

ISSUE NO. 4, 31 AUGUST 2009

ECONOMIC REVIEWS:

ESTONIA	Page 1
LATVIA	Page 2
LITHUANIA	Page 3
POLAND	Page 4
ST. PETERSBURG	Page 5
LENINGRAD REGION	Page 6
KALININGRAD REGION	Page 7

EXPERT ARTICLES:

Mariann Fischer Boel : <i>The future challenges of agriculture in the Baltic Sea region</i>	Page 8
Henna Virkkunen : <i>Aspects of sustainable development in education in the Baltic Sea region</i>	Page 9
Rasa Juknevičienė : <i>Baltic Sea region security – a view from Lithuania</i>	Page 10
Markku Laukkanen : <i>Regional cooperation in the Baltic Sea area – the potential of Karelia</i>	Page 11
Mats Hellström : <i>Storm over the Baltic Sea – is innovation a safe haven?</i>	Page 12
Raimo Valo : <i>Global financial crisis and the Russian banking system</i>	Page 13
Ingrida Lace : <i>Future international challenges of Latvenergo Group</i>	Page 14
Igor Maksimtsev and Sofia Rekord : <i>Industrial-innovative networks as an opportunity to raise productivity of the Russian North-west</i>	Page 15
Kari Kaunistmaa : <i>From the red star to the double-headed eagle</i>	Page 16
Vladimir Shimov : <i>Republic of Belarus – ways of economic stabilization in the context of the world financial and economic crisis</i>	Page 17
Kiryl Apanasevich : <i>Belarusian anticrisis program – pragmatic conservatism or market reforms</i>	Page 18
Terhi Suominen : <i>NATO in Finland – Finland in NATO?</i>	Page 19
Marcel de Haas : <i>Russia's Arctic strategy – challenge to Western energy security</i>	Page 20
Margarete Klein : <i>A new pan-European security regime?</i>	Page 22
Timo Koivurova and Ismo Pölönen : <i>The Baltic Sea gas pipeline - can we manage it sustainably?</i>	Page 23

EXPERT ARTICLES CONTINUED ON NEXT PAGE

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ISSUE NO. 4, 31 AUGUST 2009

EXPERT ARTICLES CONTINUED:

- Hans-Robert Metelmann and Peter Frank:** *EU kicks the ball to ScanBalt BioRegion – The green valley, the health region* Page 24
- Conrad Stralka and Katarina Veem:** *Sustainable management of the Baltic Sea* Page 25
- Anna Korppoo:** *Russia and climate – on the road to Copenhagen* Page 27
- Sigitas Brazinskas:** *Lithuania – demanded synergy between economic promotion and development* Page 28
- Petri Leino:** *Opportunities for foreign companies in Kola Peninsula* Page 29
- Thomas Johansson:** *Time for the next level of cooperation around the Baltic Sea* Page 30
- Timo Koponen:** *Opportunities of Finland in Russian innovation environment* Page 31
- Kalman Kalotay and Sergey Filippov:** *The global crisis and FDI in new Europe* Page 32
- Risto Venermo:** *Acquisition opportunities in adversity – but don't be late* Page 34
- Ville Korpela:** *Reliable intelligence and due diligence are keys to success in turbulent M&A market in Russia* Page 35
- Joanna Grudzińska:** *Role of young people from Baltic Sea Region in rising its potential* Page 36
- Silvia Magnoni:** *So far (away), so good – when peripheral communities lead the way* Page 37
- Arno Tanner:** *Human migration to and in the Baltic Rim – past, present and future* Page 38
- Anna B. Kisiel-Łowczyk:** *Poland's trade in the BSR after the EU enlargement* Page 40
- Ulla Nygrén:** *The benefit of library and information services to the competitiveness of a university* Page 42

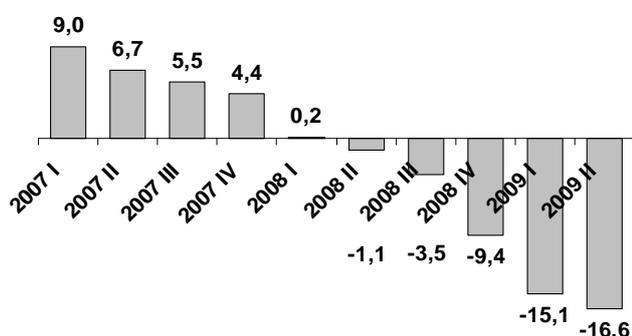
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Estonia

Economic fall continues – GDP down by 16.6%

According to Statistics Estonia, the Estonian GDP decreased by 16.6% in the second quarter of 2009 year-on-year. The decrease in GDP was mainly due to the drop in the value added of manufacturing, construction and wholesale trade. The major factor contributing to the decrease in GDP has been a further slowdown in domestic demand and in consequence, the decrease in orders. In addition, the Bank of Estonia underlines the affect of a decreasing external demand due to the sharp decline in foreign trade and a slowdown in financial markets.

Real growth rate of GDP by quarters in 2007Q1-2009Q2 (y-o-y, %)



Source: Statistics Estonia

However, according to the Bank of Estonia, the economic decline in Estonia has shown some signs of slowing down lately. Compared to the previous quarter, the GDP in Q2 2009 only decreased by 3.7%. Industrial production data by Statistics Estonia shows that the sharp decline in industrial production that has been continuing since the end of 2008 has stabilised during the last months. Industrial production in June 2009 decreased by only 0.2% compared to May 2009.

Unemployment still rising

The unemployment rate in Estonia has been rising rapidly since the second quarter of 2008, reaching 13.5% in the Q2 2009, Statistics Estonia reports. In the first quarter of 2009 the unemployment rate was 11.4%. The number of unemployed persons in Estonia is now 92 000. The male unemployment rate is especially high, 16.9%, which is the highest unemployment rate of men in Estonia so far. The female unemployment rate was 10.0% in the Q2 2009.

According to Statistics Estonia, the main reason for the increased unemployment has been decreasing employment. In addition, the decreasing number of inactive

persons (students, retired persons, homemakers, etc.) has also influenced the unemployment rate. Statistics Estonia also reports that the number of underemployed persons (persons forced to work part-time due to the lack of work or orders) has grown fivefold during the year, from 3 000 to 15 000.

Consumer prices decrease for the third month in row

According to Statistics Estonia, the consumer price index decreased by 0.7% in July 2009 compared to the corresponding month of the previous year. This is the third month in a row that the consumer price index year-on-year has decreased. The consumer price index was mostly influenced by the 19.8% drop in the prices of motor fuel and by the 5.1% drop in the prices of food, as well as by the 13% increase in the prices of alcoholic beverages and tobacco. Among food products the price level of milk and dairy products decreased significantly, by 14.4%. Raising the value added tax from 18% to 20% also had a significant effect on consumer prices.

The consumer price index in July against June 2009 went up by 0.9%, Statistics Estonia reports. The biggest changes were seen in the prices of clothing and footwear (down by 3.1%) and in the prices of housing (up by 2.0%).

Change of the consumer price index in selected commodity groups in July 2009 (%)

Commodity group	y-o-y	Previous month
Food and non-alcoholic beverages	-4.9	1.3
Clothing and footwear	0.2	-3.1
Housing	0.4	2.0
Transport	-9.6	0.9
Hotels, cafés and restaurants	-0.2	0.5
TOTAL	-0.7	0.9

Source: Statistics Estonia

Some business highlights

- Swedish telecommunications company Ericsson has opened a factory in Estonia. The factory is Ericsson's first in Eastern Europe. Ericsson Estonia is expecting a turnover of EEK 3 billion (EUR 192 million). The new factory, which produces broadband devices for mobile networks and fast internet connections, will create about 1200 jobs.
- Estonian infrastructure building company Water Ser has started a big construction project in Lithuania. Water Ser is constructing and reconstructing the Kuršenai water and wastewater networks. The project, worth EEK 41 million (EUR 2.6 million), is expected to last for one year.

Estonia - main economic indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP (y-o-y %-growth, constant prices)	6.5	8.0	7.2	8.3	10.2	11.2	7.1	-9.7	-16.6	Q2/2009
Industrial production (y-o-y %-growth)	8.9	8.2	11.0	10.5	11.0	7.3	6.1	-6.5	-30.0	5/2009
Inflation (CPI, end of period, y-o-y %-change)	4.2	3.6	1.3	3.0	4.1	4.4	9.6	10.4	-0.7	7/2009
General government budget balance (% of GDP)	0.3	1.5	2.0	2.3	2.3	3.8	2.8	-3.0	n/a	1-12/2008
Gross wage (period average, EUR)	352	393	430	466	555	596	784	838	776	Q1/2009
Unemployment (% end of period)	11.9	11.3	9.3	8.5	7.9	5.9	4.7	5.5	13.5	Q2/2009
Exports (EUR million, current prices)	3698	3642	4003	4770	6190	7647	8028	8454	3093	1-6/2009
Imports (EUR million, current prices)	4798	5079	5715	6704	8213	10576	11278	10872	3546	1-6/2009
FDI inflow (EUR million, current prices)	603	307	822	775	2255	1341	1817	1366	167	1-3/2009
Current account (% of GDP)	-5.6	-10.6	-11.6	-12.5	-10.5	-14.8	-17.4	-9.2	0.0	Q1/2009

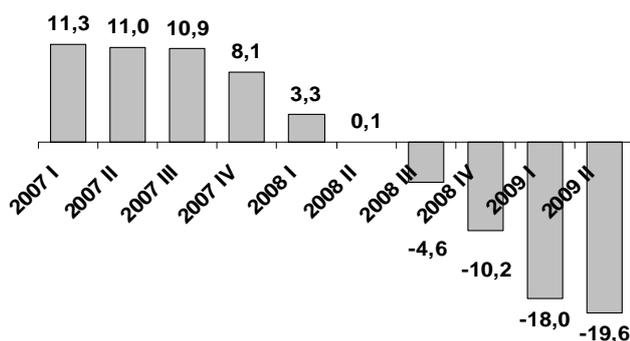
Sources: Statistics Estonia, Bank of Estonia, Eurostat, author's calculations

Latvia

Economic decline continues

According to the Central Statistical Bureau of Latvia the Latvian GDP has decreased by 19.6% in the 2nd quarter of 2009 compared to the corresponding period of 2008. The downward trend was evident in both manufacturing and services. The shrinking GDP was mainly influenced by a drop in retail trade (down by 28%), hotels and restaurant services (down by 35%) and industry (down by 19%), as well as the decrease in the value of collected product taxes.

Real growth rate of GDP by quarters in 2007Q1-2009Q2 (y-o-y, %)



Source: Central Statistical Bureau of Latvia

Industrial production reflects the problematic economic situation in Latvia. Industrial production output in June 2009 fell sharply by 18.5% compared to June 2008, the Central Statistical Bureau of Latvia reports. The largest decreases were seen in mining and quarrying (-22.3%) and in manufacturing (-20.0%). On the other hand, electricity and gas supply fell by only 4.9%. The most significant decreases in manufacturing sub-sectors were recorded in the manufacture of other transport equipment (building of ships and boats, the manufacture of railway locomotives and rolling stock), which went down by 77.7%, the manufacture of motor vehicles, trailers and semi-trailers (-53.2%), and in the manufacture of machinery and equipment (-52.3%). However, compared to May 2009, industrial production in June rose by 1.4%.

Foreign trade decreases

Latvian foreign trade has fallen significantly during the first half of 2009. During January–June 2009 the value of Latvian exports decreased by 26.4% and imports by 40.5% compared to the corresponding period of the previous year. During the second quarter of 2009 exports from Latvia totalled LVL 826.8 million (EUR 1180 million), which is 18.6%

less than in the same quarter of 2008. Imports, on the other hand, totalled LVL 1074.7 million (EUR 1534 million), 40.3% less than in Q2 2008.

Inflation still decelerating

The consumer price level in July 2009 increased by 2.5% compared to the corresponding month of the previous year, the Central Statistical Bureau of Latvia reports. Prices for goods increased by 1.2% and prices for services by 5.7%. With regard to different commodity groups, prices for housing, water, electricity, gas and fuels increased by 4.8% and hotels and public catering by 1.2%. However, the prices for food (down by 2.7%), clothing and footwear (down by 2.8%), and transport (down by 6.7%) were all on a downward trend.

Compared to June 2009 the inflation in July decreased by 0.6% and thus is still in decline. The price decrease of clothing and footwear was the biggest (down by 4.0%). Also prices for housing, water, electricity, gas and fuels went down (-2.2%), as well as prices for transport (-1.1).

Change of the consumer price index in selected commodity groups in July 2009 (%)

Commodity group	y-o-y	Previous month
Food	-2.7	-0.8
Clothing and footwear	-2.8	-4.0
Housing, water, electricity, gas, fuels	4.8	-2.2
Transport	-6.7	-1.1
Hotels and public catering	1.2	-0.6
TOTAL	2.5	-0.6

Source: Central Statistical Bureau of Latvia

Some business highlights

- The European Reconstruction and Development Bank (EBRD) will invest in Latvian Parex Bank. The deal is expected to be finalised by the end of July. EBRD will invest LVL 59.5 million (EUR 85 million) and become a Parex shareholder with a 25% plus 1 share of common shares.
- The Port of Riga will be relocated from downtown Riga to Krievu Island. Riga City Council has accepted the infrastructure development measures required by moving the new port to Krievu Island, including seven wharves and a railway station. The new port is expected to handle up to 22 million tons of cargo each year.
- Capital Department Store company is planning to open an outlet of British department store Debenhams in Riga by 2010. U.K. and Ireland-based Debenhams is the second largest British department store chain with 153 department stores of clothing, cosmetics and house ware.
- The Latvian restaurant chain Double Coffee has opened its first franchise in Beijing, China. Double Coffee, which opened its first restaurant in Riga in 2002, operates in Lithuania, Estonia, Belarus, Ukraine and now also in China. The restaurant chain is planning to open four to five restaurants in Beijing each year and spread to other Chinese cities as well. Double Coffee has been listed as one of the 500 fastest growing enterprises in Europe.

Latvia - main economic indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP (y-o-y %-growth, constant prices)	8.0	6.5	7.2	8.5	10.6	12.2	10.3	-10.3	-19.6	Q2/2009
Industrial production (y-o-y %-growth)	6.9	5.8	6.5	6.0	5.6	4.8	0.5	-6.7	-18.5	6/2009
Inflation (CPI, end of period, y-o-y %-change)	3.2	1.4	3.6	7.3	7.0	6.8	14.1	15.4	2.5	7/2009
General government budget balance (% of GDP)	-2.1	-2.3	-1.6	-1.0	-0.4	-0.2	0.0	-4.0	n/a	1-12/2008
Gross wage (period average, EUR)	282	297	298	314	350	430	683	678	670	Q1/2009
Unemployment (% end of period)	12.9	11.6	10.3	10.3	8.7	6.8	5.4	9.9	16.7	Q2/2009
Exports (EUR million, current prices)	2232	2416	2559	3204	4085	4594	5727	6202	2327	1-6/2009
Imports (EUR million, current prices)	3910	4284	4634	5671	6879	8828	10986	10534	3241	1-6/2009
FDI inflow (EUR million, current prices)	n/a	223	248	489	568	1324	1797	909	50	1-3/2009
Current account (% of GDP)	-7.6	-6.6	-8.1	-12.9	-12.3	-21.1	-22.8	-12.6	1.1	Q1/2009

Sources: Central Statistical Bureau of Latvia, Bank of Latvia, Eurostat, author's calculations

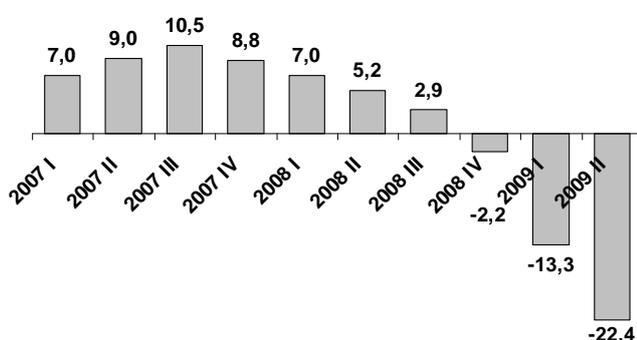
Lithuania

Economy plummeted – GDP down by 22.4%

According to Statistics Lithuania, the second quarter GDP decreased by 22.4% year-on-year. The decline is the deepest in the European Union and the recession in Lithuania is the worst since the country's independence in 1990.

Against the first quarter of 2009 the Lithuanian GDP dropped by 1.1%. The decrease in GDP was mainly due to the drop in production and consumption. A positive change was recorded only for non-market services, Statistics Lithuania reports. During the first six months of 2009 the Lithuanian economy shrank 18.1%.

Real growth rate of GDP by quarters in 2007Q1-2009Q2 (y-o-y, %)



Source: Statistics Lithuania

Decrease in foreign trade

Lithuanian foreign trade has been decreasing significantly during the first half of 2009. According to Statistics Lithuania, exports shrank by 31.0% and imports by 43.5% during the first half of 2009 against the first half of 2008. Exports of petroleum oils and oils obtained from bituminous minerals decreased by 43.6%, vehicles, other than railway or tramway rolling stock, by 43.0%, fertilizers by 43.0%, and electrical machinery and equipment by 45.3%. Even more significant drops were seen in imports. Imports of crude petroleum decreased by 45.3%, vehicles, other than railway or tramway rolling stock, by 73.9%, and boilers, machinery and mechanical appliances by 52.0%.

Exports during the first six months of 2009 amounted LTL 19 billion (EUR 5.5 billion) and imports 21.2 billion (EUR 6.1 billion). Thus the foreign trade deficit was LTL 2.2 billion (EUR 637 million), which was 77.5% lower than in the corresponding period of 2008. In June 2009 against May, however, there was some growth in Lithuanian foreign trade. Exports increased by 11.3% and imports by 1.0%.

Lithuania - main economic indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP (y-o-y %-growth, constant prices)	6.6	6.9	10.3	7.3	7.9	7.7	8.0	3.2	-22.4	Q2/2009
Industrial production (y-o-y %-growth)	16.0	3.1	16.1	10.8	7.3	8.9	7.2	2.7	-15.7	7/2009
Inflation (CPI, end of period, y-o-y %-change)	2.0	-1.0	-1.3	2.9	3.0	3.8	8.1	10.9	3.0	7/2009
General government budget balance (% of GDP)	-2.0	-1.4	-1.3	-1.5	-0.5	-0.3	-1.2	-3.2	n/a	1-12/2008
Gross wage (period average, EUR)	274	293	311	335	421	459	594	672	635	Q1/2009
Unemployment (% end of period)	17.4	13.8	12.4	11.4	8.3	5.6	4.3	5.8	11.9	Q1/2009
Exports (EUR million, current prices)	4778	5526	6158	7478	9502	11250	12522	16074	5490	1-6/2009
Imports (EUR million, current prices)	6767	7943	8526	9959	12446	15384	14341	21026	6147	1-6/2009
FDI inflow (EUR million, current prices)	516	772	160	623	826	1448	1645	1223	190	1-3/2009
Current account (% of GDP)	-4.7	-5.1	-6.8	-7.7	-7.2	-10.8	-13.7	-11.6	0.4	Q1/2009

Sources: Statistics Lithuania, Bank of Lithuania, Eurostat, author's calculations

During the first half of 2009 the most important foreign trade partners of Lithuania were Russia with a 12.4% share of exports and 30.7% of imports, Latvia (10.1% of exports and 6.2% of imports), Germany (9.3% of exports and 11.4% of imports), Estonia (7.0% of exports) and Poland (9.9% of imports)

Inflation still decreasing gradually

Statistics Lithuania reports that the prices for consumer goods and services decreased by 0.8% in July 2009 against the previous month. Negative inflation was recorded for the fourth month in a row. The change in consumer prices was mostly influenced by a 2.4% price decrease for water, electricity, gas and other fuels, 1.0% for food products and non-alcoholic beverages and 3.0% for clothing and footwear. The prices for recreation and culture goods and services increased by 1.4% and health care goods and services by 0.6%.

However, according to Statistics Lithuania, annual inflation was still growing in July 2009. Inflation in July increased by 3.0% compared to the corresponding month of 2008. The prices for housing, water, electricity, gas and other fuels increased by 12.3%, the health care group of goods and services by 17.1% and alcoholic beverages and tobacco products by 12.6%. However, the price level of clothing and footwear decreased by 8.6%.

Change of the consumer price index in selected commodity groups in July 2009 (%)

Commodity group	y-o-y	Previous month
Food and non-alcoholic beverages	-0.4	-1.0
Clothing and footwear	-8.6	-3.0
Housing, water, electricity, gas etc.	12.3	-2.4
Transport	-6.7	-1.1
Hotels, cafés and restaurants	6.7	0.1
TOTAL	3.0	-0.8

Source: Statistics Lithuania

Some business highlights

- British bank Barclays will invest in Lithuania about LTL 173 million (EUR 50 million) in the form of a computer service centre. The IT service centre will be located in Vilnius and it is expected to create about 300 jobs by the end of 2009.
- Major Japanese corporation Mitsubishi has expressed its interest in supplying reactors to the new nuclear power plant in Lithuania. The heads of the corporation have discussed the possibilities of cooperation with Lithuanian Prime Minister Andrius Kubilius on their visit to Vilnius.
- New airline company Star1 Airlines has started flights between Vilnius and London (Stanstead), Dublin and Girona (Barcelona) in the beginning of July. Star1 Airlines is the second airline to begin flying to Vilnius after the Lithuanian airline company FlyLAL went bankrupt in January. The first was a Sweden-based airline Skyways that started flying to Vilnius already in June.

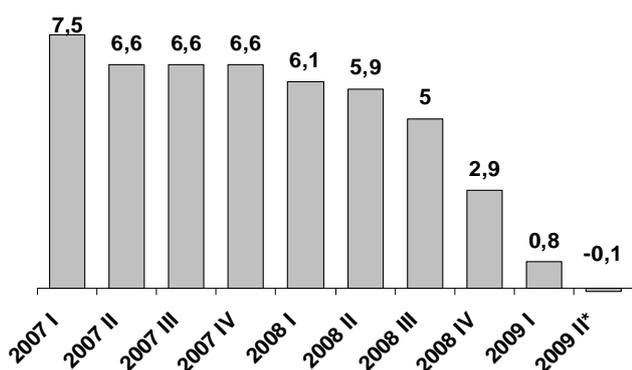
Poland

Coping with the economic crisis

Poland has been resisting the economic crisis better than many other countries in Central and Eastern Europe. The Polish GDP growth during the first quarter of 2009 was 0.8%, reports the Central Statistical Office of Poland, and the IMF is projecting only slightly negative numbers for the year 2009, about -0.75%.

According to the IMF, Poland has been able to cope with the crisis relatively well because of its sound economic policies that have prevented the country from building up large external and internal imbalances common to other Central and Eastern European countries. Because of the relatively healthy state of the Polish national economy, the government has been able to implement anti-crisis politics to ease off the economic downturn. In addition, the recent positive GDP development has been influenced by the persistent growth in consumption and the fact that Poland is less affected by the decline in foreign trade because of the smaller role that exports play in the country's economy, the IMF analyses.

