

ISSUE NO. 5, 29 OCTOBER 2010

EXPERT ARTICLES:

Mykola Azarov: <i>Ukraine – Finland: European rapprochement</i>	Page 1
Johannes Hahn: <i>A look at the EU Strategy for the Baltic Sea</i>	Page 2
Norbert Röttgen: <i>Germany – an important player in international Baltic Sea protection</i>	Page 3
Knut Fleckenstein: <i>The EU-Russia modernisation partnership – what's in it?</i>	Page 4
Bruce J. Oreck: <i>New energy development in the Baltic</i>	Page 5
Christer Michelsson: <i>The relations between Finland and Ukraine in 2010</i>	Page 6
Mikko Paatero: <i>Baltic Sea Region Task Force on organised crime</i>	Page 7
Jacqueline McGlade: <i>The main environmental challenges of the 2010's in the Baltic Sea region</i>	Page 8
Zygmunt Berdychowski: <i>Economic Forum in Krynica, Poland – 20 years of rethinking the world and boosting the region</i>	Page 9
Hans Brask: <i>The EU Strategy – keep focus on green and smart growth in the Baltic Sea Region</i>	Page 10
Jaakko Kiander: <i>European imbalances and Baltic region growth potential</i>	Page 11
Klaus Wittmann: <i>Towards NATO's new Strategic Concept</i>	Page 12
Derek Averre: <i>Russia-NATO relations time for a change?</i>	Page 13
Riina Kaljurand: <i>Baltic Sea security – issue or non-issue?</i>	Page 14
Risto Sulkava: <i>What is the right price for nature?</i>	Page 15
Anne Berner: <i>Family business – does ownership matter?</i>	Page 16
Harri Kerminen: <i>Baltic Sea – Kemira at your service</i>	Page 17
Aimo Eloholma: <i>Russia – affordable Internet access across the country</i>	Page 18
Mikael Aro: <i>Rail services connecting Finland and Russia</i>	Page 19
Matti Miettunen: <i>Take the A Train</i>	Page 20
Darius Brekys: <i>Lithuania – a narrow corridor for heavy transit freight</i>	Page 21
Mirosława Poncek: <i>Simplified customs procedures on EU territory in international transport of goods by sea</i>	Page 23
Nikolay Shavrov: <i>Russian Maritime sector in 2010</i>	Page 24
Nikolay Dobronravin: <i>Maritime issues in Russia's energy politics in the Baltic Sea Region</i>	Page 25
Claus Lassen: <i>DHL Express Denmark – competing for a great future</i>	Page 26

EXPERT ARTICLES CONTINUED ON NEXT PAGE

To receive a free copy, print or register at www.tse.fi/pei

ISSUE NO. 5, 29 OCTOBER 2010

EXPERT ARTICLES CONTINUED:

Kai Mykkänen: <i>What do Finnish investment in Russia tell us?</i>	Page 27
Kalle Euro: <i>Russia – not such a mystery after all</i>	Page 28
Alexander Karlik and Olga Garanina: <i>Unconventional gas and Russia</i>	Page 29
Matthew Hulbert: <i>Europe's lethargy – Russia's opening</i>	Page 30
Eric Brunat: <i>Successful scientific and technological 'Modernizatsia' in Russia requires institutional and economic changes</i>	Page 31
Viatcheslav Morozov: <i>Dmitry Medvedev's modernisation from above</i>	Page 33
Stefan Hedlund: <i>Economies in transition and transition economics</i>	Page 34
Riitta Pyykkö: <i>Common understanding of quality as a basis for the development of cooperation in higher education between Finland and Russia</i>	Page 35
Louis Clerc: <i>Trade, trade, trade – Russia from a French perspective in 2010</i>	Page 36
Ilmari Larjavaara: <i>Do we need better "institutional marketing" in Russian trade?</i>	Page 37
Alexander Gogolevskiy: <i>Pskov State Pedagogical University on the way to the European higher education area</i>	Page 38
Jesper Roine: <i>The Russia-Belarus energy relationship – a reluctantly continuing affair</i>	Page 39
Gabriele Kötschau: <i>Belarus – a Baltic Sea country?</i>	Page 40
Juhani Salokannel: <i>Two neighbours</i>	Page 41
Pekka Räsänen: <i>ICT use and ageing populations in Baltic area</i>	Page 42
Marko Lehti: <i>Baltic success story – but what next?</i>	Page 43
Xiaotian Zhang: <i>"To Be or Not To Be" business relations between the Baltic States and China, example of Estonia</i>	Page 44
Venelin Tsachevsky: <i>Black Sea economic cooperation – how good example it is for the Baltic Region?</i>	Page 46
Zeki Kütük: <i>Turkey as an energy import corridor</i>	Page 47
Andriy Chubyk: <i>Ukraine and its future role in the EU-Russia gas transit</i>	Page 48
Petteri Hannonen: <i>Entering Russian markets – a point of view of a Finnish SME</i>	Page 49
Timo Painilainen: <i>Finnish press presents an image of a nauseous Baltic Sea</i>	Page 50

To receive a free copy, print or register at www.tse.fi/pei

Ukraine – Finland: European rapprochement

By Mykola Azarov

When comparing the energy component of the economies of Ukraine and Finland, the first thing that catches the eye is a similarity. It is true as regards dependence on the import of energy sources, with industry holding a lion's share in their consumption. We have one and the same importer of gas and oil who is a common neighbor of our countries – the Russian Federation. And, also, the most important resource – nuclear energy – is used by our industries mostly to cover the off-peak loads of our continuous process enterprises.

Truth is, while in the Republic of Finland wood, hydropower and peat are the only local sources of energy, Ukraine, apart from its own oil and gas, has substantial deposits of coal and uranium ore. For all that, the energy dependence of our countries on the supply of organic fuel is at the level of the Finnish ratio of more than 60 percent.

And exactly at this point the distinctions are the more evident, which I cannot but point out, as had also been the case during the official visit to Helsinki in October this year. The thing is that the Finnish government has for a long time pursued a purpose-minded policy of advancing the use of renewable energy sources. Finland is a world leader in seeking methods of using renewable biomass for power generation. For example, wood and liquid waste of the woodworking enterprises covers 25 percent of the industry's needs in energy sources.

It cannot be said that Ukraine did not heed this experience. Back in 1997 we endorsed a state energy-saving program. But the cheapness of the imported fuel during the first years of independence played its role: by the end of 2009 Ukraine's wind power capacities accounted for a mere 181.5 MW (9 percent of the projections), while the production of biogas was 4.8 million cubic meters (less than 1 percent of the projections). In all, only about 1 percent of the entire energy in Ukraine was generated by renewable sources last year.

At this point I must note the indirect positive role the European Union played for us. In 2005 the EU issued a directive binding its member countries to design national plans for the reduction of energy consumption. From 2007 to 2017 each EU country has to reduce energy consumption by a minimum of 1 percent per annum.

As a result, much as there was a lack of incentives within Ukraine, the intensive development of alternate energy in the EU created preconditions for the development of the Ukrainian market of alternate solid fuel. While five years ago only a few people in Ukraine knew about fuel briquettes and pellets, the volume of this market amounted already to 300,000 tons last year. Although Ukrainian manufacturers of alternate fuel export so far over 90 percent of their products to the countries of Western and Eastern Europe, there is an upward trend in the output of such fuel.

This trend evokes confidence that once conditions similar to those in Europe will be created in Ukraine, our manufactures will be prepared to saturate the domestic market first of all. Ukraine's President Victor Yanukovich determined the development of renewable energy as the most important national priority, and the Cabinet of Ministers is actively working in this direction, having set up in July 7 this year an Interagency Commission for the Development of the Energy Sector.

Ukraine has raw materials in plenty – the annual technically achievable resources of alternate solid fuel amounts to 63 million tons. Biomass, produced in the country but not used to date, can replace at minimal costs five billion cubic meters of imported gas per annum, as calculated by the Department of Bioenergetics of the Institute of Technical Thermal Physics under the National Academy of Sciences.

Along this way the experience of Finland is difficult to overestimate for Ukraine.

For example, Christer Michelsson, Ambassador Extraordinary and Plenipotentiary of the Republic of Finland to Ukraine, during a

meeting with Anatoliy Blyzniuk, governor of Donetsk oblast, the largest industrial and coal mining region of Ukraine, stated that his country is prepared to cooperate with the Donbas in energy-saving and ecofriendly technologies. I personally was impressed by the following words of the Ambassador: "We have vast experience and we want to share it with you. As a little country we cannot be the best in everything, but what we do is done as best as possible."

By way of a digression, I would like to point out that in Donetsk proper there is a Finnish-Ukrainian Youth Council that has its departments even in some rural schools of the oblast, while yet another local city of miners – Makiivka – has a Finnish-Ukrainian Club called Rodnik (Font). These little touches to the picture, just like the opening of the Visa Center of Finland in Kyiv on October 15 this year, attest to the big changes that have occurred in the growing interests of our countries in each other.

On October 19 a delegation of the Ukrainian National Committee of the International Chamber of Commerce (ICC Ukraine) completed the first stage of a working visit to Sweden and Finland. Although the negotiations with the ICC Finland and ICC Sweden addressed a broad spectrum of issues related to cooperation in rocketry and aeronautics, aircraft- and machine- and ship-building, as well as agriculture and its related sectors, I would like to specially mention to signed agreements of intent in the area of energy-saving technologies.

The Government of Ukraine is demonstrating that the time of internal political debates is over. Now is the time to repair the omissions, adapt the best practices, and – since Ukraine declared its European aspirations – get down to taking definite steps in this direction. We have already achieved agreements on opening missions of the ICC Ukraine in Helsinki and on setting up a number of joint Ukrainian-Finnish enterprises.

Negotiations have also been held with the largest ABB Company that is interested in supplying its products to Ukrainian hydropower plants.

Timo Vuori, Secretary General of ICC Finland, noted, by the way, that the preconditions of Ukrainian-Finnish cooperation are more preferable than the traditional economic relations between Finland and Russia. Ukraine is a member of the WTO – and that is quite a tangible advantage.

Ukraine is today embarking on the road which the Republic of Finland took in the 1980s when it reduced taxes for individuals and companies and opened its markets for foreign investment, thereby promoting economic upturn through liberalization. We are preparing to accept the most liberal elements in Europe's tax legislation, and we are open to investments in any area, especially the energy sector.

In 2006, when the Ukrainian government was headed by the current President Yanukovich, he gave instructions to design "energy passports" for every region in order to have a clear idea what region was the best in introducing solar, wind and bio energy technologies as well as hydroelectric power technologies for small and medium-sized rivers. Today our Cabinet of Ministers has reverted to this idea, since the objective has been set for our country to make in the next 10 years a qualitative breakthrough in ensuring its energy independence.

In this area Ukraine is placing great hopes on the mutually beneficial cooperation with Finland. To this end all preconditions are in place.

Mykola Azarov

Prime Minister of Ukraine

A look at the EU Strategy for the Baltic Sea

By Johannes Hahn

Almost one year on from the launch of the EU's first 'macro-regional' strategy in the Baltic Sea Region, European Commissioner for Regional Development, Johannes Hahn, takes a look at what has been achieved so far.

The countries bordering the Baltic Sea have always been trading partners. From the Vikings in the early middle ages to the Hanseatic League, their common heritage spans a millennium. Today, following the 2004 EU enlargement, eight of the nine Baltic countries - Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland and Sweden - are members of the European Union, sharing the 8,000 km of Baltic Sea coastline with Russia. Home to nearly 100 million people, with its well-educated workforce, world-class knowledge-based industries, and a spacious and relatively unspoilt landscape, the Baltic Sea region has an undisputed wealth of potential.

Despite the Region's many assets, challenges persist. A shipping highway but all too often a dumping ground, the quality of the sea has been deteriorating for years. Pollution levels are unacceptable, fish stocks are dwindling and biodiversity is seriously under threat. And whilst environmental degradation may grab the headlines, poor transport links, barriers to trade and energy supply concerns also present major concerns in the region.

The EU Strategy for the Baltic Sea launched last year aims at tackling these challenges. Past efforts were all too often hampered by a lack of effective coordination. That's why we felt the region was ripe to pilot a new way of working across borders. And that's also where partners in the region felt the Commission had a strategic role to play as a facilitator – to look at the big picture for the region and coordinate project leaders from many fields and countries.

Stepping up the economic performance of the region as a whole is a core ambition. The Strategy will help to eradicate the unequal legacy of the past when huge economic, social and infrastructure disparities developed between countries artificially separated for decades by the Iron Curtain. The Baltic Sea Region today includes some of the wealthiest, as well as some of the least prosperous areas in Europe. These disparities in economic development hinder overall performance. Closing the development gap, and exploiting all the benefits offered by the EU internal market with its free flow of people, goods and services, is critical if we are to harness the full potential of the region.

This first 'macro-regional strategy' presents a new way of working together, going far beyond existing activities – co-operation across borders but on a grand scale. Without creating new institutions or bureaucracy, the Strategy is looking to draw on the macro-region's many strengths, for the benefit of the whole community. Norway and Russia are also important partners in all of this. Both countries have expressed an interest in participating in the implementation of some of the planned projects.

Although the Strategy does not come with extra finance, substantial amounts of EU funding are already available to the region. The idea is to better use this available support (over €50 billion alone from the structural funds 2007-2013), and align existing resources to the objectives of the strategy. A better coordination of funds, people and organisations across the region will benefit everyone.

One year on, and I am happy to say that we are starting to see some real achievements. New projects are already making

a contribution to reducing high levels of pollution in the sea, improving transport systems and energy networks and reinforcing protection from major emergencies at sea and on land. The action plan groups together more than 80 flagship projects under the four big goals of improving the environment, promoting prosperity, increasing accessibility, and developing higher safety and security standards.

One of the major threats to the Baltic Sea is eutrophication – excess nutrients from agriculture and untreated sewage flowing into the water. This is threatening biodiversity. Under the Strategy, farmers' organisations from across the Region have joined forces in a project "BalticDEAL" that aims at reducing agricultural discharges into the sea. New projects on clean shipping have also been developed to address another major source of pollution in this busy international shipping lane – shipping emissions.

Twenty years after the reunification of Europe transport bottlenecks are still a big problem, hampering the flow of goods between the companies in the region. The Strategy is targeting resources on "Green Corridors" to promote a more efficient and sustainable transportation of goods. Efforts to complete big infrastructure projects like Via Baltica and to upgrade harbour facilities have also been given new impetus by the Strategy.

Energy is an important issue for the region. A key goal is energy security, which means proper supply and distribution diversity. Again, the Strategy is moving to boost existing measures in a practical and concrete way, with, for example, the work underway to complete the energy connections between Lithuania and Latvia and the wider region under the Baltic Energy Market Interconnection Plan (BEMIP).

The Baltic Sea region is recognised for its strong knowledge-based economy, with small and medium sized enterprises (SMEs) playing a key role in the innovation process. To help small business get a foothold in bigger markets, the recently launched JOSEFIN project between Latvia, Estonia, Germany, Lithuania, Norway, Poland and Sweden, helps enterprises with financing as they look to expand internationally. The project is introducing a range of practical instruments designed to ensure easier access to finance, including a European counter guarantee and a new risk-sharing model.

The Baltic Sea Strategy has marked the beginning of a new way of working and cooperating across borders. The journey so far has not been all plain sailing – this strategy is the 'first of a kind' and we are trying to tackle a host of complex issues. But we can already see some really positive achievements. A number of concrete projects are already underway and yielding results, and the commitment from partners has been exceptional.

I am convinced that the Baltic Strategy can help to spread expertise and improve the way in which we use the money available. There is much at stake. The prize for getting it right will be a clean Baltic Sea, a more prosperous region, and a new model for cooperation to inspire other regions.

Johannes Hahn

*Commissioner for Regional
Development*

The European Commission



Germany – an important player in international Baltic Sea protection

By Norbert Röttgen

The Baltic Sea is one of the most heavily polluted marine areas in the world. There are many reasons for this, but the main threats come from fishery, the discharge of nutrients and hazardous substances, and maritime activities such as shipping. These uses have individual and cumulative adverse impacts on the Baltic Sea and lead to changes which also affect species composition and biodiversity.

