provided by the Commission. Thus, rather than each programme across Europe drafting texts that make almost anything possible, each now has had to choose from a closed wording. Most likely, all Interreg programmes have become more focused in their approach. The development didn't, however, end here.

Each of the limited number of themes chosen must be complemented with output indicators but also result indicators. The result indicator must capture the essence of the theme. The indicators are designed so that they capture change within the programme region, taking into account programme impact and other impact. This in turn means that the themes chosen must indeed be quite narrow. The benefit of this approach is that the programmes will (finally) be able to point to concrete results. Thus by 2021 we will, for the Central Baltic region, assess the impact on travel time for passenger and goods traffic or the export capacity of clusters to markets outside the EFTA area, among other things.

The logical consequence of focusing is that the types of projects that will receive funding will become more harmonized. Although there will always be several and different projects within each priority field they will all have to serve the larger, common, objective.

The stronger focusing of Interreg programmes should help in justifying the existence of the programmes. Cross-border cooperation is a way to achieve concrete benefit and change in the region. Learning from each other, ensuring critical mass or solving joint problems are reasons for choosing cross-border cooperation. With time the Interreg programmes have evolved from learning about each other and building trust to learning from each other; and at the age 25 Interreg cooperation has finally matured to the point that cooperation will be more and more about really solving common problems together.

At 25 people have tested and tried out things and have found their true character. They have confidence and vision that a youngster still does not have. The very same can be said about Interreg. The programmes have reached a milestone in their existence. The next years promise to bring more tangible results and added-value from doing things together. Stepping into adulthood will be an inspiring time for Interreg and everyone working across borders. ■



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# Cooperation with Finland – OPORA ROSSII St. Petersburg branch

Expert article • 1753

Since 2007 the St. Petersburg office and Northwest Bureau on protection of the rights of businessmen of the all-Russian public organization of small and average business OPORA ROSSII under the leadership of Dmitry Ivanov conducts active work on adjustment of contacts with federation of businessmen of Finland (Suomen Yrittäjät, SY) and the union of municipalities of the region of Savonlinna. Suomen Yrittäjät is the largest public organization on support of business of Finland with more than 110 000 members. Business and personal contacts with an administrative board of SY, and also the member of the European social and economic committee Thomas Palmgren, the general secretary of the union of the European enterprise organizations (UEAPME) Andrea Benassi, the mayor of Savonlinna Janne Laine and other representatives of enterprise community of Finland and the EU are well-established.

Now during cooperation with listed organizations are achieved:

- the contacts which are carried out with assistance of Northwest bureau on protection of the rights of businessmen of the OPORA ROSSII in the Northwest region (with prospect of further expansion on all territory of the Russian Federation) and SY in the territory of Finland, already today really pull together businessmen of two countries;
- specially created legal entity – autonomous non-profit organization Northwest Bureau on Protection of the Rights of Businessmen has to become the conductor of investment projects of the Finnish businessmen in the territory of the Northwest federal district to Russia. At the bureau are gathered together enough qualified specialists, including translators who can give help at different stages of development of business: formation, the organization, legal maintenance of business on a place. From the Finnish side this function is carried out by FRBA (Finnish-Russian Business Association), in fact representation of the OPORA ROSSII in Finland, is founded in 2010, the head – Mika Lahikainen;
- SY, in turn, gives help, provides information on partners, provides consulting services to the Russian businessmen in the territory of Finland;

Thus, by the present moment between Federation of businessmen of Finland and its certain representatives, the union of municipalities of the region of Savonlinna, the Group of the Finnish Advisers (Eurofacts Oy) at the Government of St. Petersburg, on the one hand, and Northwest Bureau on Protection of the Rights of Businessmen of the All-Russian public organization of small and average business. On the other hand, is reached mutual understanding and are actively held joint events for adjustment of contacts between representatives of small and average business of two countries. The OPORA ROSSII and Northwest Bureau on Protection of the Rights of Businessmen possess sufficient resources to promote development of mutually beneficial cooperation of the Finnish and Russian businessmen and can become basic non-state structure in questions of development of the relations of the Russian and Finnish small and medium business.

Separately it is necessary to tell about cooperation with Group of the Finnish Advisers at the government of Saint-Petersburg (GFS) or about group of representatives of the Eurofacts Oy company.

In 2012, was signed agreement of the cooperation between Saint-Petersburg office of the OPORA ROSSII, representatives of the group of the Finnish advisers (GFA) and the consulting company Eurofacts. The event was dated for Day of the Finnish business in Saint-Petersburg and to visit of the Minister of Finland for Europe and foreign trade Alexander Stubb. The signatures under the document were put by the constant coordinator of group of the Finnish advisers Anders Blum, the Vice-president of Group of the Finnish advisers at the government of St. Petersburg Timo Parmasuo and the Vice-president, the chairman of St. Petersburg office of OPORA ROSSII Dmitry Ivanov.