Real growth rate of GDP by quarters in 2007Q1-2009Q2 (y-o-y, %)



* forecast

Source: Central Statistical Office of Poland

Small decline in industrial output

According to the Central Statistical Office of Poland, industrial output in July 2009 fell by 4.6% compared to the corresponding month of the previous year. The most significant decrease was recorded in mining and quarrying, -19.3%. Other sectors decreased more slightly. Manufacturing went down by 4.1%, water supply, sewage treatment, waste disposal and land rehabilitation by 2.9% and electricity, gas, steam and air conditioning supply by 1.8%

y-o-y. With regard to the manufacturing subsectors, particularly bad figures were noted in basic metals, which went down by 23.8%, motor vehicles, trailers and semi-trailers (-18.0%) and machinery and equipment (-15.1%). However, production in computers, electronic and optical products increased by 36.5% and pharmaceuticals by 30.1%. All in all, industrial output in July 2009 decreased in 23 out of 34 industrial sectors y-o-y.

Unemployment stays approximately the same

The Central Statistical Office of Poland reports that the unemployment rate in Poland in June 2009 was 10.7%, which is only 0.1 percentage points lower than in May 2009. During the first 6 months of this year the unemployment rate has remained relatively stable, between 11.2% recorded in March and 10.5% recorded in January. In a year-on-year comparison the unemployment rate in June 2009 was 1.3 %-points higher.

Change of the consumer price index in selected commodity groups in July 2009 (%)

Commodity group	y-o-y	Previous month
Food and non-alcoholic beverages	4.0	-1.2
Clothing and footwear	-8.1	-1.7
Dwelling	7.0	0.2
Transport	-1.8	2.1
Restaurants and hotels	5.0	0.4
TOTAL	3.6	0.1

Source: Central Statistical Office of Poland

Some business highlights

- German sugar manufacturer Pfeiffer & Langen will acquire Poland's fourth largest sugar producer Cukrownia Glińcok from British Sugar Overseas (BSO). Pfeiffer & Langen controls 16% of sugar production in Poland and after the acquisition, 27%. The value of the deal was not disclosed, but according to BSO, the value of the Cukrownia Glińcok company is PLN 535 million (EUR 130 million).
- Euronit, one of Poland's largest manufacturers of concrete roofing tiles has opened a new factory in Chojnice in the Kashubia region, Poland, in June. Euronit is part of the Belgian Etex Group. And this is the company's second factory in Poland. The project is worth approximately PLN 60 million (EUR 14.5 million) and it will create 36 jobs within a year.
- A Finnish shipping operator Finnlines has launched a new ferry route linking Travemünde in Germany, Gdynia in Poland and Helsinki in Finland. The route is operated by five modern passenger and cargo vessels. Finnlines is owned by the Italian Grimaldi Group.
- The Polish National Bank has announced that in Q2 2009 the business confidence index rose for the first time since Q1 2008. That might suggest that companies believe the worst of the crisis is over. However, the National Bank of Poland warns that the index still remains low.

Poland - main economic indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP (y-o-y %-growth, constant prices)	1.1	1.4	3.8	5.3	3.5	6.2	6.7	4.8	0.8	Q1/2009
Industrial production (y-o-y %-growth)	0.6	1.1	8.3	12.6	4.1	5.7	9.7	3.5	-4.6	7/2009
Inflation (CPI, end of period, y-o-y %-change)	3.6	0.8	1.7	4.4	0.7	1.4	4.0	4.2	3.6	7/2009
General government budget balance (% of GDP)	-3.7	-3.3	-2.9	-3.3	-6.1	-3.9	-1.9	-3.9	n/a	1-12/2008
Gross wage (period average, EUR)	557	544	497	505	591	630	688	759	777	1-6/2009
Unemployment (% end of period)	18.5	19.7	19.3	18.0	16.7	12.2	11.4	9.5	10.7	Q2/2009
Exports (EUR billion, current prices)	40.4	43.4	47.5	59.7	71.4	87.5	101.1	114.6	45.7	1-6/2009
Imports (EUR billion, current prices)	56.2	58.3	60.4	71.4	80.6	100.0	118.8	139.3	49.4	1-6/2009
FDI inflow (EUR billion, current prices)	6.4	4.4	3.7	10.0	8.3	15.7	16.6	11.4	1.2	1-5/2009
Current account (% of GDP)	-2.9	-2.6	-2.1	-3.5	-1.7	-2.3	-3.7	-5.4	0.5	Q1/2009

Sources: Central Statistical Office, National Bank of Poland, Eurostat, author's calculations

St. Petersburg

Economy: the crisis continues

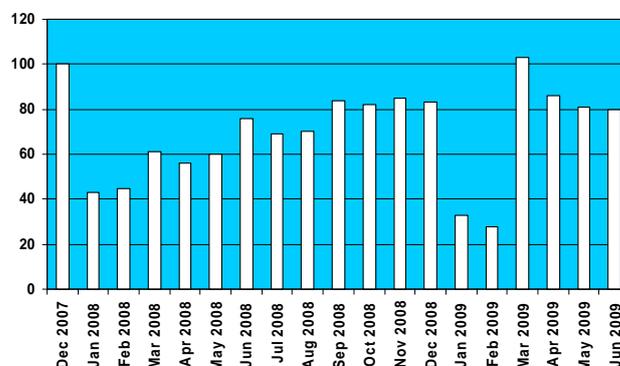
In the first half of 2009 almost all the sectors of the regional economy experienced a dramatic downfall. After the sharp decrease of January-February, the reduction eased in April-May. Nevertheless, June 2009 resulted in a new wave of recession. For example, the industrial production of St. Petersburg went down in June 2009 by 30.8%, y-o-y. The decrease of construction in the first summer month of 2009 was even deeper: minus 32.6% compared to June 2008. Overall half-year results of January-June 2009 were less impressive: -21.7% in industrial production, and -23.1% in construction, y-o-y. Retail trade contracted in the first half of 2009 by 6.6% y-o-y, catering lost 15.3% of its output compared to the first half of 2008. Two sectors, namely transport and communication, showed a relatively positive performance in January-June 2009, mostly due to raising up tariffs in the beginning of the year: transport rose by 10.0% and communication by 7.1%, y-o-y. Nevertheless, in June 2009 alone, the output of these two sectors grew quite moderately: 1.1% and 1.7% respectively. Moreover, it was just the growth of value output: volumes of cargo carried by the regional transport sector during January-June 2009 counted in tonnes fell by 21.4%, y-o-y; in communications the situation was almost the same. A more in-depth study of output structure reveals the same phenomenon in the industrial sector. In the first half of 2009 manufacturing branches alone contracted by 29.3% y-o-y. The better overall performance of the whole industrial sector was achieved solely by the contribution of energy generation and water supply, dominated by natural monopolies, namely Lenenergo and Vodokanal. The latter produce utilities, the value of which increased by 18.3% in the first half of 2009, for the whole megapolis of St. Petersburg. All other branches, including the crisis-resistant (*"people always need bread"*) food production, reported a decline; food producers reduced their output in January-June 2009 by 12.6% y-o-y. This led to a high tariff-driven inflation, which in the first half of 2009 exceeded the corresponding figure for year 2008. However, import-driven inflation in the region is expected to drop in the second half of the year, due to stable (or even decreasing) prices on imports and a marginally stronger rouble: the national currency grew slightly in April-June versus major currencies, especially the US Dollar.

Construction: focused on sales

The output value of St. Petersburg's construction sector decreased in the first half of 2009 by 23.1% y-o-y, reporting a rather even negative performance throughout all the six first months in a row: a minimal y-o-y decline of -7.4% was observed in March, while the biggest fall of -40.6% was experienced in February. Nevertheless, these gloomy results refer to monetary output only. Output volumes (or output counted in metres and other physical parameters) remained at the same level as a year before, or even higher. This contradiction reflects a new development pattern in the regional construction sector. During the pre-crisis real estate boom of 2006-2008 construction companies were mostly focused on launching new projects rather than finishing old ones. Prices on land and apartments were climbing, making it more profitable to postpone sales awaiting higher revenues. Resources within the sector were

directed towards territorial expansion and zero-cycle activities. To some extent, construction companies in St. Petersburg were involved in a kind of speculative game, which suppressed the real activity in the sector. The crisis created a downward price trend on the regional estate market, making these speculations senseless.

Metric volumes of construction, index (December 2007 = 100%)



Source: Petrostat, 2009

Vice versa, construction companies, facing a sudden drop of cash-flow, concentrated all their efforts on completing their projects and selling the apartments: the total amount of apartments sold in the 1st half of 2009 grew 12.6% y-o-y.

Incomes: uneven performance

Real incomes of St. Petersburg's residents continued to fall in the first half of 2009. This negative trend was, to a major extent, a consequence of higher inflation, rather than a crisis-driven phenomenon. Real incomes were falling also throughout all of 2008, losing their value mostly due to high inflation, and despite rising salaries. A slowdown of regional inflation in June 2009 led to a 7.9% increase of real incomes. A forecasted slowdown of inflation in the region in the second half of 2009 might outweigh the decrease of nominal salaries and support the existing level of real incomes.

Some business highlights

- St. Petersburg Government enrolled one more industrial project into the list of strategic investment projects co-financed by the region. This was the replacement of huge machine-building production facilities owned by Silovyje Mashiny holding (includes four industrial plants) from territories located close to the city's centre to the suburbs, namely to the Kolpino district. The project is aimed first of all at improving the urban environment. Another target of this initiative is a synergy effect: all the four replaced plants would be merged into one single plant. The project's budget totals RUB 31.6 billion (EUR 700 million).
- St. Petersburg-based biggest sugar producer Sahamaja Kompanija was sued by its creditor, French bank Societe Generale. The debtor owns nearly RUB 13.6 billion (EUR 300 million) to the bank.
- The region of St. Petersburg announced a tender for building 1587 one-bedroom apartments for veterans. The city allocated RUB 2.7 billion (EUR 60 million) for this purpose.
- Local chemical company, namely Penoplex, launched a new production facility in Kazakhstan. The new plant required an investment of RUB 904 million (EUR 20 million). It would produce plastic insulation for residential construction.

St Petersburg - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP of St Petersburg (y-o-y %-grow th, constant prices)	10.5	4.5	17.7	8.4	7.2	8.4	8.4	9.1	8.7	n/a	1-12/2008
Industrial production (y-o-y %-grow th)	26.2	0.2	31.4	5.8	14.1	4.2	-7.0	10.0	4.1	-21.7	H1/2009
Regional inflation (CPI, y-o-y %-change)	23.5	16.3	16.6	13.0	12.7	12.0	10.0	10.9	14.9	15.2	H1/2009
Gross average wage (monthly, EUR)	n/a	n/a	217	209	285	344	407	510	667	536	5/2009
Unemployment (% average annual)	7.9	4.4	3.5	4.3	2.8	2.4	2.4	2.0	2.0	3.9	H1/2009
Exports (EUR million, current prices)	2736	2134	1839	2428	3210	3953	5499	12978	16055	2068	Q1/2009
Imports (EUR million, current prices)	2693	4423	5158	5123	5560	8081	10299	15093	17475	2349	Q1/2009
FDI inflow (EUR million, current prices)	158	127	89	62	90	200	512	567	581	162	Q1/2009

Source: Petrostat, Rosstat, Central Bank of Russia, European Central Bank, author's calculations

In 2002 and 2004 average wage is for December; in 2003, 2005, 2006, 2007 and 2008 wage is for November of corresponding year

Leningrad region

Economy: a not-so-bad performance

In the first half of 2009 the economy of Leningrad province had experienced a crisis influence, the same as other regions of Russia, or other areas of the globe. Nevertheless, it remained more resistant to this negative influence than, e.g., more economically advanced regions like St. Petersburg or Moscow. Industrial production, a cornerstone the province's economy, contracted in January-June 2009 by 8.9%, y-o-y. This decline, however, happened due to the fall of a limited number of branches; most of those were suppliers to the construction sector of neighbouring St. Petersburg. The extractive industry, supplying sand and crushed stone to the city's developers, went down by 39.4% y-o-y; the chemical branch cut its output by 39.5% y-o-y. Another outsider of the regional economy was automobile production: which in the first half of 2009 lost 30.6% of its output value y-o-y. The biggest regional car producer, namely the Ford Motor Company, faced a sharp decline in sales, and, consequently, of output in 2009. It stopped production during the hardest winter period; in the second half of 2009 the company plans to introduce a four-day working week in order to further cut costs. Nevertheless, the region's biggest branch, namely the food and tobacco industry, raised its output in January-June 2009 by 2.1% y-o-y; fuel production grew 7.0%; and pulp and paper branch fell by 14.9%, y-o-y. Transport and communication sectors of the region in the first half of 2009, grew similarly: by 13.7% and 12.8% respectively, y-o-y. The good performance of these two sectors was not a result of rising tariffs: regional cargo turnover measured in carried tonnes per kilometre increased in January-June 2009 by 3.9% y-o-y. Even trade, a demand-sensitive sector, reported just a 1.0% decline in the first half of 2009. The value of construction works decreased in the first six months of 2009 by 10.4%, while the amount of apartments finalised during this period went up by 36.9% compared to January-June of 2008. These controversial figures reflect the price drop on the regional estate market, and the corresponding decrease of subcontractors' prices.

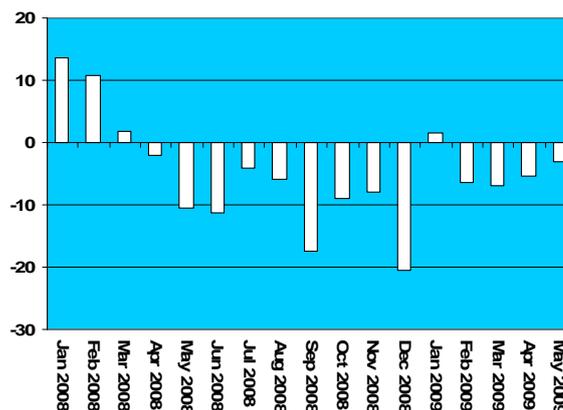
Agriculture: going up

In January-June 2009 the upward trend of regional agriculture continued: agricultural output in Leningrad province grew 5.2% y-o-y. Partly this was achieved due to good weather and high crop yields: grain production in the first half of 2009 went up by 4.0% y-o-y. But the main driver of agricultural recovery in the area was cattle-breeding, and especially hog breeding. The increase of livestock in the region in January-June 2009 continued, and the biggest growth was observed in sheep stock and in hog stock: they expanded by 3.1% and 69.8% y-o-y, respectively. This resulted in a 9.1% y-o-y growth of total meat production in the region. Egg production rose by 5.9%, and milk output decreased by 0.5% y-o-y. The increase of agricultural production was fuelled by higher prices on imported food. The main surplus was generated by new hog farms; poultry stock at old broiler factories remained almost stagnant. However, intensive farming showed certain negative signs: productivity in hog breeding decreased in the first half of 2009 by 20.9% y-o-y.

Incomes and employment: still under pressure

In the first half of 2009 the private incomes of Leningrad province's residents sustained a negative trend. In the first quarter of 2009 real disposable incomes in the regions went down by 4.2% y-o-y; in April they fell by 5.5% y-o-y, and in May 2009 the contraction was 3.0% compared to May 2008. The main driver of this decrease was the negative dynamics of the average real salary: which dropped by 9.2% y-o-y in the region. Unemployment was one of the reasons for lowering salaries: staff became more loyal towards management, which were trying to cut costs. In June 2009 the number of job-seeking applicants at the Regional Employment Service more than doubled in comparison to June 2008.

Real monetary incomes, % change, y-o-y



Source: Petrostat, 2008, 2009

Nevertheless, the situation in social sector is gradually improving. First of all, a fall of real incomes in January-May 2009 turned to be less impressive than in the second half of 2008. Secondly, households' incomes since February 2009 constantly exceeded their expenditures, and the savings rate climbed from 1.6% of incomes in December 2008 up to 8.7% in May 2009, creating certain storage for better financial security of the households.

Some business highlights

- Russian state-owned Vneshekonombank together with China's State Development Bank, agreed to invest RUB 9.9 billion (EUR 220 million) in building a new cement factory in Slantsy, Leningrad province. Two production lines of the factory would produce 3.7 million tonnes of cement a year. Another Chinese company, namely Hefei Cement Research and Design Institute (HCRDI), became the main contractor of this construction project.
- The situation in Pikalevo, Leningrad province, was finally resolved during the visit of Russia's Prime Minister V. Putin to this town. All the tree enterprises, being the parties of corporate conflict which led to mass unemployment in the town, and to social tensions in it, concluded an agreement to start production. Nevertheless, the basic raw supplier of Pikalevo enterprises, namely fertiliser-producing holding Fosagro, considers his agreement to be of a temporary nature.
- In January-May 2009 the financial performance of regional enterprises worsened: aggregated balance (profits minus losses) of all the existing companies contracted by 51.3% compared to the corresponding period of 2008. The bulk of loss-makers were represented by two sectors: trade and real estate operations.

Leningrad region - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP of Leningrad Province (y-o-y %-growth, constant prices)	12.8	8.5	16.3	14.6	8.8	8.3	8.1	8.5	7.6	n/a	1-12/2008
Industrial production (y-o-y %-growth)	26.8	10.7	35.6	20.9	10.3	5.9	26.9	2.6	1.0	-8.9	H1/2009
Regional inflation (CPI, y-o-y %-change)	23.5	19.6	14.8	13.0	14.9	12.0	9.9	9.3	15.5	15.7	H1/2009
Gross average wage (monthly, EUR)	105	141	152	173	190	259	324	403	492	413	5/2009
Unemployment (% average annual)	12.7	10.8	9.6	9.2	7.5	7.8	6.2	3.3	3.2	8.9	H1/2009
Exports (EUR million, current prices)	1786	2350	2301	2580	3886	4862	5443	6078	7870	1078	Q1/2009
Imports (EUR million, current prices)	328	810	939	1061	1372	2562	2858	4759	5932	700	Q1/2009
FDI inflow (EUR million, current prices)	222	266	122	104	107	179	288	277	258	347	Q1/2009

Source: Petrostat, Rosstat, Central Bank of Russia, European Central Bank, author's calculations

In 2000-2008 average wage is for November of corresponding year

Kaliningrad region

Economic downturn may be bottoming out

By the middle of the year Kaliningrad's economy showed some first and fragile signs that the downturn may be bottoming out. In June, industrial production was higher than a year ago for the first time in 2009. Although it was mainly a statistical blip due to the end of maintenance work at Kaliningrad's largest power station (CHPP-2), there were some other positive signals in the economy. In manufacturing, most major sectors increased production in June on the m-o-m basis. While the consumer electronics sector remains half-dead, the production of cars has been steadily increasing and reached approximately 80% of last year's level.

Construction works have been growing since March on the m-o-m basis and in June they were 21.9% higher than a year ago. It seems that a large amount of this growth came from active road construction financed by public money since the area of completed housing fell 18.6% in the first half of the year.

Retail trade has also showed some signs of stabilisation: retail sales were down by 1.6% in the first six months but it was an improvement by 2.9 percentage points compared with the data for the first four months.

Growth rates by sectors, y-o-y, %

	2009 Jan-Jun	2008 Jan-Jun
Industrial production	-15.9	2.3
Extraction industries	-3.4	-0.5
Manufacturing	-25.3	14.5
Electricity, gas and water	-18.1	-4.5
Construction	-4.8	46.8
Retail trade	-1.6	21.0

Source: Kaliningradstat (2008-2009)

Corporate and public finances

Another positive sign was a recovery in financial results of Kaliningrad's enterprises: their total profits exceeded their total losses in the period of January-May for the first time in 2009.

However, the crisis caused a serious deterioration in public finances: the total tax receipts (federal and regional) in Kaliningrad fell by 13.2% in the January-May in current prices. Receipts from corporate profit tax almost halved in this period. Although transfers from the federal budget grew by 90%, the total revenues of the consolidated regional budget were still down by 1.2%.

Consumer inflation declines

Weaker demand caused by the economic crisis pushed down the consumer inflation rate. After a jump in prices in the beginning of the year related to the traditional increase in utility tariffs and the rouble devaluation, consumer inflation has been steadily decreasing since March (y-o-y) and is now at the lowest level in the last 18 months.

The economic downturn did not have the same effect on

producer prices: because a substantial part of Kaliningrad's manufacturing goods are assembled from foreign components the impact of devaluation was much more significant. Producer prices rose by 9.1% in February and 6% in March adjusting for the substantially weaker rouble. Since December 2008 they increased by 23.4%. In contrast, prices in the construction sector, which does not depend much on imports, were declining and in June were 3.3% lower than in December.

Consumer price index, y-o-y



Source: Kaliningradstat (2009)

The labour market

The unemployment rate reached 11.6% in June – it is one of the highest rates in the North-West Federal District and substantially above the average rate of 8.3% in Russia. Still it seems that the growth in the number of unemployed workers decreased substantially since April. In the first four months of the year the net monthly increase in the number of unemployed who registered with the state unemployment service was 2,630, but it dropped to 650 in May and June. Wages continued to decline in real (inflation adjusted) terms – in May the real wage was 4% lower than a year ago but the rate of decreasing was slowing down.

Some business highlights

- Danish company DSV Transport, (a resident of the SEZ) opened a logistics centre in Kaliningrad, with 10 000 m² of warehouse facilities.
- British consumer finance company, International Personal Finance plc, decided to discontinue its pilot operation in Russia, created on the basis of the Kaliningrad Maritime Bank. The company said that the development of the Russian market is not the best use of the company's resources given negative economic trends.
- The government of the Russian Federation transferred RUB 4 billion (EUR 89 million) to the Kaliningrad government to buy a controlling stake in the regional airline, KD-Avia.
- The new passenger terminal in Khrabrovo airport (KGD) was separated from the airline, KD-Avia, and its ownership transferred to Bank St. Petersburg. The airline was unable to pay back loans provided earlier by the bank. It was also reported that the second stage of the terminal will be delayed because of the crisis.
- One of the largest contract manufacturer of consumer electronics in Kaliningrad, BMS (formerly Baltmixt), has hired former senior vice-president of Flextronics, M. Rosenberg, and plans to open a new facility in St. Petersburg.

Kaliningrad - main economic indicators	2002	2003	2004	2005	2006	2007	2008	2009	as of
GDP (y-o-y %-growth, constant prices)	9.5	9.3	12.6	3.6	15.3	19.9	9.7	n/a	1-12/2008
Industrial production (y-o-y %-growth)	4.2	4.7	22.5	27.4	66.6	34.8	2.5	-15.9	1-6/2009
Inflation (CPI, end of period, y-o-y %-change)	9.8	17.5	11.7	11.1	7.9	11.2	15.2	11.8	6/2009
Gross wage (period average, EUR)	125	137	155	193	285	358	430	359	4-5/2009
Unemployment (% end of period, LFS data)	7.2	7.6	6.5	6.6	4.5	3.4	8.7	11.6	Q2/2009
Exports (EUR million, current prices)	497	507	876	1470	2025	3666	765	95	Q1/2009
Imports (EUR million, current prices)	1701	1894	2419	3283	4275	5714	6564	841	Q1/2009
'Exports' to Russia (EUR million, current prices)	802	989	1449	1901	2471	3901	3805	n/a	1-12/2008
FDI inflow (EUR million, current prices)	6.3	12.4	18.0	15.1	16.9	117.9	109.4	11.3	Q1/2009

Source: Kaliningrad Statistical Office, RosStat, Central Bank of Russia, author's calculations

The future challenges of agriculture in the Baltic Sea region

By Mariann Fischer Boel

On 10th June this year, the European Commission adopted a proposal for an EU Strategy for the Baltic Sea Region. This proposal will be the subject of intense discussions during the Swedish Presidency of the EU, which began on 1st July. The Strategy covers a wide range of issues such as environment protection, sustainable economic growth, energy and transport networks and is built around four main objectives: to improve the environmental state of the region; to make it a more prosperous place by supporting balanced economic development; to make the region more accessible and attractive for its inhabitants, workers and tourists; and to improve safety and security.