It is therefore not surprising that the Baltic Sea region is high on the political agenda. The Convention on the Protection of the Marine Environment of the Baltic Sea Area, first signed by the riparian states in 1974, was revised in 1992 and signed by all the countries bordering the Baltic. The Convention is still the legal basis under international law for cooperation among the Baltic Sea states in the framework of the Helsinki Commission (HELCOM). In November 2007 the environment ministers of the Baltic Sea countries adopted the HELCOM Baltic Sea Action Plan. Based on the ecosystem approach, this plan highlights the pressures on the Baltic Sea and their causes and describes the measures, responsibilities and timeframes required in order to improve water quality and biodiversity status of biodiversity in the Baltic Sea. For decades, Germany has played an exemplary part in the Baltic Sea cooperation. The German government was involved in developing the HELCOM Baltic Sea Action Plan and considers it the foundation for marine protection policy in the Baltic Sea Region.

Since the removal of the divides within Europe, the Baltic Sea cooperation has become a model for macro-regional collaboration. In October 2009 the European Council adopted the new EU Strategy for the Baltic Sea Region – a strategy which particularly focuses on improving coordination and joint action in the area. Cooperation in the Baltic Sea region still hinges on bilateral relations. For instance, the Federal Republic of Germany supports Poland and the Baltic States in their nature conservation efforts and in pursuing ecologically sustainable climate and energy policies. We also participate in a number of transnational lighthouse projects which create leverage and raise awareness for the region among policy-makers and the public. Under the "Baltic 21 EcoRegion"¹, for example, we support the aim to make the Baltic Sea an "ecoregion" in which the economy can develop while taking environmental and resource conservation needs into consideration. In this context, the local Baltic 21 Agenda is an excellent example of transboundary cooperation on environmental issues. Other initiatives deal with the development of a transboundary climate adaptation strategy, or support the sustainable management of marine resources in the Baltic Sea Region.

Although the Baltic Sea Strategy is an EU strategy, it is clear that many projects cannot fully succeed unless all the immediate neighbouring countries are involved.

The German government furthers its goals by taking part in multilateral cooperation fora. The Baltic Sea Council, which Germany had a particular part in founding in 1992, has proven its worth as a bridge to understanding among the Baltic Sea states. The Council provides impetus for implementing the aims of the Northern Dimension of the EU, which include strengthening cooperation with the Russian Federation. Involving Russia in activities for the protection of the Baltic Sea is very important for us. Since 2006 we have supported environmental projects under the Northern Dimension Environmental Partnership (NDEP) Fund, providing credits and loans for measures to combat environmental problems in North-West Russia, including Kaliningrad. Our projects include improving the quality of wastewater treatment plants or

promoting the installation of such systems where they are still needed. A nationwide wastewater treatment system which complies with technical requirements significantly helps to protect water bodies – and consequently to protect the Baltic Sea – as efficient wastewater management can substantially reduce excessive discharge of nutrients into the water. Germany also supports waste-related projects and the modernisation of municipal heat supply systems.

From an economic point of view, the Baltic Sea Region represents a European growth market of the future. Although the Baltic Sea connects the Region, a clear divide nevertheless exists between the affluent, highly innovative North and West and the still developing East and South. The differences between regions of the EU where innovation most thrives – the Nordic countries and Germany - and regions which have well-educated young people but only fragmented infrastructures - Poland and the Baltic States - are starting points for jointly working towards the introduction and use of green technologies and eco-innovations and improving the competitiveness of SMEs.

A reliable energy supply for the Baltic Sea countries is also vital for the economic development of the Region. The signing of the Memorandum of Understanding on the Baltic Energy Market Interconnection Plan (BEMIP) was a first step towards better integration of the Baltic region into the European grid. Neither energy policy targets nor politically agreed climate protection goals can be achieved at a higher level without commitment at regional level. We are helping the region to provide its own energy from with alternative sources and to develop the framework conditions needed to motivate the local population and companies to become involved. Ultimately, this will promote the expansion of decentralised supply systems, strengthen regional value added and support local management.

The joint efforts for the protection of the Baltic Sea have delivered some undeniable successes. As the very welcome economic development of the Baltic Sea Region progresses, however, the challenges will become more and more serious. The German government will use its upcoming presidency of the Baltic Sea Council to consistently forward the protection of the Baltic Sea with targeted measures. The Baltic Sea Region is proof that economic success and climate-friendly development can go hand in hand.

A safe and clean Baltic Sea, an economically strong and innovative Baltic Sea region, stable societies based on social responsibility, and a future-oriented and sustainable cooperation network which works closely with Russia: these are the ingredients for successful development of the Baltic Sea Region.

Norbert Röttgen

Dr., Federal Environment Minister

*Federal Ministry for the
Environment, Nature Conservation
and Nuclear Safety*

Germany



¹ INTERREG Project "EcoRegion" led by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, 2009-2011

The EU-Russia modernisation partnership – what's in it?

By Knut Fleckenstein

Modernisation has become the new buzzword since the Russian President launched his big modernisation campaign in November 2009 when publishing his article "Go Russia!" in a Russian online newspaper. He later reiterated his main ideas in his second annual state-of-the-nation address to the Federal Assembly.

Russia is looking back onto a long list of famous modernisers and reformers, the most prominent being probably Peter the Great. He initiated a radical reform agenda when he undertook to completely change his compatriots' lifestyle and turn them into Europeans. Today's Russia is not perceived as being far from its other European partners anymore. On the contrary, trade and economic relations have become so close that economic disturbances in the EU or Russia almost immediately affect the respective other partner. For the EU, Russia is the third most important trade partner, after the United States and China. Russia is also one of its main energy suppliers. As for Russia, almost half of its imports and exports are with the 27 EU member states.

When talking about the need of modernisation, the Russian President stressed the necessity of economic diversification. Due to the financial crisis and its economic repercussions, it has become more than obvious that Russia, by mainly basing its economic growth on revenues from its natural resources, has built its economic progress on an unstable ground. In order to gain more independence from developments on the oil and gas market, Russia has to diversify its economy. Other areas of interest to a comprehensive modernisation have been added quickly: technological development, financial sector reform, infrastructure investment and social policies.

At the second last EU-Russia summit in Stockholm in November 2009 the Russian President Medvedev and the President of the European Commission Barroso spontaneously agreed that the EU would lend its support to Russia's modernisation project. Maybe, the EU draw some inspiration from its recent 2020 Strategy which defines political priorities for the next decade in order to make the EU more fit for global competition but also more social towards its citizens.

As always, the devil is in the detail: When trying to agree on concrete modernisation projects which could be implemented by the EU and Russia jointly, different understandings of the term 'modernisation' appeared. While Russia seems to centre its modernisation around the economy, EU member states quickly adopted the point of view that modernisation should also touch upon the civil and social sphere.

Indeed, it seems obvious that a sustainable modernisation can only be reached by modernising not only the economy itself but also its social environment. Modernisation is an extremely comprehensive objective which cannot succeed without modernising the framework conditions for doing business. For example, the state must encourage the private sector to undertake innovation, to invest, to take entrepreneurial risks.

The challenge of modernisation does not lie in the missing political resolution which has been expressed by the Russian President at many occasions. A successfully modernised economy needs a stable and efficient framework for its activities: rule of law, control of red tape, fight against corruption, energy efficiency as well as strong human resources and free entrepreneurship.

However, modernisation is not a topic for Russia alone. Therefore the partnership for modernisation between Russia and the European Union would serve the interest of both partners. Whereas negotiations on a new cooperation agreement between the EU and Russia are currently advancing only very slowly, the partnership for modernisation would allow doing some small steps forward in the meantime.

The interest of the EU-Russia modernisation partnership lies in the fact that it is a very pragmatic tool presenting several advantages: It can help to re-establish confidence and reliability in the cooperation between the two partners and it can contribute to reaching concrete and visible results which would benefit the citizens.

Thus the modernisation partnership can be used not only for modernising one partner but also for modernising the relations between the two of them. The EU and Russia should seize this opportunity and take it as a starting point on their way away from a purely declaratory strategic partnership. If the end result of the partnership for modernisation were cooperation on concrete terms - beyond all declarations and on the basis of common interests and values - this would surely give a boost to the general relations between Russia and the EU.

Knut Fleckenstein

*Member of the European
Parliament*

*Chairman of the Delegation to the
EU-Russia Parliamentary
Cooperation Committee*



New energy development in the Baltic

By Bruce J. Oreck

The nations of the Baltic Rim share a rich history and throughout that history the Sea has been the tying bond, channeling commerce and culture among the bordering states. But today the economic vitality of the entire region is at a crossroad. The health of the Sea itself and the viability of the communities that lie along its coastlines depend upon the choices we must now make as we reinvent our energy future.

For decades scientists have studied the consequences of our use of precious fossil fuel resources and that science is now clear and compelling. Whether considered from the effects of fertilizer run-off, the rising CO₂ concentration in our atmosphere or simply the economics of imported energy, there can be no doubt that our relationship with hydrocarbon based fuel sources must be reinvented.

Now there are those who look at this great challenge and argue it is too difficult. They conclude that we must hold fast to business as usual. But the reality is that no matter how hard we grip the present, change is coming. And this change, the new energy evolution, presents the single greatest economic opportunity in our history. Moreover, this new energy paradigm will dramatically benefit the community of Baltic Rim nations.

Perhaps the easiest way to evaluate this last statement is to look at the direct cost of imported energy. Here are a few general "rules of thumb:" Eighty cents of every Euro spent on imported energy leaves the spending nation and never returns. Conversely, every Euro saved through energy efficiency or self produced renewable energy remains in the national economy with an average positive multiplier effect of five Euros. Since the Baltic Rim countries are currently spending close to 80,000,000,000€ per year importing fossil fuels, it is easy to understand just how immense the financial benefits of a successful local clean energy economy are.

The indirect benefits of the realignment of our energy portfolio are equally compelling. As the world continues to economically "flatten," nations, including those on the Baltic Rim, have experienced large scale dislocations in many of their traditional industries. Manufacturing jobs and capital have, predictably, moved towards countries with lower labor costs. And there is little to indicate that trend will slow down. Yet there is a vast new local job market associated with the clean energy economy. Whether it is from retrofitting the built environment to be more energy efficient or from large

scale infrastructure projects such as building smart grids, the opportunity to redefine and revitalize domestic economies is immense. Study after study in the U.S. has demonstrated that investments in energy efficiency, sustainable business practices and renewable energy can be immensely and immediately profitable.

In the United States we have seen a return to old fashioned American ingenuity. Citizens, cities and states have aggressively and successfully embraced the new energy paradigm. Clean energy programs currently being used in the U.S. can be effectively transferred to the Baltic Rim region. And technology created through European innovation is being used to assist our own clean energy efforts. Throughout the United States there are programs underway that mirror clean energy efforts in the Baltic. The U.S. may even have a role to play in the environmental challenge to the Baltic Sea itself. Successful, cost effective environmental efforts in the U.S. that have helped to restore our Great Lakes, the Hudson River and the Chesapeake Bay may prove to be useful models for similar efforts in the Baltic.

Often times the best role the government can play is facilitator of policy and innovation; to open the doors of possibility and exploration, and to let entrepreneurs lead the way. A powerful example of this approach is President Obama's Executive Order on Sustainability – a governmental mandate that sets the course, but which empowers the individual and the business community to find the best solutions. This same entrepreneurial spirit is being unleashed throughout the Baltic economies.

Ultimately of course, our futures are tied together. The success of each of us depends on the success of all of us. Now more than ever, the opportunities of our bilateral relations are the best path towards a prosperous future. As President Obama has so often spoken about, the Atlantic Ocean does not separate us from Europe, rather like the Baltic itself, it ties us together.

Ambassador Bruce J. Oreck

Embassy of the United States of America

Helsinki, Finland

The relations between Finland and Ukraine in 2010

By Christer Michelsson

The relations of Finland, EU-member since 1995, with any third country nowadays are not only bilateral. EU-Ukraine relations are by definition a part of the relations of any EU member country with Ukraine. I shall therefore touch upon both. But first a glance at history. - Why? Because there are many similarities, but also differences, are useful in explaining the present situation.

Both Finland and Ukraine are rather young nation states, with a national awakening only in the 19th century, after having been part of one (in the case of Finland) or many (in the case of Ukraine) empires. The difference, from a Finnish point of view, lies in the 600 years of being a part of the Sweden. More than a hundred years ago also the societal structure was similar. Agriculture was the most important livelihood for both populations. Also from a language point of view one finds similarities. Finnish and Ukrainian were spoken in the countryside by the lower classes, while the cities were language-wise more varied (Swedish and Russian were spoken there in the case of Finland, Polish, Russian, Yiddish, German and other languages in the case of Ukraine). Another similarity: After the First World War Finland and Ukraine became independent, but Ukraine lost its independence very soon and only regained it after the collapse of the Soviet Union. Finally, both countries have a long border with the same neighbour, Russia.

Now Finland is an affluent EU member state since 1995, with long traditions of self-determination, with a high living standard and pretty equal diffusion of wealth. Ukraine, on the other hand, is a so-called emerging economy, with a big and varied raw-materials base and at the same time a country of huge, but for the time being still underutilized, possibilities.

Bilateral relations

On the bilateral level relations between the countries are good. The exchange of high-level visits has been on a pretty good level, with the presidential visit to Kyiv in 2009, the visit of Foreign Minister Stubb to Ukraine in the summer of 2010 and the Prime Minister of Ukraine, Mykola Azarov, to Helsinki in the beginning of October 2010. Trade has good potential. After a steady growth in trade until the world crisis hit and consequentially there was a drop in trade (by a third) as well. Finland and Ukraine are similar also in the respect that they are export-dependent countries.

Investment between the countries is low, due to many reasons. Until the end of the year investments from Finland amounted to only 72 million euro. An important area in this regard is the building material sector in a wide sense (sanitary ceramics, roof profiles and steel surfaces, paints).

EU-Ukraine relations

Then a few remarks on the EU-Ukraine-relations, which are as important as bilateral relations. From Finland's point of view this is more than clear, as integration into the central economic arrangements of the world and of Europe made all the difference for the economy of Finland.

A basic reason for Finland being successful is to be found in our history of integration and the consequences of it. After the Second World War Finland's economy has developed and diversified, because of integration: GATT in 1956, an arrangement with EFTA in 1961 and a full membership in 1986, a free trade agreement with EEC (and SEV) in 1973, membership in the European Economic Area in the late 1980ies and finally membership in the EU "after 18 months of rigorous negotiations", as our Foreign Minister put it in Kyiv, in 1995. For

Finnish-Ukrainian relations this also means that many aspects of them are now resolved on the axis Brussels (not Helsinki) – Kyiv.

For Ukraine's part the prerequisites to integrate, and thus to enhance and broaden its relations with the European Union, are there. Ukraine joined the WTO in 2008, signed a free trade agreement with EFTA in 2010 and is now negotiating an Association Agreement, part of which consists of a so called "deep and comprehensive" Free Trade Agreement. The negotiations are hard and thorough, as they concern most of the key facets of economic life. We hope that progress shall be made, in order to make a signature of a FTA possible in 2011. In the EU-Ukraine negotiations the topic is, of course, that if and when Ukrainians are let into the single market, the same rules should and shall apply for all.

An important element of this integration is the enhancement of people-to-people contacts. Finland supports the goal of visa free travel from Ukraine to the Schengen countries, when the time is ripe. Now an Action plan, comprising steps which have to be taken in order to attain that goal is being discussed, for instance the passports have to be secured and borders demarcated and well guarded. Travel opens eyes. - Before visa liberalisation is possible, visa facilitation procedures are, however, a good way forward. Examples: Finland opened its Visa Application Center in Kyiv on 15 October – with the aim of making the applying of visas easier and more comfortable. Another one is that of the visas Finland issues to Ukrainians (in 2008: 12.500, in 2009, the year of the crisis: 10.700), more than a quarter are already free.

The overarching question in both trade liberalization and people to people contacts, is, of course, the adaptation and implementation of internal rules and external agreements of Ukraine to existing legislation and regulations in the EU. Timeframes for adaptation are possible to negotiate, permanent changes to the internal market rules are not.

In Foreign Minister Stubb's words in his speech at the Institute of World Politics in Kiev in July 2010: "Ukraine's path within European integration is not only theoretical, it is real. The association agreement is linking the Ukrainian state to the EU; the free trade agreement is linking the Ukrainian economy to the EU; and the visa free regime is linking the Ukrainian population to the European Union."

Conclusions

In spite of the above said there is still a plethora of possibilities, still underutilized, in many fields. I'll mention but a few:

- in the economic sphere the energy saving, as well as district heating systems and waste management
- In the political and social sphere examples like gender equality as well as local democracy are worth to study further.
- people to people contacts, in both directions. Ukrainians have already found Lapland in winter and the possibilities of the Lake District in the summer. Finns, on the other hand, have still many things to discover or re-discover, like the beauty of the Carpathians and Crimea, as well as the cultural riches of Ukrainian cities like Kiev, Lviv and Odessa.
- Ukraine has its rich black soil, Finland has its technology.