The purpose of signing of the agreement – creation of the Finnish-Russian Council of Businessmen for development of cooperation and business contacts between both sides, transfer of experience of conducting business activity in a format of “transparent”, barrier-free economy, bilateral information streams, new business contacts, searching of constant partners, carrying out market researches.

The main Finnish partners within the project – The central union of businessmen, the union of family business, and also the Central Chamber of Commerce and the Finnish-Russian chamber of commerce which members are the most significant enterprises of Finland. Working contacts with the Intergovernmental Russian-Finnish commission on economic cooperation are supported.

The Group of the Finnish Adviser (GFA) – informal association of representatives of the largest Finnish companies was created in March, 1997 within the Intergovernmental agreement between Finland and Russia on cooperation signed in 1992 in Murmansk region, the Republic of Karelia, St. Petersburg and the Leningrad region.

The idea of creation of consortium and the pilot project of partial reconstruction of the international routes on a site from the Finnish-Russian border to St. Petersburg caused positive reaction and desire to examine in more detail project materials as the program of introduction of Intelligent transport systems (ITS) is key in the field of the newest development of road and transport technologies not only in EU countries, but also around the world in officials. For this reason the pilot project offered by the Russian side can be included in the Northern corridor of growth of Northern Bridge (Stockholm-Turku-Helsinki-St. Petersburg) financed within programs of the EU.

In 2013 within the St. Petersburg International Economic Forum the round table of Northern Bridge – A northern corridor of growth and development, Turku was organized by a city administration and the Government of St. Petersburg. The mayor of Turku Aleksi Randell especially noted an important role of small and medium business of two countries in implementation of the project. The executive director of St. Petersburg office of the OPORA ROSSII Dmitry Petrovichev presented to the audience idea of creation of consortium and the **White Book of Entrepreneurship** and Northwest Corridor for MSP projects.

On June 25, 2013 the coordinator of Group of the Finnish adviser at the Government of St. Petersburg Anders Blum during a meeting with the Russian President V.V. Putin presented the concept of development of the projects stated above to Turku.

Also in 2013 the mayor of Turku Aleksi Randell at communication with heads of Russia and Finland stated desire to continue work within the Northern Bridge project with the Finnish business community and the OPORA ROSSII.

In February 2014, through cooperation with South Savo's administration the International meeting, gala reception and a seminar Across Saimaa to St. Petersburg – World tourism took place, in March - together with the Finnish partners OPORA ROSSII representatives participated in the VIII Petersburg Partneriat of small and medium business St. Petersburg – regions of Russia and the abroad, and in June 2014, the delegation from the St. Petersburg office of the OPORA ROSSII took part in Days of the Baltic Sea in Turku, the Summit of the Baltic forum of development and the Forum of young leaders in Turku.

From October 24 to October 25, 2014, took place visit of delegation St. Petersburg to Finland, Tampere, for participation in celebration of the **State Days of the Entrepreneurs**.

Within the program of celebration of the State Days took place annual report and election meeting of SY at which there were more than 200 delegates. In general more than 2000 guests – businessmen from all regions of Finland took part in action. On October 25 OPORA ROSSII delegation met the management of SY, specifically with the newly elected chairman of the board Jyrki Mäkyänen, the executive director Jussi Järventaus, the deputy executive director Antti Neimala, the head of the international department Thomas Palmgren, and the former chairman of the board Mikko Simolinna.

Acquaintance to the new chairman of FPF and questions of further interaction between the organizations was the main subject of a meeting. At the beginning of a meeting after short presentation of activity of the partner organizations in Thomas Palmgren's performance, members of the Russian delegation expressed gratitude to the former management of SY for a powerful contribution to development and strengthening of partner communications between businessmen of the Russian Federation and Finland, and also expressed the words of a congratulation and support to the new leader of FPF from the Vice-president of the OPORA ROSSII, the head of the St. Petersburg office Dmitry Ivanov. In the speech of Dmitry Petrovichev was noted that OPORA ROSSII- the St. Petersburg office and Northwest bureau on protection of the rights of businessmen successfully cooperates with FPF since 2007, and during this time the partner organizations held more than 90 joint events, including seminars, forums, meetings of the B2B format and other actions aimed at search of partnership, acquaintance with the legislation and business culture of the Russian Federation and Finland. During this time between partners was formed rather confidential partnership, and according to the Russian side, it is necessary to support and develop it.