The Strategy does not imply any new legislation or mobilisation of additional public support, but is based on the will of governments and citizens in the eight Member States and regions around the Baltic Sea to work more closely together to meet shared challenges.

It includes a comprehensive action plan with a list of 80 flagship projects, which can be coordinated either by public institutions or private bodies, for example NGOs.

Environment and agriculture in the region

Good environmental status was chosen to be primary goal of the Strategy. The Baltic Sea is the largest body of low-salinity water in the world and is very sensitive to pollution. The condition of the sea is deteriorating, mainly due to discharges of nitrates and phosphates. Agriculture is therefore at the centre of the debate when it comes to environmental protection. As such, the EU's Common Agricultural Policy should be considered as part of the solution in the Baltic Sea Region – not part of the problem. Recent reforms to the CAP have put a much greater emphasis on environmental protection, through linking payments to farmers directly to the respect of standards and through a greater emphasis on Rural Development policy.

As a contribution to the challenge, the farm organisations of Sweden, Denmark, Finland and Germany have proposed one of the flagship actions of the Strategy. The project is called "putting best practices in agriculture into work". Its aim is to improve national agri-environmental services and information activities targeting farmers and their advisors on how to have a nutrient-balanced agriculture. It provides advice on how to reduce the leaching from agriculture into the Baltic Sea through rivers without reducing the productivity or the competitiveness of the farming sector. It is based on the good experience of a project implemented in Sweden.

Another flagship project in the field of agriculture is the setting up of a forum for inventive and sustainable manure processing. Handling of manure is important in relation to leakage of nutrients. Two scientific research institutes from Denmark and Finland will be responsible for managing the project.

These types of projects can be enhanced through the EU's Rural Development policy. This includes agri-environmental schemes, which support actions going beyond minimum requirements. During the current programming period, over €1 billion per year of public money is being spent in the Baltic Sea Region on different agri-environmental measures, some of which aim specifically at preventing nutrient loss.

Development of rural areas and the countryside

In the Baltic Sea Region agriculture and forestry are important to the economy and sustainable development.

Keeping these sectors profitable and competitive is therefore vital. Policy needs to make them not only more environmentally sustainable, but also more competitive, and there is great potential for better cross-border cooperation.

A sustainable strategy for wood will be developed within the framework of the Sustainable Forest Management (SFM) and Research and Development programmes to develop a common Baltic Sea Region approach. This will have to balance renewable energy development, nature conservation strategies and wood mobilisation.

Efforts will be made to increase the use of renewable energies, including biomass, through better and more coordinated research. One flagship action of the Strategy is to create a network of sustainable cities and villages to exchange knowledge and good practices on environmentally friendly management practices, including local sustainable energy supplies. Such projects can both create more jobs and contribute to climate change mitigation.

High speed broadband connection for rural areas is another priority, so that rural areas are attractive places for people to live. Broadband projects can be supported under the Rural Development programmes using additional funds from the European Economic Recovery Plan.

Among other flagship actions are projects on rural tourism, to be coordinated by Polish and Swedish authorities, and the creation of a network on the implementation of EU food and feed legislation.

The way ahead

The Strategy for the Baltic Sea Region has been thoroughly discussed by all eight EU Member States around the Baltic, as well as a great number of non-governmental stakeholders. Many stakeholder structures already exist in the region and these have expressed the willingness to contribute to the implementation of the Strategy. The most successful of them has been the intergovernmental organisation HELCOM with its holistic Baltic Sea Action Plan, but all interested parties have a role to play in successful implementation of the Strategy.

The role of the European Commission will be to facilitate co-operation by taking part in the meetings, to monitor the progress of the Strategy and to report periodically back to the European Council. The Member States in the region have divided up the responsibility for co-ordinating 15 priority fields within the Strategy. Agricultural issues will be co-ordinated by Finland.

If the Strategy proves successful, it could serve as a model of regional co-operation where new ideas and approaches can be tested and developed over time as best practice examples. This is the first time that the EU has developed such a comprehensive strategy at the level of a "macro-region". If all goes well, it could inspire similar approaches in other areas in the EU, such as the Danube basin

Mariann Fischer Boel

Commissioner for Agriculture and Rural Development

European Commission

Aspects of sustainable development in education in the Baltic Sea region

By Henna Virkkunen

Finland has committed itself to the promotion of welfare in the Baltic Sea region. The main idea behind this welfare building is sustainable development on a national level as well as through the European Union, the United Nations, and the cooperation between Nordic and Baltic states. The Finnish vision and strategic lines for education for sustainable development in the education system are based on national education policy documents, the Baltic 21E programme, the education for sustainable development strategy of the United Nations Economic Commission for Europe (UNECE), and the University Charters for Sustainable Development. The promotion of sustainable development is an integral part of the objectives of Finland's education policy.

UNESCO World Conference on Education for Sustainable Development (ESD) took place in Bonn this year. We participants stressed the importance of the ESD not only as an issue to be taught but as an issue which is relevant also in developing the teaching methods. Another observation was the importance of the values. That is to say not only knowledge but the values of people are crucial. We also gained an insight that everybody can learn. Here the different kind of partnerships, meetings and personal engagements play an important role. One more remarkable notice we made was the orientation to the future. Building for the future is what the education is about and what the education for sustainable development especially is about. Capacity building, co-operation and forums which promote global actions contribute to this forward looking stand.

We are now halfway through The UN-Decade for Education for Sustainable Development. Its focus is on improving access to quality education, reorienting and modifying existing education towards sustainable development, increasing the awareness and public understanding and providing education for sustainable development in all areas of society. These objectives and the Baltic 21E have been the background of the national strategy of education for sustainable development in Finland. According to the strategy the principles of sustainable development should be integrated in the activities of educational institutes of all levels. Institutes have projects of

their own to promote the idea of sustainable development and to carry out the principles into practices. As the awareness to bear a global responsibility grows this kind of activity will take place on a larger scale.

A recent Commission's document concerning the European Union Strategy for the Baltic Sea Region highlights the standpoints for making the Baltic Sea region a prosperous, attractive and accessible place and putting the objectives into wider perspective of creating the Baltic Sea area a model of regional co-operation where new ideas and approaches can be tested and developed. The expedients of making this happen just to mention a few are to establish a common Baltic Sea Region innovation strategy, to develop a Baltic Sea Region programme for innovation, clusters and SME-networks and to further increase student exchanges within the Baltic Sea Region. I very much support these ideas and see the link between the work done so far and the future challenges among Baltic Sea countries in these prospects.

I would like to stress once more the importance of forward looking. Today in a time of global recession there is a risk of looking future at short-term only. Building a common policy around the Baltic Sea area and investing in policy areas like education and research the sight has to be however farther. We have to see beyond the economic down-turn and give breeding ground for the future possibilities. In the Baltic Sea Region, the quality of life is linked to high education levels. We certainly want it to be the case also in future. It will require collaborative work and efforts. As aspects of sustainable development will characterize future education even more than nowadays the co-operative activities will have to take into account the principles of sustainable development to larger extent.

Henna Virkkunen

Minister of Education and Science

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Baltic Sea region security – a view from Lithuania

By Rasa Juknevičienė

Predicting future security situation is a very challenging task. In 1994, when Lithuania officially expressed its desire to join NATO, few believed that Lithuania will become a NATO member already in 2004. Although today the Baltic Sea region enjoys security never seen before, still it is not a reason to close our eyes to the security challenges we are facing today.

After NATO and EU enlargement in 2004 all countries of the Baltic Sea region, except Russia, became members of NATO and/or EU. We began to enjoy new opportunities to expand regional cooperation, develop working relationship with Russia and continue to build mutual confidence. A common work in the Council of the Baltic Sea states, the Nordic-Baltic cooperation, implementation of E-PINE initiative pushed us more close to a common approach in solving various problems. I believe that the EU's Baltic Sea strategy, which should be adopted during the Swedish presidency, will help intensify regional cooperation even more.

However our future look should not be overwhelmed with a rosy perception of the present status quo in the Baltic Sea region. It is upon us to identify the most important security challenges in the region, which require our common understanding and action. I would like to note that the Baltic membership of NATO and the EU has not brought an ultimate reconciliation in Russian-Baltic relations, as it was expected. Russia is still not able to come to terms with the loss of influence in the Baltic countries. The remaining Russian-Baltic tensions, starting from different interpretation of their historical past, Russia's anti-Baltic propoganda campaign, playing the Russian minority card, to Kaliningrad-related problems, and so on, do not contribute to the strengthening of regional security.

We recognize Russia's paramount role in building a secure and prosperous Baltic Sea region. However, development during last years in the Russian foreign policy invoked serious concerns about the impact of such a role. Military force used in the war with Georgia in 2008, unilateral moratorium on the CFE Treaty and threatening to remilitarize Kaliningrad district in response to the planned deployment of the U.S. missile defence elements in Czech Republic and Poland have undermined overall confidence in Russia's engagement in the Baltic Sea region. Power politics, which is increasingly reemerging in the Russian foreign policy, has not to be a reason to reconsider and reshape the European security architecture. All this gives grounds for a serious Baltic concern related to their hard security. Although the sovereignty and territorial integrity of the Baltic States are not at stake today, Russia's war with Georgia sent a clear signal – the Baltics should take a due care of their territorial defence arrangements. NATO also seems to understand to take Russia seriously. NATO Allies are now forced to return to the basics: the pledge of collective defence, as stated in Article 5 of the Washington Treaty, must be taken as seriously as before. In other words, NATO is expected to meet the Baltic demands to give NATO's collective defence guarantee a real substance – to prepare the Baltic defence plans.

In terms of soft security threats, there is more than enough evidence to believe that Russia seeks to retain its political, economic and cultural influence in the Baltic States. Russia will retain its various tools of influence, primarily by using economic levers and Baltic dependence upon Russia's energy supply. Therefore energy security is one of the main soft security challenges for the Baltic Sea region in the next decade. Overall European effort is directed to create a well-functioning and integrated EU internal energy market. Logically, the Baltic countries, being part of the Baltic Sea region, should be integrated into a common EU energy network. Free access to the energy networks and sustainability of its transit should help build trust between energy suppliers and consumers, thus fostering regional cooperation. Energy isolation of the Baltic states, named as 'energy island', is due to the Baltic overdependence on Russia's energy sources. In theory, measures to respond to this challenge are obvious. Diversity of suppliers is a key issue of energy security. And this should be done in much broader – regional and European context. However, in practice it is not so easy to achieve.

First of all, we have to intensify implementation of energy interconnections of the Baltic states with the Nordic countries and Poland, and develop gas interconnections as well as underground gas storage facilities in the Baltic Sea region. Secondly, while all countries in the Baltic Sea region welcome initiation of the new energy projects, we still face a lack of coordination when agreements to launch them are reached. Thus, it has to be a consensus based common endeavour to implement regional energy projects. The North Stream pipeline project deserves criticism first of all for ignoring such a consensus. Further on, construction of this pipeline diminishes the strategic importance of the transit infrastructure of the Baltic countries and Poland. We have not heard reasonable arguments why possibilities to build this pipeline in the territory of the Baltic countries and Poland were not explored and discussed with interested partners.

As the energy infrastructure (gas, oil, electricity interconnections, new nuclear power plants) in the Baltic Sea region develops a risk to fall under terrorist attack is increasing. Moreover, massive cyber attacks may also be executed against operating energy networks. Therefore the countries of the Baltic Sea region have to enhance cooperation to protect expanding energy infrastructure.

A damaged ecological balance of the Baltic Sea is also a challenge for the region. It is already widely acknowledged that the Baltic Sea suffers from overfishing, pollution and increased ship traffic. In addition, chemical weapons, which were dumped in the Baltic Sea during the World War II, are negatively affecting the Baltic Sea environment. A climate change is also beginning to show its growing impact on the Baltic Sea. This complex challenge requires a consolidated response from all the countries in the Baltic Sea region. We think that the EU Strategy for the Baltic Sea region, which will also address environmental problems of the Baltic Sea, is an important tool in this regard. Engagement of Russia in this area is another major step we have to make if we look for a success.

To sum up, the Baltic Sea region is far from being safe from the security challenges. Of course, a list of them outlined above is not complete. We would like to see the future of the European security, including the Baltic Sea region, free from the disturbances caused by the demonstration of military force and threatening to use it. Still, we would like to expect that Russia will pursue an agenda, which promotes cooperation in the Baltic Sea region and reduces remaining mistrust and tensions between Russia and other countries of the region, especially the Baltic States. We have needed instruments in our hands – regional institutions and regional initiatives are yet to be fully explored. And we are ready to engage Russia in cooperation projects and initiatives aimed at mutual benefit, confidence building and, eventually, at strengthening security in the Baltic Sea region. For example, a joint work to ensure an effective Lithuanian/Polish – Russian border control (the Kaliningrad district) is one of the needed cooperation areas.

We do hope that the EU Strategy for the Baltic Sea region should help tackle many soft security issues, whereas NATO will be instrumental to handle any possible hard security issues. Also, we seek to strengthen our cooperation agenda with Russia. During our presidency of the Council of the Baltic Sea states, which has just started, we are prepared to work hard to enhance cooperation in the Baltic Sea region. In general, overall success in fighting these challenges will depend on joint endeavours and solidarity of all the countries of the region.

Rasa Juknevičienė

Minister of National Defence

Lithuania



Regional cooperation in the Baltic Sea area – the potential of Karelia

By Markku Laukkanen

The significance of the Baltic Sea region is rising strongly. The European Union's Baltic Sea region Strategy relies on four fundamental functions; environment, economy, accessibility and security. Also, the Finnish Government gave Parliament a report on Baltic Sea issues at the beginning of summer 2009 that focuses on environmental issues. The state of the environment in the Baltic Sea region requires comprehensive measures and a strong commitment by the Baltic Sea countries in order to solve the environmental problems. The load created by agriculture, industry, and population, as well as the quickly growing environmental risks of maritime require fast preventative measures.

The Baltic Sea has become an internal sea through the expansion of the European Union, with remarkable common interests of the Baltic Sea countries with regards to commerce, politics, maritime, environmental protection, security, and energy politics. The Baltic Sea should be considered as an entity requiring common multidisciplinary measures between the EU member states, but also co-operation with countries within the sphere of influence such as Russia.

The significance of the Baltic Sea region as a northern economic area with dynamic growth is rising. On this basis, Finland should actively exploit its knowledge and strengths in implementing EU policy programmes in our neighbouring areas. Although the integration continues, one of the forms of its deepening is the development of regional units within the EU. Finland has a lot of knowledge, and has contributed to the strategy work in the Baltic Sea region regarding many substantial issues such as innovation policy, education and research cooperation, internal and judicial matters, and the development of the constitutional state and civil society. Baltic Sea policies have strong connections with the EU's Northern Dimension programme.

The expansion of the common Nordic electricity market to a common Baltic area market is justifiable, as is then the construction of electricity transmission lines between the states of the Baltic Sea region. The importance of Russia as an energy supplier to Europe turns the Baltic Sea into an important region also from the point of view of energy security. Thus it is vital to ensure Russian cooperation in every field in order to guarantee successful Baltic sea region policies.

Neighbouring areas are in focus in the functional environment of Finland, and the perspectives of development in this region are the most interesting in all of Europe. Although the slow expansion of the EU continues, at the same time the future of Europe will be built on functional regional units. We can see the basis of the Baltic Sea region co-operation in this light. Finland should have an initiative and an active role in implementing the action plans in our neighbouring areas, and use its strengths in this respect.

We need also new openings in Baltic Sea policies. In this time frame, it is easy to have a look a few centuries back and we see the flourishing era of the Hanseatic cities. Multicultural life, trade, and a flourishing maritime culture were characteristic of that era; why not then for the future as well? The cities of the Baltic Sea region have still similarities; the history and the sea are still in common. The overall development of the cooperation between them is a part of the new flourishing era of the Baltic Sea.

Karelia in the middle of the Baltic Sea region is a part of Russia's north-west economic region that could have a remarkable role in neighbouring area co-operation between the EU and Russia. Already now a reasonable number of goods belonging to the EU-Russia trade moves through Karelia from Finland to Russia. The development of ports in the area that Finland lost during World War II as well as sustainable exploitation of natural resources would increase the social and economical stability of this border zone, and in this way support a permanent change towards democracy and civil society.

Non-governmental organizations could play a remarkable role in developing and strengthening cooperation in the Baltic Sea region. They could act with official organizations and the businesses supporting them, and with their own activities enhance the social and economic stability in the region. The Carelian League has good experience of the activities of non-governmental organizations on bases of good knowledge of Carelia and the cultural and social projects that it carried out in Carelia. The non-governmental organizations could create their own co-operation forum and spread the best practises and improve the function of civil society.

The Karelian League has succeeded in creating an active network in the region and in restoring the graveyards, churches, and memorials in different parts in Karelia. One of their aims is to open all of Karelia to tourism, including the outer islands of the Gulf of Finland as well as Lake Ladoga. This could turn into a remarkable way of improving the economic bases of the region. Russians have bought a remarkable amount of real estate in Finland, especially by the lakes and sea, as well as summer cottages in the eastern parts of Finland. This has created some critical discussion, which says that land purchasing should be based on mutual rights. Especially those Finns having Karelian roots may have a great interest in buying back land belonging to their families for centuries that was lost after World War II to the Soviet Union.

New openings should be made within the sphere of education and research. An international high quality knowledge centre for education and research could be created in the Baltic Sea area that would concentrate on teaching and studying comprehensively topics within Baltic Sea regional cooperation. The aim would be internal cooperation in the spirit of Nordic dimension to increase the needed knowledge capital for the development of the Baltic region and the improvement of cultural unity. In the spirit of modern times, the centre could be founded as a network university between already existing universities and research centres, where the best knowledge in each discipline of each of the bordering countries could be incorporated.

Markku Laukkanen

Member of Parliament

Chairman of the Karelian League

Finland



Storm over the Baltic Sea – is innovation a safe haven?

By Mats Hellström

At the present time the worldwide financial and economic crisis is striking hard at the Baltic Sea Region. Extra hard hit are the high growth Baltic States, that now have to take drastic cuts in the living standard.

With this background – how will it be possible, and how should we act, so that the commitment to make the Sea itself cleaner and healthier and the region more cohesive will not become impaired and suppressed in the face of economic turmoil.

I think it is good to go back to the discussions during the boom years. A slogan for the region is “innovation”. We have presented ourselves to the outside world as more innovative than other regions.

The old democracies in the west are leading most benchmarkings and scoreboards on innovation. And the new democracies in the east and south have shown a very innovative and flexible streak in changing extremely rapidly a whole economic system.

Some people might see the concept of an “innovative region” as merely a cosmetic form of advertising the region. However in my mind it is now in the midst of the crisis that the innovative character of much of the Baltic Sea Region is more relevant and needed than ever. The brilliant exhibitions of young people in the Innovation Park in the centre of Riga some years ago show a spirit that is dearly required now.

In the economic field new cost saving solutions must be found and our enterprises can take a lead in areas that have future market prospects and require new research and innovative solutions not least in the area of *sustainability*. Because ecological, social and economical sustainable solutions are more and more demanded worldwide in this extremely deep recession.

And here of course the proposed EU Strategy for the Baltic Sea Region to be decided during the Swedish EU Presidency will be of utmost importance as it has in one of its four pillars “A prosperous region” “Foster innovation” as a main issue.

The proposals around this in the Action Plan are all relevant and valid but I somewhat miss an important dimension:

First; Many measures are of a national character. That is of course often self-evident and rational given the structure of the government bodies that foster for example Research and Development in our respective countries.

But interregional clusters are also important. One example: In Sweden the innovative internet based IP-telephony company Skype is seen as Swedish company. But ask people in Tallinn and they will tell you Skype is Estonian.

And in reality Skype has come out of a Nordic advanced ICT environment with founders in Sweden, Estonia and Denmark. So Skype should really be seen as a Baltic Sea based innovation success story!

To make it possible for more such success stories to come true I think one has to consider a weakness in the proposal for the EU Strategy for the Baltic Sea Region.

It centers around green technology for the Baltic Sea with measures for more research and new funds and cooperation between clusters. All this is good. But it lacks something vital and necessary:

And that is *Effective Demand* for new solutions. New technologies and innovative services basically come about only when there is a demand drive.

And when it concerns green technologies - those requires *public procurement*. And this is something almost totally absent from the strategy. It is mentioned only in passing as something where more information is needed.

But here of course Governments and Regional Authorities must act with operative purchasing procurement and tenders for competitive bidding so that innovative companies will be motivated to participate and work on new solutions to environmental or other tasks that concern our Sea.

And here governments could cooperate. Tasks are certainly provided for by for example Helcom. And there is a Government structure; and that is the Council of Baltic Sea States, CBSS which is now looking a new role and which comprises all Baltic Sea Region Governments;. And of course the EU Commission could play a helpful role. Joint Governmental public procurement would be possible and important.

Green public procurement is by the way something that is nowadays propagated by the EU Commission. And in US similar initiatives are taken. So why not make the Baltic Sea Region a green pilot!

Another aspect of innovation is *culture*. Too long culture has been seen and treated as something separate from other spheres of society. Nowadays there are cultural incubators as part of an entrepreneurial spirit in development of enterprises.

Baltic Turntable is one such endeavour; the goal being to raise awareness and engagement for people - who are not environmental experts - about the condition of the Baltic Sea, using artistic expression and easily understandable modern communication technology.

The Baltic Sea needs a new *story*. With impulses from the past - new ideas for the future can be created.

Baltic Turntable's partners are in Sweden, Finland and Estonia with good contacts also in Russia, Latvia, Germany and Denmark. Through exhibitions, workstations and seminars around the Sea discussions will be held about identity and belonging. How do we create connections between different disciplines, areas, nationalities and groups to really make things change around and in the Sea itself?

This is a formidable task that comprises not only economic, social and environmental sustainability - motivation comes as much from cultural and artistic expression!

Mats Hellström

Former Governor of the
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Former Ambassador to
Germany

Former Minister of Nordic and
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Sweden



Global financial crisis and the Russian banking system

By Raimo Valo

Global financial Crisis hit Russian Federation in September 2008. The starting point was actually rather good, State finances were in excellent shape, RUB liquidity was better than ever before and the business had been booming for the last eight years. The only problems were inflation which nobody seemed to be too interested in and the limited or almost non existing Money Markets. The private sector debt had also risen to almost dangerous levels, but since the business was growing, there were no doubts the system could not handle it.

When the crisis hit, the Russian markets reacted as they always do in times of trouble. The market was closed down. Banks cut the interbank limit to each other which stopped trading practically immediately at or a few days after the Lehman Brothers collapse. Only a few State owned Banks and some foreign owned Russian Banks remained as "market makers". The longest available funding period, for anybody, was one week, during the worst times in the autumn.

Ruble was devalued at a fast pace starting from early November and, coinciding the Oil price movements, until February 2009. The market was thin, but Banks were liquid. One should use the word Cash Rich, rather than liquid, since the money did not circulate in or into the system. Interest rates were sky high mainly due to short positions against RUB.