Christer Michelsson

Ambassador of Finland to Ukraine

Baltic Sea Region Task Force on organised crime

By Mikko Paatero

1. Background of BSTF

BSTF was created in 1996 by the Heads of Governments in order to establish a platform for cooperation between the law enforcement authorities of the participating states and strengthen the fight against organised crime in the Baltic Sea Region. BSTF is a supreme separate body consisting of personal representatives of Heads of Government. The mandate given by the Heads of Government to BSTF has subsequently been prolonged and is currently valid until the end of 2016.

The rotating Chairmanship has been with Sweden, Denmark, and Finland. Since 2007 the Chairmanship has been with Estonia and the following countries have agreed to take over the future Chairmanships: Lithuania (2011-2012), Norway (2013-2014) and Russia (2015-2016).

Personal representatives of the Heads of Government, forming the strategic part of BSTF, took responsibility to reinforce regional cooperation for direct and concerted action to combat organised crime. Operational measures have been the responsibility of operative meetings (OPC), serving as multidisciplinary expert committee, meeting more frequently and reporting directly to strategic level of personal representatives of Heads of Government. Operative actions have been carried out by ad hoc groups of experts on certain fields of crime.

2. Mission

The Baltic Sea Task Force (BSTF) supports the participating countries, their Governments and law enforcement authorities in delivering a coordinated overview and initiation of activities to meet both the operational and political needs in preventing and combating organised crime in Baltic Sea Region. In this role BSTF shall complement already existing cooperation-structures.

3. Goals and objectives

The BSTF cooperation should complement the work already done in other forms of and be a main regional facilitator. EU has recently enlarged a lot and is at present a union of 27 countries, countries with different histories and cultures and that is why close regional co-operation is seen to be very important and valuable.

However, the BSTF structures should never overrule or steer the way each country behave in other cooperation forms. The role of the BSTF is to focus on ensuring that such cooperation is regionally coordinated and identify and address areas where other forms of cooperation does not fully meet up with the regional priorities and demands. This does of course not prevent that the platform can be used to find and discuss a common regional approach in the work performed at the abovementioned cooperation forms.

The BSTF work have to continue striving for a closer cooperation with Russia, being very important non-EU member state of the task force in the region.

One key factor, giving the BSTF cooperation an added value in relation to many other existing structures, is the

multidisciplinary approach. The BSTF structures give the possibility to join the knowledge of all crime-fighting authorities in the region, including police, customs, border guard and the judicial cooperation, thus giving it a unique opportunity to develop and discover new methods to fight organised crime.

4. Purpose of the new BSTF Strategy

The current strategy faces the ambition to update the BSTF cooperation to the institutionalised development in the region. The current focus on cooperation within the Baltic Sea region – recently reinforced also with the EU Baltic Sea Region Strategy directly linking to BSTF in implementing security measures – together with the need coming from the increased movement and internationalisation of organised criminality, motivates a continued effort to meet regional challenges at a regional level.

If the rationale for the establishment of the BSTF was the need to strengthen cooperation and the need to create a framework, today we have a situation with many different initiatives. In this aspect, the BSTF plays a vital role ensuring a common regional response to the ever changing international environment. This offers the BSTF a unique opportunity to become a flagship by building bridges between operational needs and political expectations, taking into account national and regional aspects.

5. EU Strategy for the Baltic Sea Region

The EU Baltic Sea Strategy was introduced by the European Commission and adopted by the European Council October 2009. The action plan of this strategy comprises 15 priority areas which represent the main areas where the strategy can contribute to improvements either through tackling the main challenges or through seizing the main opportunities. The priority areas are organised into four thematic pillars of which one is “to make the Baltic Sea Region a Safe and Secure Place”. Priority area 15 belongs to this pillar and is titled as “to decrease the volume of, and harm done by, cross border crime”. Co-ordinators of this priority area are Finland and Lithuania.

It is agreed by the Baltic Sea States that actions which are part of this priority area are going to be implemented by the BSTF as already existing regional and multidisciplinary body. This choice of implementation gives BSTF co-operation even more added value.

Finland has always been an active supporter of BSTF co-operation and will continue to provide the incoming chairmanships and the regional strategy all the possible support and assistance.

Mikko Paatero

*National Police Commissioner,
Chief of the National Police Board*

Finland



The main environmental challenges of the 2010's in the Baltic Sea region

By Jacqueline McGlade

Much of the freshwater pollution and discharges from the ships end up in the sea. In particular, nutrient enrichment is a major problem in the marine environment, where it accelerates the growth of phytoplankton. It can change the composition and abundance of marine organisms living in the affected waters and ultimately leads to oxygen depletion, thus killing bottom-dwelling organisms. Oxygen depletion has escalated dramatically over the past 50 years, increasing from about ten documented cases in 1960 to at least 169 in 2007 worldwide [1]; and it is expected to become more widespread with increasing sea temperatures induced by climate change. In Europe, the problem is particularly evident in the Baltic Sea, where the current ecological status is regarded as predominantly poor to bad [2].

The marine environment is also heavily impacted by fisheries. Fish provide the primary source of income for many coastal communities, but overfishing is threatening the viability of both European and global fish stocks [1]. Despite less than in other European seas, 21 % of the assessed commercial stocks in the Baltic Sea are beyond safe biological limits. Overfishing not only reduces the total stock of commercial species, but affects the age and size distribution within fish populations, as well as the species composition of the marine ecosystem. The average size of the fish caught has decreased, and the consequences of this for the marine ecosystem are still poorly understood, but could be substantial.

Environmental policy in the European Union and its neighbours has delivered substantial improvements to the state of the environment. Reduced number of pollution hotspots is a good example from the Baltic Sea region. However, major environmental challenges remain, which will have significant consequences for Europe if left unaddressed.

What differs in 2010, compared to previous environmental assessments, is an enhanced understanding of the links between environmental challenges and the human-made systemic risks and vulnerabilities which threaten ecosystem security, and highlight the shortcomings of governance. Responses include prevailing vision of Baltic Sea as an ecosystem that requires common management and governance, recently promoted by EU Strategy for the Baltic Sea Region.

The prospects for Baltic Sea environment are mixed but there are opportunities to make the environment more resilient to future risks and changes. These include unparalleled environmental information resources and technologies, ready-to-deploy resource accounting methods and a renewed commitment to the established principles of precaution and prevention, rectifying damage at source and polluter pays.

Continuing depletion of stocks of natural capital and flows of ecosystem services will ultimately undermine economy and erode social cohesion around the Baltic Sea. Most of the negative changes are driven by growing use of natural resources to satisfy production and consumption patterns. There is a need to move from exploitation of Baltic Sea resources to learning to live with the sea and reduce significantly current environmental footprint.

The Baltic Sea is already experiencing effects of climate change. Countries around it are reducing their greenhouse gas emission and are on track to meet their commitments. However, greater efforts are needed to put in place for adaptation measures and increase resilience of societies around the sea. In particular, there is a need to address the consequences of possible weakening water exchange with the ocean, effects of rising sea water temperatures on ecology of the sea, as well as increasing coastal erosion impact and introduction of alien invasive species.

Extensive network of protected areas and programmes is established to preserve nature and biodiversity of the Baltic Sea. However, geographical and oceanographic conditions, pressure from resource use and pollution is resulting in degradation of the Baltic Sea ecosystem as a whole and eventual loss of natural capital in the Baltic region. To improve the situation we must prioritise biodiversity and ecosystems in policymaking at all scales, particularly addressing agriculture, fisheries, maritime transport as well as regional development, cohesion and spatial planning on land and sea.

Environmental regulation and ecoinnovation have increased resource efficiency in the Baltic region and waste streams are substantially curbed. However, high intensity of resource use is here combined with exceptionally fragile ecosystem of enclosed and shallow basin of the Baltic Sea. This creates extra requirements for the waste

discharges in to the sea, up to near- zero emission rates as progressively applied to passenger ferries operating on the Sea. There is also a role for altering consumption patterns to reduce environmental pressures.

Water pollution have declined but not enough to achieve good ecological quality in all water bodies of the Baltic sea catchment. Widespread exposure to multiple pollutants and chemicals and often unknown combined effects raise concerns about long-term damage to human health require the use of precautionary approaches.

The notion of dedicated management of natural capital and ecosystem services is a compelling integrating concept for dealing with environmental pressures from multiple sectors. Spatial planning, resource accounting and coherence among sectoral policies implemented at all scales can help balance between the need to preserve natural capital and use it to fuel the economy. A more integrated approach of this sort would also provide a framework for measuring progress in restoring the health of the entire Baltic Sea ecosystem.

Increased resource efficiency and security can be achieved, for example using extended life cycle approaches to reflect the full environmental impacts of products and activities. This can encourage sustainable use of local resources and promote innovation. Pricing that takes full account of resource use impacts will be important for steering business and consumer behaviour towards enhanced resource efficiency.

Promoting transboundary cooperation and clustering sectoral policies according to their resource needs and environmental pressures would improve coherence, address shared challenges efficiently, maximise economic and social benefits and help avoid unintended consequences. There is a role for shared information and surveillance systems that target safety across the whole Baltic Sea.

Implementing environmental policies and strengthening environmental governance will continue to provide benefits, as already demonstrated by the Helsinki Convention on the protection of the Baltic Sea. Better implementation of sectoral and environmental policies will help ensure that goals are achieved and provide regulatory stability for businesses.

A broader commitment to environmental monitoring and up-to-date reporting of environmental pollutants and wastes, using the best available information and technologies, will make environmental governance more effective at all administration levels. This includes reducing long-term remediation costs through early action.

Transformation towards a greener economy will ensure the long-term environmental sustainability of Baltic sea region as part of Europe and its neighbourhood. In this context, shifts in attitudes will be important. Together, regulators, businesses and citizens could participate more widely in managing natural capital and ecosystem services, creating new and innovative ways to use resources efficiently and designing equitable fiscal reforms.

Using education and various social media, citizens can be engaged in tackling common issues such as restoring the Baltic Sea ecosystem to a good environmental status.

Jacqueline McGlade

Professor, Executive Director

European Environment Agency

Denmark

References

- [1] EEA 2010. The European Environment - State and outlook 2010: Synthesis (in press)
- [2] Helcom, 2009. Eutrophication in the Baltic Sea – An integrated thematic assessment of the effects of nutrient enrichment and eutrophication in the Baltic Sea region. Balt. Sea Environ. Proc. No. 115A.

Economic Forum in Krynica, Poland – 20 years of rethinking the world and boosting the region

By Zygmunt Berdychowski

20 years that have passed since the Economic Forum in Krynica has been initiated. Held annually at the beginning of September, it became a highly recognized event in Central and Eastern Europe. Throughout the years it has reflected dynamic transformations that have taken place in this part of Europe. At the beginning, it was a small conference dealing with regional issues. Then, as Poland was making its way to the European Union structures, more and more executives and experts appreciated the role of the Economic Forum. It appeared that some regional topics need a deeper insight, that there is a strong need for meetings and networking between decision-makers in the region. We, the organizers, believe that the effective state and local government administration is essential for the reforms' implementation in the countries in transformation. In order to achieve the strength, one needs to understand the importance of cross-sectoral and cross-disciplinary dialog.

Nowadays the agenda of the Economic Forum in Krynica consists of nearly 120 debates, divided into 10 topical blocks such as: Macroeconomics, Business and Management, Energy Forum, New Economy, International Policy and Security, State and Reforms, the EU and its Neighbours, Forum of Regions, Society, Education and Culture. Besides debates, the Forum agenda also includes an attractive cultural programme and a range of recreational events.

The Forum's mission is to create a favourable climate for the development of political, economic and academic cooperation between the EU and its neighbours. While fulfilling its mission, the Forum remains independent and impartial. Over 2000 guests from 60 countries, including representatives of states, governments, parliaments, EU institutions, heads of central banks, stock exchanges and government agencies, intellectuals, scientists and business people, arrive to the hilly resort in the south of Poland.

Krynica emerges as a voice in the debate on the future of Europe. The meeting concept was extremely successful, and proved that multilateral discussions between people from different spheres of activity are essential for the social development. In fact, the most important decisions are influenced not only by political and economic leaders, but also by intellectuals, social activists and, last but not least, journalists. The continuing development of the Forum in terms of both the increasing number of participants and the scope of the agenda provides the best answer to the question about the measurable effects of the meetings organized so far.

This year's Forum was opened by the discussion dedicated to the Treaty of Lisbon. The session hosted by

Jerzy Buzek, the President of the European Parliament, presented the views of politicians: Jose Manuel Barroso, President of the European Commission; President of Poland, Mr Bronislaw Komorowski; President of Estonia, Toomas Hendrik Ilves; Thomas de Maiziere, Federal Minister of Internal Affairs, Germany, and businessmen: Esko Aho, Vice-President, Nokia Corporation; Juergen Fitschen, Deutsche Bank and Filip Thon, RWE Polska.

The financial crisis showed us how much we have to depend on each other in Europe and worldwide – said Barroso. – The debt of one country can have an influence on whole Europe. We have to think globally – added Mr Barroso. He also emphasized that the Treaty combined many policies at one time. – This means that we need more significant combination of different policies, e.g. fiscal consolidation and structural reforms – he said, adding that Europe needs new growth stimulus. – The EU economic strategy for the next 10 years – EU 2020 – is more flexible and complex than the previous (Lisbon) one; it combines the macroeconomic reforms and the extension of the external market – said Jose Manuel Barroso. He stated that no one in EU had any doubts about the level of the member states' economic independence. – Currently, we are more conscious about the needs in order to act in the European and global manner. It was different in 2000 when the Lisbon strategy was being developed – underlined the President of European Commission.

Another important aspect that was addressed during the session related to solidarity.

– We believe that solidarity as a foundation of the European Union's values (...) in the future may lead to finding the answers for the new challenges, but in the spirit of the joint responsibility – said Bronislaw Komorowski, President of Poland.

Diversity, rank and the record-breaking number of guests this year prove that the meeting concept we chose has been successful.

www.economic-forum.eu

Zygmunt Berdychowski

Chairman

*Economic Forum Programme
Council*



The EU Strategy – keep focus on green and smart growth in the Baltic Sea Region

By Hans Brask

From Strategy to Action: Fleshing-out a growth agenda

By launching the Strategy for the Baltic Sea Region, the EU and the EU countries of the Baltic Sea region are addressing the many problems and opportunities of the region. Very impressively, more than 75 flagship projects are part of the new macro-regional approach covering almost all sectors.

Critical questions have, however, been raised as regards the need to have more *focus* on the areas that will offer the highest economic return on investment from cross border cooperation and thereby reduce the number of priority areas. The engagement of the private sector is regarded as another critical issue for economic success and development of the region. Therefore a further crucial question is how the EU-Strategy can be fleshed-out to achieve benefits for industry and business in particular?

Baltic Development Forum (BDF) has tried to answer these questions by presenting the report 'Going for Green Growth in the Baltic Sea Region - Policy Recommendations for Regional Co-operation'. Commissioned by BDF and sponsored by Danish Industry Foundation, the consultancy company Copenhagen Economics has compiled a number of recommendations on how to revitalize the economy and the drivers of competitiveness. In a concise manner, the report points to the areas on which decisions-makers need to focus in order to promote growth that is both green and smart, without putting further pressure on public sector spending. The intention is not to disregard the thorough elaboration process of the EU strategy but to increase focus.

Stakeholders input

As always, BDF has worked together with different stakeholder groups of the region – business, politics and academia – in order to bring about the relevant policy recommendations. Several roundtable discussions have been carried out. The report builds on the outcome of these discussions and on the many analyses on the region that already exist.

The policy recommendations were presented at the BDF Summit in Vilnius 1-2 June 2010 which invited the political and industrial elites of the region: all the Heads of Governments of the Region and the Nordic and Baltic confederation of industries and the employers' organizations participated as well as President of the European Commission, José Barroso. The main theme of the discussion was the link between the EU strategy and the new Europe 2020 guidelines for green, smart and inclusive growth. The EU strategy could develop into a regional version of the Europe 2020 because the Baltic Sea region has a fair chance to be a EU-frontrunner in the future growth markets.

The Summit had a useful discussion on the policy recommendations, and the many CEOs of the business organizations in the region underlined the importance of the regional initiatives and of the EU strategy. This was an important achievement but further work is needed in order to get the private sector more involved.