In questions of development of business in the Russian Federation OPORA ROSSII continues constructive dialogue with the power at all levels. Despite the economic and political sanctions concerning the separate enterprises and citizens, Russia continues a course on development and strengthening. So, growth of the industry made 2.5% against 1.5% last year. The topic of effective cooperation between entrepreneurs was continued in the speech by Takhir Bikbayev, who suggested to concentrate in the future development of the Russian-Finnish partnership in Baltic region within the program of environment protection, the solution of environmental problems and programs for development of the new markets and resources, that caused genuine interest and in Estonian guests. Also need for further improvement of check points of boarders crossing and development of road infrastructure was noted. This offer was developed also by Thomas Palmgren, who told about the decision together with the OPORA ROSSII to participate in writing of the new version of **White Book of Entrepreneurship** focuses on "the green industry", energy saving, processing of waste recycling and water cleaning.

In welcome speech the new chairman of SY Jyrki Mäkyänen noted that in questions of the international cooperation between our organizations the new management will continue the former course aimed at strengthening of business and friendly relations, observing traditions of neighborliness and cooperation. *"We got up on this ski track once, strongly standing on it and we aren't going to turn"*, – Jyrki Mäkyänen assured foreign partners. The executive director of FPF Jussi Järventaus began the speech with regrets concerning the general economic recession in the EU and Finland for the last three years aggravated recently by world political crisis in connection with events in Ukraine. *"But these kind of challenges have only to strengthen our relations"*, Jussi Järventaus is sure. *"For this purpose we have already acquired methods and tools"*. New stage of our cooperation should be based on searching of new ways of development of business, including with use of innovative technologies and associations of efforts of entrepreneurs together with scientists and experts from various higher educational institutions and universities, for example in the field of ecology. ■

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# Cooperation of young leaders and entrepreneurs of twin-cities Turku and St. Petersburg

Expert article • 1754

St. Petersburg and Turku have been twin-cities for more than 60 years. A large number of partner connections have been established and are also developing all the time. Both cities want to continue cooperation between active young leaders in business and policy. The business community gets essential support at the level of administrations of both cities. Also the last years of 21 centuries the pleasant tendency was outlined that the active youths, businessmen of small and medium business of the twinning cities and also public youth associations of development of business act as initiators of creation of platforms for acquaintance and establishment of partnership. A bright example to that, the Russian-Finnish forum Bridge idea of which appeared one year before the 60 anniversary of twinning communications of St. Petersburg and Turku and was held four times in 2013-2014 in Turku and St. Petersburg. This event is a indicative example of an active position of young generation to develop bilateral business relations and to support administrations of the cities in the direction of the international cooperation.

In St. Petersburg a number of large exhibitions, forums and meetings are held where representatives of business from Turku participate. The annual Innovative forum can be marked as one of the effective platforms on which annually meetings of the Finnish and Russian business communities are held. Nevertheless there is a need in holding of forums and events for small and medium business where young businessmen of two cities can get to know each other better and discuss interaction prospects.

The director of Turku center in St. Petersburg Kauko Jämsen notes that one of obstacles of an entry of the Finnish companies into the Russian market is uncertainty in stability of the Russian economy and misunderstanding of rules of business in Russia, therefore holding the forums similar to Bridge seems important as participating in these events businessmen can learn a lot of useful information about business in other country and get to know each other better.

Bridge Forum offers new opportunities for business contacts and cooperation in different sectors of industries and administrative level. It is the forum to find new partners, new ways for cooperation and creating valuable networks. Participants are encouraged to form long lasting relationships and long-term cooperation.

The first Russian-Finnish Forum of young leaders "Bridge" took place in June 2013 within the official program "Days of St. Petersburg in Turku" under the support of the City of St. Petersburg and Turku in Turku. The Forum became an annual event in both cities. It has an excellent base for mutual cooperation of young business and political leaders. In October, 2014 in St. Petersburg the fourth Russian-Finnish forum of young leaders "Bridge" was held successfully and brought together more than 100 businessmen of St. Petersburg and Turku and became a platform for an exchange of opinions and development of contacts between young leaders of business of twin-cities. In total for 2 years about 500 businessmen of St. Petersburg and Turku got acquainted and established prospects of cooperation.

And now there is the tradition that Forum gather participants two times per year, one time in Turku and one time in St. Petersburg. Every time Bridge is held in frame of the huge event of business life of the city, like Baltic Development Forum and program of "Days of St. Petersburg" in Turku and St. Petersburg International Innovation Forum in St. Petersburg. Young businessmen have an opportunity to meet and network due to the help of Junior Chambers International of Saint Petersburg, Aurajoki and Turku, Consulting center "Success", Turku Companies Employer Association, Committee on External Relations in St. Petersburg, Committee on Industrial policy and Innovations in St. Petersburg, Committee on Development of business and consumer markets in St. Petersburg, St. Petersburg Foundation for Small and Medium Entrepreneurs Development, City of Turku, Turku Chamber of Commerce, Association of Entrepreneurs of South-West Finland and Turku Region Development Centre.