The Government and the CBR tried to do their best to feed liquidity to the markets and to keep the Ruble steady. Large size scandals were avoided and Ruble finally became stable, but due to Oil price strengthening rather than CBR actions. Only two middle sized Banks have been "saved" by the authorities, so far.

Since we are still in the middle of the crisis, what is to be expected? What have we learned from the past? The main concerns from the Bankers point-of-view, are the following:

- Liquidity of the system does not improve only by adding money in the system. The trust can only be recovered by time. Banks need time to evaluate the financials of the competitors.
- RUB strength or weakness is based on Oil price, CBR is almost helpless when crisis hits the market. All Russians are professional FX-traders and have been through this before.
- Everybody is talking about the "Second wave" which means that it will come. Most likely it has already started when this article is being printed.

- The Real Estate bubble has not yet busted. When it does, the Banks will face enormous trouble, since it will be almost impossible to get rid of sour assets.
- The difference in Russian Accounting Standards and IFRS-accounting systems applied in Western Europe leads to very strange problems.

Let me write a few words about the last point above, since it is the cause for most of the other problems. The provisioning system controlled by the CBR is too rigid in times of trouble. CBR-system is based on five categories and assumes that the Banks give a "rating" to all counter parts, based on their economic wellbeing. When the whole market is "sick", this means that the provisioning levels sky rocket and cause multiple problems for already ailing Banks. In IFRS system, despite the worsening financials of customers, main concern is the collateral. If the Bank knows that it will get its money back, provisions should not nor could not be made. In RAS-system, collateral is not even considered a factor in this respect.

The provisions basically eat up the Capital and destroy the P&L and result of all Banks. Since the owners have problems in their other businesses as well and the Capital Markets do not function normally, the Capital cannot always be raised, which means that the Banks need to shrink dramatically to be able to meet the CBR ratios. If they don't, they will lose their licenses.

This means that the Banks cannot lend money to customers, not even the healthy ones. Banks will maintain a huge cash position which is placed in the CBR, as a cushion. But the money does not improve the liquidity in the system and thus does not help the economy to recover.

It seems that the control measures only work in the good days. I am afraid we need to wait for a long time to see them, unless the authorities change the control measures rapidly.

Raimo Valo

CEO

OAO Swedbank

Russia



Future international challenges of Latvenergo Group

By Ingrida Lace

In spite of the economic crisis this is the time of challenges and possibilities. Only those who can be flexible and maximum efficient will survive. It refers to energy industry as well. Industry leaders and decision makers have to look beyond the current crisis to prepare for the time when growth will pick up again. The cornerstones of European Union power sector policy of today are the development of energy markets, energy security and energy efficiency together with CO₂ emission reduction. All these priorities are interlinked and have to be viewed and coordinated regionally. Hence, efficient regional international cooperation becomes of utmost importance for the development of competitive EU energy market.

The public limited company Latvenergo AS is an energy power supply enterprise engaged in production and sale of electrical power and heat, electricity trade, as well as provision of IT and telecommunication services. Latvenergo AS is one of the largest corporate entities in Latvia. Already for five years Latvenergo AS is heading a corporate group. Latvenergo group includes five subsidiaries: Transmission System Operator Augstsprieguma tīkls AS, Distribution System Operator Sadales tīkls AS, Latvenergo Kaubandus OU, Latvenergo Prekyba UAB and Liepājas Enerģija SIA.

One of the biggest challenges will be the implementation of the EU energy-climate legislative package and the 3rd energy package after the final adoption at the European Parliament. The Baltic Region is comparatively small but the situation in the electricity sector is quite different. Latvia is the only of the three Baltic countries where there is free market with Latvenergo AS market share of 95%. Estonian market is closed up to 2016, but Lithuanian market, though open de facto, but does not function and is strictly regulated.

EU has defined the integration of Baltic States into EU energy networks as one of its main objectives. High Level Group (HLG) on a Baltic Interconnection Plan was set up in late 2008 by European Commission President Jose Manuel Barroso under the 2nd Strategic Energy Review. In late April Prime ministers of Latvia, Lithuania and Estonia signed an agreement to start implementation of a Baltic-Swedish electricity link. A joint declaration was also signed on principles for the development of single Baltic energy market. The limited degree of electricity market opening in the Baltic region would make it difficult to derive the full benefits from the construction of the new cable and other interconnections.

The High Level Group, represented by Sweden, Finland, Denmark, Norway, Germany, and the Baltic States, has set the objective to achieve the common Baltic electricity market start functioning from 1 January 2010. HLG has taken a decision that this year Lithuania and Estonia have to incorporate in their legislation the same market liberalisation principles as in Latvia. Baltic Electricity market will be modelled after the Nordic market, having Nord Pool as the basis of the market integration and trading. Today it is the most advanced market model with its joint vision of the system, information, openness, information analysis that ensures flexible and quick trading.

Liberalised regional energy market will also promote trading activities of Latvenergo AS subsidiaries - in Estonia Latvenergo Kaubandus OU and Latvenergo Prekyba UAB in Lithuania to the benefit of our customers in the whole region.

A carefully considered strategy and clearly formulated aims lie at the basis of any efficient company work. Latest changes in the EU power sector, market development, the significance of the environment issues and growing customer demands - all these factors had an impact when developing the updated Latvenergo group strategy last year. Being aware that the next years will be significant for the Latvian power sector as important decisions will have to be made about the new base load development, more

extensive use of renewable resources, Latvenergo AS being the leading Latvian electricity generating company, is even in greater need of a clear-cut strategy that is understandable to consumers and environment friendly. Latvenergo group new updated strategy embraces all the aims and objectives meeting the needs of the situation in the energy sector in Europe and together with renewed brand serve as the basis of the group identity. The renewed Latvenergo group values are responsibility, efficiency, openness. The three key objectives include efficiency raising, focusing on customer needs and the company growth by restoring and increasing the generating capacity, entering new markets and participation in the Baltic projects, including Ignalina NPP project. The updated strategy focuses on the environment issues by paying a special attention to upgrading the technological equipment, making it more environment friendly, and planning new options for operating in the renewable resources business.

To reach the set goals, much effort is invested in researching new generating possibilities. Riga thermoelectric power plant TEC-2, reconstructed last year, has been the biggest industrial project in Latvia – now TEC-2 generating capacity has increased almost twice and is a considerable contribution for the future development of the power sector when electricity deficit becomes the issue of the day.

Every new reconstructed facility makes us more efficient and environment friendly. If in the past both Riga energy facilities were oil-fuelled thermoelectric power plants, then now environment more friendly gas is used for generating electricity. Moreover, taking into account that about 60% of the total electricity volume in Latvia is generated by the hydroelectric power plants it may be assumed that Latvenergo AS is one of the greenest electricity producers in Europe. And it is important, because when thinking about the future it is not only finances that matter, but ecological awareness as well.

The technological upgrading plan in Latvenergo group will be continued, as the current market situation does not allow being inefficient. It implies that we have to focus on using state-of-the-art technologies so as to have the maximum return from all the available resources, irrespective whether it is gas, water, woodchips, biomass, coal or maybe nuclear. It is vital to use these resources as efficiently as possible. And free energy market is the only reasonable development for ensuring improvement and safety of energy supply.

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Industrial-innovative networks as an opportunity to raise productivity of the Russian North-west

By Igor Maksimtsev and Sofia Rekord

In the context of current economic crisis companies and countries are facing the challenge of searching opportunities for economic survival and growth. One of the basic problems in this field is to define criteria of successful economic development. It is hard to argue with the point that one of the most sound measurement both for businesses and states is productivity, taken as the basis for the study "Lean Russia: sustaining economic growth through improved productivity", conducted by the McKinsey Global Institute. There were pointed out the main problems of Russian economy and initiatives which could improve the situation. It is worth noting that those initiatives perfectly match with main goals of creating industrial-innovative clusters:

- *Increase of competitive intensity*: one of the basic features of any industrial-innovative cluster is a balanced combination of co-operation and competition, that means a competition not only by products, but also (and mostly) of business models. Nowadays in Russian economy such competition is possible between small and medium fast growing "gazelle" companies.
- *Improvements in business processes*: they are inevitable when formal or informal network of companies and supporting institutions is created. Its horizontal orientation (heterarchy) means more flexible structure, but at the same time – more sophisticated management systems. Thus, managerial innovation may work faster, than the technological one, and clusters could facilitate better information circulation and adaptation of the whole production system to external changes.
- *Improvement of professional education and training*: lack of professional training is a problem for the majority of Russian processing industries, so, clusters make it possible to organize special, "tailor-made" educational centres, and, as a result – local labor market which is extremely important during the time of economic crisis.
- *Launching labor mobility and social protection programs, minimization of the expected decline in workforce*: during the "lean" years of economic crisis this is one of the toughest problems, which also may be partly solved by the creation of local cluster labor market with collective responsibilities of businessmen and mobility of employees within the network.
- *Implementation of the integrated approach to urban and regional planning*: industrial clustering implies better organization of the space – territory itself, and infrastructure, both "hard" and "soft". As a result it is possible to create effective system of planning, involving urban and rural areas.
- *Development of a viable financial system*: though it should involve efforts of state monetary authorities, creation of the local system of financing is feasible for the mature cluster network.

Thus, three basic problems of Russian economy, pointed out in the above mentioned survey (inefficient business processes, obsolete capacity and production methods, structural differences) may be partly resolved by developing geographically concentrated industrial-innovative networks, i.e., clusters.

At the same time the point that many Russian industries are rather consolidated, with the small amount of large players, which may hurt their flexibility, is widely discussed. Still, it should be noted that there are opportunities to create clusters even in rather monopolized sectors, involving such models, as:

- *core-ring with lead-firm* (a cluster in which the lead firm is substantially independent);
- *all cores* (the vertically integrated firm).

So, it may be assumed that in oil and gas industry it is possible to build up effective industrial-innovative networks, moreover – it could have a great positive impact on the whole traditional energy sector. The main problems of this sector are: high costs, narrow competition and over-maturity. The last point is the most crucial: through joining together supporting and related industries, medium-size service companies, and scientific institutions it becomes possible to move companies of the sector to the more "young", growth phase.

Cluster concept also includes an opportunity to create trans-border networks. It is a crucial point for the North-western Russia with common EU border. As mentioned in the Government of Finland resolution "Russia Action Plan" from 16.04.2009, "considering the size of the Russian economy, the number of internationally active companies in the country is rather low".

Conducting a survey of opportunities to develop cross-border clusters between Leningrad region, Saint-Petersburg and Baltic countries, the author of the current article took for the consideration not only the concentration of industries in the region (turnover, employment, number of companies), but also – attitudes of key persons and business circles to determine the level of their awareness of the cluster paradigm. The survey showed that such sectors as wood-working, metal-working, chemical industry and hospitality have the most appropriate balance between quantity (concentration in the region) and quality (acceptance by potential cluster members).

Concerning the principle opportunity to create trans-border production chains: Saint-Petersburg and Leningrad region could provide Baltic countries with: still large market capacity, infant industries with high potential (for example, ICT), educated producers and educated consumers (playing the role of a "testing market" for the whole Europe), higher risk acceptance, developing innovators (creative elites of Saint-Petersburg), and serve as a transportation hub. On the other hand, Russian North-west needs such precious assets, as business knowledge of different type (industrial, ecological, managerial), investments and an ability of networking as one of the most important skills to be implemented on the Russian economic "soil".

It may be concluded that Saint-Petersburg, Leningrad region and the Baltic Sea states possess complementary structure of needs for regional cooperation and clusters formation. At the same time cooperation may be less formal and based on common platforms to improve business processes, such as: IT, science and education, design culture, etc.

Thus, in the Russian case clusters seem to be neither a dogma, nor a panacea, but one of the ways to increase productivity by synergies and fertile environment inside such industrial-innovative communities.

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From the red star to the double-headed eagle

By Kari Kaunismaa

A history textbook is a very fruitful method to acquaint oneself with a way of thinking and impressions of themselves and others of a nation other than our own. It is the most important teaching instrument and the only literary genre about history that every member of a society is obligated to study, furthermore at an age susceptible to influence. In a research it is important to ask, what is taught, who has chosen the material, why these particular issues have been chosen and how the teaching can be best arranged with the help of these matters. Nearly all states have also wanted to control teaching of history in some way. In my dissertation, accepted in the University of Turku at May the 9th this year, I have aspired to evaluate in an ideology-critical way the influence of a machine of a totalitarian state, the Soviet Union, on history textbooks and seek for what Russia used to replace the previous material after the system changed.

In various seminars, after hearing my subject, Russian researchers have stated: "There are always two truths in Russia: what is written and what is taught in a classroom." In my opinion, it is exactly the duty of the Russians themselves to study the occurred teaching. As a foreigner, I must limit myself to the printed word. Thence, I am able to interpret the sources from my own starting points, striving to understand their context and purpose. Germans have had to, both among the researchers and in their textbooks, deal with the Nazi atrocities many times, which has been a painful but also a cleansing process. By contrast, in Russia, a liberating discussion of a similar extent on the terror and prison camps of the Stalinist regime or the post-World War II Soviet dictatorship in the Eastern European countries has not taken place. The government has in the 2000's even tried to limit the criticism waving freely even in textbooks in the previous decade. According to the material I have studied, however, this has not succeeded.

The authority in the Soviet state and the central committee of CPSU controlled strictly the curricula and textbooks. This led to a one-sided view of a historical process which did not include understanding of a whole versatile life of people and the society. Teaching and education were tied to the principles of collectivism and carried out by authoritarian forms and methods in which a student acted solely as an object of a teacher's work. The idea of legitimacy excluded the handling of people's problems in a historical development. The list of inevitably learned historical events deviated remarkably of Western curricula and served the Marxist-Leninist view of the legitimate development of history. Missing from the list were, for instance, the Renaissance, great inventions, The Reformation in Europe and true, ground-breaking ideas of the French bourgeois revolution. Instead the feeling of hate was upheld: "The children must be taught to hate the enemies of the Communist society."

In a Soviet school, history teaching was at the same time training children to be Marxist-Leninist communists, whose job, after coming of age, is to develop the society in accordance with the ideology. From the eighth grade onwards the pupils had to perform political announcements and reports in front of a school audience. From the ninth grade on the audience consisted also of adults. A pupil's "political announcement" in a totalitarian system can only be based on "rote learning", freeze the pupil's own learning and represents an enormous waste of energy. As a result of this, the sublime goal of a "Soviet human" flagged to a

passive "Homo sovieticus" who could mostly just receive orders given to him. Executing them was not necessarily successful. On the part of the Second World War I have only dealt with what kind of picture is given of the wars against Poland and Finland in 1939–40 (fulfilling the orders of the Secret Protocol of the Molotov-Ribbentrop Pact) and 1941–44. Intentionally, I left out the rest of the "Great Patriotic War", because the number of pages dealing with it is, even in the new Russian history textbooks, extremely great.

The chapter dealing with the leader's position shows that in Russia, the czar, the secretary general and the president all have more power than any Western leaders. No leader has actually been openly responsible to anybody and the name of the next leader has always been secured behind the scenes. It is still unimaginable in Russia that presidential candidates would debate on television in front of the public and that they could be compared with each other. – The matter of gender is invisible too: The books do not introduce a single known woman in the field of physics, chemistry, mathematics, biology, medicine, agricultural studies or social sciences, although Russian women have in different times achieved notable results in these sectors, too. A woman is still a humanist, a poet, a singer, a dancer, an actress and most of all an ornament of a man. In no way is a woman a social or political leader or a decision-maker. Nevertheless, at all times the most essential figure of the Russian everyday life has been a grandmother, *babushka*, who has kept the whole country on its feet.

Based on my study I state that where the Germans have thrown light on their whole history, the Russians have just barely begun. It was of course painful for the Communist Party to admit acting like the worst imperialists, which it had condemned throughout its entire existence. Moreover, only after the Soviet state had collapsed could the textbooks confess that the occupation of the Eastern Central Europe (1945–91) was not only "liberation from the Fascist power" but also coercion of these countries and peoples under Communist command.

Although every state defines itself the goals of their national history teaching, it is not possible to return to the Stalinist censorship due to present expanding communication and improving language skills of the people. With regard to the historiography and history teaching, the period of the Russian Federation is much more open than that of the Soviet Union ever was. Marxist-Leninist historiography is not recovering. In the international seminars of historians, the results of Russian researchers are nowadays evaluated on the same criteria as those of the others. Although the Russian troika flies free and the Steppes suffice, Russia has to be understood with common sense.

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Republic of Belarus – ways of economic stabilization in the context of the world financial and economic crisis

By Vladimir Shimov

Financial problems that arose in the USA in the summer of 2007 were pretty quick and consistent to transform into a global economic crisis which influences adversely on economic processes practically in every country of the world. Belarus is none an exception; its economy has been sensing negative external impacts since the autumn of 2008. These revealed in decreased exports of goods and services, bigger foreign trade red ink, accelerated inflation processes, wider credit restrictions, faster devaluation of the national currency, grown foreign debt, more acute problems in the population employment and social security, and decreased competitiveness of the real economy in the world markets.

To overcome these problems, we need to develop a systematic anti-crisis mechanism based on joint arrangements of operative, tactic and strategic nature. Meanwhile, the state economic policy should be aimed at supporting the most prospective innovative sectors in science, education, technology and production, and not at preserving the existing economic structure.

Reaching this target pre-supposes implementation of common system steps, on the one hand, that will create necessary conditions and background for stabilization actions, and arrangements in the most affected segments of the real economy and finance. These common system steps include:

- establishing lower limits for the principal social development indicators that are impossible to break without endangering the society;
- limiting intervention by the state authorities into the economic activities of enterprises leading to bigger stockholding of finished produce;
- liberalizing the economic life in the country; and
- implementing a package of arrangements to create a favourable investment climate based on the modernization of economic institutes and management mechanisms.

The most important elements of the anti-crisis mechanism in the real economy should be:

- development of a long-term program for the economy's sanitation, modernization, and basic reconstruction on the innovative basis;
- increase in export volumes and optimization of import flows, concrete priorities in export and import activities upon defining industries and businesses with the largest potential;

- creation of the state-supported export system; and
- optimization of the custom regulation to provide favourable conditions for science intensive and high-tech businesses, and high priority R&D programmes.

To support the Belarusian real economy in the context of the crisis, we ought to employ the potentials of the national monetary and credit, and budget and fiscal systems. These are enormous and diverse, here in a short abstract we shall but mention some of their components that are the most important, in our eye. They are:

- establishing a state specialized nonbank financial intermediary (NBFi), whose primary tasks shall be, on the one hand, concessional lending and financing of priority investment projects and social programmes, and acquisition of distressed assets of the largest national banks, on the other hand. This will allow eliminating the causes of worsening the financial performance and, consequently, ratings of the largest Belarusian banks, enlarging their possibilities to draw foreign credits;
- limiting the banks margin;
- eliminating, for the period the banks require to stabilize, the indicative index of the bank assets share used to credit entities in the real economy;
- accelerated development of the insurance market, creation of favourable conditions to attract here private insurance companies from abroad to provide all kinds of services, etc.

The system of arrangements suggested does not imply to be the absolute truth or a final coverage of the tools required; yet we believe it's quite consecutive.

These are the minimum steps necessary to stabilize the national economy and create prerequisites for overcoming the crisis.

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Belarusian anticrisis program – pragmatic conservatism or market reforms

By Kiryl Apanasevich

Belarus without any exaggeration can be called a unique country for Europe. There is no other state which is situated so fortunately in the center of Europe and which plays the role of a peculiar bridge between the Russian Federation and the EU. It is the state where the remains of the Soviet culture are still preserved and where even in the 3rd millennium the command economy remains effective and tolerates only certain kinds of market mechanisms. It is also the only state on the modern European territory which is lead by the first and the single President, a charismatic person widely recognized over the world due to different reasons, – Alexander Lukashenko. All of the abovementioned facts have caused a peculiar development of the crisis phenomena in the country's economy.

At the times of the Soviet Union Belarus was considered to be an "industrial assembly" of USSR. Large-scale machinery, chemical and petroleum refinery USSR plants were centered on the Belarusian territory. Thus, after the collapse of the USSR Belarus gained a serious heritage which has actually predetermined the further export trade of the Republic of Belarus. At the same time Belarusian export potential appeared to surpass the internal consumption so dramatically that Belarus eventually becomes a country with utmost export-oriented and even export-dependent economy. Even remaining a closed administrative system with a low level of foreign investments and an overwhelming part of the state property (more than 70%), Belarusian model proved to be surprisingly stiff to external crisis phenomena. Therefore Belarusian planned economy, being "manually guided" by the state, felt the pressure of the world economic crisis only at the end of November 2008 while Europe and Russia had been suffering the strongest shocks for a several months already.

Indeed, downturns of a number of international financial markets destructive for Europe did not influence Belarus so gravely, as there are no shares of Belarusian companies at the international foreign exchanges markets, and Belarusian internal financial market had been insignificantly integrated into an international one. Flight of the foreign capital, being so injurious for Russia, had affected Belarus to a little degree, because the amount of foreign capital in Belarus was negligible. Such specific character allowed Belarus to hold out longer than the others and, in the judgment of many experts, may allow the country to come out of the crisis earlier as far as export flows will be restored together with the activity on the external markets which are the main Belarusian trade partners. In addition to that, the isolated economy did not manage to avoid the strike which was delayed but at the same time so swift and powerful that within two months it revealed the disadvantages of this model and made the Government immediately to review the principles of working schemes and to level originated gaps. So, here are measures being undertaken by the Belarusian Government in order to level the crisis effects that by the World Bank assessment in 2008-2009 allowed Belarus to become one of the world leaders among states-reformers.

1. Approval of a massive program of privatization of state property which embraces hundreds of medium and major enterprises. It's fair to note that the program was developed and approved before the crises, therefore the common decay in economy will probably slow down privatization processes in Belarus because the state government does not consider the world stagnation to be a sufficient reason for a decrease of enterprises selling prices. Alexander Lukashenko always underlines that the common rule is to sell the companies at the prices as they were before the crisis. However, such prices can hardly attract a lot of investors. But Alexander Lukashenko believes that if there are no potential buyers, it is better to wait rather than to decrease the prices. Initial plan of privatization was meant for the years 2009-2011 and it is already obvious that it can be best realized within 2010-2013. Such a pragmatic approach of the Belarusian government can justify itself to a certain extent especially if to take into account an opposite example of the mass and chaotic privatization in a number of Eastern European countries (especially in Russia and the Ukraine) in early 90-ies.

2. Simplification of taxation system of Belarus (which is traditionally considered one of the most complicated in the world) and a gradual descent of a tax levy on the commercial companies.

Particularly, it is necessary to mention the establishment of the territories with a special (preferential) tax treatment, for instance: the Park of High Technologies; six free economic zones, one per each region; providing the tax preferences to the most substantial investment projects or to the spheres of economy by the President's decision; conclusion of investment contracts between foreign investors and the Republic of Belarus; abolition of some insignificant republican and local taxes during last years; reduction of the tax rates (particularly, VAT from 20% to 18%, introduction of a fixed rate of an income tax in the amount of 12% instead of progressive rates from 9% up to 30%); introduction of an alternative simplified taxation system; entering into new bilateral agreements with other states on elimination of double taxation and mutual support of investments, and etc.