Recommendations

Further improvement or deepening of the EU's internal market in a regional context was at the centre of the discussion at the Summit. Four priority areas were identified in the report where the Baltic Sea Region could benefit from joint regional initiatives in order to boost sustainable growth.

Innovation. Fragmented and nationally-focused research institutions and networks should join forces in order to create critical mass by pooling researchers and competences and to provide the conditions for international competition for funding. The region and its business has competitive advantages in energy, life sciences and environmentally smart technologies and these areas therefore need to be prioritized with a particular focus on research, investment and cross-border cooperation. Measures to ease the free movement of talents, student grants and tuition costs for students travelling abroad would speed up knowledge transfer, create a competence pool and improve international competition.

Energy and Climate. In the years to come energy policy will be the main driver for further European and regional integration. The Baltic Sea region has favorable preconditions to be at the forefront and to benefit from this development. Improvements in energy politics can provide better prerequisites for greener growth. Regional actors need to specialize and choose the lowest cost approach to ensure savings and optimization for the whole region. Moreover, co-operation on the regulation of electricity and gas markets would also benefit the region.

Sustainable Transport. Due to geographical preconditions, the industry of the Baltic Sea Region has higher transport costs because they have to cover longer distances to customers and suppliers on larger markets, and consequently they have higher CO2 emissions. Forecasts predicting an increase in freight flows accentuate the need for solutions that are in line with green growth targets. Focus should be on improving the efficiency and flexibility of the transport system, including green corridors.

A Digital Internal Market. An internal market without hindrances in the EU is essential for the small economies of the region and therefore pressure should be put on making constant improvements. One area to focus on should be a well-established internal market for digital services. The region has strong competences in this sphere and would gain a competitive advantage from a deepening of this area. Enlargement and enforcement of the digital market could provide the region with a more stable position from which to compete with other global leaders.

To sum up, the EU strategy would profit from an integrated approach with the Europe 2020 development. The region has a lot to gain from advancing the future oriented growth areas. The strategy needs a clear private sector orientation in order to achieve these advantages. Additional benefits would be a better dialogue with the business sector. Last but not least we need to keep a clear focus on the growth agenda and common goods. Thereby the EU strategy will become a long lasting document relevant for all stakeholders. For reading the entire report – which also underlines the economic importance of Russia – see www.bdforum.org.

Hans Brask

Director

Baltic Development Forum

Denmark



European imbalances and Baltic region growth potential

By Jaakko Kiander

The global financial crisis which broke out after the fall of Lehman Brothers in September 2008 hit all European countries. Most of them suffered from output losses, and many had serious debt problems which led to banking crises. The Baltic Rim economies were not insulated from these developments. To the contrary, Russia, Finland and the three Baltic countries were hit especially badly. Output losses in the Baltic countries were the biggest in the world, close to 20 percent of pre-crisis GDP. Also in Russia and Finland GDP fell by 8 percent in 2009 – a figure that was double the average European GDP loss.

There were special reasons for the bad luck of these countries. The Baltic countries had enjoyed a period of rapid debt-financed growth before the crisis. House prices and household debt levels increased a lot and the foreign indebtedness of these countries grew to exceptionally high and clearly unsustainable levels until 2008. The current account imbalances of these countries were record high (more than 10 percent of GDP), and it was clear that some kind of adjustment was necessary. The sudden outbreak of the financial crisis meant that the adjustment was quick and drastic. In order to maintain their fixed exchange rates and currency board systems the Baltic countries were forced to adopt a harsh deflationary policy, which depressed the economies and lowered living standards in 2008-2009.

Russian economy suffered from the collapse of oil and gas revenues when the world market prices of these important export products decreased. The Finnish economy was a victim of unfavourable changes in export demand and exchange rates. Of other Baltic region economies, Sweden and Germany saw a sudden drop in their exports, and consequently suffered large output losses. It was ironic, that many countries that had nothing to do with the financial crisis which started in the Wall Street finally experienced bigger output losses than the US and UK economies. The economies located around the Baltic Sea belonged to that group.

However, the output losses of these countries do not indicate that the Baltic Rim economies were in deep trouble or that they had serious structural problems. In fact, most of them were pretty healthy in most respects: they were on the right side of the European imbalances.

Global and intra-European imbalances

It is already widely recognized that the global financial crisis was caused not only by the bankers' excesses but also by large and persistent structural imbalances in world trade. The most well-known of these was the trade between China and the USA, where China had a large surplus. However, there was also another intra-European imbalance of the same size. The European economies could be divided into deficit and surplus countries. The former group consisted of the Southern European countries (Greece, Spain, Portugal

and Italy), Western islands (Ireland and Britain), the Balkan and Baltic countries (Bulgaria, Romania, Lithuania, Latvia and Estonia) and Hungary. All of these economies were running large and unsustainable current account deficits until 2008. The private sector actors of these countries were financing their investments and consumption by borrowing money from the banks, which financed the lending by using the savings of surplus countries. This build-up of debts had to stop, and these countries are now facing a long period, when they need to increase net savings. In many countries – like in Greece, Spain and Ireland – this will happen through a major fiscal tightening (i.e. higher taxes and spending cuts). These austerity measures will also slow the rate of economic growth for many years, and that is why the 2010s will be a hard time in these countries.

These is also another group of economies in Europe which can be labelled as 'surplus countries'. These form a geographically (and even culturally) unified group. It consists of Germany and its neighboring countries (the Netherlands, Austria and Switzerland), and the Nordic countries (Norway, Denmark, Sweden and Finland). Most of them have connections to Baltic Rim. The total current account surplus of these countries is spectacular, about 400 billion USD. It is much larger than the Chinese 300 billion surplus.

The Northern European current account surplus means that there is a huge spending potential. It is also an indication of good competitiveness. The Northern European economic do not suffer from a debt hangover (like the Mediterranean economies), and that is why they do not need any financial tightening. Hence it is more than likely that somehow this economic potential will transform to greater prosperity and investment in Baltic Rim countries in the 2010s. The potential of increased aggregate demand and economic growth in the Baltic Rim will be reinforced also by the strength of the Russian economy and by the fact that the Baltic countries were quick to solve their debt problems.

One can expect that the economic growth will be fastest in Russia and in the Baltic states in this decade. The more mature economies of Germanic and Nordic countries will also be able to maintain sustained growth because of their good financial balance, competitiveness and high productivity levels. It is likely that the Baltic region will see the strongest economic performance in Europe in the 2010s.

Jaakko Kiander

Managing Director

The Labour Institute for Economic Research

Finland

Towards NATO's new Strategic Concept

By Klaus Wittmann

The North Atlantic Treaty of 1949, NATO's founding document, finds its concretization in the Alliance's Strategic Concept, constantly reviewed and periodically updated. The Treaty remains valid, but the 1999 Strategic Concept has for some years been overtaken by developments. In this awareness, NATO's 60th - anniversary Summit in April 2009 at last commissioned a new one and tasked the Secretary General with its preparation.

The new basic document is to be agreed at the upcoming NATO Summit meeting at Lisbon on 19/20 November this year. It should be an evidence of the Alliance's continuing relevance in a greatly transformed and dynamically changing security landscape, and convincingly explain NATO's identity, legitimacy and efficiency. In view of the demanding Afghanistan mission, divergent positions in salient areas and great financial constraints, the new Strategic Concept should recommit Allies to the common cause.

NATO's Secretary General, Anders Fogh Rasmussen, tackled his task in an "inclusive and participatory approach" and "interactive dialogue with the broader public". He established a Group of Experts, chaired by former Secretary of State Madeleine Albright, which, after an intense series of seminars and consultations, on 17 May 2010 presented its Report. It contained many good thoughts, but was not very innovative. That it commanded the consensus of the 12 Experts from different member states does, however, not mean unity among all 28 governments.

While the procedure chosen had the potential to "loosen the ground" as it were, to prepare consensus, to fuel public debate and interest in NATO, to get the strategic community involved, to provide transparency and to induce member states to clarify their positions and to "show the colour of their cards", this will not replace the political work governments must do in order to create or re-establish consensus on the central contentious issues.

Indeed, disunity still exists about questions such as: Is NATO a global or regional organisation? What is the right balance between collective defence (art. 5 of the Washington Treaty) and out-of-area orientation? How to achieve a common approach towards Russia? How to improve cooperation between NATO and the EU? How to make the Comprehensive Approach work? What is NATO's future nuclear policy and strategy? What lessons to draw from Afghanistan? Is a UN Security Council mandate the absolute precondition for NATO military action? And what will be NATO's contribution in countering "new" threats?

What has to be recognised: In the three phases of its history, NATO safeguarded Europe's security during the East-West conflict, helped consolidate and stabilize Central, Eastern and Southeastern Europe after the end of the Cold War, and took on peace missions beyond its area of mutual assistance after the terrorist attacks of September 2001. But the tasks of a new phase have not simply *replaced* the old ones: Protection of member states' territory, populations and forces remains a permanent mission; much remains to be done to achieve a Europe "whole and free"; and out-of-area missions will continue to be asked of NATO, albeit not as its only action pattern for the future.

On the contentious issues mentioned above, the Strategic Concept should state the following:

- NATO's reach: The Alliance remains a regional organization, but with a global horizon. Without necessarily implying military action, much more intense consultation will take place on all security-relevant issues.
- Core function: Although out-of-areas missions are more prominent in NATO's spectrum of tasks, assured protection of all member states, manifested, *tous azimuts*, by preparations, planning and exercises, is necessary even without any concrete adversary, and a prerequisite for everything else NATO does.
- Understanding with Russia is mandatory, and the Strategic Concept should send out an offer for broad cooperation, expressing clearly that NATO takes its share of the responsibility in the worsening of the relationship over the last ten years, but also stating clear demands as to where a change of mind is necessary in Moscow. Common interests and tasks need to be underlined, and NATO will promote

confidence-building, including a new departure in conventional arms control.

- NATO-EU cooperation needs a new impetus, which also means overcoming blockages resulting from national interests, in order to make it function in a complementary, synergetic way.
- The Comprehensive Approach does not require more theory but more serious implementation, including all actors: nations, international organizations and non-governmental organizations.
- Clear lessons are drawn from the Afghanistan experience and will lead to guidelines for future missions of that kind.
- NATO embraces the vision of a nuclear-free world and supports nuclear disarmament, but for the presumably long transition period it will maintain deterrence with the right mix of conventional and nuclear weapons. It will however move to a "sole-purpose" (not a "no-first-use") doctrine.
- UN mandate: NATO respects the prerogative of the UN Security Council, but does not totally exclude a Kosovo-like situation, should the Security Council be unable to reach necessary decisions.
- Particularly on the new "unconventional" security challenges such as international terrorism, cyber threats, piracy and energy issues, NATO's (limited) role needs to be explained.
- Overall, article 4 (consultation) of the Washington Treaty will be rigorously activated in order to establish thorough analysis and debate on all security-related issues worldwide.

There are more subjects, but already this list shows that consensus cannot be achieved by informal groups and seminars, and it should not be left to the negotiation process. Work on a draft cannot *create* political unity on highly controversial matters, it cannot replace tough decisions. Ideally, the Strategic Concept would *reflect* the consensus previously established among governments. (For the 1991 Strategic Concept this was achieved through so-called "Council brainstormings" on the salient issues.)

Therefore one must be concerned about the Secretary General's schedule who presented his draft to nations on 28 September. Only now will negotiations begin in earnest (where particularly the member states not represented in the Expert Group might claim their dues). A worry must be that in the short time until the Lisbon Summit disagreements will just be papered over and the process of finalization of the Strategic Concept might degenerate into something like communiqué negotiations.

Still, for the future European and Euro-Atlantic security order, and prominently Russia's place in it, November and December 2010 present important opportunities: NATO's Summit in Lisbon should send a signal of "assured protection and comprehensive cooperation", pointing to the subsequent OSCE Summit in Kazakhstan which would confirm OSCE principles, further develop the organization's capacity and tackle unsolved security problems.

Klaus Wittmann

Brigadier General (ret.), Dr.

Germany

The author, Dr Klaus Wittmann, retired from the Bundeswehr as a Brigadier General at the end of 2008. He had been closely involved in the development of NATO's Strategic Concepts of 1991 and 1999. His last appointment was Director Academic Planning and Policy at the NATO Defense College in Rome. In September 2009, he published "Towards a new Strategic Concept for NATO" (Forum Paper 10. Rome: NATO Defense College 2009), and in September 2010 he presented "NATO's new Strategic Concept. An Illustrative Draft", which can be found on the Website of the non-governmental organization "NATO Watch".

Russia-NATO relations – time for a change?

By Derek Averre

Relations between Russia and NATO – central to Euroatlantic security governance, in Russian eyes at least – have slowly been recovering since the South Ossetia conflict in August 2008. The NATO-Russia Council (NRC) met for first time in political advisory format in June to exchange views on how to make it 'a more substance-based forum' and discuss transparency-building, the role of NRC in European security and on cooperation on new security challenges. NATO is soon to publish its new Strategic Concept, which will try to convince sceptics - not least in Russia - that it remains 'relevant' as the main vehicle for the West's security policy and which will fix its role in security governance for a decade or more. Russia, which is seeking a more influential international role, has pre-empted NATO by advancing proposals for a comprehensive and legally-binding European Security Treaty.

Generally, there is little appetite in Washington and Brussels to make wholesale changes to security arrangements which have provided a large measure of stability in the first two post-Cold War decades. A treaty that would accord to Russia any kind of veto on security decision-making and stop any further enlargement of NATO - even if the latter is not immediately in prospect - would be unacceptable. Initial indications are that the new Strategic Concept, other than providing ritual assurances that 'the door to cooperation with Moscow should remain open', may not hold out the promise of a substantive change in strategy which might allay Russia's deep-seated concerns. A report commissioned from a Group of Experts led by Madeleine Albright warns that 'old rivalries could resurface and that 'Russia's future policies toward NATO remain difficult to predict'; it recommends retaining its 'open door' policy and commitment to out-of- area combat operations – both policies sure to inflame Moscow; and rejects the notion 'that large countries have spheres of interest that give them license to dominate their neighbors'.

There thus remains a fundamental divergence in views between NATO, which sees itself as the linch-pin of the European security system and enlargement as guaranteeing a stability and peace on the continent, and Russia, which sees the enlargement of an unreconstructed NATO as the main threat to European stability. The Alliance's intervention in the Former Republic of Yugoslavia over Kosovo in March 1999 remains fresh in the memory of Russia's political elites. Foreign minister Sergei Lavrov recently underscored the differing perceptions of the security environment and the divisions they engender, and voiced a blunt summary of Moscow's position to an international audience: 'However, there should be no exclusivity in our common area as regards the most sensitive sphere – the military-political dimension of security. To remove the problem of the false choice between the EU/NATO and Russia, we need something inclusive, reaching beyond NATO and the NRC'. Put simply, Russia is no longer prepared to remain sidelined from European security decision-making on key issues. Russia's combative envoy to NATO, Dmitrii Rogozin, has sharply criticised the Alliance for avoiding discussions on military security issues and trying to divert Moscow's attention to 'soft' security: 'Transforming NATO into the world's policeman, something like Orwell's Big Brother, can not suit Russia'. In Russian eyes, the enlargement of NATO and the EU has reached its limits and leaves a substantial part of the wider Europe outside of the zone of peace and prosperity, which threatens containment or in the worst case confrontation with Russia. The prospect of a strategic partnership appears to be giving way to the risk of growing alienation between Russia and the West, perpetuating the impression of an unchangeable, assertive Russia better handled by a policy of *détente* – in other

words, containment together with pragmatic transactions - rather than deeper engagement.

However, a growing number of policy practitioners and experts argue that the evolving threat environment in Eurasia and greater interdependence necessitates a greater role for Russia in security governance. The new NATO Secretary General, Anders Fogh Rasmussen, has led a more sober, pragmatic and constructive approach to dealing with Russia and spoken of his vision of NATO-Russian security cooperation as 'an established feature on the international security landscape'. Influential voices within the US's and Europe's political establishments have urged a more inclusive policy towards Russia and more caution as regards Western encroachment into the shared neighbourhood. In Moscow itself, experts at the Institute of Contemporary Development, headed by President Medvedev, have put forward ideas varying from deeper cooperation through an 'alliance with the Alliance' to full integration.