Bridge forum is also interesting as represents saturated three-days program with participation in huge business event of the city, visit of the enterprises and personal meetings and negotiations, workshops on a business subjects, official receptions and the evening informal program. It's absolutely the place to meet, network and to be socialized in international atmosphere.

The tradition of annual holding of the Russian-Finnish forum "Bridge" will be carried on. We invite active young businessmen and administrative and political leaders who are interested in development of relations between Turku and St. Petersburg to take part in the Russian-Finnish forum of young leaders "Bridge" in 2015 and to build the bridge in relations of two friendly nations. ■



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# Huge market for energy-efficiency in Russian (and Eastern European) residential districts

Expert article • 1755

In Russia, there are nearly 20 million residential buildings with a total floor area of over 3,300 million m<sup>2</sup>. 42% of these buildings were built during 1946–1970 and 30% during 1971–1995. During the Soviet era, starting in the late 1950s, the housing problems of the Soviet Union were solved by building poorly insulated big blocks of flats and heating them with district heating solutions implemented inefficiently. These energy wasting buildings and facilities, in need of extensive capital repairs, still comprise a majority in Russian cities.

The energy-efficiency of Soviet-era residential districts could be improved by renovating buildings to be more energy-efficient and by reducing the losses in the related energy infrastructure. District heating accounts for 70% of total heat supply, at least in urban areas in Russia. Due to the technical structure of the district heating used in Russia, heating typically cannot be controlled in Russian apartment buildings, meaning that energy renovations of single buildings seldom lead to reduced energy production. Because heat exchangers are lacking between district heating networks and the buildings in Russia, reduced energy demands in buildings do not lead to savings in the beginning of the energy chain but may instead even lead to overheating of the building. Energy production demands will reduce only if the residential districts and their various utilities and networks are renovated holistically. The district renovations would include renovations of the buildings and all their technical systems, modernization of heating energy production and distribution systems, renovation of local electricity production and transmission systems, renewal of street lighting, renovation of water and wastewater systems, and modernization of waste management systems.

Case studies show that in the district scale, using different district modernization scenarios, up to 72% of the heating demand and up to 34% of the electricity demand could be saved without even using the most advanced technologies. Considering harmful emissions, also other than CO<sub>2</sub>-equivalent emissions should be analyzed when comparing different energy production alternatives since this may change the selection of the best district energy production solution. If the whole district was renovated (both the buildings and the related energy and water infrastructures), the costs per inhabitant would start from about €3,000.

Russia offers exciting business opportunities in energy renovations of residential districts. Soviet-era residential districts, both in Russia and in Eastern Europe, include only a few building types, and due to the similarities of the building types, prefabricated solutions to speed up the renovations could be developed. Since the climate in Finland is rather similar to that in the cold regions of Russia, many tried and tested building and energy solutions used in Finland could also be utilized there. In addition, comparable Soviet-era buildings and residential districts, in need of renovations, exist extensively throughout Eastern Europe. Finnish experiences of cold climate buildings could be of use in updating Russian and Eastern European residential districts to become more energy-efficient. In a technical sense,

there is clearly a huge market for companies to respond to the great renovation needs in Russia. So far, Finnish construction companies have not been that interested in this market. However, many other industry partners would also be involved in district renovation, such as the energy sector.

In general, the role of the public sector in boosting holistic district renovations is dominant. Outdated norms and long permission processes are important obstacles in building renovation in Russia. Strong commitment of municipalities could help to overcome such obstacles and to deal with the city planning aspects needed to be considered. Perhaps the two dominant challenges in Russian district renovations would be the financing of the renovations and the joint decision-making among apartment owners. Policy instruments could help to overcome the addressed challenges. Developing policy instruments for renovations and energy-efficiency could also be one form of cooperation between the EU and Russia. ■

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# Organizing the Baltic Sea Region – a failing management project?

Expert article • 1756

**C**an a region be created through organization? In a research project founded by the Baltic Sea Foundation at Södertörn University we have studied the organization of the Baltic Sea Region from a multidisciplinary perspective for the past eight years.<sup>1</sup> We claim that the organization of the Baltic Sea Region (henceforth BSR), and its construction as a region follows a managerial, rather than a political logic. We can discern an underlying belief that the region will come into being and prosper through projects, strategies (foremost the EU strategy for the Baltic Sea Region EUSBSR), measurable goals, and leadership. We see many parallels to ideals from the business- rather than the political, domain. Order and action are in focus rather than conflict and deliberation.