3. Systematic legislative reforms aimed at liberalization of market relations, introduction of modern legal and financial instruments and mobilization of foreign investments. Bright examples of the positive changes in Belarusian legislation for the last year and a half could be abolition of so called "golden share"; gradual cancellation of moratorium on circulation of companies' shares acquired by the citizens in the process of privatization; reduction of licensable types of activities; systematization of separate legal rules into integrated legal acts which regulate the significant legal institutes; and etc.

4. Active borrowings on external markets, including international financial organizations. Within less than a year Belarus attracted loans from the IMF, Russia, the World Bank and other donors in order to maintain international reserves on a before-crisis level. At the same time the total amount of the Belarusian external debt does not exceed 8% which is considered by the IMF's experts to be secure for the economy.

5. Renewal of the dialog with the USA. and the EU. Belarus had been in partial political and economic isolation for almost 15 years; a considerable step forward was the development of the dialog between the Belarusian high authorities and the EU. As a result of this dialog, Belarus joined the EU policy of neighborhood "Eastern Partnership" and adopted the multi-vector policy of the state.

6. Strengthening of the national currency authority. After a prompt devaluation in the beginning of the year under the IMF recommendation (in one night the Belarusian rouble became down 15-20% against the main currencies – U.S. dollar and euro) the citizens' confidence in the national currency was lost and as a result demand for foreign currency inside the country started growing constantly. It lead to the deficit of the foreign currency on the internal foreign exchange market. The main action undertaken by the Belarusian National Bank to overcome the negative consequences was the introduction of guarantees of citizens bank deposits in national, as well as in commercial Byelorussian banks; reduction of the refinancing rate of the National Bank; restriction of payments in foreign currency inside the country; limitation on advance payments on imports; the last step, according to the declaration of the head of the National Bank, was the prohibition to provide credits in foreign currency to natural persons until January 1st, 2011.

Obviously described above measures are of a progressive nature for such a specific emerging market as Belarus and since the implementation of the new rules just has been started it is still questionable if all those liberal declarations will be gradually reflected in actual steps of the Belarusian authorities. In the end of the day the effectiveness of the program, and the whole economy, will depend on acceptance of new challenges and proper consequences of the government which has never been open to such changes before. The time will show.

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NATO in Finland – Finland in NATO?

By Terhi Suominen

Finland has not been neutral nor alone since she joined European Union (EU) in 1995. However, a number of arguments have been raised in Finland on the assumption that being neutral or at least dismantling the alliance commitments – especially what comes to North Atlantic Treaty Organization (NATO) – would be good for the image of Finland. It has been argued from the Finnish Government that neutrality would also be of special value in the branding of Finland.

The lust for neutrality rests on assumption that avoiding alliance commitments would distract Finland from international tensions. The argument derives from the post-war political history of Finland. It is claimed that neutrality would promote national interests of Finland even today. There are also arguments which underline the importance Finland being outside all the alliances to be able to mediate as a neutral arbiter in international conflicts.

Finland is known for her longstanding policy of military non-alignment. However, Finland wants to "keep all doors open" and preserve "an option to NATO". In line with this, Finland has not pursued NATO membership but has been systematically aimed at getting as close to NATO as possible. She joined for instance the Partnership for Peace (PfP) in 1994 to work alongside NATO Allies in areas where bilateral aims converge and she supports NATO-led operations. Finland has worked alongside the Allies in security and peacekeeping operations in Bosnia and Herzegovina, Kosovo and Afghanistan.

Finland is politically aligned but militarily non-aligned. While military non-alignment is technically possible it is more complicated in practice. Since Finland joined EU, the political link through the EU to NATO emerged. Yet EU and NATO are often considered as two entirely separate organisations.

However, the memberships in NATO and in the EU are not alternatives. NATO and EU are intimately linked and overlapped organisations at large. Today 21 out of 27 EU member states are members to NATO.

EU and NATO share common strategic interests and cooperate in a spirit of partnership and complementarity. Close cooperation between these two organisations is an important element in the development of an international comprehensive approach to crisis management and operations which requires the effective application of both military and civilian means. It is important to avoid unnecessary duplication of effort in the framework of the EU and NATO.

Institutionalised relations between EU and NATO were launched in 2001. The structure was built on the steps taken during the 1990s to promote greater European responsibility in defence matters. The political principles underlying the relationship were set out in the December 2002 EU-NATO Declaration on ESDP.

In its foreign policy, Finland has to be an active contributor, not a bystander, the current Finnish Foreign Minister Alexander Stubb has emphasised recently. Minister Stubb also reminded that according to the official definition Finland is a militarily non-aligned state, not a neutral state. He completed that Finland is a country which is not a member of military alliance.

The question of Finland's NATO membership is not a simple yes or no issue. It does entail several arguments both for and against but no decisive conclusion either way. Roughly 30% of Finns are in favour of Finland's NATO membership. The figures have stayed more or less unchanged since the first NATO opinion polls.

Public opinion on NATO has been divided into two groups: NATO-enthusiasts and NATO-sceptics. Finnish NATO discussion has been coloured black and white. The issue is whether Finland should join NATO or not. In order to improve the public understanding on NATO there is a demand on more detailed, extensive and profound information.

The Atlantic Council of Finland (ACF) has provided for ten years time a forum for open debate on transatlantic foreign and defence policy related issues. ACF has brought citizens and decision-makers together. It has succeeded to promote more open NATO discussion in Finland and has done the best to improve the knowledge of Finnish public on transatlantic relations at large.

The challenge is that NATO debate is far too often seen as a political battle behind the scenes. This deadlock can only be broken by political activity and commitment. A key to open the public debate is to get the politicians involved frankly in the debate. Probably there will not occur any change in the public opinion before the Finnish political elite will publicly come out with their concrete arguments on NATO. Similar situation emerged beginning of 1990's before Finland joined EU.

NATO is in the first place a security policy instrument. NATO membership entails both costs and benefits. The real question is whether the benefits outweigh the costs. That is the question.

Terhi Suominen

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Russia's Arctic strategy – challenge to Western energy security

By Marcel de Haas

On 27 March 2009 the Security Council of the Russian Federation (SCRF) announced in a press-release the 'Foundations of the Russian Federation national policy in the Arctic until 2020 and beyond' (further: 'Arctic Strategy').¹ On 18 September 2008 the Arctic Strategy had already been approved by President Medvedev, but for unclear reasons publication was postponed until March 2009. The Arctic Strategy comprises the main goals, basic objectives, strategic priorities and mechanisms for implementing Russian policy in the Arctic region.²

Contents

The Arctic Strategy contains the following main viewpoints. The document asserts that the Russian Federation (RF) Arctic Zone is a strategic resource base for resolving Russia's social-economic development problems. The Arctic region with its hydrocarbon resources and other types of strategic raw materials widens Russia's energy reserves and thus these deposits must be explored. Furthermore, the Northern Sea Route, as the exclusive RF transport route in the Arctic, also supports Russia's economic development. To achieve this, this resource base has to be protected, by securing RF national borders through the Arctic Zone. This will be accomplished by sustaining an adequate military potential of Defence Forces as well as of other troops of the power ministries (e.g. federal security service FSB Troops, Border Troops, Internal Troops), of which a dedicated (Arctic) group of forces and troops will be formed. Also a system of coastal protection by the FSB will be established. Moreover, RF interests will be legally secured by delineating maritime space and the use of Arctic sea-routes for international maritime traffic. This will be done by preparing a regulatory act to specify the geographical boundaries of the RF Arctic Zone. By 2020 the RF Arctic Zone should be a main strategic resource base for Russia, which will allow Russia to preserve its role as the leading Arctic power.

Background

Estimates are that the Arctic region may contain up to 30 percent of the world's gas reserves and 13 percent of the oil reserves, which explains that Medvedev's Arctic Strategy did not come fully unexpected. The interest of Moscow in the Arctic as the new strategic base of energy resources was previously made clear under Putin. Already in 2001 Russia forwarded its territorial claims for the Arctic to the UN. Next, SCRF Secretary Nikolai Patrushev, at the time Director of the FSB, created in 2004 a special Arctic Directorate at the FSB. Furthermore, in 2005 and 2007 Moscow sent expeditions to the Arctic. The expedition of August 2007 planted a Russian flag on the seabed of the North Pole.³ At a SCRF meeting of September 2008 Medvedev mentioned that some 20 percent of Russia's GDP and 22 percent of its export were produced in the

Arctic.⁴ The other Arctic littoral states – the USA, Canada, Denmark and Norway – challenge Russia's claims of sovereignty over parts of the region. Disagreements between Russia and the West have already occurred. For example in March 2009, when Russia's Minister of Foreign Affairs Lavrov complained about Norwegian military exercises as aimed for getting access to resources. And the RF ambassador to NATO, Dmitry Rogozin, in reply to NATO's desire of an increased role in the Arctic, replied that NATO had nothing to do with or in the Arctic. Conversely, Norway's Minister of Foreign Affairs noticed in the Arctic an expansion of RF military operations, involving warships, aircraft and submarines. Likewise, Canada's Premier warned that Russia could act outside international law to secure its claims in the Arctic. In June 2009 Russia further emphasized the military aspects of the Arctic region, when the RF General Staff demanded that a restructured European security architecture should include the Arctic region.⁵

Assessment

Taking into account that the climate change opens up the accessibility of oil and gas in the Arctic region, the Arctic Strategy expresses that the Kremlin is well aware of the value of this area. In their view the Arctic is a new ground of energy resources which can promote economic but also political leverage of Russia, which will reinforce Moscow's position in the international arena. Russia takes a proactive stance to be ahead of any Western initiatives, by determining the boundaries of its aspired area, by claiming the Northern Sea route under its national control – possibly denying access to others – and by forming a military force in the Arctic region which can enforce Russia's objectives.

The current Russian leadership is likely to stay in power in the years ahead; therefore an assertive security policy will be continued. The West is confronted with a resurgent Russia, in which 'Georgia 2008' type of Russian military action could be repeated. Considering that energy is a primary instrument of Russia's power, clashes are most likely to occur in regions where energy is to be won or lost. The Arctic is such a region. Grounds for a confrontation are the launching of a dedicated RF Arctic strategy, that Russia is already conducting a military build-up in this area, the unsolved territorial disputes with Western stakeholders, as well as frequent statements by Moscow that NATO / the West should keep out of this region. However, the most essential factors are the enormous amount of oil and gas in the Arctic, and, simultaneously, further growth of global scarcity of energy.

Political and economic cooperation between the West and Russia is inevitable and often mutual beneficial and should therefore be continued and intensified, in spite of Moscow's assertive stance. However, this does not mean that the West should except infringes of its legitimate interests, such as in the Arctic region. In this and other cases the West should demonstrate a policy of a tough stance. By pointing out to Russia what is acceptable, and by taking the initiative in stead of reacting to Moscow's

¹ 'Press-reliz no Osnovam gosudarstvennoy politiki Rossiyskoy Federatsii v Arktike na period do 2020 i dal'neyshuyu perspektivu', 27 March 2009, <<http://www.scrf.gov.ru/news/421.html>> (accessed 4 June 2009).

² *Osnovy gosudarstvennoy politiki Rossiyskoy Federatsii v Arktike na period do 2020 i dal'neyshuyu perspektivu*, 18 September 2008, <<http://www.scrf.gov.ru/documents/98.html>> (accessed 4 June 2009).

³ T. Halpin, 'Russia warns of war within decade over hunt for oil and gas', *The Times*, 14 May 2009.

⁴ M. Sieff, 'Russia's growing Arctic power play', 6 April 2009, <www.spacewar.com/reports/Russias_Growing_Arctic_Power_Pla_y_999.html> (accessed 4 June 2009).

⁵ T. Halpin, 'Russia sends army to frozen north in bid to claim Arctic's wealth of resources', *The Times*, 28 March 2009; 'Arktiku podvedut pod dogovor', *Nezavisimoye Voyennoye Obozreniye*, 19 June 2009.

endeavours. This will demand first of all a united Western stance towards Russia. Considering that a number of EU member states are currently involved in constructing new Russian pipeline networks, there is still a lot of work to be done to reach a united EU stance on energy policy. The West should also prepare its expeditionary military capabilities for a show-of-force towards Moscow if Western interests are threatened by assertive Russian actions. In stead of being taken by (a Russian) surprise, the West should already assess what its interests are in the Arctic and how to respond to Moscow's contrary actions, by political and military means.

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A new pan-European security regime?

By Margarete Klein

In June 2008, Russian President Dmitry Medvedev presented his major foreign policy initiative – his idea for a new pan-European security architecture. At its core lies the demand for a summit meeting of either all states “from Vancouver to Vladivostok” or of the “key international organisations” in Europe – OSCE, NATO, EU, CIS, CSTO, which would produce a security treaty that is binding under international law.

The Russian president has justified his plan by pointing out that the existing security architecture in Europe has failed to achieve the goal of the Paris Charta from 1990 – namely, to create a Europe that is united, free, and secure. To remedy this situation, he proposes that the security treaty should be based on five principles. First of all, the “basic principles of security and cooperation” in the Euro-Atlantic space must be affirmed. Second, all participating states should pledge neither to use violence against one another, nor to threaten the use of violence. Third, the treaty must guarantee “equal security” for all. Fourth, no state or international organization would have the “exclusive rights” to protect peace and stability in Europe. As a fifth principle, the treaty should stipulate “basic parameters for arms control” and establish new cooperation mechanisms for combating proliferation of weapons of mass destruction, international terrorism, and drug trafficking.

When considering Medvedev’s proposal, one can only agree with his fundamental diagnosis – that the goals of the Paris Charta have not been realized completely and that Europe suffers from security deficits:

- “(un)frozen conflicts” in Abkhazia, South Ossetia, Nagorno-Karabakh, Crimea, Transdnestrer,
- crisis of conventional arms control in view of high armament growth rates, especially in the Post-Soviet space,
- a general crisis of confidence between Russia and NATO which hinders a cooperative resolution of common security challenges and
- unresolved disputes concerning the arctic region.

To a differing degree, all these problems affect the security of the northern European countries.

In view of these problems, there is a definite need for discussion on the shortcomings of the European security system. The idea of doing so within the framework of a pan-European summit conference seems, in principle, to be a reasonable one. Whether such a meeting produces an informal agreement or a legally-binding security treaty is of secondary importance. The decisive factors will be the contents of the discussions. Here, Russia’s proposal should not serve as the sole basis for such a debate. First of all, the proposal is still quite vague. Second, with regard to contents, there are some crucial problems connected with the Russian idea. The European states would, therefore, do better to develop proposals and demands on their own.

The first problem concerns the institutional prospects of Europe’s security architecture. Initially, the Russian proposal envisaged no special role for OSCE. This was in line with the traditional Russian criticism that the OSCE was concentrating too much on the “human dimension”. On May 23rd, 2009, Foreign Minister Sergey Lavrov modified the Russian position by demanding to strengthen the security dimension of the OSCE. This change reflects

“lessons learned” from the sceptical European reaction to Russia’s plans. Strengthening the security dimension of the OSCE is reasonable. After all, the OSCE is the only real pan-European institution that includes all states as members with equal rights and thus represents a quasi-natural forum for discussing matters of European security.

However, strengthening the OSCE should not be conditioned to weaken the role of NATO. This seems to be one of the main aims of the Russian proposal as becomes obvious from a closer analysis of Medvedev’s statement on the principle of “equal security” which he linked with three “No’s”: First of all, nobody should be permitted to guarantee their own security at the expense of others. Second, military alliances or coalitions should not conduct any operations that undermine the unity of the common security space. Third, military alliances should not develop in such a way as to threaten the security of the other treaty partners. These principles are formulated in a highly subjective manner and ultimately amount to a Russian veto against almost all NATO operations. They would thus not serve “equal security”, but primarily lead to an unilateral improvement of Russia’s security.

Insisting on preserving NATO does not mean that there should not be a debate over ways of improving cooperation between the alliance and Moscow. In addition to a revitalization of the OSCE in terms of security policy, an enhancement of institutionalized cooperation between Moscow and Brussels would be a major step forward for European security. Furthermore, Russia’s legitimate security interests with respect to the alliance’s enlargement to the east should be discussed as part of a negotiating process.

However, security guarantees must be mutual ones. Russia has to acknowledge the right of all European states including those in Eastern Europe to choose their foreign policy orientation and alliances freely. In order to avoid mere lip services, it would imply that Russia gives up the idea of an own, exclusive “zone of influence”. This very point could serve as a test bed for the earnestness of Russian proposals.

In summary, Medvedev’s proposal pursues two aims. The first is to address Russia’s security concerns and make Europe to listen to them. The second is to strengthen Russia’s position in European security policy and to weaken the influence of NATO. Therefore, to avoid a policy of wedge driving, the Europeans should develop an agenda of their own for joint discussions with Russia. This would require a debate over legitimate Russian security interests as well as the formulation of clear demands towards Moscow. In light of unresolved security issues in Europe, it is worth testing Russia’s interest and willingness to compromise.

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The Baltic Sea gas pipeline – can we manage it sustainably?

By Timo Koivurova and Ismo Pölönen

The Baltic Sea Gas Pipeline has evoked strong feelings and emotions from the general public, politicians and the media. The project has been perceived as an environmental risk, as a wrong choice for the region's energy policy and even as security threat. These fears have been exacerbated by the fact that the project developer is Nord Stream AG, a joint venture company that is registered in Switzerland but whose majority shareholder is the state-owned Russian energy company Gazprom.

While it is interesting to think about the various political factors related to the pipeline project, such speculation often seems to yield conspiracy theories sooner than realistic explanations. A more interesting pursuit is to examine how the project is actually intended to operate and how its risks are being managed in the complex international policy setting in the Baltic Sea. There is clearly cause for concern. After all, the project consists of laying two parallel natural gas pipelines on the sea bed, part of an ecosystem already under considerable stress. Plans call for the pipelines to run from Vyborg/St. Petersburg in Russia to Lubmin in the Greifswald region of Germany, a route spanning some 1200 kilometers and traversing the maritime areas of Finland, Sweden and Denmark.

From a pragmatic perspective, the crux of the project is managing the risks to the vulnerable environment of the Baltic Sea. Because Nord Stream AG proposed in 2006 that the pipeline was to run through regions under the maritime jurisdictions of five countries, it was known that the company would need to carry out environmental impact assessments (EIA) and to obtain permits from each of the five states in keeping with their national legislation. Yet, the project entails many possible transboundary impacts on other coastal states of the Baltic Sea and the Baltic Sea in general. The key question became not only how to assess the specific environmental impacts of each sector of the pipeline project, but also how to examine the environmental impacts of the project as a whole. The ability to examine all of the impacts was made possible by the innovative application of the Espoo Convention, which regulates environmental impact assessment in a transboundary context. The Convention is an international treaty to which all the Baltic Sea coastal states other than Russia are parties.

The challenge that confronted the civil servants in charge of applying the Espoo Convention to the pipeline project was that there was no previous experience on how to apply the Convention to such a large-scale multi-jurisdictional planned activity. Typically, the situations that are managed under the Convention are ones in which a proposed activity in a state (the origin state) is likely to cause a significant adverse transboundary impact in a neighboring state (the affected state). The Convention enables the affected state and its public to participate in the national EIA procedure of the origin state and thereby makes it possible to have all the impacts of the proposed activity examined. Characteristic of these situations is that the main benefits of the activity accrue to the origin state while the negative impacts are concentrated in the affected state.

Contrast these typical situations with the gas pipeline project, where a private company with Swiss headquarters proposes to build a pipeline traversing the maritime areas under the jurisdiction of five states and the activity may have environmental consequences for all the littoral states of the Baltic Sea. The benefits of the proposed activity would comprise profits for the company's shareholders and the diversification of the natural gas supply to Western Europe.

The responsible civil servants succeeded in applying the Espoo Convention to the pipeline project in a pioneering manner. In a meeting on April 2006, they defined Finland, Sweden, Denmark and Germany – parties to the Convention – and Russia as origin states under the Convention, and all the coastal states of

the Baltic Sea as affected states. Even though it is not a party to the Convention, Russia agreed to the Convention being applied to the pipeline project, noting, however, that it would do so only to the extent permitted by its national legislation. With this initial decision, the four origin states and Russia committed themselves to opening up their national EIA procedures to all the Baltic Sea coastal states. They also asked Nord Stream AG to assess the impacts of the entire pipeline project, thereby ensuring that the assessments would not be confined to the individual sectors of the project.

Overall, the transboundary EIA of the project has been organized in a sound manner. The responsible officials have made innovative use of the Convention and been able to focus the studies of the project on its environmental consequences and risks. This has mitigated some of the unnecessary fears related to the plan, which, at times, seem more like storylines of thrillers. On the other hand, the Espoo Convention procedure has succeeded in raising relevant concerns over the environmental impacts of the project. Recently, on 8 June 2008, the Finnish Ministry of the Environment sent its comments on the Espoo Report to the other origin states and Russia, and conveyed various concerns that Finland has regarding the quality of how some of the assessments in the Report were conducted.

The Espoo process has thus been able to produce relevant information for the five national EIA procedures, as well as for the actual decision-making on the future of the pipeline project, which will soon begin in each of the four origin states and Russia. It is those permit authorities that will decide how the environmental consequences of the project can be controlled and mitigated or, if they cannot, will reject the company permit application.

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EU kicks the ball to ScanBalt BioRegion – The green valley, the health region

By Hans-Robert Metelmann and Peter Frank

The 10th of June the EU Baltic Sea Region strategy was released – the very first EU strategy for a metaregion. The 25th of June ScanBalt BioRegion published a set of recommendations on how to improve cross-border collaboration between academic institutions and SMEs based on smart growth and sustainability principles - as this is the key challenge for the success of the Baltic Sea Region as a “green valley” and “health region” based on solutions provided by Life sciences and biotechnology. The recommendations are thus a first step towards realizing some of the ambitious goals set by the EU Baltic Sea Region strategy. They form part of the EU FP 7 co-funded project Bridge-BSR.

The recommendations are presented in the report “Smart growth – Bridging Academia and SMEs in the Baltic Sea Region” and constitute a set of actions that ScanBalt BioRegion will act upon. The report also declares strong support to the intentions of the EU strategy to establish a flagship project for innovation in health and life sciences. The ambition is to promote the region as a globally leading “health region”. ScanBalt BioRegion is ready to take a key role in such a project, an issue which was discussed in Klaipeda, 25 June.

The Baltic Sea Region has an urgent need for a cross-border financial support infrastructure for research, development, innovation and education. The EU structural funds, the CIP-programme and EU FP 7 are very valuable; however they should and cannot stand alone if we have ambitious goals for the region. The Nordic countries have well established financial support tools in the Nordic Council of Ministers and its institutions, the Nordic Innovation Center and NordForsk. However they only encompass the Nordic and Baltic countries, while Poland, Northern Germany and (to some extent) North West Russia are not included. In addition they lack the financial power to fully exploit the potentials for cross-border collaboration.

The need for a Baltic Sea Region financial support infrastructure is in fact mentioned in the EU Baltic Sea Region strategy. ScanBalt BioRegion finds this very positive and is looking forward to interact with regional, national and supra-national decision makers to realize this ambitious and important goal.