The potential for deeper engagement is recognised by the Group of Experts, who highlight opportunities for enhanced collaboration on nuclear nonproliferation, arms control, counter-terrorism, missile defence, crisis management, peace operations, maritime security and drugs trafficking. Russia's contribution to dealing with Iran over nuclear issues and to ISAF in Afghanistan should also not be overlooked. Security cooperation with NATO may be complemented by the much-trumpeted 'partnership for modernisation' with the EU, signalling that Russia's integration into the world economy is far and away the most important state-building task today.

A coherent strategy in response to Medvedev's proposals might consist of the following. First, focusing attention on the main issues which form the basis for strategic stability, such as the Conventional Forces in Europe Treaty, and dealing with them within specific dialogue formats; second, using the more constructive proposals of Russian foreign policy to draw Moscow into dialogue on wider aspects of regional security, including a role for the EU in the shared neighbourhood; third, taking seriously Russia's potential to contribute more fully to tackling shared security and economic challenges – where possible encouraging it to take shared ownership of key issues and making it part of the solution rather than part of the problem.

A space for fresh thinking has opened up, but the massive agenda described above needs decision-makers on both sides to exercise the kind of political will and flexibility that was present at the end of the Cold War but has been only sporadically in evidence since. NATO's new Strategic Concept should tone down the tired stereotypes and emphasise a broader platform for security cooperation. A changing Alliance, with more political direction from its member states, might ultimately then build a genuine strategic partnership with Moscow.

Derek Averre

Dr., Director

Centre for Russian and East European Studies

University of Birmingham

UK

Baltic Sea security – issue or non-issue?

By Riina Kaljurand

At first glance, the Baltic Sea states comprise a variegated palette: the affluent, socially developed Nordics; the Central European Power of Germany; Poland and the Baltic states, which regained independence as the Soviet Union collapsed; and Russia, which aspires to the status of her historic prominence. Yet, the fact that all of the countries surrounding the Baltic Sea with the exception of Russia are members of either the EU, NATO or both points up a common cultural and value-based space that has made possible close ties and co-operation between the Baltic Sea states since the days of Hanseatic League.

Regardless of the fact that the Baltic Sea region is today considered efficient, innovative and developed due to good co-operative relations in different areas on different levels, the region has never had a homogeneous security approach and security guarantees are still sought from different sources. As the region is peaceful with relatively low military conflict potential, the issue of regional security has not been of burning prominence for the Nordic countries or Germany. On the other hand, it has always been an issue for the Baltic states and Poland. It is argued that security policy is often event driven and evolves in accordance with the realities of the day. While the prevailing security arrangement may have satisfied the security needs of the region's countries up to the present day, the changed security situation in Northern Europe and its neighbourhood poses challenges for the individual countries as well as the EU and NATO, two primary security actors in the region. The question is whether the current regional security architecture around the Baltic Sea is sustainable; or should the countries in the region pursue a more integrated approach to regional security and defence?

Without a doubt, because of their strategic location, small size, fragile economies, high degree of energy dependency and very limited military capabilities, the most vulnerable countries in the region are the Baltic States. Political rhetoric used in the Nordic countries and Germany often give an impression that the issue of Baltic Sea security is an issue of the Baltic states' security only. However, anything that might happen to the Baltic states or Poland, also happens to the other Baltic Sea countries, the EU and NATO. In order to decrease the vulnerabilities and tackle the new potential threats a more comprehensive security and defence co-operation is needed between the Nordic and the Baltic countries as well as between NATO and the EU.

One of the factors calling for attention is Russia's increased activity in the region. Far from being the strategically most important sea for Russia, recent developments in Russia have demonstrated the country's renewed interest to the Baltic Sea. The buffer zone that was lost with NATO's eastern expansion has moved NATO closer to Russia and increased the role of NATO as a potential enemy. Without posing a direct military threat, Russia is compromising the Baltic countries' security policy freedom by imposing political and economic pressure as it considers the Baltic states to be in its sphere of influence. However, Russian military presence might also increase in relation to the establishment of US missile defence posturing *in the region*. By constructing new ports and maritime infrastructure, reforming the Baltic Fleet and laying the Nord Stream pipeline, Russia is strengthening its presence on the Baltic shores. It is in Russia's interest to keep its main transit route to Europe open and to maintain its political status and sovereignty in the region.

Another security problem for the Baltic Sea region may arise from a potential competition with the region of the High North over the strategic interests and priorities of the countries involved. The opening up of the Northern polar regions to new

patterns of human activity, especially related to oil and gas production and new shipping routes between Europe and the Pacific requires the review of national policies and interests in order to exploit the emerging possibilities. Growing military activity is part of the growing interest and several coastal states have increased their military presence and bolstered their naval capacity in the High North. The reallocation of resources and the attention of particularly the Nordic countries to the High North will definitely result *in a security vacuum* in the Baltic Sea region and leave Russia considerable room for manoeuvre, both politically and militarily.

The third security concern for Baltic Sea regional security would be the weakening of NATO or the transatlantic link in connection to the USA's increasing interests in Asia or NATO's increasing focus on out-of area operations or the Barents region. In both cases, the regional security arrangements should be strengthened by additional co-operational frameworks.

Finally, the Nordic countries have cut their defence budgets since the end of 1990s, downsizing both armies and capabilities. The recent years of economic recession have also had a negative impact on the Baltic countries' defence budgets. Estonia is the only Baltic state with a defence budget of 1.82% of GDP, just .08 percentage points under the required 2%. Both Latvia and Lithuania are struggling with 1.14% and 0.8% respectively. The situation undermines the deterrence value and the concept of credible solidarity, but also hinders the fulfilment of the tasks of a NATO member.

To tackle these challenges, firstly a strong political commitment and responsibility for security in the region is required. Indeed, steps towards this end have been taken and no other region in Europe compares with the co-operational formats of the security and defence issues of the Baltic Sea region. The Nordic countries signed Memorandum of Understanding of Nordic Defence Co-operation (NORDEFECO) in 2009, aspiring to improve the co-ordination on both a strategic and an operational level. The Nordic foreign ministers asked Thorvald Stoltenberg to draw up a draft for closer foreign and security policy co-operation, and the 13 proposals were launched in 2009. The EU Baltic Sea Strategy was launched in the same year. Further, NATO is finally drawing up plans for the defence of the Baltic countries. In September 2010, the NB8 Wise Men Report was launched to advance Nordic-Baltic co-operation.

Nevertheless, co-operation within the framework of these initiatives is limited to certain areas owing to the asymmetrical commitment of the countries involved. The fear of having to compromise the transatlantic link to regional co-operation is obvious, as is the concern of having to choose between Russia and the Baltic states again. It is necessary to keep in mind; however, that Nordic Defence Co-operation is not a substitute to NATO. On the other hand NATO's contingency plans will not work without the willingness of Sweden or Finland to become involved. Interdependencies are too many to ignore the two countries. Thus, the security in the Baltic Sea region is certainly an issue but it can only be solved by increased trust, credible capabilities and deep, meaningful co-operation.

Riina Kaljurand

Deputy Director of the International Centre for Defence Studies

Estonia

What is the right price for nature?

By Risto Sulkava

Our current economy does not take into account the environmental price of ecosystem services. The polluter does not pay to clean up the pollution. Our economy neglects the environment. This does not need to be true. Incorporating the environment into the market and turning ecosystem services into products that we have to pay for can protect the environment. Consumers and companies may prove to be invaluable in achieving this goal.

Ecosystem services mean different kinds of materials and foodstuffs, natural controls of floods and the climate, regulation of the balance of gases in the atmosphere, the assimilation of wastes, and beautiful landscapes – services that we get mostly “free” from nature. The ecosystem acts as a producer: thousands of species that live together in a complex food-web produce essential services, such as oxygen, clean water and fertile soil. We do not really pay anything for these services. The results can be seen, for example, in the Baltic Sea, which suffers increasingly from pollution by sea traffic and agricultural runoff.

If something is free, it means that everyone can do whatever they want with it. Is it right that somebody can destroy your car? No. But when somebody does business with energy resources, we easily think that clean air and water are free. However, energy production has environmental costs. When a mire is drained for peat production, water levels in streams rise, destroying fish-stocks downstream. Solid particles and nutrients leaching into the sea cause mass growth of blue-green algae, which is a major concern every summer in the Baltic Sea region. All life in the mire itself dies out. At the same time, permanent carbon-storage from the ground is released into the air. But nobody pays anything for these disadvantages. Simply because the ecosystem services are free for everyone. The only one that pays is nature itself. The situation is the same with oil, phosphorus and thousands of other natural resources.

Due to these free ecosystem services, we are today experiencing the sixth wave of global mass-extinction. Thousands of species are becoming extinct. Our planet is becoming warmer and warmer. Problems are accumulating everywhere – the limits to growth are evident everywhere. Some more business as usual, and we destroy our – and most other species’ – possibilities for survival on this planet.

What can we do? The answer is: put the right price on ecosystem services. If goods produced by nature had an appropriate cost, then the market mechanism would work and the external costs of human activities would be taken into account properly. Essential goods for life should be expensive to destroy, others a little bit cheaper and goods like views free. However, the use of natural resources should always have a price. And when the common resource becomes scarce, or when the use of resources leads to problems in other places or with other resources, it should be made more expensive to use. Market-based instruments, such as taxes, are essential to compensate for environmental degradation and to maintain ecosystem services.

Some mechanisms are available already. The price of oil and phosphorus is now higher than before, when they were more common resources. But today, end-users do not have to compensate for the greenhouse-gases that they release when they burn fossil fuels, although the same gases cost billions of Euros for people (and ecosystems) on the other side of the planet, for example in the Sahel and arctic regions. Similarly, farmers who put too much non-renewable phosphorus in their fields do not pay for cleaning up the Baltic Sea. First world consumers, for whom food is cheap, should pay more than they do at the moment for the natural resources that are produced with the help of hundreds of soil-species, i.e. ecosystem services.

What, then, would be the right price for clean ground water or lakes and seas that are kept clean enough to swim? You can estimate, for instance, how much you have to pay for workers who pollinate one hectare of blueberry forest or a strawberry field – it is expensive. But could you live without clean water? What is the proper price for a lake where you can swim?

We have the means to estimate how much some ecosystem services cost. And much is done already.¹ However, little has been done so far to achieve environmental fiscal reform.

Taxing the use of natural resources should be the main way to collect fiscal revenue. This revenue is needed to pay for the conservation of nature, to stop species from becoming extinct and to clean our environment, in other words to take care of our essential ecosystem services.

Current macro-economic policies, based on endless growth, are at odds with the finite resources and the fragile ecology that we depend on for our survival. Without a new approach, new policies and new economic thinking, our problems will become ever worse. However, while waiting for new policies, we can take steps forward. We can pay a proper price for some of the natural resources we use.

Let’s take energy production as our example. All energy production is harmful. However, some power plants are more harmful than others. Renewable energy certified with the EKOenergy label of the Finnish Association for Nature Conservation² is always produced with the least environmental harm.³ A wind power plant, for example, cannot be certified as producing EKOenergy if it is located in an important bird area (an IBA area). Similarly, a hydropower plant producing EKOenergy must include fish passes that enable salmon and other migrating fish species to move between their spawning areas and the sea. Each company and every individual can do his or her share to achieve a sustainable way of life by making a consumer choice, for example by choosing impartially certified products.⁴

The electricity grid is opening up all over Europe. Soon, people will have the possibility to choose energy with the smallest possible environmental harm. One day, hopefully, certified EKOenergy will be available in all countries surrounding the Baltic Sea.

Market mechanisms do also work in the energy sector. If more people pay only for the environmentally best ways to produce energy, then these production methods will become economically most profitable for the energy companies. Ideally, all new power plants should produce EKOenergy.

We cannot wait. Consumers and companies can make a difference when politicians are too weak to change their policies.

Risto Sulkava

Ph.D., President of the Board

Finnish Association for Nature Conservation

Finland



¹ See for example The Economics of Ecosystem and Biodiversity (TEEB) (www.teebweb.org).

² For further information: <http://www.sll.fi/english>

³ For further information: www.ekoenergy.org

⁴ For further information: www.ekoenergy.org

Family business – does ownership matter?

By Anne Berner

The Finnish Family Firms are in the post-financial crisis facing an evolved set of challenges. Finland is gliding in the year 2010 into a phase of twenty up-coming years of a declining work-force. In the year 2020 for the first time the biggest part of the workforce will be again between 35-45 years old. Growth cannot be achieved by more working hours, higher levels of productivity are a requirement for all businesses, but no longer the only solution. At the same time the competitive position of the Finnish companies has changed. Finland is within the Euro, where as many of its close neighbors, especially in the Baltic Sea area are still working with local currencies. The change in climate and the environmental consciousness comes with a conflicting message, the downside being costs that most companies need to integrate into the planning of the future, as for instance taxes related to the environment, but at the same time there is an enormous amount of potential for new business connected with purifying and creating new sustainable technologies to support our deteriorating environment.

Family Business is not a question of size, it is all about identity. Family Businesses come in all sizes and are active in all branches and sectors. The family businesses believe in the statement that the business is a gift from the previous generation and it is on loan from the following generation. The Businesses have a family dimension, where the family and ownership are intertwined with the business. This gives Family firms a long-term view, with sustainability and commitment that has its foundation in strong roots in the local community, the high importance of values set by the owners to the business. Family Business make up for 80 % of the Finnish companies and employ 42 % of the private sector workforce. The trust that these companies have for the future and for the local decision making process is of vital importance for the national growth of the Finnish economy.

Family Businesses differ from private equity or state owned companies in several ways. For family businesses ownership comes naturally and is mostly well experienced and highly committed. Owners are engaged in their companies and have a high knowledge of the field of business their company is in. The roots in the local community are respected and the companies carry often more than their share of responsibility in their local community. The relationship to the management is often connected with emotions and the leadership not always as analytical as should be. Top management is not as frequently evaluated. On the other side studies show that family business employ on a more profitable base than other companies. As the companies are owned on a long term base, the ownership is not based on methodical measuring and tough follow-up. Often the businesses are not trimmed on a daily base to be ready to sell at a given opportunity. Strategies most often do not yield quantum leaps forward. Corporate governance is less strict, which leads also to less professionally working boards with not as much firepower.

Keeping the above in mind and considering that as a nation Finland need sustainable and yet fast growth, we need to find incentives for two things to happen - the Finnish Family Businesses need to grow, beyond the national

borders and we need to have incentives for ownership of companies within Finland.

The main incentive to support ownership in Finland comes through the fiscal structure. To reinforce ownership there has to be a focus on entrepreneurship, income from equity should be subject to single taxation, there should be a neutrality between the treatment of equity and debt, there needs to be a tax neutrality between different kinds of owners, the structure needs to support the transfer of businesses and most importantly there should be a tax neutrality between dividends and capital gains.

With such kind of a fiscal structure ownership of a business in Finland can be defended and future engagement by owners motivated. Ownership needs also to have a voice in national decision making, especially with regards to the conditions of the long-term structures that create the competitive environment of businesses.

Our second challenge is that of growth - we know that in Finland the level of risk-taking is exceptionally low. Our fiscal system has not especially created incentives to take risks and our schooling system, although highly praised and rewarded tends to school our young towards obedience, learning by heart and "making the hours". We worry about failing and will are not easily taking chances in unknown fields. Our innovation environment has once been highly stimulating, but has now since years been declining. We have still many start-ups and new businesses emerging, but only a few growing from small to middle-sized and from middle-sized to big companies. This has also created challenges for our export industries, that have had a hard time finding a strong enough supplier network within their national markets.

What we need is to find ways to make our existing companies grow beyond their national market and start exporting their products, know-how and services. Most of our medium sized companies with the fastest growth potential are family businesses. Their natural markets to grow are to the West to the Scandinavian markets, to the East to Russia and to the South to the Baltic countries and Germany. The growth and power of the Asian markets does indicate a fast track to growth that is attractive, but at the same time the risks are growing as well, not to mention the needed investments to succeed in these markets.

The Baltic Rim Economies and their Family Businesses build together a potential that has its foundations in continuity, sustainability and in the next generations. The common nominator in ownership could prove a viable bridge between nations and business interests.

Anne Berner

*Managing Director
Vallila Interior*

*Chairman of the Board
Finnish Family Firms Association*

Finland



Baltic Sea – Kemira at your service

By Harri Kerminen

The Baltic is truly the common backyard of all the nine countries surrounding this small and shallow sea. It is our common heritage with very unique natural value, and also a source for income and place for recreation.

What has been a well know fact for many years now is that this common heritage of ours is in dire straits. The current situation of the Baltic Sea is unacceptable – it is the most polluted sea in the world.