The challenge of transnational and multi-level governance compared to governing a state or a company, is that there is no single centre of authority. Instead there are a number of actors of various sorts: states, local governments, NGO's, business companies, social networks, etc. And they all have different agendas and interests. In the BSR there are so many overlapping organizations that it frequently was referred to as an alphabet soup of acronyms, hindering efficient governance and leadership. A response to this was the launching of the EUSBSR.

Looking back it is clear that the 20 past years of organizational efforts in the Baltic Sea have not yielded a common identity or center of authority. However, through strategies, projects and reports, we believe it has been possible to create a *picture* of the Baltic Sea Region as a capable rational actor. An illustration of this is found in the work of the Baltic Development Forum (BDF), "the leading think tank and high level network" in the BSR.

BDF has created meeting places for actors and also monitors the developments in the region through the Annual "State of the Region Report". Here the region is translated into numbers. Competitiveness is the main focus of the report and also a main ingredient of the vision of the BDF which is: "to make the Baltic Sea Region the most dynamic, innovative and economic growth centre in the World."

Competitiveness has thus become the motivation for collaboration, in line with core ideas of "new regionalism". One underlying idea of the BDF is that everybody grows stronger by listening to each other's success stories. Problems are seldom the focus of attention, nor solidarity or conflicts. In the State of the region report advice is directed towards the BSR, as an entity, on how to act. In a similar manner the European Commission evaluates how the BSR has implemented the EUSBSR. As if it were a unified actor.

<sup>1</sup> The project is named "The transnational practice of regionalisation: a multidisciplinary study of visions, measurements and sense making in the Baltic Sea Region", conducted by Margrethe Sövik, Anders Nordström and Matilda Dahl.

The only crux is that it is not. The Baltic Sea Region is not a hierarchical order were somebody decides what others are to execute in a managerial way. It is a place filled with conflicting interests, with people and organizations that have many ideas on what ought to be done and different capabilities to implement them. Many of them compete over the same EU funds. There are indeed many good ideas, visions and initiatives. But there are also many differences, conflicts and (political) topics that are far from the inclusive discourse of competitiveness and "win-win" stories. However, conflict and complexity do not fit into the actor-centred managerial logic. Thus, conflicts are left out and problems of diversity in opinions not spoken of. Management logics overshadow both the form and content of what is collaborated on.

To measure what can be measured and to use managerial tools, such as projects, strategies, and reports, are some of the most common ways to govern in the world of today. At the same time, quite paradoxically, these types of activities may create a void – and result in a constant call for "action". "We have to move from talk to action" has indeed been one of the catch-phrases in Baltic Sea Region meetings during the past ten years.

However, since it is difficult in transnational contexts to apply management ideals such as "first strategy - then implementation" (often not even companies do), the perceived gap between talk (visions and strategies) and action (measurable results and solved problems) is constantly recreated. The challenge is perhaps to not let the frustration over this gap become the focus of attention, but rather try to navigate in the disordered realities of transnational governance. Perhaps there is also a need to re-imagine the BSR as something more than a management project aiming at increasing competitiveness; by focussing on it as a complex, conflict-rich and long-term political endeavour? ■



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# Human Rights Education is a human right

Expert article • 1757

**T**he 13 Baltic Sea NGO Forum “A Smart Civil Society – for the best of Baltic Sea Region (BSR)” will be organised in Estonia 10-11 June 2015, forum is dedicated to civil society activities for regional, state and NGO sustainable development in Baltic Sea Region states.

The civil society activities for human rights education providing international, regional, state, community and personal level the knowledge and understanding how to be human being beside other human beings.

The Preamble of the **UN Declaration on Human Rights Education and Training (UNDHRET)** states, reaffirming all States and institutions to include human rights, humanitarian law, democracy and rule of law in the curricula of all learning institutions and stating that human rights education should include peace, democracy, development and social justice, as set forth in international and regional human rights instruments, in order to achieve common understanding and awareness with a view to strengthening universal commitment to human rights.

We must learn how to understand and value human rights in daily life. Therefore, it is important that human rights principles be included in the educational system in Estonia. They do not have to comprise a separate subject, but should be present throughout the entire curriculum.

I believe that, for Human Rights Education, a comprehensive approach must be applied that would incorporate the principles of Value Education, Civic Education, Global Education, Peace Education and Sustainable Development Education. Unfortunately, the project-based approach in education often results in the use of different terms for very similar content. On the other hand, the application of Human Rights Education in practice must ensure that human rights values and methodologies underpin all aspects of learning, teaching and public awareness activities. Teaching human rights in schools should start with teaching the teachers. Therefore the states, NGOs, teachers' organisations and students' organisations should tackle this problem themselves by focusing on the missing but very important area – teaching teachers.