A key recommendation for the ScanBalt BioRegion community to put into motion is the establishment of Shared Modular Business Support and Services between Clusters (SMS-BSS). These are needed to support the development from ideas to high-growth SMEs, to improve effectiveness of regional support and services and to strengthen the meta-regional value chain. The SMS-BSS should be delivered and marketed as a virtual portfolio with different modules to be initiated depending on customer demand or based on priorities set by the ScanBalt BioRegion community. The total portfolio would rely upon the regional competencies of the SMS-BSS partner organisations and each module partnership should include competence hubs and satellites. SMS-BSS constitutes a flexible way of organizing shared support and services between clusters which can be extended according to needs, competencies and priorities and quickly be adapted to a rapidly changing market.

The idea of competence hubs and satellites as a basic model for cluster collaboration in ScanBalt BioRegion was developed in the EU FP 6 co-funded project “ScanBalt CompetenceRegion”. It means to develop strategies for targeted networking in selected areas where scientifically strong regions can be regarded as “competence hubs” while other regions would then be regarded as “competence satellites”. Nearly any region has a leading competence which qualifies it for being a competence hub and thus hubs can be distributed over the region.

Other recommendations for ScanBalt BioRegion to act upon are the issues of human resources or “talents”. Talents are crucial for the collaboration between Academia and SME’s as knowledge is located in the heads of people. Since Life sciences and

biotechnology operates with a very high degree of specialization it is often a necessity and advantage to collaborate with neighbouring regions on talents. It is a question of utilizing the available local/regional talents; increase the mobility in order to supplement local/regional talent, maintain talents and attract talents from outside ScanBalt BioRegion. Talent is a key parameter in order to stay competitive and collaboration on talents need to be performed in a way which ensures mutual benefits, and prevents brain drain from individual countries. One important issue is that collaboration based on competence hubs and satellites may also promote distribution of tasks to where the talents are – instead of moving the talents.

Another important issue for ScanBalt BioRegion is the Northern Dimension and collaboration with Russia. The highlight of research in ScanBalt BioRegion gathered in ScanBalt Academy has taken steps to strengthen links with Russia with a focus on the major future challenges in health, ecology and climate. Coping with the enormous dimensions and complexity of these challenges requires advanced research based on state of the art combined with a strong political backing. At a ScanBalt Academy meeting 10 June in Oslo these issues were discussed with decision makers in order to bolster collaborative research in the Nordic region.

One main reason to collaborate around the Baltic Sea is the Baltic Sea itself. Therefore the annual ScanBalt Forum, this year taking place 7-9 October in Kalmar, Sweden, focus on restoration of the Baltic Sea. The objective to gather scientist, managers and government officials is to disseminate experiences made and discuss the possibilities and limitations of active restoration approaches within the Baltic Sea Region. It is our hope that the Forum will stimulate collaborations at the local, regional, national and international level on projects dealing with restoration. ScanBalt Forum 2009 is organised by Kalmar University. In parallel the annual ScanBalt Biomaterial Days will be running, likewise in Kalmar, organised by Tampere University and Kalmar University.

The Baltic Sea Region seems more vibrant than ever but it is necessary to remember that all stakeholders should strongly push forward to utilize this window of opportunities we have right now. If we loose momentum at this critical point the drawback can be severe, however we are indeed optimistic this will not happen.

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Chairman

ScanBalt



Peter Frank

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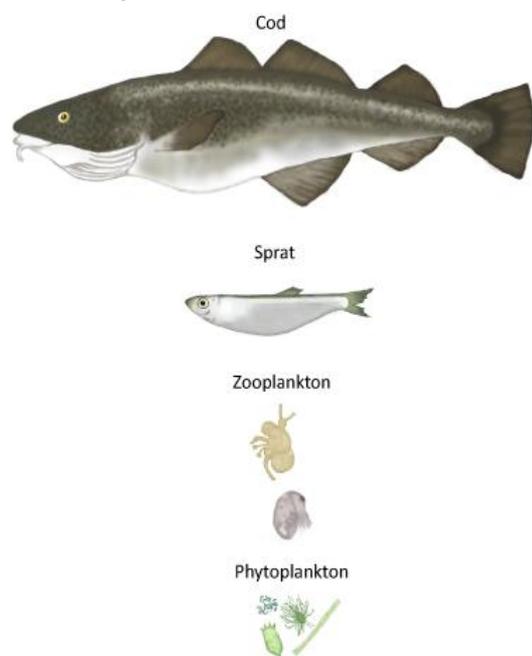


Sustainable management of the Baltic Sea

By Conrad Stralka and Katarina Veem

Did you know that the best and quickest way to combat algal blooms in the Baltic Sea is to ensure a large cod stock? This fact might make the lack of cod in the Baltic Sea into the single most important environmental issue today – An issue that we can influence in just a few years.

The lack of cod in the Baltic Sea is an environmental problem. It is beyond question that fish are an integral part of the Baltic marine environment and that fishing impacts directly on that environment. Since too much fish has been extracted from the sea the intricate relationship of species in the food web has been altered, putting the balance of the marine ecosystem at risk. Cod, which is at the top of the food chain, has decreased in number, while sprat has increased, zooplankton decreased and phytoplankton and algae increased. **Strengthening Baltic cod stocks therefore offers an opportunity to improve the recovery of the Baltic Sea environment and contain widespread algal blooms.**



In recent years a good hand has been dealt the region – management measures in combination with nature have contributed to improving the eastern Baltic cod stock. At this specific juncture it is more important than ever that management applies stringent and bold measures which allow the eastern stock to recover and grow to a size which balances the ecosystem. A sufficiently large cod stock will provide the maximum sustainable yield and will be economically profitable to the fishermen.

The Baltic Sea has been overfished and as a consequence, the environment is seriously degraded. It is time that the biological and environmental objectives which can deliver sustainability need to become a priority. Endless overfishing has hampered the socio-economic significance of Baltic Sea fisheries and the time has come to ascribe greater significance to negative environmental impacts. A well-balanced and healthy marine environment is the precondition for ample and rich yield from the resource. The fish that fisheries depend upon require a healthy marine environment. If a healthy marine environment cannot be safeguarded and ensured the

socioeconomics of fisheries are automatically rendered irrelevant.

Regional governance

A regional approach to the Baltic Sea could more effectively take account of the issues above and enable the application of an ecosystem approach. This is best done on a regional basis which corresponds to the ecosystem found in the area. Marine ecosystems are not about individual species of fish, instead it is about the interaction between the various species and the environment in which they all live – it is a whole, with a multitude of individual parts. In our governance structures we have created artificial boundaries which counteract the healthy interaction between species. The marine environment is governed by Ministers of environment, fish and fisheries governed by Ministers of Fisheries. These artificial boundaries need to be broken down in order for the Baltic Sea to be managed sustainably. **The ecosystem approach contributes to integrating fisheries with marine environment policy and makes it possible to effectively implement policy developments such as the Baltic Sea Strategy, the Marine Strategy and the Maritime policy.**

Measures to be taken

To accomplish true integration and with sustainability as the main objective a regional management organisation should be established where national governments formalize, improve and strengthen their dialogue with various stakeholders. Dialogue fosters trust and openness which is needed in the entire process. The subsidiary principle needs to be applied so that decisions are taken as close to the citizens as possible. This can be achieved by delegating decision power from the central EU level to where action is most likely to have an impact – on regional, national or local level.

An appropriate regional management organisation has to be given the appropriate decision making power. This can be established by joint collaboration between Baltic Sea Member State governments, through the “enhanced cooperation mechanism” where they jointly request the delegation of competence to the Baltic Sea Member States. Such collaboration can be established immediately. Further, sufficient funding needs to be provided to ensure proper organisation and buy in. The regional management organisation should include broad representation from governments, industry, NGOs, scientists and other interest groups.

A new courage is needed by the politicians in the Baltic Sea region. Fisheries and environment are victims of institutional inertia with little or few horizontal connecting points.. **Let's be bold and encourage a comprehensive approach which will show everyone that the Baltic Sea region is capable to agree and manage the common sea resources so that it benefits the fishery - through increased revenues, the sea – through reduced algal blooms and the citizens who will be able to swim in clean water and buy and eat locally caught fish. Always resting assured that is it responsibly managed and that has been fished on environmentally safe levels.**



If you want to learn more about what measures could be taken, please read more about our work at www.Balticsea2020.org

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Russia and climate – on the road to Copenhagen

By Anna Korppoo

The Copenhagen climate negotiations in December 2009 will be a crucial moment in the history of the mankind; according to the Inter-governmental Panel on Climate Change, global warming must be limited to 2°C in order to avoid dangerous climate change. Even though the commitments of the United States and China alone can make or break the Copenhagen deal, the actions of other major emitters including Russia can also derail the process. The lack of Russian participation would break the industrialised country group 'Annex I' and discourage developing countries to join the common effort. The latter group's main argument against commitments is that it is the industrialised countries which created the problem of climate change should fix it.

Russia's emissions collapsed in the early 1990s due to the economic recession following the systemic change. As the year of comparison for the Kyoto Protocol commitments is 1990 and the Russian commitment is to limit emissions to the 1990 level, the country was left with a sizable surplus of emitting allowances. This so called 'hot air' could be sold under the Kyoto emissions trading mechanism. Due to such benefits, the Russian government remained interested in the Kyoto Protocol regardless of the skeptical approaches to climate science by Russian scientists and benefits expected from climate change according to them. Due to the withdrawal of the US from the Kyoto Protocol in 2001 Moscow found itself in an important role of bringing the Kyoto pact into force. This critical role gave Russia more leeway to successfully demand more benefits against ratification; Putin famously settled with the EU's support for Russian WTO membership in 2004.

Since the ratification in 2004, there was hardly any discussion on climate policy in Russia until April 2009 when the Russian Cabinet debated a draft Climate Doctrine. This document establishes the official approach of the Russian government to the problem of climate change. Even though the role of the Doctrine is hardly central to the Russian negotiation position in the Copenhagen climate talks, it reintroduced the climate topic to the national agenda.

The Russian greenhouse gas emissions remained 34% below its Kyoto target in 2006; emissions have been growing since the late 1990s, but significantly slower than the economy. Based on these numbers it looks like a commitment to generate fairly deep emission cuts under a Copenhagen pact would be a possibility for Russia. But the Russian emission models-based analyses provide a mixed message. The model produced by the Center for Energy Efficiency suggests that a reduction of only 35% of 1990 level by 2050 would be possible. According to the Moscow Higher School of Economics model a reduction of 20-30% of the 1990 level by 2020-2030 should be possible. Given that the current economic crisis must have further cut the Russian emissions somewhat, and that the economy is unlikely to continue its growth indefinitely afterwards without energy efficiency improvements which would further reduce emissions, these estimates sound conservative.

President Dimitri Medvedev announced that a domestic target of 10% to 15% reduction in comparison with 1990 would be possible to achieve by 2020. Given the current

level of emissions, this would translate into a growth of emissions by some 29-36% of the 2006 level by 2020. Further, in the July meeting of G8 in Italy president Medvedev originally joined the front of the leading industrialised countries to cut emissions by 80% by 2050. However, his economic advisor Arkady Dvorkovich soon corrected that a reduction of 20-60% could be considered for Russia while the mentioned 80% cut was the position of the European Union only. In his final statement, Medvedev outlined a reduction target of 50% by 2050 for Russia. This may suggest that an internal debate on Russia's Copenhagen target is underway in the Kremlin.

It seems that the economic crisis could have further cut Russian emissions down to some 40% below 1990 level as industrial production had declined by over 17% between the first halves of 2008 and 2009. Based on these numbers Medvedev's announcement on the 2020 target of 10-15% cut sounds conservative. If in addition to this the planned policies to improve energy efficiency by 40% during 2007-2020 will be implemented, the 50% cut by 2050 may be quite possible to achieve without negative impacts on the economy.

Other issues relevant to the Russian commitment in Copenhagen include the treatment of the remaining surplus emitting allowances and forest carbon sinks. Both of them could in theory provide Russia with additional help to achieve deeper emission reductions. However, these elements are likely to be seen as additional 'buffers' against any international commitments. It is felt in Russia that the country has done its fair share already under the Kyoto Protocol due to the massive emission reduction generated by the economic collapse of the early 1990s as well as bringing the Protocol into force. International attention has also recently focused on the US and China, and some Russian experts argue that their country is needed less this time around than under the Kyoto Protocol.

Given the history of the Russian approach to international climate negotiations, it seems likely that Copenhagen will be more important for Moscow as an arena of foreign policy-making than that of an environmental debate. What probably supports the Russian cooperation in Copenhagen is the participation of the country in the G8, which both provides evidence of the country's role as an important global power as well as facilitates political agreement on emission reduction commitments. Also other for instance bilateral partnerships could encourage Russia to participate in the climate regime. Then again, Moscow blocking a consensus in Copenhagen in order to demonstrate political muscle would be hardly surprising.

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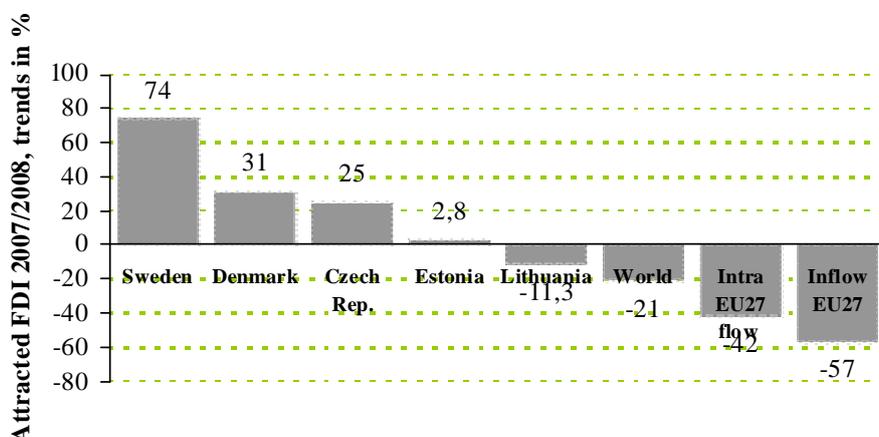


Lithuania – demanded synergy between economic promotion and development

By Sigitas Brazinskas

Recent economic trends in the Northern European region have been monitored by international analysts and institutions with a higher focus to overall situation in the Baltic countries. Looking from region's perspective these countries have to respond to challenges which are met obviously for the first time since last decade. Despite the growing economy since middle 90's and several declines in the meantime, the current situation is more actual and has to be analyzed more wider: the Baltic countries are EU members, more integrated into global economy and impacted by world crisis on the other hand, they rely much more on export and foreign direct investments (FDI) as it was before and recession impact might be more visible.

According to the latest statistics of 2008, internal EU27 FDI flows dropped by 42% compared with 2007 while FDI into the EU27 from the rest of the world (inflows) decreased by 57%¹. However, several Northern European countries have managed to attract significant investments (chart 1)².



Sweden and Denmark had achieved mostly to attract FDI in the current situation. Despite the fact that the economic slowdown is obvious in traditional industries as manufacturing sectors (e.g. automotive) other sectors have accumulated significant FDI. Looking from the region's perspectives the Baltic countries remain under challenging economic situation. Foreign direct investments, international trade and inward tourism remain among the key engines for economy growth.

The current article focuses more on Lithuania and its tendencies however they are similar across three Baltic countries. Lithuania's FDI inflow has decreased by 11% in 2008 compared with 2007. Exports has dropped by 30% within the first five months of 2009, GDP decreased by 22.4% within the 2nd quarter of 2009 (both compared to the same period of 2008)³. The Lithuanian government has taken further measures where the corporate profit tax became 20% since 1st January 2009 (previously it was 15%), VAT will be 21% from the 1st September 2009. Traditional competitive advantages such as overall costs along with energy are not among the key advantages. Thus there is an essential need to identify new and explore current measures to stabilize recession and assure competitive growth under attracted FDI and stable volumes in international trade.

As governmental institutions play one of the key roles in economic development, until recently Lithuania had focused more on promotion of its business opportunities, industry, free economic zones, unique geographic location to bridge EU with East region,

new tourism destinations, cultural events and many other advantages which seemed needed from internal view of the country. Development agencies and other Lithuanian business support structures, which focus more on promotion of the country and business opportunities, made a number of international events, matching sessions which led to exploring business opportunities and integrating Lithuania's economy into global value chains. But it is obvious now this was not enough in a long run.

Now it is the time to put emphasis on total development and keep investing in Lithuania in a wide range of areas such as infrastructure, clusters, education, service that should lead to maintain competitiveness of the country. However it might become a hardly implemented task under economic decline.

On the other hand the current situation is a good precondition to start implementing reforms and launching new measures. New initiative of public presenting about ongoing monitoring of

economic situation and its development support was started. This initiative is led by the Ministry of Economy of Lithuania and is named "Promotion plan" (www.skatinimoplanas.lt).

Lithuanian Development Agency is being restructured according to a similar model which was carried out in a number of world countries some years ago. It is expected that new measures will narrow the gap between policy making and policy implementing actions. It will include focus on development measures to improve business environment, energy efficiency, available financing tools and EU structural support.

As Lithuania's economy is mostly placed in middle position of entire value chain with dominating subcontracting and geographic proximity to leading economies to manufacture products, there is a precondition for further growth and regional expansion. Other industries as business processes, cleantech aim to enlarge existing business opportunities too. A number of successful cases have proven that Nordic and European companies have established themselves in Lithuania, made clusters of subsidiaries of different business lines and now distribute manufactured products both in EU and Eastern countries. Other companies have established regional centers for business services.

Lithuania and the region becomes a linkage in logistics through developing infrastructure. Integrated transport cargo links and growing trade volumes (as operating shuttle train "Viking" between Ukraine and Lithuania) enhance goods flow between EU, Northern Europe and Central Asian and CIS countries.

Finally innovation, creativity, service export, decrease of transaction costs remain as other key areas with the higher attention which are defined by education. This includes large number of development measures such as education, clusters, talents, life quality, medical services and others.

Consolidation of growing economic development initiatives with promotion activities will enhance Lithuania's competitiveness and attractiveness. This synergy will bring significant impact to soften consequences of the current economic slowdown. New measures will build preconditions for sustain growth afterwards economic decline ends.

¹ Source: Eurostat, "EU27 Foreign Direct Investment", http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-14052009-AP/EN/2-14052009-AP-EN.PDF

² Source: Reuters, "FDI flows fell 21 pct in 2008, to keep dropping – UN", <http://in.reuters.com/article/businessNews/idINIndia-37542820090120?pageNumber=2&virtualBrandChannel=0&pageNumber=2&virtualBrandChannel=0>

³ Source: Department of Statistics of Lithuania, <http://www.stat.gov.lt/en/>

Sigitas Brazinskas

Commercial Attaché of
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Lithuania



Opportunities for foreign companies in Kola Peninsula

By Petri Leino

The North-West Russia has not received very much attention since the collapse of Soviet Union. Kola Peninsula area has traditionally been living on fishing and mining industries. The biggest city in the area, Murmansk, had a population over 500 000 in 1989, today only 320 000, partly due to decrease in military force personnel.

Things are changing now. The Shtokman gas fields were discovered already in late 80's but nothing really happened until 2008 when Shtokman development AG was founded by Russian Gazprom, French Total and Norwegian Statoil. These gas fields are located in Barents Sea some 600 km North of Murmansk. Circumstances are very demanding and this type of operating environment is new to Russian operators so foreign partners are needed.

At this moment the development consortium is asking companies interested in this gas project to participate in prequalification. The project is divided into four main parts:

- 1) The under water constructions in the bottom of the Sea
- 2) Drilling equipment floating on the Sea
- 3) Pipelines from the field to the onshore (Teriberka village)
- 4) LNG plant

It is very likely that the main contractors are going to be the big international construction companies together with Russian, French and Norwegian builders. Possibilities for smaller foreign enterprises are in sub contracting and active follow up who is doing what in the project. So far the biggest Finnish contract has been made by Steeldone group who delivered demanding steel structures for test drilling rig which was assembled in Vyborg ship Yard. Also French companies have shown their interest to test the suitability of some of their equipment in cold environment in Finnish Lapland. The final decision to go ahead with Shtokman gas field project is going to be made during the second quarter 2010. Many "outsiders" specially on the finance sector are sceptical about the possibility to get finance for the project but the fact is that the existing gas fields in Russia have received their peak in production (Russian gas exports have decreased over 20 % on year to year basis and Norway has become as big supplier of natural gas as Russia to EU. Despite of this still the fact remains; both Russia and EU needs Russian gas in the future as well.

Besides offshore technology this type of project needs a lot of "traditional" construction work like roads, warehouses, power plants, modern houses,

telecommunication ect. Also a great variety of services are needed. As far as sea transportation is concerned Norway has a clear geographical advantage. Road transportation (including containers) is most effective via Finland even though the roads on Russian side are in bad condition (especially during the spring time.)

Besides the gas project there are a lot of other opportunities coming up as well. The northern coast line of Kola Peninsula has good circumstances for wind power electricity production. Kola is becoming the leader of renewable energy production in Russian territory. Russian government has also big plans to improve the whole logistic chain in the arctic including new cargo terminals, railroad connections and road transportation.

However, when it comes to practical work in Kola area there are many (constantly changing) rules and laws affecting the business. It is very difficult to get working permissions for foreign employers. Nowadays the coast line is considered as boarder area which in practise demands a special permission to enter (affecting above all the tourism business). Compared to EU countries Russia has very different approach how react to global financial crises. Free trade is not on the top of the list. Domestic production is favoured as much as possible (at least on political level). We are likely to see a lot of balancing between supporting domestic production and import of goods to Russia in the near future.

Despite these negative trends caused mainly by today's global crises the fact remains that Russia needs and is dependent on foreign imports and technology even more than before. Companies with experience in arctic who actively offer their services to Shtokman Development AG and to main constructors have a good chance of winning contracts in the years to come.

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Time for the next level of cooperation around the Baltic Sea

By Thomas Johansson

In June 2009 the European Commission presented its proposal for a EU Strategy for the Baltic Sea Region, a Strategy that is designed to deliver a more prosperous, environmentally sound, accessible and safe region.

Hopes are generally high regarding the possibilities that the Strategy will pave the way for. The Baltic Sea region has seen a remarkable transition in recent decades. Who could imagine 20 years ago independent Baltic States and eight of the nine states around the Baltic Sea being EU members in the near future? In view of this we at the Sida Baltic Sea Unit look forward to new advances in the years to come.

Meanwhile, it is obvious that contacts across this new *Mare Nostrum* of the EU are not yet intense enough. During recent years several opinion polls have shown that neighbours around the Baltic Sea still do not know each other very well. Out of date images and prejudices still loom. This is worrisome because contacts are key to generating awareness and fencing off ignorance. Awareness is a prerequisite for reaching a stage in which we intuitively see ourselves as a macro region.

This means that the countries around the Baltic Sea rarely make each other a natural first choice when faced with a need or when a possibility for cooperation arises. Clearly, if thinking and acting regionally is to become the rule rather than the exception, continued attention must be paid to the role of contacts and unprejudiced awareness of the opportunities available in the region.

When the proposal for the EU Strategy for the Baltic Sea Region was finally made public it had been preceded by some 18 months of preparations, led and coordinated by the Directorate General for Regional Policy (DG Regio).

A vital instrument in this work was a series of stakeholder conferences and public consultations, meetings that are a good foundation to build upon. During the stakeholder conferences 80 actions have been identified and are now part of the Action Plan accompanying the Strategy. It will now be easier to initiate joint projects in the Baltic Sea Region with the Action Plan as a starting point.