The reasons behind this are clear. Almost 85 million people live within the catchment area of the Baltic Sea. The nine countries around its shores all have plenty of farmland and major industries, so the waters of the sea have long been contaminated with excess nutrients, toxic chemicals and other forms of pollution.

The Baltic Sea is unique in many ways which makes it very vulnerable. It is very small and shallow, and largely enclosed. This is why the water is only exchanged very slowly - it may take even thirty years for all the water in the sea to be replaced. The Baltic Sea ecosystem is extremely vulnerable and the aquatic flora and fauna are unique. Fresh-water and saltwater species live side by side. The slow exchange of water means that nutrients and harmful chemicals such as heavy metals can remain in the Baltic Sea for long periods. This makes the animals and plants of the Baltic highly sensitive to changes in the environment.

One of the biggest problems is the eutrophication caused by the heavy nutrient loading. This has been quite visible for the people living by the Baltic Sea, on beaches and seashores. Also the vulnerable species of the sea have suffered from this. Without a controlled return to nature, the nutrients (nitrogen and phosphorus) in sludge can drift back and eutrophicate waterways, or accumulate in landfills.

Kemira, one of the leading water chemistry companies, is committed in securing a cleaner future for the Baltic Sea. Kemira's business plays a direct role in decreasing the wastewater load in the Baltic Sea. A significant share of the communities and cities within the Baltic Sea watershed clean their waste water using chemicals supplied by Kemira and we actively use our expertise in water treatment and guide our clients in implementing chemical precipitation of phosphorus in the area. This way Kemira plays a significant role in the removal of nutrients from waste water effluents from the Baltic Rim countries.

Kemira has extensive experience in water chemistry. We have been offering cost-efficient concepts and products for nutrient removal since the beginning of 1980's. Our concepts are tailored for the Baltic Region and don't require extensive investments, but are very effective in delivering visible results. One of the latest examples is the co-operation in Vyborg where Kemira together with Vyborg Water Utility, the Finnish Ministry of the Environment and the John Nurminen Foundation have launched a project to reduce the amount of phosphorus discharged from Vyborg into the Baltic Sea. By using chemical precipitation for phosphorus removal, the Vyborg wastewater treatment plant can achieve the recommended concentration of total phosphorus in wastewater, as specified by the Baltic Marine Environment Protection Commission. This will result in an annual reduction of approximately 20 tonnes in the amount of phosphorus ending up in the Gulf of Finland.

And this is really what the Baltic Sea needs - the implementation of the HELCOM Baltic Sea Action Plan. The objective of the Baltic Sea Action Plan of the Helsinki

Commission is to ensure a good ecological status for the Baltic Sea by 2021. To achieve this, countries around the Baltic Sea should reduce their annual phosphorus emissions by 15,000 tonnes and their nitrogen emissions by 135,000 compared with the levels in 1997-2003.

In order to implement this action plan a cooperation that knows no boundaries is crucial - an open dialog and co-operation between governments, companies, NGO's and individual commitment. That is why for example the work of the Finnish Baltic Sea Action Group (BSAG) has had an important role in bringing all the relevant parties together to discuss the ways to save the Baltic Sea. BSAG has been very efficient in collecting concrete commitments to act, and combining the resources and opportunities that the public, private and civil sectors can provide for the rescue of the Baltic Sea.

Kemira is one of the companies who participates in the BSAG's Commitments to Act. Kemira's first commitment was introduced in August 2009 in Helsinki, Finland, at the Kemira Baltic Sea Summit. The summit focused on ongoing projects and concrete actions concerning waste water treatment in the Baltic Sea catchment area. Over 100 participants and speakers represented financial institutions and environmental authorities, including participants at ministerial level, from water works and different organizations. Our first commitment is to return phosphorus and nitrogen, which are nutrients in wastewater sludge, to the natural cycle by introducing solutions that facilitate the safe recycling of nutrients into crop farming in the Baltic Rim countries. The second Commitment to Act is linked to the toxins that flow from the coast to the sea where they accumulate for example in fish. In this Commitment to Act we are committed in developing methods to remove hazardous substances from wastewaters and we will offer tools for advanced waste water treatment and oxidation.

The state of the Baltic Sea is alarming and all concrete actions are needed. This is a continuous process that needs cross-sectoral discussion and co-operation between governments, business and NGO's. All the nine countries around the Baltic Rim have a shared responsibility for taking actions to improve the situation. Kemira is committed to this responsibility and we aim to be a key participant contributing to a cleaner future for the Baltic Sea.

Harri Kerminen

President & CEO

Kemira Oyj

Finland



Kemira is a global two billion euro chemicals company that is focused on serving customers in water-intensive industries. The company offers water quality and quantity management that improves customers' energy, water, and raw material efficiency. Kemira's vision is to be a leading water chemistry company.

Russia – affordable Internet access across the country

By Aimo Eloholma

In the 20th century Soviet Union was lagging badly behind the Western countries in the development of telecommunications services. It didn't help although Lenin stated in 1920's: "Socialism without post, telegraph and telephone is nothing but a phrase." It is obvious that efforts were made during the Soviet times for high quality telecommunications between authorities; however in public telecommunications services for common people Soviet Union walked a few steps behind Western countries.

From emergence to saturation

The breakthrough of mobile communications has raised the Russian telecommunications back to a level which is proper for a nation with such forerun intelligence. For example in 1895 Mr. Alexander Popov invented and also the very first time in the world demonstrated to the public the use of radio waves for communications. Anyhow the breakthrough of GSM technology was reality in Russia only at the turn of the millennium. After that the development has materialised at an incredible rate. In 10 years Russia has developed from the emergence of mobile communications to the level of saturation and to one of the largest mobile markets in the world. Today Russia with its more than 200 million subscribers is TOP4 country after China, India and USA in mobile. When the commercial launch of new 3G technology was made in 2007-2008, Russia was anymore 2-3 years behind the most developed Western countries. The very rapidly expanded 3G network coverage in Russia has resulted in an enormous growth of mobile data communications (mostly use of Internet services); the growth in data volumes in biggest mobile networks has been 6 fold during the last 12 months.

But there is no great success without heavy efforts and investments made. Three biggest mobile operators in Russia, BIG3 (MTS, Vimpelcom and MegaFon) have invested 35 000 million USD to build up mobile network infrastructures to Russia's vast territory. In addition, this success has created a ground to the Government to set up a national goal for "affordable Internet access across the country". The Government has repeatedly said to ensure the chances to make the goal.

Diversification of economy

The implementation of the goal is utmost important to the Government. Russia is today unbalanced gas- and oil-producer and necessarily needs diversification of its economy and industry. Innovations will be in a big role in this diversification. A tool to boost innovation capabilities is to let information flow and to combine it in non-prejudice way. Internet is a perfect tool for this purpose. Also several researchers say that there is a clear correlation between broadband data services provided (used in Internet) and GDP growth rate.

At the moment Russia's PC as well as Internet access penetrations are lagging behind the countries where a well developed telecom infrastructure has been in place already for a long time. For example in USA and in several European countries the penetrations are in the range of 70-80%, but in Russia the penetrations don't even reach the level of 40%. There are assumptions that Russia will pass over the current penetration level of European countries in five years. This will not allow any failure in the goal of nationwide Internet access expansion. Capable mobile networks will support reaching the goal because the alternative solution, wire-line infrastructure is partly badly outdated originating from the Soviet times. There are high quality broadband services available in Moscow and in some other larger cities but it is difficult or even impossible to

build nationwide high quality wire-line networks due to the vast rural areas.

The flexibility of mobile networks creates solution for the vast territory. However, the original GSM voice communications technology is not suitable for good quality Internet access because of data transmission speed limitations. 3G technologies increases the speed considerably, enabling down loading speeds up to few tens of Mbit/s.

New LTE technology

User demands will still develop furthermore. Speed- and response time requirements in using Internet based services are challenging. In addition, also new demands for uplink speeds are obvious, e.g. user demands to send live video from his/her own mobile terminal. New services can be implemented in mobile networks by using 4G technology i.e. LTE (Long Term Evolution), providing Internet access speeds up to 100 Mbit/s. There is a clear desire in Russia to implement this new technology simultaneously with European countries. President Medvedev announced in his annual address to Parliament in November 2009 that 4G should be provided across the whole Russia in five years. LTE presents a good opportunity to make Internet access available at a moderate price to a large base of users.

Non-transparency in processes

There are always many different interests in a big country like Russia. LTE technology needs new radiofrequencies. The difficulty to distribute radio spectrum effectively is rooted to the fact that the military initially controlled nearly all the frequencies. Therefore the Government has not yet been able to give licences to utilise frequency spectrum to such operators who would have financial and competent resources enough to implement the new technology rapidly and in an extensive way. Mixing politics with granting the licences may risk the rapid implementation and cause a delay of several years to the commercial launch of new LTE technology. As a consequence the aforementioned big goal "affordable Internet access across the country" might in the course of time run away from control.

The delay in granting licences has brought again to light one of the weaknesses of procedures in Russian Government; the licence processes are not clear, nor transparent. Non-transparency gives always room for different interest groups to play. Therefore, and connected to this frequency distribution issue, Russia's BIG3 mobile operators have approached the Government, up to President Medvedev with an evident request that the licence and frequency spectrum processes should be clear and transparent. The importance of this request concerning the regulation and competition in Russia's telecommunications market extends far beyond the borders of specific industry and it applies partially to the development of entire economy of Russia.

Aimo Eloholma

Chairman of the Board of
Directors

"OJSC" MegaFon (Russia)

Finland



Rail services connecting Finland and Russia

By Mikael Aro

Rail services between Finland and Russia will soon enter a new phase, with a significant, wider impact on relations between the two countries. High-speed Allegro rail services between Helsinki and St. Petersburg are starting in December 2010, cutting the travel time between the two cities by two hours to three and a half hours. This can justifiably be considered a historic event, for high-speed trains will now start operating for the first time across the border of the European Union area.

The Allegro service is one example of cooperation between Finland and Russia in the railway sector. Finland has the same rail gauge as Russia and the other CIS countries, which means that the railway connects the Baltic Sea directly with the Pacific Ocean in the Russian Far East. The railway sector in this area has numerous common interests and business opportunities.

VR Group sees the high-speed passenger services between Finland and Russia as a very promising logistics venture. The most densely populated areas of Finland and the 7.5 million inhabitants of the St. Petersburg area are in the close proximity of the Helsinki-St. Petersburg line.

The reduction in travel time is due to new trains with modern technology, faster border and customs formalities, and the upgraded line. This has required close co-operation between many parties.

Passenger volumes expected to triple

It has been estimated that the high-speed connection could even triple passenger volumes from their current level, to 750,000 passengers a year. By summer 2011 it is planned to double the frequency of the trains, to four daily return services between Helsinki and St. Petersburg.

At present, VR Group and RZD (Russian Railways) operate two daily return services between Helsinki and St. Petersburg. The Finnish Sibelius and Russian Repin trains will no longer operate on this line once the Allegro services start in December. The Russian overnight train Tolstoi will continue to run between Helsinki and Moscow. In 2009, these routes carried 340,000 passengers.

The Allegro is a joint venture between VR Group and RZD. The companies are responsible for onboard services, timetables and ticket sales. The trainsets are owned by their joint rolling stock company, Karelian Trains. The company has acquired four tilting electric train sets from Alstom.

Common rail gauge, a basis for functional services

The Finnish-Russian border is the longest between a European Union member state and Russia. VR considers this border to be a great opportunity for co-operation and engaging in business with Russia. The 1520 mm gauge railway area extends from east to west for over 10,000 kilometres. The common rail gauge enables cross-border railway services to be quick and efficient.

Rail freight between Finland and Russia and other CIS countries consists of imports, exports and transit freight passing through Finland. Imports to Finland comprise mainly raw materials and semi-finished products for Finnish industrial companies. Finnish exports, in turn, are mainly finished industrial and consumer goods, building materials and various project deliveries.

In 2009 transit traffic through Finland amounted to 4.4 million tonnes of freight. The Finnish transit route operates in a highly competitive environment where there are several other route options. However, the main reasons for using the Finnish route to Russia - quality, accuracy, punctuality and a stable price level - remain unchanged. The same factors are also valid for transit carryings in the opposite direction. These transport services consist primarily of machinery and project deliveries.

Improving transport

More than 90% of the transit carryings through Finland to Russia currently go by road. VR Group is working with RZD to develop rail alternatives to road transport.

Rail companies are eager to win a larger market share in container deliveries between Finland and Russia. In 2007, VR and TransContainer, the container transport company of Russian Railways, established a joint stock company ContainerTrans Scandinavia, to offer container service packages to customers, including forwarding companies. At present a weekly container train service operates to Shushary railway station in St. Petersburg. A container train connection from Finland to Moscow is also technically feasible.

More recently, in 2009 VR Group and JSC Freight One established a joint venture called Freight One Scandinavia, a logistics company specializing in rail transportation between Finland, Russia and the CIS countries. Freight One Scandinavia provides comprehensive export, import and transit transportation services.

From Baltic Sea to Pacific Ocean

A direct land route between Finland and the Far East runs via the Trans-Siberian railway, which forms a natural geographical link and land-based transportation corridor between Europe and Asia. The Pacific ports of Nakhodka and Vladivostok in Russia provide shipping connections to South Korea, Japan and China. Compared with direct shipping from Europe to the Far East by sea, the Trans-Siberian route cuts two to three weeks off delivery times.

During the early 2000s, TSR traffic grew strongly in Finland, reaching a level of 100,000 TEUs in 2005. Unfortunately, volumes then fell sharply for several years. Now in 2010, customers seem to be showing new interest in this route and there have been some trial runs with containers.

At the moment, expectations are very high concerning the enormous potential offered by services between Finland and China via Russia, using the Russian-Chinese border crossing at Zabaikalsk-Manchouli. This land-based route also opens up great opportunities for direct deliveries between Asia and Europe. In the future, other transit routes via Russia by rail will offer an attractive alternative to sea transport.

Glance at the future

All in all, VR Group considers the 1520 mm railway area to be a strong synergy benefit. We want to be actively involved in developing strategic co-operation in the rail sector and utilizing new business concepts that offer benefits to all participants.

By investing in high quality and environmentally friendly transport services, the railways can support economic growth in the EU and in Russia and other CIS countries, and thus serve the needs of expanding foreign trade and increasing international travel.

Mikael Aro

President and CEO

VR Group

Finland



Take the A Train

By Matti Miettunen

The European Union is promoting both the South – North corridor and multimodal-transport with a new project: SCANDRIA. The aim is to link the Adriatic Sea with Scandinavia using the already existing infrastructure in former East Germany. The partner from Finland is Jykes, the development organisation of the Jyväskylä region.

By definition the intermodal transports or combined transports involve the transportation of freight in an intermodal container or vehicle, using multiple modes of transportation (rail, ship, and truck), without any handling of the freight itself when changing modes.

The introduction of intermodal transports in Finland has been slow. The only existing route is Helsinki – Oulu, where roughly 8.000 units are loaded per year. According to Finnish State Railways even this route is still running at a loss. The critical mass would be 12.000 units per year.

The motorways in Central Europe are congested and there is a strong political will for moving transport units from the motorways to railways. Projects like Marco Polo are targeting this problem and are providing economical subsidies for those willing to think “outside the box” and use the railways.

Delta Freight Ltd has worked as a consultant for Jykes in the Scandria-project. Our aim is to link Jyväskylä’s Innoroad Park (road transports and logistics) with a well functioning railway connection to and from Helsinki, Turku and later Kotka-Hamina region. The critical mass for Finnish State Railways is 8.000 units per year.

By moving cargo from road to railways, we can achieve safer road traffic; reduce carbon dioxide (Co2) emissions and work towards more efficient and greener logistics. What are the pros and cons of such a project?

From the railway operators’ side the key challenges are the amount of transported units, required frequency and possible need of special transport units like tailored wagons. The State Railways pay a fee for the owner of the infrastructure (Ratahallintokeskus) for every transported unit. When truckers use the road network, they are not paying any “rent” for the use of the road. This system favours the road transports.

The cargo terminals handling for the arriving and departing units need a sufficient volume, a critical mass. The workload can be a problem if the units arrive and depart during a small time window. The terminal workers are working 8-hour shifts and in case trains arrive early in the morning and depart late in the evening, a minimum of two shifts per day will be needed. The terminals would therefore need additional work during the quiet hours. Such work could be provided by maintenance and service of the transport units, discharging and loading of containers and splitting full loads into smaller shipments. Co-ordination of the traffic flows will provide some information intensive work at these “hubs”.