Regrettably, during all those 21 years of Estonian independence the activities in Human Rights Education have been too much project-based and not system-creating. Until now, these activities still concentrate on the remaining projects. In Estonia the National Human Rights institution is not yet established according to the Paris Principles.

The proposals and topics for Human Rights Education in Estonia are very wide, covering political will and non-formal as well formal education:

1. To establish in Estonia the independent human rights institution for the promotion of human rights according to the Paris Principles.
2. To include the Human Rights Education into teaching teachers in universities.
3. To include the Human Rights Education into vocational education.
4. Co-operation in projects and other co-operation activities in Estonia and in Baltic Sea Region states.
5. To look critically at the project-based approach to the Human Rights Education.

6. To provide the holistic and comprehensive content and system-creating approach to the Human Rights Education in Estonia.

7. To compile textbooks with consideration for human Rights principles.

8. To ensure that the education covers the disabled people and people with special needs together with supportive measures and services.

9. To integrate Human Rights Education into more subjects taught in schools and universities.

10. To seek to harmonise the terminology basing on the content.

11. To ensure the leading role of the state in Human Rights Education implementation according to international conventions and legal acts.

12. To study the current Human Rights Education aspects and developments in Estonia.

The co-operation between NGOs with different stakeholders provides the best content quality, thoroughness and effectiveness for the Human Rights Education in Estonia, in Baltic Sea Region states and elsewhere. ■

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# The Maritime Institute in Gdansk activity in BSR Interreg projects

Expert article • 1758

**M**aritime Institute in Gdansk is among the most active Polish R&D institutions participating in EU projects. As an R&D unit under the supervision of the Ministry of Infrastructure and Regional Development, the Institute is closely associated with maritime industry for more than sixty years. The EU enlargement created new economic and political environment for cooperation within the European framework. For the Maritime Institute it is the perfect opportunity to conduct research work, studies and assessment within various EU projects, especially those focused on the Baltic Sea Area, dedicated coastal zone development and management, socio-economic development of the region, green transport and logistics, or marine environment protection. Even in the pre-accession period, the Institute actively participated as a full-right partner in projects coordinated especially by Finland or Germany.

Department of Economics and Law carries out a wide range of studies on functioning and sustainable development of maritime economy, sea-land transport logistics, market conditions and forecasts of the maritime economy development as well as studies on economic effectiveness in transport.

One of the first project elaborated within the INTERREG EUROPE Program was the NeLoC followed later by InLoC (Integrating Logistics Centre Networks in the Baltic Sea Region), coordinated by the Centre for Maritime Studies (Turku). The aim of the project aimed at further improvement of the networking between logistics centres, ports and other logistics operators in the Baltic Sea Region. The project also analysed spatial and environmental consequences of logistics centres and aimed at removing bottlenecks in port-hinterland connections.

Among transport-logistics related projects is BATCo, which stands for the intermodal railway axis connecting the Baltic and the Adriatic sea basins and their relevant ports with primary hinterland cities.

Recently the Institute completed its activity in the project Trans-Baltic - a strategic BSR-wide project carried out by regional authorities, transport and logistics-related research institutions, transport operators, logistics associations and pan-Baltic networks. The overall project objective was to provide regional level incentives to facilitate a sustainable multimodal transport system in the BSR, by means of joint transport development measures and jointly implemented business concepts.

A good example of regional transborder cooperation is the project VILA, which stands for exploring common benefits of the Vistula Lagoon potential development and uniform assessment of the socio-economic and environmental conditions of the whole area. Results of the project will contribute to develop the joint strategy of the Vistula Lagoon development.

Activity of the Institute's Department of Operational Oceanography in EU projects is mainly related to the safety and security of the Baltic Sea and coastal areas. For example, the BRISK project aimed at increasing the preparedness of all Baltic Sea Countries to respond to major spills of oil and hazardous substances from shipping. The project implemented the provisions of the HELCOM Baltic Sea Action Plan.

The flagship project in the EU Strategy for the Baltic Sea region was Baltic Master II. It started in 2008 as a follow up project to the successful, EU-awarded Baltic Master project, both with substantial activity of the Maritime Institute joint team. Its aim was to improve maritime safety by integrating local and regional perspectives with cross-border cooperation. This involved increasing the land-based capacity to respond to maritime oil spills and working to prevent pollution from maritime transport.

Also the project EfficienSea covered issues related to ensuring efficient and secure and in consequence a sustainable transport in the Baltic Sea thanks to adequate planning, electronic navigation, risk analysis and vulnerability assessment. The project SMOCS investigated the problem of sustainable management of contaminated sediments in connection to dredging works around the Baltic Sea and the objective were reached through the development of guidelines to for management of contaminated sediments including decision support regarding the handling alternatives as well as treatment technologies.