With political commitment at the highest level within the EU we stand a great chance of meeting global challenges and opportunities – and being a strong global competitor. It will be easier to influence EU policies and to ensure that they, when needed, are adapted to the specific circumstances of the Baltic Sea Region.

This transnational Strategy marks the first Macro Region within the EU. It will make it easier for the region to prosper, and it will help the region handle its cross-border challenges and opportunities effectively. I am convinced that the Strategy is the next step for EU cooperation around the Baltic Sea, and that it will serve as a model for regional cooperation in Europe.

Another important actor is Russia, the only nation bordering the Baltic Sea that is not a member of the EU. The Strategy also marks the next step for cooperation with this nation. I believe that Russia, after a period of hesitation towards the Strategy, will come to appreciate the new structure and the fact that it will be easier to cooperate with the members of a Macro Region rather than with eight different countries.

The adoption of the Strategy thus only marks the beginning! The Strategy will help to identify our common priorities and channel our cooperation in the same direction, and to identify the priorities that are most suited to being handled on a transnational level. It is of the essence that the political will in each country around the Baltic Sea signals to all institutions that we need to think regionally when we plan ahead.

The Sida Baltic Sea Unit was formed by the Swedish Government in 2005 to develop relations between diverse actors in the Baltic Sea Region so as to facilitate the implementation of the EU Strategy for the Baltic Sea Region.

During 2008-2009 the Unit has supported 180 projects with seed money involving 100 Swedish actors and more than 300 actors in the neighbouring countries. The Strategy now marks a new phase, where these initiating projects can develop even further.

All countries across the region have pledged to take lead responsibilities for certain issues in the Action Plan, thus demonstrating a broad ownership in the implementing phase of the Strategy. We need to build relations to solve common problems – problems that actually can be described as possibilities for development and cooperation.

There is no lack of funding to realise the Action Plan. There are for example billions of Euros in the EU structural funds that can be combined with national sources. What we now need is an institution that can link and inspire cooperation between different actors in different countries. The Sida Baltic Sea Unit has had this kind of function in Sweden, and we would very much like to see similar institutions in the neighbouring countries. Even better would be a common institution – a brokerage function with satellite offices in all eight countries – that would effectively promote networking and support new ideas and partnerships.

Approximately 100 million people live around our sea, will the Baltic Sea Strategy lead to any tangible changes in our everyday lives? Well, by reaching towards the four goals of the Strategy – a more prosperous, environmentally sound, accessible and safe region – noticeable changes are bound to take place.

Connecting the Baltic Sea Region thus remains a high priority issue also in the years to come.

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Team Director

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Opportunities of Finland in Russian innovation environment

By Timo Koponen

Finnish innovation system is regarded as one of the most effective in Europe. To improve its innovative development Finland has integrated with European and US innovation systems and now is starting cooperation with fast developing innovation environments of Russia, China, and India. In Finland we understand that in order to improve our competitive positions in global economy we have to work more and more globally, recognizing that the best innovations may be born "borderless".

Russian innovation environment is developing very fast. The Government is promoting the innovation policy on all levels of education and economy. The Russian Government is building a system for monitoring potential innovations in leading Russian regions using the capabilities of Rosnano. Rosnano is probably the biggest profiled venture investment fund in the world and it is aimed to invest only into productions based on nanotechnologies in Russia.

Nanotechnologies are the most advanced and prospective area of sciences in Russia. On the other hand, in Finland there has been created a cluster of nanotechnology business which includes 200 companies and R&D laboratories. More than 60 of them already have cash flow from business. That is why the nanotechnologies are one of the most lucrative areas of the future Finnish – Russian cooperation in research and business. To support this development Ministry of Employment and Economy of Finland and Rosnano has signed a Memorandum, targeted to give a strong support to operators in the both countries in this business. Finnish technology agency Tekes has already been cooperating with Kurchatov Institute, being the main coordinator of nano research in Russia, for three years.

In Finland there has been created 13 industrial or service clusters "OSKE" (The Center of Expertise). More than 8000 firms are connected with programs of the clusters. To achieve the most advanced technological solutions for the global competition, leading Finnish companies and research organizations have established 6 development companies in which the best national skills and capabilities are to be combined – "SHOK" (The Strategic Top Competence centers).

If we in this framework look at potential areas of science, research and technology in Russia, we can identify a few prospective areas not only in nano, but also in such businesses as ICT- software, biotechnologies, bioenergy, sun energy, and new technological solutions in energy efficiency and environmental issues. R & D in energy efficient technology is one of the main topics in the Strategy of Innovative Industry Development Program of the Russian Government and it paves way for cooperation between Finnish Clean Tech companies and Russian enterprises in machinery.

In order to better understand processes happening in global innovation environment, especially in BRIC countries, the Ministry of Employment and Economy of Finland has established a new Finnish innovation center

network concept – Finnnode, which combine major Finnish innovation organizations. Finnnode innovation centers are working in 4 countries by now, in Russia (St Petersburg), China (Sanghai), Japan (Tokio), and USA Santa Clara, CA). The next center is scheduled to be opened in India (Mombai).

Finnnode Russia, inspite it is located in St.Petersburg, is working to set up a network with leading Russian innovation organizations, not depending of their location in Russia. To be able to understand and react to the developments in innovation business in the country, Finnnode Russia now works with respective partners in Moscow, St.Petersburg, Ekaterinburg, Kazan etc. About 30 % of scientific potential and 70% of financial resources of Russia are located in Moscow, that's why Finnnode Russia is planning to expand its permanent presence there in 2010.

Finnnode Russia started its activities in February of 2008. During the year of 2008 Finnnode Russia identified and selected main areas of operations in Russia for 2009. These areas cover networking with leading operators in nanotechnology in Moscow, St.Petersburg, and Ekaterinburg. Because Finland in one of the leading countries in Europe in energy efficiency and ecological construction, of course these capabilities open a wide variety of options for cooperation with Russians in this field, especially in North-West Russia. The fact, that one of the biggest clusters of automobile assembling in the world is located in St.Petersburg area, allows to expect future business opportunities for Finnish technology and service companies.

A number of factors, such as developing legislation system, governmental support to regional innovation development agencies, increasing availability of financial resources (such as public funds, private venture companies, business angels, and growing interest of global venture capital towards Russia) is turning Russian economy to more innovative direction. Despite of the problems in commercialization of Russian innovations because of weakness of IPR - transparency, lack of financing of innovation developments and start-ups, low level of English proficiency and international communication, bureaucracy and corruption, the new generation of modern and internationally oriented young Russians guarantees stable movement of Russia towards innovative society. Finland will be a reliable partner of Russia in this movement.

Timo Koponen

Director

Finnnode Russia

The Finnish Innovation Center in Russia

The global crisis and FDI in new Europe

By Kalman Kalotay and Sergey Filippov

The economic crisis which started to affect the world economy in 2008 has affected the sustainability and future course of all global phenomena, including foreign direct investment (FDI) carried out by multinational enterprises (MNE). In world FDI flows, the year 2008 marked the end of a cycle: As the crisis unfolded and corporate and project finance was weakening, all kinds of equity investment including FDI came under pressure. At the “epicentre” of the crisis, developed countries suffered from a fall of FDI by 25% in 2008, compared to a decline of 15% globally. In contrast, FDI increased by 7% in developing countries and 24% in South-East Europe and the Commonwealth of Independent States. Evidence for the new EU member states remained mixed: FDI inflows continued to growth by 34% in Romania, 8% in Hungary and 3% in the Czech Republic, but fell in Poland (-28%).

The current new members of the European Union (EU) relied heavily on FDI inflows for economic restructuring during the 1990s; presently, their development strategies still depend on foreign investors, but focusing more on upgrading FDI to higher value-added industries and functions. In these countries MNE subsidiaries with higher-value added, such as R&D laboratories (which are mostly immune to the crisis) are relatively rare, although growing in number. Market-seeking subsidiaries are probably the most common. They were born out of privatisation, under which large local market-oriented units became foreign-owned without necessarily being deeply integrated in the corporate network of the new owners. These subsidiaries might suffer in the crisis, especially in societies where the local consumer purchasing power declines (e.g. in the Baltic States and Hungary). Efficiency-seeking (“export platform”) subsidiaries are also frequent, present not only in manufacturing industries (automotive, electronics and garments) but also in export-oriented services (such as shared service centres). Some types of these subsidiaries again can suffer from the crisis if the international demand for their output is declining, and if the impact of the crisis is coupled with the existences of excessive productive capacities (e.g. in the automotive industry). In turn, the crisis can provide new business opportunities for the cost-efficient locations of the new EU in export-oriented services.

How export platforms have been affected by the crisis can be detected from output statistics available for industries in which foreign subsidiaries dominate, or are the sole producers. The former is true for the manufacturing output and exports of new EU member countries; the latter to most of their transport machinery and equipment exports (table): Bulgaria, the Czech Republic, Estonia, Hungary and Latvia, Slovakia and Slovenia, all show very similar decline in industrial output (over 20%), in exports (over 20%) and in the exports of the transport industry (over 40%).

In Hungary, used as an example of the social effects of the crisis, various major job cuts affected the subsidiaries of foreign MNEs over the six-month period of November 2008–April 2009. The export-oriented subsidiaries of the car, electronics and garment industries (e.g. Suzuki, Foxconn, Jabil Circuit, Linamar, Sanmina SCI, Levi’s and Bosch), as well as the local market-oriented subsidiaries of foreign banks (Raiffeisen, Intesa Sanpaolo) were the most affected by downsizing. Compared to foreign subsidiaries, local firms engaged less in job cuts. Despite this generally negative picture, it is notable that the total size of

downsizing by subsidiaries remained relatively limited, especially compared to the generalized hike in unemployment, caused by layoffs in small and medium-sized enterprises. It does not mean, however, that the impact of plant closures would be negligible in terms of lost demand for local suppliers and lost purchasing power for employees, especially in smaller localities where the foreign subsidiary used to be a major source of employment.

As mentioned above, while FDI inflows are in general contracting, some subsidiaries are expanding their activities. By capitalising on their relative labour cost and tax advantages, as well as their proximity to consumer markets, certain new EU members have strengthened their attractiveness for such FDI. A case in point is the Czech subsidiary of Honeywell, which in December 2008 announced the expansion of its production of aircraft-engine components and the hiring of 400 additional engineers for its Czech R&D lab. As for shared services, new centres were opened in Hungary in 2009 (Vodafone, 3M, Alstom, Christian Dior). Similar developments can be observed in Poland: in February 2009, Unilever (Netherlands/United Kingdom) opened a global product development centre in Poznan, a first one of its kind in the region.

The FDI downturn has provoked a major policy challenge for governments worldwide, and in new EU members in particular. As FDI inflows are declining, some foreign MNEs are even divesting, people are losing their jobs at foreign subsidiaries, and fiscal revenues are dwindling, there is a pressure on host country governments to compete more efficiently and more aggressively for their part of a shrinking cake. All this has had to be done against the backdrop of a need for a macroeconomic “quick fix”, adding to a temptation of recourse to protectionism and economic nationalism. However, effective and sustainable FDI policies require measures that avoid “beggar-thy-neighbour” solutions. In the context of investment promotion, the challenges are to find new sectoral priorities (for example, replacing the automotive industry), and new measures (including a rethinking of the system of subsidies which in the current form has been to little avail in stopping job losses). In the countries in transition in particular questions are raised if policies to attract FDI and benefit from it have been sufficient and the right ones from the point of view of desirable outcomes and resistance to crises. The uneven record of FDI and the negative effects of the crisis indicate that there is a need for a stronger link between investment promotion and industrial policy. The relationship between the quantity and the quality of FDI needs to be better understood, especially in the context of the crisis.

Focus on the existing subsidiaries in the time of global economic downturn may be a winning strategy. If in the current conditions it will become even harder to compete for new FDI projects, new investment may come from subsidiaries’ reinvested earnings and expansion of operations, leading to investment multiplier and spillover effects in the national economy. In new EU member states in particular, the crisis should accelerate policies aimed at upgrading their production base to higher value-added activities, especially in the form of investment in knowledge and innovation, and support to R&D function of foreign subsidiaries.

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Note: The views in this analysis are those of the author and do not necessarily reflect the opinion of the United Nations.

**Table: Year-to-year changes in manufacturing output and exports, selected countries,
February 2009**

Country	Change in manufacturing output (%)	Change in manufacturing exports (%)	Change in the exports of transport equipment (%)
Bulgaria	-24.3	-39.2	-41.0 ^a
Czech Republic	-23.4	-22.2	...
Estonia	-32.7	-26.0	-54.0
Hungary	-26.1	-30.4	-48.1
Latvia	-24.3	-29.3	...
Lithuania	-17.9	-21.8	-31.9
Poland	...	-24.8	-25.7
Romania	-14.5	-15.9	...
Slovakia	-28.2	-31.0	...
Slovenia	-24.1	-25.1	-42.3 ^b

Source: Authors' calculation, based on national statistics.

^a Machinery and transport equipment.

^b January 2009.

Acquisition opportunities in adversity – but don't be late

By Risto Venermo

Under these days of significant financial uncertainty it is essential to balance the short-term, mostly operational goals and actions with the longer term, strategic objectives and activities. Entering into the emerging markets like Russia, or expanding the current operations, is much more attractive now than last year.

In Russia, the last quarter 2008 and two first quarters this year have been very weak, and GDP shows a significant drop. Despite of the strongly increased price of oil, the impact to real economy has been almost non-existing so far. Stock market, however, has had great performance in the last 6 months, with RTS almost the double from the beginning of this year, although still being at some 40 % of the last year peak. Some stocks, such as retail and oil&gas, are even pretty close to the pre-crisis level. Based on the stock market valuations, stock prices include very strong positive expectation for the next years, and seem to be somewhat optimistic considering the real economy right now, especially in the manufacturing industry and construction sector.

There has been rapid erosion in the Russian mergers and acquisitions (M&A) market since November 2008, even though 2008 and 2007 were exceptional years in many ways. The beginning of 2009 has seen a reduction of one third in the deal activity. This reduction is, however, significantly less than the comparative reduction at the mature markets in the Nordic countries or Western Europe. Clearly, transactions take place even in this crisis, but something has also changed.

First of all, now there are enterprises available for acquisitions. During the overheated M&A market, especially 2007-2008 when demand was well in excess of supply, this was not always the case, or asking prices for enterprises were very far from the buyers' views.

Secondly, the enterprise values have come down, as a consequence of two primary reasons. Sellers' expectations for future growth are now more realistic and reflect current real economy better than before. Companies' earnings have taken downturn, something sellers' had difficult to foresee in the overheated M&A market. Also the multiples have come down, although not aggressively in general, reflecting more targets for sale and fewer buyers. This equation makes the current situation commercially much more attractive than a year ago.

One of the primary questions is the recovery of the overall market. Given the nature of Russian industry and vast energy and commodity resources I believe this is more of a timing issue than "will recover/will not recover" – issue. Considering the long term supply/demand balance of key energy and mining commodities it is very likely that we will see higher prices already in the nearby months.

Current oil prices, well above 60 USD per barrel, implicate fast upswing of the Russian economy, and if sustained, accelerate growth over the longer period of time. These developments towards higher price levels are supported by long-term megatrends. Consequently, the price rises will generate wealth to Russian marketplace, to business and people.

The timing issue is essential since year 2009 seems to represent an unparalleled opportunity in some markets to

make acquisitions at modest enterprise valuations and to win market share ahead of weaker competitors. History shows that downturn mergers generate more value than boom-time mergers, and as the first half of the year has already passed by, you may want to look at the autumn period very carefully. Most probably we will see buying of undervalued assets by industrial groups. Also private equity houses have returned to the marketplace, although in the non-leveraged manner due to high cost of borrowed capital. Most likely there are going to be disposals of distressed assets, and transfers of debtors' assets under the creditors' management. All in all, being in the transaction deal flow right now is critical in order to succeed in the M&A –driven strategy and tactics. And yes, successful integration does take time.

Geographically, and important to Finns, the close proximity of Finland provides a strategic advantage for Finnish enterprises, especially in those sectors where products need to be physically transported (such as heavy industries). For those rapidly scaling businesses like software or internet services faster-growing Asian markets may be more attractive to enter in the first place.

The risks of the emerging markets are higher than in the mature markets. Russia is nowadays more dependent of the overall recovery of the global economy, and this will even more highlight the importance of the right timing. Western companies are reporting an improving environment; at least a more predictable one and macroeconomic indicators are gradually getting better.

These higher risks will require prudent business management and tight corporate control. Unfortunately bad times have also a tendency to increase corporate fraud and dishonesty, demanding even higher quality controlling activities.

Such crisis we are facing now can be also a great opportunity to implement new rules and procedures. Given the scope of protectionist actions taken by the governments, it was expected that also Russia will join the pack, and that the general burden of bureaucracy will remain. This combined with the higher risk and the cost of controlling must be compensated by the higher returns from an investment to the Russian marketplace.

The timing issue culminates to the question - can you make acquisitions when the enterprises are priced at the lowest? As a business strategy, I do not think so. Therefore, those of you pursuing expansion at the Russian marketplace don't be late.

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Reliable intelligence and due diligence are keys to success in turbulent M&A market in Russia

By Ville Korpela

The Russian mergers and acquisitions (M&A) market was valued at US\$120 billion in 2008, just 9% below the figure for 2007, according to Ernst & Young's sixth annual overview of the Russian M&A market. The financial crisis which developed in the fall of 2008 brought drastic change to the M&A market. However, thanks to a very active market in the first six months of the year, the value of total transactions did not fall significantly.

The crisis in the Russian economy resulted in reduced general activity in the Russian M&A market: since the last quarter of 2008 many companies have revised and cut back their investment programs; the number of uncompleted deals has grown and the government has played an increased role in the Russian M&A market.

With the financial crisis raging, many Russian companies are also facing financial crises internally. For some, finding a strategic investor might be the only way to stay afloat. For those who have avoided the worst of the crisis and have the means, however, now can be a great time to become a strategic investor or even purchase competing companies while market prices are down. In either case, properly evaluating the target company for purchase or investment with a financial due diligence investigation is an obvious and crucial first step to make. The bookkeeping and administrative information must be checked against reality, starting with the company's financials and paying close attention to the tax load and potential tax risks.

Due Diligence is a thorough procedure for inspecting company and business activities. The goal of such is to verify that the information provided by the company is clear, accurate, and complete; it is a comprehensive assessment of the information's reliability. Although such a professional investigation cannot eliminate all risks associated with business and investment, it can help significantly reduce them.

A typical due diligence check includes the research of criminal records, civil-court judgments, law-enforcement investigations, business reputation, relations with partners and litigation. Usually buyers and strategic investors are keen to ensure that there is nothing in the target

company's history which, if uncovered at a later date, might affect their reputation and consequent valuation.

Special attention should be also paid to understanding the characteristics of Russian companies and how they differ from their Western counterparts. One should however still bear in mind that Russia remains a nation with high levels of fraud and corruption, despite recent efforts to increase transparency. It pays to know the right people, especially in Russia.

Characteristics of Russian companies help one to understand the corporate and emerging market environment compared to more developed markets. One difference compared to Western economies is that many companies are owned and managed by the same people. Another difference is that the legal environment is not yet fully developed and is often inconsistently applied, contributing to instability and lack of transparency in the market.

Precautions are all the more important where there is a lack of transparency. For the growing number of foreign companies and investors operating in the region, unfamiliarity with the business environment makes it much harder to even identify the threats, let alone evade them. The key to success in Russian M&A process is to know the right people and have the right partners. Russia is still largely a market in which personal networks of contacts matter and where it is sometimes necessary to resort to this informal network to get valuable as well as reliable information and intelligence on potential business partners, as well as on potential future clients. Referrals and social capital are important, as they are the key tools, which can help to minimize risks related to uncertainty of the Russian market.

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Role of young people from Baltic Sea Region in rising its potential

By Joanna Grudzińska

Nowadays, all European citizens have to know that only stronger regions, nations and macro regions can guarantee more powerful position of the whole European Union. As the latest news regarding the condition of global economy and demographic trends are quite alarming, we all should think of closer cooperation, starting at a very local level. Seeking for factors, values, things that we have in common is in these hard times absolutely relevant.

European Union is facing many difficulties that were caused by the economic crisis. There is only one way to win—policies concentrated on a close cooperation within the regions. Estonia, Latvia, Lithuania, Sweden, Denmark, Finland, Germany, Poland and western part of Russia have something in common—obviously it is Baltic Sea. This fact is believed to be a factor, which binds all these countries and develops relations between them. But who is going to implement all the ideas in the future? Of course this is a challenge for young people. There is a huge potential in citizens from Baltic Sea Region that needs further development, providing relevant educational possibilities and equal chances for all of them.

Using creativity, cross-cultural approach, international experiences, multilingual skills and knowledge of young people from mentioned region can significantly increase the importance of Baltic countries in European Union. The activities should be concentrated on different fields. The main one is: focus on environmental issues, this should be a first step in all what we will entrepreneur. To live, work and develop ourselves in a clean place should be our priority. We need to be convinced that minimizing pollution, increasing the popularity of alternative sources of energy and making sure all eco-friendly ideas are treated by the governments and the citizens with the highest attention. Young representatives from Baltic Sea Region countries should first of all exchange experiences among each other and implement most successful solutions in their own countries.

Another issue which is enormously important is active participation of youth in each Baltic country public life. Young people have a very important advantage: their way of thinking is just fresh, in most of the cases they do not have any barriers in their minds. They are not involved in some years lasting conflicts. Such an open minded behavior enables crossing so many borders. There is a really significant number of things which need to be improved, so many standards which need to be fulfilled. Still big discrepancies in economic growth, employment, standard of living are observed between countries from the Baltic Sea Region. Here is the challenge for youth—minimizing those discrepancies and maximizing all the possible positive changes. Countries which are less developed have some very good examples in Scandinavia and Germany. Exchanging information and solidarity between countries is always a good way to achieve success. The mobility which was given to countries that joined EU, provided them with the better mobility. It enabled them traveling for jobs, studying and tourism in an easier way. Now learning from others is much less complicated and young generation should definitely take advantage from it. Things that were totally not possible even for their parents are now normal for them.

The Baltic Sea Region is a quite differentiated macro region in European Union. The variety of languages, habits, landscapes may sometimes cause problems. But especially young people with their spirit and creative approach should focus on turning this threat into an opportunity. It is worth remembering that power of this region is hidden in its differentiation.

This way of thinking has a brilliant future ahead. Young people from Baltic Sea Countries need to know that promoting this variety in and outside European Union will bring them enormous

outcomes in the coming time. It is a task for youth to transform a critical economic situation into a chance and something positive for the future. Our region needs constant improvement. If we want to be competitive we need to think and act twice faster than the others. This approach will enhance the position of the region but also whole EU. There is an outstanding potential in the citizens from Baltic countries, we have good researchers, scientists, businessmen. Their knowledge should be used as often as possible to attract and encourage people from all over the world to invest and spend their time in our region.