Shippers and receivers of the cargo are interested in supporting safer and greener logistics, if... the frequency of shipments is sufficient, the transit time is same or faster and the costs same or lower than in the conventional road traffic. Some bigger container lines are committed to decreasing carbon dioxide emissions. These operators are willing to pay slightly more for the transport, if the transport mode is environmentally friendly.

One of the points that the shipping lines brought up, was the number of ports served directly in Finland. They feel we are trying to serve too many ports with direct vessels. They would prefer to concentrate the cargo flow to few, large and efficient ports and utilise the railway network for other areas. Amount of containers kept in storage at the ports would decrease and eliminating empty haulage between the ports and the industrial sites could bring down the amount of empty kilometres.

According to the Finnish Port association the Finnish ports play an important role in Finnish business. Almost 90% of Finland’s foreign trade passes through our ports. In this sense, Finland could be compared to an island, as the ports located on its approximately 1,000 kilometres of coast function as links in the commercial transport of goods and passengers to and from foreign countries. Most Finnish ports are kept open to serve shipping all year long, in spite of the winter.

In the future we might need to question the amount of ports kept open all year around. What are the costs compared with a more concentrated port structure? Fewer ports with daily sailings might benefit the Finnish industry more than “own” port for every industrial site.

In the Continental Europe we have made considerable progress in moving road cargo on the railways. By having an open mind, a closer co-operation and a totally transparent cost-structure, we can do the same in Finland. The Finnish industry is competing with companies that are already close to the end user of the products. By supporting the railway system with more volumes, we can increase the service frequency, decrease the costs and benefit from environmentally cleaner logistics.

Quoting Duke Ellington and Ella Fitzgerald: would it be the time to take at the A Train?

Matti Miettunen

M.Sc. (Econ. & Bus. Adm.)

Managing Director

Delta Freight Ltd.

Finland



Lithuania – a narrow corridor for heavy transit freight

By Darius Brekys

Last year Lithuania celebrated the anniversary of 1000 years since the first reference of the name of Lithuania in written sources. This year we celebrated the anniversary of 600 years since the victory in the Battle of Grunwald, where the Teutonic Knights were defeated and we escaped the destiny of our neighbor Prussia, which has disappeared from the current global map. Around that time, Lithuania started integrating into Western culture. Thus, currently our population is 3.3 million located on an area of 65,000 square kilometers. We are struggling to prove to ourselves and to the world that "all" roads lead not to Rome but via Lithuania. At least, freight roads.

Logistics: not for the sake of war but for peace

In 1990, Lithuania once more re-established its sovereignty, and the things that have been going on in the last two decades seem like a fast-paced movie. The escape from socialism to capitalism took considerably less time than the way to the traditional European market to reach a free market leaving socialist "charms" behind. Prestigious buildings and skyscrapers skyrocketed in our city faster than the public's economic consciousness. Nowadays, when the hardships of the year 2009 are over, we are starting to evolve again. Corporate survival strategy is being replaced by the renewed battle for market share. One of the weapons is logistics. However, the concept of logistics, which was once used in the military area, is currently being used in the opposite direction. The goal of contemporary logistics is to integrate as much as possible freight movement processes, eliminating any ethnic, geographical, mental and technical differences. Now, all the countries want to identify themselves as "bridges", "gateways" and "corridors". The ongoing "war" is focused not on how to close ourselves, but on how to open up as widely as possible to neighbors and to the world. We, Lithuanians, are also awake and are opening up slowly, although we loudly invite cooperation via the port of Klaipeda, which is the northernmost ice-free port of the Baltic Sea (as we declare in our leaflets), via the IXth international railway corridor connecting the Baltic Sea Region with Belarus, Russia, Ukraine, Kazakhstan and other CIS countries by a railway line measuring 1520 mm in width. Step by step, we are trying to break the ice and open up to Europe via the project Rail Baltica, which shall connect us by European gauge railway (1435 mm) with the EU countries via Warsaw and shall stretch to the North via Riga, Tallinn, up to Helsinki. We are also "usurping" Europe on the highways: recognized Lithuanian carriers drive 14,500 freight vehicles all over Europe transporting international freights. In comparison, Belarusians have only 8,000 vehicles, Latvians –11,000, Estonians – only 4,000. Motor vehicles have adapted to market conditions better than any other means of transportation, and their "invasion" is felt beyond the borders of the Republic of Lithuania. In particular, there is a considerable pressure from Russia and the Poland, which are trying to limit the activities of the Lithuanian carriers via administrative means rather than the market (however, similar things happen not only in Europe; there is no peace between the U.S. and Mexican carriers either).

Not long ago, another project arose which is similar to the previously mentioned project in terms of its resonance. This is the East-West Transport Corridor. It is a "fresh product", which aims to connect Northern Germany, Southern Sweden, Denmark, on the one side, and the mainland of Asia, on the other side, by railway (1520) via the CIS countries and Lithuania. The goal is to have an alternative to ship transportation from China to Europe.

Life is coming to the boil in the strictest sense, the projects are moving from paper to the stage of execution: the rails and highways are being laid, huge cargo planes are starting to arrive, the first public logistics center has been set up. It is important to note that this center is being built outside the traditional main cities of Vilnius, Kaunas and Klaipeda. The first public logistics center has been established in Siauliai - the fourth most populated city of the Republic of Lithuania. This is the first PLC, resulting from 10 years of discussions concerning public logistics centers. Of course, it is necessary to thank private initiative, which brought together the interests of business and the city. It is important that the state of Lithuania is developing gradually in the geographical sense and is

more balanced than other states whose capital, port and everything else are concentrated in one big city.

The country of transit or logistics: a chicken or an egg?

The protection of the homeland's interests was flagged in the year 2009 due to the general depressed atmosphere across the continent, but it has been almost a year since the recovery of freight traffic, which has returned the profession of logistician into fashion. It is so in Lithuania as well as anywhere else in the world. Logistics is a favorable subject for discussions in ministries, associations, conferences, exhibitions, by a cup of coffee and even beer. University professors develop theoretical business platforms and look for European money. The representatives of state structures draw the future maps of transportation and develop programs on the basis of their own and European money. Business practitioners, overwhelmed by the economic crisis in 2009, are beginning to recover and seek not only to do their daily business but also to try to realize the intercontinental, multimodal, intermodal, transit corridors and bridges developed by the theorists.

It is necessary to be cautious with terminology during intellectual debates in the logistics community. For example, it is bad to say in Lithuania that Lithuania is a transit country. It must be said that we are a logistics country! In this way, you will look more sophisticated and no one will accuse you of being a "narrow thinker". In my opinion, the doubts that Lithuania should not be a transit country but a logistics country are a waste of time. The essential thing is the freight streams. We can share if there is something to share; therefore, it is pointless to be afraid that Lithuania is becoming a transit country. I cannot imagine my country's logistics without transit streams. And so, everyone is discussing logistics: representatives of warehousing and transportation, education and industry, ministries and local governments, etc. All of them (us) are united by two common interests: first, to "help" Lithuania become a logistics country and second, "to help absorb" European Union and national funds! At this point, let's, perhaps, draw a veil over which interest takes priority.

All the mentioned self-irony not only refers to our sins but also to our strengths. Whenever there is a formula "idea + funding" (or "funding + idea") functioning, we can assume that sooner or later the results will appear. Our country needs them very much. And we need them urgently because Lithuania is a small heavy-transit country. The year of 2009 clearly showed that only those logistics companies could stay viable that were dealing with foreign clients, whereas the companies that were oriented only towards the local market faced severe business difficulties last year and in the first half of this year. Even within logistics companies whose business was diversified, the trends of cash flows were clearly different depending on the type of business: freight forwarders suffered the least. Warehouses suffered the most because they are often focused on the local client.

In the year 2009, the Lithuanian GDP dropped by 16%. The estimates for the year 2010 are still very reserved. Domestic demand (in particular, household consumption) shall remain in a deplorable situation. The situation on the real estate, public finance and labor markets remains uncertain as well. Recent crises have demonstrated that the recovery of our country does not come from inside but from external economic improvement. Naturally, the year of 2010 and the following years shall depend on how well we keep our backyard in order, and most importantly, how well we manage to open up to the import, export and transit cargo business by sea, road, air and rail. From my point of view, forwarding companies shall have an exceptional mission in this area.

Forwarding companies – the heart of freight streams

As elsewhere, the origin of the forwarding companies in Lithuania is national capital, foreign capital and hybrid capital. Why do I mention these things? Well, the companies of different capital sometimes have different objectives in our country and with respect to international freight distribution. There are a lot of international logistics companies which deal only with the Lithuanian freight

market, i.e. only import/export to/from Lithuania. The majority of famous international forwarding companies have their "telephone book", which is not only a tool of local corporate synergy but also a "repressive tool" restricting sales limits. For example, the employees in a Vilnius office are allowed to communicate only with clients from the Lithuanian market because the clients in Latvia belong to the representative in Riga. It should be very difficult for such a local unit to develop a transportation business because it is practically closed within the boundaries of the local market. We should feel sorry for the heads of the foreign representatives (Country Managers) who are authorized to work only with the Lithuanian clients because they have faced the crisis at its full strength (as I have mentioned, the local market in Lithuania is still floundering). Imagine yourself working in a freight transportation market with a population of 3.3 million. No one denies that well-established global logistics companies are building high-quality supply chains to/from the Lithuanian market, but this is not sufficient for the national interest. I am more impressed by another group of international logistics companies. These are the companies that allow for the units located in Lithuania "to cover" not only the market of Lithuania, but also that of Latvia and Estonia (in total, a population of 6 million) and to develop transit freight transportation to the former CIS countries. And that is a few hundred million people! I would call such companies non-local progressive companies on our market as they encourage transit via our country. Being located somewhere in Western Europe, such a parent company of logistics provides a high degree of freedom in the activities of its units located in foreign countries. And this is good for everyone.

However, the managers of the forwarding companies who are free to communicate with "whomever they want" in the West, East and around the world have the most creative mission. Usually, these are relatively small local capital logistics companies, whose maximum added value is created by transit services: freight transportation, warehousing, customs mediation. Namely these companies have the greatest interest in freight streams from any corner of the world "dropping in" at consolidated warehouses in Lithuania, Baltic States and CIS. Freight corridors, bridges, and gateways are only the veins, whereas the heart of freight streams are economic subjects that attract freights. In Lithuania, logisticians-forwarders are united by the Lithuanian National Freight Forwarders Association Lineka, which so far has only 50 members. Provided that on the market there are several hundreds of active freight-forwarding companies, the number of the members of Lineka should grow significantly with the recovery of the economy. At the same time, I would like to add that our domestic functionaries have resisted lobbying pressure from some companies to introduce some financial restrictions with respect to new forwarding companies. The logistics and carriage companies which are already established in the market have a secret desire to limit in the territory of Lithuania the number of logisticians involved. The most commonly used argument is that new small forwarding companies are insolvent. Instead of organizing the prevention of debts inside the company, the "old" players present restrictions to future businesses irrespective of the fact that the future of logistics is to open up, not to close. Or, maybe they just ignore reality and due to language or other barriers do not want their business to adapt to the global market?

I will repeat that in our country the geographical dislocations of the activities of the forwarders (logisticians) that want to survive have transgressed the boundaries of Lithuania as well as the Baltic States and the CIS countries. Freights and services from Eurasia and other continents "pass" through our ports and warehouses, simultaneously creating some additional value (transportation, warehousing, customs clearance, etc.). Not all of the freight roads lead only via the global hubs. The latest proof of that is IL 09.21 96-400T, which landed at Kaunas airport carrying 66 tons of electronic goods. The final destination of these goods is Western Europe. It is planned that a Boeing 747-400 will arrive in the following year.

Railway and port: a slow, very big and very important duet

This year, we received very convincing evidence that the Lithuanian transport link with foreign countries does not have enough alternatives. The "Icelandic volcano" lessons have shown us that

when the sky closes and we rush anxiously to the railway, bus stations and ports, it becomes very difficult to reach our homeland even from EU countries. I myself was forced to find a way home from Amsterdam to Vilnius due to the volcano's tricks. Having passed the segment Amsterdam- Berlin in a comfortable carriage quickly, I had to use the services of a car because Vilnius is very far from Europe when we talk about the possibilities of using the railway (the Polish and Lithuanian rails have different gauges). Historically, in Lithuania the Russian type of rails has remained, therefore the Rail Baltica project is the only possibility to have European rails and the Russian intersection, making it is our future railway hope. According to the plan, in 2013 the European rail should reach Kaunas, where different types of railway standards will clash (1435 mm and 1520 mm). The East-West Transport Corridor Association was established just on time two months ago.

The corridor's benefits are standard: 1. a shorter transit time from China to the European Union countries; 2. Chinese freights shall no longer linger from the mainland of the Chinese provinces to the ports. Currently, freight vehicle queues may take up 2 weeks. The idea is to create the conditions for the movement of freight from China via the Trans-Siberian railway, the Lithuanian railways and the port of Klaipeda to Southern Sweden, Denmark and Northern Germany, which is more than satisfactory (especially to the Lithuanians).

The greatest number of tons (29.8 million) was reloaded in the port of Klaipeda in the year 2008. During the first half of this year, 15 million tons was reloaded. In addition, the relative amount of expensive goods is increasing. There are clear signs of recovery. First, the land bridge (EWTC) connecting Asia and Europe via the Southern Baltic Sea Region, which is currently under construction, could become a strategic factor for the port. Secondly, the port of Klaipeda is the freight artery in Lithuania, but we should not forget that Belarusian imports via the Baltic Sea are higher than via the Black Sea. And this is a state which may expect significant investment (all we have to do is to speed up the democratic processes there). Third, the Government of the Republic of Lithuania mentioned the port in the priorities of the activities for 2010. I quote: "To develop the East-West transport corridor in order to connect to the Trans-European and emerging Euro-Asian transport infrastructure networks, to choose the model and place of the deep-water seaport, to form multifunctional clusters (nuclei) and to establish public logistics centers."

Thus, the port was referred to in all of its aspects. What else do we need? Good management.

Epilogue. Ode to the Government

It is unusual and even "impolite" for us, Lithuanians, to praise the government of Lithuania, but we can trace positive things happening in our country among the Ministry of Transport and Communications, interested associations and the private logistics sector. There is a growing chance that a narrow transit (and logistics!) corridor of a small country could become an important artery for the freights of various continents of the world. By way of opening up to the world through financial injections into the Baltic Sea Port of Klaipeda, airports in Vilnius, Kaunas and Palanga, connecting to Western, Southern and Northern Europe via the Rail Baltica, modernizing of the Via Baltica and local highways, our state is coming back onto the global map not only as an elite basketball country but also as a transit (logistics) country.

As one of our humorists says: "There will be cakes, and we shall need no bread."

Darius Brekys

The Board Member

Lithuanian National Freight Association LINEKA

Lithuania

Simplified customs procedures on EU territory in international transport of goods by sea

By Mirosława Ponczek

At the end of 1992 the European Committee started to promote shipping in European sea areas, giving it a definition that suits both the economic interests of EEA and the activity itself. The range and form of short-distance shipping was defined in the report published in 1999 as: sea shipping between ports located on the European continent or sea shipping between these ports and non-European ports whose coastline is located along seas bordering Europe. Later this range was extended to include Europe's internal waters and certain parts of the Atlantic Ocean. Thus it may be defined as both domestic and international transport, coastal and feeder transport between islands, lakes and rivers alike. On an international scale it constitutes transport between European Community countries and Russia, Norway, countries of the Black Sea and of the Mediterranean Sea basins. This changed the traditional understanding of the term.

Globalization processes, EU expansion and increased economic activity directly boosted cargo transport in all directions. Consequently new legislation and innovative solutions must be introduced to facilitate smooth administrative and customs procedures in transport between countries of the European Community, while taking all necessary measures to protect EEA interests.

Efforts are being made to establish a European area of barrier-free sea transport intended to introduce a series of improvements facilitating administrative and customs formalities, especially in the case of European Community goods and ships navigating between EU ports only. It is planned to introduce customs regulations requiring all goods transported on such routes to have an appropriate customs status, thus eliminating the need to present special certificates. This directly influences shipping activity as well as all economic entities connected with sea transport, such as ports, transshipment terminals, forwarding and transport companies. Apart from the conveniences already available, it is planned to expand the internal market to include sea transport within the European Community, creating a cohesive, efficient, investment-attractive and competitive common market of the European Union.