The environmental topic is also elaborated in the project ECO-DUMP, in which the task of the Institute's laboratory team of Environmental Protection Department was to build the model of spills spread during disposal operations and to develop ecosystem based principles for new disposal sites.

Maritime Institute collaborated also in EU Framework Programs, for example the project SPICOSA within 6FP, which supported the EU Directives and ICZM best practices by contributing to the investigation of social interactions within coastal zone systems and their impact on the environment and future strategic and socio-economic policies.

Within the project SUBMARINER the Compendium has been designed to provide (for the first time), a comprehensive picture of the contribution the Baltic Sea Region can make to European wide initiatives on Blue Growth and a sustainable bio-economy. It roadmap of the project promotes new initiatives in the field of sustainable and innovative uses of the Baltic Sea marine resources.

Considering the special planning of coastal zones, Maritime Institute participated in the project BALTSEAPLAN focused on creating the basis for developing, introducing and implementing maritime spatial planning throughout the Baltic Sea in a coherent manner. Maritime Spatial Planning is the main tool for coordinating spatial use of the sea, balancing the interests of competing sectors so the marine space and resources are used efficiently and sustainably. In this field only little practical experience and few examples are available, so far. Maritime Spatial Planning requires land-sea integration, transnational consultation, an ecosystem based approach and stakeholder participation. Through the project, the Baltic Sea Region institutions and organisations joined forces in order to develop a pan-Baltic approach to topics where spatial dimension exceeds national borders.

The participation in BSR INTERREG projects and the Action Plan of the Baltic Sea Strategy established a unique platform gathering partners and stakeholders from the entire Baltic Sea Region integrating communities from local to international scale, economy

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and policy areas, and different research disciplines. Successful involvement of Maritime Institute in Gdansk in projects benefit to regional economy and authorities, as well as academics and research centres. There is a broad space for further initiatives and activities at all levels, from transnational and cross border regional development, research projects to business and innovation. ■

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# China's economic presence in the Baltic Sea region

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“Let her sleep, for when she wakes, she will shake the world”. Napoleon Bonaparte apparently stated the aforementioned in reference to China some 200 years ago. Napoleon was right. China woke up less than four decades ago, and thereafter it has started to peacefully shake the world economy. In the mid-1970s, China's share of the global economy was relatively small. Now, according to the CIA World Factbook, China's share of global GDP is 13 – 15%, depending on whether one uses the official exchange rate or the purchasing power parity to measure the size of the Chinese economy. Currently, China is the third largest economic power in the world, after the EU and the USA. Within the next 20 years, it will probably become the biggest.

China is not merely a massive economy; it is also an active player in global business. According to the World Trade Organization (WTO), China was responsible for 10% of the world's total imports and some 12% of global exports in 2013. Moreover, China participates actively in global business through investments. According to the United Nations Conference on Trade and Development (UNCTAD), China's share, including Hong Kong, in the world's inward foreign direct investment (FDI) stock was 9% in 2013, and correspondingly its share in the world outward FDI stock was 7%. In the year 2000, the respective figures were 9% and 6%, which means in practice that China is still as attractive an investment target as it was at the beginning of the millennium, whereas it has become a more active investor in the global arena. Even if an increase of one percentage point may seem a modest achievement, one should not forget that the global outward FDI stock more than tripled between 2000 and 2013.

It is not only Chinese goods and capital which spread across Chinese borders, its people do the same. The World Tourism Organization suggests that the international tourism expenditure of China grew by almost USD 30 billion in 2013 to almost USD 130 billion. This

means that Chinese tourists rank first in terms of international tourism expenditure, ahead of those from the USA and Germany.

Chinese business has become interested in the Baltic Sea region as well. In 2005, the Chinese share of foreign trade in the littoral states of the Baltic Sea was modest. If China's neighbour Russia is excluded from the analysis, one can conclude that 10 years ago only 0 – 4% of the exports of the Baltic Sea region (BSR) countries ended up in China. The Chinese share in the BSR countries' imports

was a bit larger, i.e. 2 – 4% (see Valtteri Kaartemo, *The Motives of Chinese Foreign Investments in the Baltic Sea region*, Electronic Publications of Pan-European Institute 7/2007).

In 2013, China's share in the exports of the BSR countries, excluding Russia, has jumped to 1 – 6% and 2 – 9% in their imports. Germany is by far the largest trade partner in the BSR for China. Its trade turnover with China amounted to EUR 140 billion. Russia's trade with China (EUR 67 billion) was less than a half that of Germany. Chinese trade with the rest of the BSR countries in total amounted to around EUR 50 billion (see table below).