However, the idea of cooperation between young people from all Baltic countries is not possible without their interest and will to do something additional. Nowadays, youth not always is really involved in ongoing processes between countries. There is no doubt that our region needs their participation in them. It is an obvious thing all over the world, that without involvement of new generations further development in all the areas is stopped. That is why our aim should be to motivate youth to take active part in public life. How to do it? This is a question that needs to be answered in all Baltic Sea countries. Young people from that region have different past, often different standard of living and different views. But it is believed that the way to achieve consensus is much easier than in case of more mature generations. In many cases also the situation in their country is the factor that shapes their plans and perspectives for the future. This is something which should not take place. All children, teenagers should have equal chances to build their lives how they want it. This should be the aim of European Union and also our region, where as mentioned the discrepancies between the countries in standard of living are still quite high. Young people should know that by participating in public life will have a positive influence on their life, they can decide about the important issues in their country and in whole Europe.

At the beginning of June we had elections to European Parliament. The attendance of the citizens was in most of the countries below the expectations (in Poland: 24,53 %). This is something that we should be embarrassed about. As a candidate of the Democratic Party (in the last elections to the EP), a representative of the young generation, I was observing the awareness of people around my age. Unfortunately I have to say that it is too low. Still a significant part of youth doesn't know the competences and meaning of European Parliament. They do not see the point in voting and to run for Parliament themselves. This situation definitely needs improvement. More education and information on EU issues and more evidences that we all can create our common wealth are required. Actions are necessary especially in these of the Baltic Sea countries, which joined EU 5 years ago. If our citizens are more aware of their rights and influence that their choices may have, then the development of the whole region will be more possible.

Once again, do not forget about these who really are the future of our region. Baltic Sea Region young citizens need just more attention and encouragement to be a part of the current public life. They can work a better future for all of us!

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Poland



So far (away), so good – when peripheral communities lead the way

By Silvia Magnoni

Energy security issues have become increasingly important in national and international political agendas and energy concerns have been significantly shaping policy efforts in the Baltic Sea Region-BSR. Not only because the intrinsic nature of energy and environmental problems requires these to be tackled with effective regional collaborations, but also because in the field of cleantech many companies in the region can play a top role in international competitive markets. The stability of energy supply is certainly of utmost concern for large urban centres, where the density of industrial, commercial and residential agglomerates requires constant energetic procurement. It is also of particular significance for peripheral and rural communities, which are by nature located at a certain distance from the main energy sources of national supply. There are many of these remote communities in the BSR, which are currently facing various challenges posed by a more globalised world: distance from main economic activities, low employment rates, emigration, and the need for reliable access to national energy sources.

These socio-economic and environmental challenges have induced many peripheral communities to activate themselves to work on the development of sustainable strategies for generating long-term prosperity in the local context. A discreet number of EU-financed projects and Baltic Sea regional collaborations focusing on sustainability in peripheral areas show the overall direction certain BSR rural communities have taken in their political agendas, with energy issues being a gradually more important topic of discussion. Through the creation of Sustainable Energy Action Plans and the effective employment of local natural resources as a basis for the production of renewable energy, peripheral areas are trying the road of revitalisation and are positioning themselves as re-born localities with a newly discovered “good and green” quality of life.

Among these rural communities stands the Danish isle of Lolland, a 1243 sq. km island in the southern part of Denmark. Due to its historical heritage –Lolland was for centuries the retreat of aristocratic families who here owned vast agricultural properties- the island is commonly perceived as a peripheral and rural community, even if its distance from the capital Copenhagen is just 150 km, and bridges and tunnels guarantee for constant transport connections. With 70.000 people living on the island and the absence of any substantial towns, Lolland has nonetheless a remarkable track record: it has one of the world's highest figures of renewable energy production per capita. The island produces 50% more renewable energy than the local power consumption, with wind, agricultural waste and other biomass products accounting for the total electricity production. The total consumption of electricity on the island of Lolland is therefore CO2 neutral and more than 70% of heat generation is from renewable energy sources, mainly biomass and biogas. These astonishing numbers assume ever more significance if put in the context of the specific socio-economic development achieved by Lolland in the past decades. Twenty years ago the island suffered from a strong economic recession that caused the closure of many businesses on Lolland, including the main shipyard that was responsible for the employment of a good number of the local active population. This event provoked a distort vicious circle of poverty, brain drain and unemployment (17%!). In an area where there were no high-value local resources, but abundant availability of agricultural land, the recovery strategy identified by the municipalities on Lolland was precisely based on this important local asset - land. Land availability meant the possibility of planning and developing infrastructure without constant restrictions, and this could be used to attract private companies on the area, to whom Lolland would offer appropriate logistics and land management in line with their

business requirements. Lolland wanted specifically to focus on “green business”, those that would guarantee a more sustainable economic and social growth at local level. Over the years, this strategy has proved to be a winning solution to social poverty with the favouring of local business development.

In 2007 Lolland Municipality revised its goals with a more specific political approach: Lolland CTF- Community Testing Facilities. This represents the Municipality's leading industrial commitment and entails the transformation of the island into an international platform for full-scale testing and demonstration of renewable energy technologies/products in real communities. Under this public framework, Lolland has now a notable number of energy demonstration sites (wind, biomass, hydrogen, water management, biotechnology), each of them being developed according to the EU-appraised Triple Helix spiral of innovation, which requires the involvement of close synergies between academic, industrial and public actors. To turn around Lolland's rural position without a university, such a hands-on research platform can also be used for various training and research programmes as an alternative (and complementation) to traditional classrooms. As a consequence of such a strategy, Lolland has not only been able to experience economic regeneration at local level and notably reduce its unemployment rate (now 4%), but with its remarkable achievements in terms of advanced research for renewable energy generation, Lolland has also contributed to the development of a specific model of national and regional energy relations, where rural and peripheral communities become the “green lungs” for the generation of important renewable energy amounts that are then distributed to urban areas. This approach, called “Growth beyond Metropolises” is based on the assumption that remote areas generally have an availability of land and natural resources, which represent critical elements for the infrastructure and the basis for a local renewable energy sector. With an appropriate integration of the energy grid at both national and regional level, peripheral communities can therefore become the clean energy providers of urban areas, transferring their surplus renewable energy to those areas and cities where the creation of a renewable energy cluster would require much a more substantial structural change. This concept can be of mutual benefit to metropolis and peripheral areas, and represents an important factor in the effort to find satisfactory BSR cross-border collaborations in energy markets. Lolland is already working in this direction, and facts (and numbers) have proven that the interaction of urban and rural areas can be sustainably fruitful. So far (away), so good.

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Human migration to and in the Baltic Rim – past, present and future

By Arno Tanner

Past: the Baltic Rim transformed from emigration to immigration region

From the early 1800s until the 1960s, the Baltic Rim was more an area of origin than of destination for human migration. Particularly in the late 19th century and early 20th century, a proportionally large amount (2-10%) of the entire Baltic Rim population left for the United States, Canada, Australia and New Zealand.

Slowly after the Second World War, however, the tide began to turn. The first Baltic Rim countries to become net immigration countries were Germany and Sweden, which started to admit guest workers, particularly from Turkey and Yugoslavia. Slightly later, Norway and Denmark increased their intake of guest workers, with Finland joining in as a clear-cut net immigration country only in the 1990s. The eastern part of the Baltic Rim (a swath from Poland to Russia) have been sending migrants up to the present day while at the same time receiving refugees, particularly from the east and southeast.

Pre-recession, early 2000s

In the early 2000s, prior to the global economic downturn, the situation was such that the western part of the Baltic Rim (Nordic countries and Germany) was receiving refugees to a moderate degree. There was a demand for even more economic migrants, but stiff labour immigration legislation meant that there was no major peak in the number of labour immigrants. The eastern part of the Baltic Rim (Poland to Russia) was also receiving refugees and illegal migrants, while skilled economic migration to these countries has from the outset been less, and these countries have rather encountered an enlarged return of their brain drain.

Present: Global parameters of the economic recession and Baltic Rim migration

The economic downturn has caused a drop in the need for certain kinds of labour, particularly on the skilled side of the labour spectrum. Unskilled labour has also been less in demand, due to the shrinking labour market and a more available domestic labour force.

In general, economic migration has decreased and is expected to further decrease, due to the economic downturn. However, certain service sectors, such as nursing and elderly care, are less affected around the Baltic Rim, where the population is growing older. In addition to these sectors, illegal migration might increase, as an indication of poverty and misery escapism.

As concerns forced migration, whether economic or humanitarian, this will presumably continue in the form of illegal migration and refugees. There may even be an increase, due to the turbulent political and human rights situation that ensues in the world presently, due to less resources and work.

In all, labour migration is today decreasing, due to lack of demand and probably also due to a tightening of national labour policies, which reflects the decreased demand. Simultaneously, forced economic and humanitarian migration is increasing, and causing further refugee and illegal migrant streams.

Present: Where does Baltic Rim migration originate?

Let us first look at the source countries for Baltic Rim migration, both from without and from within the region. The main streams of migration **from without** the Baltic

Rim are the following: To Russia, the main immigrant flows come from the former USSR republics, particularly from the Caucasus and Central Asia. Migrants are typically unskilled or semi-skilled irregular migrants. To the Baltic States, the migrant streams are small, either remnants of the migrant streams to Russia, or then Russians or Ukrainians, with some Belarusians to Lithuania. Very small refugee flows come from other parts of the world. Migration to Poland is similar to that to the Baltic States, though in a somewhat more populated fashion. There are both labor and humanitarian immigrants in Poland, from further Eastern Europe.

Germany receives family-related Turkish and ex-Yugoslavian migration, whereas labor immigration to Germany has decreased, as has asylum-seeking, due to the rather strict norms. Denmark and Sweden get labor immigrants and refugees from all over the world, but admit very few. Finland gets refugees particularly from Iraq, Somalia and Afghanistan, and there are still, even amidst the economic downturn, many Estonian seasonal laborers in the country.

As for **internal flows of migration** within the Baltic Rim, most go from Russia, the Baltic States and Poland to Germany. For decades there has been a strong flow of Poles into Sweden and, during the past 10 years, Estonian seasonal workers into Finland. Within the Baltic Rim, the east has generally been the sending region, and the north and west the receiving regions.

Present: How do the Baltic Rim countries react to this supply of migrants?

As for the policies forming and reacting to this migrant pool, the Baltic Rim countries can be categorized into three basic clusters:

- **The tight controllers:** Sweden, Denmark and Germany have tighter immigration criteria, and their immigration volumes continue to be relatively suspended compared to their situation 20 years ago, although there is constant labour supply for these countries.
- **The aging humanitarians:** Finland, although the least traditional "immigration country", is receiving relatively more humanitarian immigrant applicants due to temporarily lighter asylum practices. Finland also has the most rapidly aging population, which will probably maintain the need for some foreign labour in care and certain services.
- **The capitalist binge survivors:** Russia, the Baltic States and Poland have lived through their first modern capitalist saga, which after 20 years has now come to a temporary end. During this phase, immigrants cannot be said to have been deliberately, systematically recruited nor integrated into these societies. Although immigration policies have been brought up to European standards, the true conditions of both labour immigrants and refugees are not on par with those of the best integrated immigrants in the Western Rim. Illegal migration continues to exist, and the living conditions of such migrants are typically harsh.

The future?

What will migration to and within the Baltic Rim look like if the economic downturn deepens? What about the situation afterwards? If there is a deeper dive, legal labor immigration will shrink further while the volume of humanitarian migration will continue unabated due to the humanitarian and political crises caused by the global slump. Refugees may apply to Russia or continue to the European Union. In the EU, Poland and Finland will then be the first in line. It will then be up to the moral values of these countries to decide which applicants will be admitted.

In time, the economic downturn will come to an end. Presumably the healthy businesses will be the ones still standing, particularly those that have to do with nursing the elderly. Immigration to these sectors will be the first to recover. Other labor immigration will take longer to re-emerge, as there will be public reservations about further immigration. Even after the recession, humanitarian immigration levels to the Baltic Rim will remain high, on account of new international conflicts triggered by the economic downturn

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Poland's trade in the BSR after the EU enlargement

By Anna B. Kisiel-Łowczyk

The rapid growth of Polish trade since the 1990s has been the effect of the economic and political transition, preparations for EU accession and the globalising activities of TNCs. The growing openness of Polish economy, measured as trade-to-GDP relation (51.8% in 2001 and 81.5% in 2006), has contributed to higher pace of transition, more FDIs and a narrower gap between Poland and the EU-15. Trade grew rapidly in value terms (Table 2), although this growth was uneven – periodically and geographically.

The rapid growth of exports (mostly to EU) in 2001-2003 was coupled with gradual decrease in the balance of payments deficit. This positive trend was reversed in 2006, due to a significant rise in the trade deficit with China and Russia. Between 1992 and 2008, there was a continual decrease in the share of BSR countries in Polish total exports, from 56% in 1992 to 45% in 2004, and to 40 per cent in 2008. This is partly due to the changing trade streams and partly to globalisation (in-coming FDIs, among others).

Polish imports from BSR countries between 1992 and 2008, partly stimulated by FDIs, increased in absolute value terms in line with the growth in total imports, and faster than exports. The aggregated long-term net effect, i.e., the difference between exports generated by a given investment and the imports it requires, amounts to 0.8 bn euro per each billion euro invested, according to the National Bank of Poland (NBP). The relative share of Poland's Baltic imports showed a downward trend throughout the period (52% of Polish imports in 1992 came from the BSR, 40% in 2004 and 37% in 2008, respectively).

Germany has been our largest trade partner, not only within the BSR, both for exports and imports (25% of the total). Another important partner in the BSR is Sweden, with whom the trade is balanced. The role of Russia has been growing since 2005, in our imports (expensive energy resources) and exports (food). Denmark ranks fourth, with balanced trade. Polish trade with Finland is at the same level as with Norway, with much higher imports than exports. Trade with Lithuania, Latvia and Estonia accounts for less than 1 per cent of Polish foreign trade.

The following trade clusters, showing the strongest bilateral economic and trade ties, can be observed in the BSR: Finland – Estonia, Poland – Germany, Denmark – Sweden. Trade is most balanced in the central part of the BSR, between Germany, Poland and Sweden.

The commodity pattern of Polish trade in the BSR is marked by complementarity in bilateral relations and the adjustment of the import demand structure (including the TNCs) to the pace at which Poland's export supply is adjusted. This is a long and difficult process in view of the changes in the highly competitive Nordic economies and their parallel capital ties with the Baltic transition economies. This is how the pattern of trade has been changing as the growing demand for consumer goods in the more affluent Baltic societies is diversified and supplemented with complementary services.

A characteristic feature of Poland's commodity pattern in its trade with BSR countries is the nearly balanced proportion of electroengineering: ca. 38% in export and 31% in import, which is higher than the global figure for Poland. There are, however, geographical variations within the BSR; bilaterally, Polish trade in this commodity type is most balanced with Sweden, Denmark, Finland and Germany, while the imbalance is the greatest with Russia (36% in export and 1.2% in import). Another important item on Poland's trade list with the BSR are minerals (mostly fuels). Here, the geographical asymmetry is greater in the BSR than globally (22% in imports and ca. 4% in exports). 75 per cent of our imports come from Russia, while our exports to Russia are only 0.6%; the respective figures for Norway are 26.1% and 5.5%, and for Lithuania 24.2% and 3%.

Another commodity group for which exports are nearly balanced with imports are chemicals – 11.2% in export to the BSR and ca. 15% in import. In this case, there are also significant bilateral differences. Our exports to Russia stand at 21%, while imports at 3.3% only. Similarly, chemicals account for 19.9% of our exports to Latvia, but only for 3.3% of imports; the respective figures in Polish trade with Estonia are 21.7% and 5%. Polish imports are higher than exports in bilateral trade with Germany

(10% in export and 19.2% in import), Sweden (6.7% vs. 16%) and Denmark (7% vs. 16.2%), respectively.

Light industry articles have a minor share in trade between Poland and the BSR – 5-7 per cent, with exports slightly higher than imports.

The general description of trade between Poland and BSR nations would be incomplete if the special role of Denmark in Polish trade in food articles (meat and meat products) were not mentioned. This commodity group accounts for 13.2% of Polish exports to Denmark and 24.1% of Danish imports from Poland. The same applies to the trade in wood, pulp and paper between Poland and Finland, with Polish imports accounting for 21.2% of the total, and exports for 5.4% respectively.

Five years after the latest EU enlargement, we see increase in trade and economic analyses of liberalisation of trade between Poland and the EU countries of the BSR show moderate integration effects at the time of the economic slow-down in EU member states and the global crisis.

Conditions (external and internal) affecting Polish foreign trade had seriously deteriorated by the end of 2007, especially in export. Externally, the most relevant is the economic growth rate, which in the developed world went down from 5.0% in 2006 to 4.9% in 2007 (the USA have experienced a 6.1% drop in their GDP and a 3.9% rise in inflation for the 1st quarter of 2009).

The optimism of Polish economic forecasts, speaking about "the resistance of the economy based on solid growth foundations" to the negative impact of the recession shock in the global economy (USA, EU, energy markets), seems inconsistent with Poland's economic performance and macro-indicators for the 1st quarter of 2009. The latter suggest that the crisis will come to Poland, but with a time lag of 12-18 months. Because of this, the defence mechanisms will be activated later and economic policy decisions will be more difficult.

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Table 1: Share of BSR countries in Polish trade between 2000 and 2008 (%)

Country		2000	2008
Denmark	imports	1,6	1,4
	exports	2,7	2,0
Estonia	imports	0,1	0,05
	exports	0,3	0,4
Finland	imports	1,8	1,5
	exports	0,7	0,8
Lithuania	imports	0,6	0,4
	exports	1,8	1,4
Latvia	imports	0,1	0,1
	exports	0,7	0,6
Germany	imports	23,7	27,0
	exports	34,9	21,0
Norway	imports	0,8	0,6
	exports	1,1	1,7
Russia	imports	9,4	10,5
	exports	2,7	3,5
Sweden	imports	2,9	2,05
	exports	2,7	3,1
Σ BSR	imports	41	37
	exports	47	40

Source: GUS yearbook, Warsaw, 2009

Table 2: Baltic trade as percentage of Poland's total in 1992 – 2008 (USD million, %)

Year	EXPORTs			IMPORTs		
	Global (USD million)	Baltic exports (USD million)	Baltic exports % of the total	Global (USD million)	Baltic imports (USD million)	Baltic imports % of the total
1	2	3	4	5	6	7
1992	13 186	7 346	56	15 204	7 969	52
1993	14 143	7 460	53	18 834	8 872	47
1994	17 239	8 861	51	21 569	9 668	45
1995	22 895	9 517	41	29 050	13 111	45
1996	24 440	11 505	47	37 137	13 575	37
1997	25 751	13 062	51	42 307	16 271	38
1998	28 228	14 448	51	47 053	18 461	39
1999	27 407	13 469	49	45 911	18 065	39
2000	31 644	15 046	47	48 940	20 150	41
2001	36 050	17 187	48	50 268	20 392	41
2002	40 986	18 195	44	55 069	22 020	40
2003	53 565	25 333	47	67 958	27 220	40
2004	73 792	33 057	45	87 909	35 297	40
2005	89 347	38 549	43	100 904	46 996	47
2006	110 180	46 307	42	126 121	57 551	46
2007	139 055	57 144	41	163 031	72 912	45
2008	169 536	67 814	40	206 075	76 248	37

Source: IMF Directions of Trade Statistics for 1992–2008

Table 3: Polish trade within BSR by commodity type in 2000 – 2007 (%)

No.	Section (SITC Rev. 4)	2000		2005		2006		2007	
		Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1	Food and live animals	5.2	7.5	5.3	8.8	5.0	8.5	5.3	8.4
2	Beverages and tobacco	0.4	0.4	0.5	0.6	0.5	0.7	0.6	0.8
3	Crude materials, inedible, except fuels	3.3	2.8	3.0	2.2	3.0	2.3	3.0	2.4
4	Mineral fuels, lubricants and related materials	10.8	5.1	11.5	5.3	10.4	4.5	10.0	3.8
5	Animal and vegetable oils, fats and waxes	0.7	0.1	0.4	0.2	0.3	0.3	0.3	0.2
6	Chemicals and related products	14.0	6.8	14.2	6.8	13.5	7.1	14.1	7.3
7	Manufactured goods classified chiefly by material	20.0	24.8	20.7	22.6	20.8	23.2	22.2	23.3
8	Machinery and transport equipment	37.0	34.2	35.9	39.0	35.9	40.2	35.7	40.8
9	Miscellaneous manufactured articles	8.6	18.3	8.5	14.5	10.6	13.4	8.6	13.0
		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: GUS yearbook, Warsaw, 2009

The benefit of library and information services to the competitiveness of a university

By Ulla Nygrén

Library and information services play an important role in the support of the core processes of their framework organisations. As far as university libraries are concerned, this means that they should invest in promoting the highest education and research, and assist universities in the implementation of their societal function. This is a fascinating and challenging mission! The challenges will increase when, on 1 January 2010, a new Universities Act comes into force in Finland, which will change the legal and financial position of universities. The new legal position will give universities greater financial independence than before. It may well be expected that, as a result of these changes, the assessment of activities that support the basic function of universities will in future be approached using models employed in the world of business: in addition to financial starting points, the benefit gained from a unit or function will be emphasised in order to achieve the objectives of the organisation.

In this new situation, the library must also be able to justify its significance in the success of the framework organisation. Why is a library needed? Why should a university direct resources towards its operation? In order to be able to answer these questions, a library must find the means to assess and adapt to the university's key objectives in relation to its activities. One such way is the use of a customer satisfaction survey.

From a point of view of interest groups, a library is primarily a service department: its significance is born of the service it provides. In order to succeed as a service provider, the same principles apply to a library as to other service sectors, be it a question of a company or a non-profit organisation: the services must be produced in a customer-friendly and cost-efficient manner. In the world of business, different customer surveys have long been used as tools in the development of customer-friendly services, and these surveys have also been useful in the overall examination of activities. Customer surveys have also become more common in libraries: The use of LibQUAL, developed in the USA, has now spread internationally. The library information service of the Turku School of Economics carried out a LibQUAL customer satisfaction survey in spring 2008. The survey was part of the library's own quality evaluation aimed at improving functions. Its aim was to investigate which areas of service show significant differences between the service level that the customer experiences and that which he/she would wish for. The results are analysed in a forthcoming Master's thesis written for the Department of Marketing at the Turku School of Economics. This thesis also compares customer satisfaction amongst other Nordic business schools that had carried out the same survey. The result of the comparison was pleasing for the Turku School of Economics: the customers of its library are the most satisfied in the Nordic countries! This good result does not, however, obscure the fact that customer satisfaction is sensitive to change and must be monitored and developed as a continuous process.

The strengths of a customer satisfaction survey are that it shows which library services and activities require improvement from a customer point of view. When applying the results of the survey to the development of

activities, it is important, however, to take into account the analysis of targets of development from a point of view of the objectives of the framework organisation. If the objective of the university is internationally significant research in selected fields, the library must find the best ways to support it through its own services. In the development of the library, there must also be readiness for proactive reaction: services should be flexibly adaptable to the needs of a developing research environment.

The universities of the future will stress the attractiveness and competitiveness of the scientific and student communities. As far as the future of library and information services is concerned, the key question is to what extent they can demonstrate that they really are promoting the strategic objectives of the university. Libraries have always been and remain treasure troves of information: they acquire and bring for their customers, either electronically or in printed form, most of the scientific information available in our country. In an information-intensive society, this, if anything, is a competitive advantage. If a library has the means strategically to distinguish what is fundamental, the ability to concentrate on it and the skill to take care of the economic efficiency of its operations, it also has every chance to be a key factor in a university moving towards something new.

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