When one analyses the development of Sino-Russian trade, one discovers that in 1995 China accounted for some 4.4% of Russia's exports and 1.9% of its imports. In 2010, China became Russia's largest trade partner. The Chinese share in Russian imports has grown nearly tenfold in less than 20 years, whereas its share in Russian exports has nearly doubled. In the foreseeable future, the Russian exports to China will increase notably, as Russia aims to substantially increase its oil sales to China and plans to build natural gas pipelines to start delivering natural gas to China in the next decade. Despite the invasion of the Chinese goods in the Russian market, one should keep in mind that Chinese products started to conquer the Russian market before the EU/USA sanctions on Russia began.

Currently, China is the third largest economic power in the world, after the EU and the USA. Within the next 20 years, it will probably become the biggest.

Trade	Exports to China, excl. Hong Kong, in 2013 (€ million)	%	Imports from China, excl. Hong Kong, in 2013 (€ million)	%
Denmark	2 608	3.1	5 014	6.9
Estonia	99	0.8	458	3.3
Finland	2 766	4.9	3 678	6.3
Germany	67 025	6.1	73 377	8.2
Latvia	83	0.8	335	2.7
Lithuania	88	0.4	565	2.2
Norway	2 083	1.8	6 199	9.2
Poland	1 594	1.0	14 623	9.3
Russia	26 993	6.8	40 312	16.7
Sweden	4 598	3.6	5 091	4.2

FDI	Accumulated outward FDI to China / Hong Kong in 2013 (\$ million)	%	Accumulated inward FDI from China / Hong Kong in 2013 (\$ million)	%
Denmark	4 680 / 6 776	2.3 / 3.3	105 / -52	0.1 / -
Estonia	4 / 0	0.0 / 0.0	10 / 22	0.0 / 0.1
Finland	1 833 / -42	1.2 / -	17 / 0	0.0 / 0.0
Germany	66 642 / 7 313	4.6 / 0.5	-465 / 642	- / 0.0
Latvia	0 / 0	0.0 / 0.0	4 / 4	0.0 / 0.0
Lithuania	5 / 2	0.0 / 0.2	2 / 0	0.0 / 0.0
Norway	72 / 80	0.0 / 0.0	5 113 / Confidential	2.8 / -
Poland	96 / 3	0.3 / 0.0	106 / 263	0.0 / 0.1
Russia	182 / 75	0.0 / 0.0	4 543 / 141	1.0 / 0.0
Sweden	7 209 / 732	1.7 / 0.2	Confidential / 130	- / 0.0

Note: Direct investment positions are negative when a direct investor's claims (equity and/or debt) on its direct investment enterprise are less than the direct investment enterprise's claims (equity and/or debt) on its direct investor. Direct investment positions can be negative due to negative retained earnings (which may result from the accumulation of negative reinvested earnings).

I wish to thank Mr. Anssi Klemetti from the Centrum Balticum Foundation for compiling the data for the table.

Most probably, the Chinese investments in Russia are much larger than the above table indicates (see for instance, Libor Krkowska and Yevgenia Korniyenko, 2008, China's Investments in Russia: Where do they go and how important are they?, Central Asia-Caucasus Institute).

Sources: national statistical agencies, central banks and IMF Coordinated Direct Investment Survey

Contrary to common belief, China has not managed to increase its market share significantly in Russian foreign trade in spite of the prevailing Cold Peace between Russia and the West. According to the Federal Customs Service of Russia, Russia's exports to China increased by 5%, whereas its imports saw a surprising decline of 4% in 2014. The decline in Russia's imports from China was not caused by the dramatic devaluation of the Russian rouble in autumn 2014. Here, one should remember that the declining trend of 2% in Russia's imports from China could already be observed in January – June 2014, i.e. before the rouble's deep decline began.

In addition to Chinese commodities, its capital and its tourists have discovered the Baltic Sea region. However, the share of the BSR in the capital and tourist outflows from China is much lower than its potential, and therefore I must return to my old idea of recommending the establishment of a common trade, investment and tourism promotion agency between the BSR states in far-away markets (see Kari Liuhto, A Common Baltic Sea Investment Agency Could Attract New Capital into the Region, *Baltic Rim Economies* 2/2005).

Unless executives of national promotion agencies in the BSR recognise the need to cooperate in seizing Chinese business opportunities, the political leaders of the BSR should take this decision on their behalf. Hence, I must remind the decision-makers of our region that if you cannot beat the awakened dragon, join it and in doing so try to benefit from some of its actions. ■

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Co-funded by the Baltic Development Forum,  
the Centrum Balticum Foundation,  
the City of Turku, the John Nurminen Foundation  
and the Turku Chamber of Commerce



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