From the point of view of forwarding, all EU regulations intended to facilitate the transport of goods should be immediately adopted and followed within company structures. Noteworthy among the conveniences already available are: Authorized Economic Operator (AEO) status, Single Authorization for Simplified Procedure (SASP) and fiscal representation which, though directly related to the European area of barrier-free sea transport, have a much wider application.

The reason why EU introduced AEO was to boost the dynamics and efficiency of delivery chains involved in the international trade of goods. It is directed at every economic entity whose headquarters is located on European Community territory and whose business activity is governed by customs regulations. Upon fulfilling the requirements of the Community Customs Code, one gains access to all the privileges of Authorized Economic Operator status. As holders of AEO for almost two years, we enjoy many privileges such as easier access to simplified customs procedures, less physical inspections and document control,

priority treatment if selected for control and the ability to request a specific place for such a control. As this status becomes more widespread, the execution of its privileges becomes more efficient.

A new type of single authorization for simplified procedure, SASP is granted to the economic entity by the customs administrations of two EU countries. The authorization request is made in the country where accounting is conducted while the procedure itself is carried out in another country where, for example, the company's branch is located. Customs duty and tax are calculated as follows: VAT is settled in the country where the company's accounting is conducted while customs fees—in the country where the customs declaration takes place. The main advantage is the reduction of administration and accounting costs and fees required by the customs administration issuing the authorization even though the actual physical inspection and release of goods will take place in another EU country.

Thanks to the fiscal representation in Germany, Belgium and Denmark, we are able to follow convenient procedures when importing from non-EU countries. What makes this possible is the option to complete all customs formalities involved in introducing goods onto EU territory, which goods will then be brought to Poland as EU commodities. In Hamburg, Antwerp and Rotterdam only the customs duty is liable to be settled whereas VAT may be reduced to as low as 0% at the moment of customs clearance. The tax is not payable until the 15th day of the month following the end of the month when the goods were delivered, so the company receives a tax respite. Fiscal representation, therefore, allows to freely manage one's capital without freezing it on customs administration accounts.

It should be pointed out that by operating in micro-scale, the enterprises themselves introduce solutions which serve to improve the efficiency of the legislative initiatives of national governments and EU authorities. Companies use additional transport insurance, new quality control systems which manage the choice of efficient subcontractors, security systems, shipment tracking, fleet management and high-end, comprehensive ICT systems.

Crucial for the future expansion of the European area of sea transport is the choice of both the right strategy for cooperation between European countries as well as the forms of cooperation in mutual relations. However, this is not possible without consulting the economic entities involved in the transport chain. It is necessary to successively identify and eradicate administrative burdens and barriers, introducing efficient solutions and tools that will boost the development of EU economies.

Mirosława Ponczek

Marketing Specialist

C. Hartwig Gdynia S.A.

Poland



Russian Maritime sector in 2010

By Nikolay Shavrov

The leadership of Russia has identified several priority areas of industrial development and modernization of the county, shipbuilding/maritime industry being among them. The issues of the development of the industry were discussed on the highest level in Russia several times since 2007 and both leaders of the country recently had often visited shipyards and offshore installations.

Structure of Russian shipbuilding production today is dominated by products for navy (75%), while usage of the production capacity is approximately 50%. Its share in the total output of the defence industry and in defence export is more than a quarter.

Offshore demands

Two key definitions characterising commercial development of Russian maritime industry today are – Harsh (Arctic) environment and Hydrocarbons production and transportation. Practically all major current projects are connected to these two.

As of today, offshore production of hydrocarbons in Russia is rather small – less than 3%, but according to the assessments of major companies – Gazprom, Rosneft and Lukoil – it will increase by 2030 up to 23% of all Russian oil and up to 27% of gas. All areas, where these developments are planned, have harsh environmental conditions, which demand very specialized equipment.

The total demand for platforms, rigs and ships to perform the predicted amount of work in the period to 2030 to explore, produce and transport offshore hydrocarbons in Russia is estimated as 55 platform and rigs (40 oil and 15 gas), 85 specialized transport vessels (55 tankers and 20 gas carries) and 140 supply/support ships and icebreakers, all ice class. Total investment volume is more than 50 bln USD.

It should be noted, though, that mentioned figures are depending on the fulfilment of planned offshore development projects and, probably, should be considered as optimistic ones, as history of the last 15 years has shown that offshore projects have tendency to be delayed and postponed in Russia.

Industry location, projects and development plans

There are 3 Russian shipbuilding/shiprepair clusters – North-Western (St.Petersburg, Severodvinsk and Kaliningrad), Volga-Caspian (Nizhny Novgorod, Volgograd and Astrakhan) and Pacific (Komsomolsk, Vladivostok/Nakhodka and Bolshoy Kamen).

North-Western cluster

Admiralty Shipyard (St.Petersburg) during 2010 has commissioned 2 Arctic shuttle tankers with 70.000 dwt to major Russian shipowner Sovcomflot. The company is building scientific research ship, plans to participate in the tender for 25 MWt diesel icebreaker and considers building supply ships, gas carriers and tug boats. During 2011-16 the shipyard is planned to be moved outside of St.Petersburg with total modernisation of production facilities.

Severnaya Verf and Baltiysky Zavod (St.Petersburg) are belonging to the United Industrial Corporation. In June 2010 Baltiysky Zavod has launched floating nuclear power plant – a barge of 21000 tons displacement with two nuclear reactors 35 MWt each, which will be commissioned by 2012. Rosatom is planning to order 7 of such ships by 2015. Other potential project – gas carriers up to 75 th.cub m for Sovcomflot.

Severnaya Verf is currently building supply ships for Norwegian owner, the first one was delivered in August 2010, the second is planned to be delivered in 1st quarter of 2011. Shipyard is considered to the leader in the coming tender for building of supply ships for Gazflot. Among other projects, which may start in the coming years – templates and manifolds for subsea production and superstructure modules for Shtokman FPU. Substantial modernization is planned by 2015.

Vyborg Shipyard traditionally was engaged in building of offshore rigs. Most recent projects are 2 semi-submersible rigs for

Gazflot. Rigs will be outfitted at Samsung HI and delivered to the customer in the beginning of 2011. Originally rigs were supposed to work at Shtokman project, but as it is postponed, rigs will be used at Sakhalin projects of Gazprom. Not much is known of the yard's portfolio after the commissioning of those rigs.

Sevmash (Severodvinsk), the largest Russian shipyard, is working on the ice-resistant platform for Prirazlomnoe oil field. The plan is to transport the platform to Murmansk for cement ballasting by the end of 2010 and deliver it to the field in 2011. This will probably finalise the decade-old project. Potentially Sevmash can be involved in the Shtokman project, for example in building of FPU, but the cooperation with foreign partners might be hampered by continuing legal dispute with Norwegian shipowner Odfjell.

Today's most important project of Zvezdochka Shipyard (Severodvinsk) is building of Arkticheskaya jack-up rig for Gazflot, planned to be commissioned by 2011.

Volga-Caspian cluster

Caspian Energy Group (Astrakhan) is the only Russian EPCI integrated offshore construction company. In 2009 has delivered ice resistant platform for Lukoil (Yury Korchagin field) and trenching barge for Saipem. Current and coming projects include process and HVAC modules for Rosneft Vankor project (2010), supply crane ship for Dragon Oil Turkmenistan (2011), jack-up drilling rig for Petroresurs (2011), fixed drilling platform and living quarters for Dragon (2012). The company is likely to participate in building of platforms and infrastructure for Filanovsky project (Lukoil).

Pacific cluster

Although there are several large shipyards on the Pacific coast of Russia - Amur Shipyard (Komsomolsk) and Zvezda Shipyard (Bolshoy Kamen) to name a few, the volume of commercial orders at the yards for different reasons is very small. The situation, however, can rapidly change due to ambitious projects of modernization of existing as well as building of new shipyards in cooperation with foreign companies.

Two major projects include building of 2 new huge shipyards, both joint ventures, one between Zvezda Shipyard and Daewoo Shipbuilding and Marine Engineering (Korea), another - between United Shipbuilding Corporation and Yantai-Raffles (Singapore). Construction of both shipyards have started in 2010

Zvezda-DSME shipyard will build Aframax tankers and gas carriers. Russian investments are planned to be 400 mln USD. Completion of yard is scheduled for 2012. Besides, Zvezda Shipyard in December 2009 had started construction of semi-submersible ice resistant rig for Rosneft with delivery in 2014. Rosneft plans to order two more such platforms by 2018.

Vostok-Raffles will be placed at Chazhma Bay relatively close to Bolshoy Kamen and will be building oil platforms, drilling and technological equipment. The investments in the project will total 100-200 million dollars and construction is planned to be finalised by 2012.

More information about current developments in Russia can be found in monthly bulletin "Russian Maritime and Offshore Newsletter", which can be subscribed from Innovation Norway office in St.Petersburg

Nikolay Shavrov

Station manager

*Innovation Norway -
St.Petersburg office*

Russia



Maritime issues in Russia's energy politics in the Baltic Sea Region

By Nikolay Dobronravín

In accordance with the Maritime Doctrine of the Russian Federation approved in 2001, Russia "will strongly and firmly strengthen its position among the leading maritime nations".¹ At the same time, Russia is and will most probably remain a strikingly continental country. Major old and new Russian ports are still mainly situated on the Baltic and Black Seas, far from the open oceans.

It is interesting here to compare the positions of Russia and Finland. While working on the provisions of the 1982 United Nations Convention on the Law of the Sea (UNCLOS III), Finland joined the Group of Landlocked and Geographically Disadvantaged States. One can argue that the position of the Russian Federation is similarly disadvantaged except for the Pacific and Arctic seas.

This disadvantage is felt in many aspects, but the major problem is related to the very essence of Russia's economy and foreign trade. The Russian Federation is first of all an energy exporter. Oil, natural gas and coal from Russia are exported mostly to Europe. The European Union as a customer is not too far from the western borders of Russia. However, the main centres of mineral resource extraction are situated in Siberia and on the continental shelf in the Arctic and in the Far East. This means that Russia has to exploit more and more hard-to-reach resources and develop an extensive transportation network.

The Arctic continental shelf, historically seen as divided into Russia's and other sectors, is now a subject of international boundary discussion. The presence of large hydrocarbon resources can only add to the difficulties of maritime area delimitation in the region. On the other hand, the common interest in this field has helped Russia and Norway to find a solution in the Arctic after many years of confrontation and debate.

The major disadvantages of Russia as a petro-state or "an energy super-power" are listed in "The Energy Strategy of Russia for the Period up to 2030", approved on 13 November 2009. According to this document, "The strategic objective of the foreign energy policy is the maximum efficient use of the Russian energy potential for full-scale integration into the world energy market, enhancement of positions thereon and gaining the highest possible profit for the national economy".² In practical terms, it will mean more and more pipeline and port terminal construction.

Russia's new Energy Strategy and the country's Maritime Doctrine also illustrate some sort of persistent "mainland mentality". In the Far East, the first phase of the Eastern Siberia – Pacific ocean oil pipeline has been completed. Oil exports to both China and the USA have been growing. Gas exports from the new LNG plant built on the island of Sakhalin have reached Japan, Korea and as far as India. Meanwhile, neither document did mention that several issues have not been resolved, and especially that of territorial sea and Exclusive Economic Zone boundaries in the Pacific, leading to eventual confrontation over energy transit and trans-boundary oil and gas fields. In this aspect, the situation in the Baltic Sea where most Exclusive Economic Zones are generally recognized and uncontroversial, may be better positioned for future conflict resolution.

Nord Stream: A long way to understanding the realities of the Baltic Sea

The initial stages of the discussion over the "Severnij Potok" (Nord Stream) project outlined a kind of "bypass-your-neighbour" approach. In order to explain the importance of the project to the public opinion in Russia and abroad, it was stressed that Russian gas would be delivered directly to the European market without crossing the territories of other countries.

The tendency to bypass the transit states such as Belarus and Ukraine became pronounced in the mid-2000s. The use of the adjacent Baltic and Black Seas was then seen in Moscow as a panacea against current and eventual "transit jams" and resulting conflicts with the European customers. However, the very concept of bypassing was based on a very outdated view of the seas, maybe dating back to the times when the Russian court was not able to grasp the idea of "dominium maris baltici". It apparently came as a surprise for the

Russian government and Gazprom, that there were no unclaimed waters or undersea areas in the Baltic and Black Sea.

The story of Nord Stream shows how difficult it was to understand that the Baltic Sea had already been divided into Exclusive Economic Zones (EEZ). The EEZ limits could be even more dangerous for Russia's energy exports, if for example Estonia and Finland would have agreed to change them and "close up the Gulf of Finland".

The ecological concerns of the neighbours around the Baltic Sea were often perceived in Russia as "political hypocrisy". Besides the Gulf of Finland, Russia has only one small EEZ in the Baltic Sea near Kaliningrad. Offshore oil extraction in this enclave by LUKOIL was not greeted by the adjacent states, despite the declared zero discharge policy of LUKOIL.

Ecology-driven discourse in the Baltic Sea region also played a significant role in the changes of the Nord Stream route and meant significant additional expenses. Maybe the positive result of this is the experience never found before in Russia's pipeline projects. It is still to be seen how this experience will be applied to the South Stream project. The pipeline crossing the Black Sea, where most EEZ limits remain undefined, may present a more difficult problem than the existing transit routes through Ukraine.

The Baltic Sea in Russia's Maritime Doctrine: no energy issues explicitly mentioned

The Maritime Doctrine of Russia includes a special set of provisions related to the Baltic Sea:

- development of coastal port infrastructure, the upgrade of maritime trade and the mixed (river-sea) navigation;
- creating the conditions for sustained economic cooperation with the countries of the Baltic region, the rational joint management of marine natural resources, making comprehensive confidence-building measures in all fields of maritime activities;
- settlement of issues related to the delimitation of maritime areas and continental shelf between the Russian Federation, opposite and adjacent States;
- economic and military security of the Kaliningrad region of the Russian Federation, the development of maritime transportation;
- creation of conditions, including those with the capacity of the region for the base creation and use of marine capabilities, ensuring the protection of sovereignty, sovereign and international rights of the Russian Federation on the Baltic Sea.

The doctrine is focused on the issues of sovereignty and national security. Within this securitization approach, no energy issues are explicitly mentioned. However, practically all the references to economy in the Baltic region are apparently (and primarily) related to Russian energy export.

The construction of Nord Stream across the Baltic Sea, ignored by the Maritime Doctrine, will not mean the end of the problem for Russia's energy policy in the region. A much bigger major problem is awaiting us in the near future. It will be necessary to further develop trans-boundary cooperation (and maybe maritime doctrine comparison and agreement) in order to avoid an Exxon Valdez/Gulf of Mexico-type oil spill or some other ecological disasters, while the Russian energy export will be growing. Securitization discourse in Russia's politics will hardly help to resolve the eventual ecological conflicts between the Russian Federation and the member states of the European Union in the Baltic Sea region.

Nikolay Dobronravín

Professor

School of International Relations

St.Petersburg University

Russia



¹ Maritime Doctrine of Russian Federation 2020. Moscow, 27 July 2001, *Regional trends: the Baltic Sea* at http://www.oceanlaw.org/downloads/arctic/Russian_Maritime_Policy_2020.pdf MEMORANDUM (unofficial translation).

² Energy Strategy of Russia for the Period up to 2030 approved by Decree N° 1715-r of the Government of the Russian Federation dated 13 November 2009. Moscow: Institute of Energy Strategy, 2010, at http://energystrategy.ru/projects/docs/ES-2030_%28Eng%29.pdf.

DHL Express Denmark – competing for a great future

By Claus Lassen

Earlier deliveries and later pick-up times is the direct outcome of DHL Express Denmark's recently heavy investments in Denmark.

The new direct flight, which follows extensive investments in both new facilities in Taulov in Jutland, Denmark and re-build of a facility near Aarhus, is one of the many initiatives from DHL Express Denmark to improve the strong DHL Express network covering more than 220 countries.

DHL Express Denmark implemented in April a flight into Billund Airport in Jutland which complemented the flight into Copenhagen, and moved into a brand new distribution facility in Taulov in August.

The industry in Western Denmark has with DHL's huge investments been offered massively improved service windows and improved competitive possibilities with a direct connection to the rest of the world.

Especially the pre-9, pre-12 capabilities has been enhanced as well as ability to deliver later cut-offs for customers. The new capabilities following the investments give DHL a unique position in the market. In some areas it will be superior to the competition, in other areas it will be on par with the competition.

We have invested in the Billund-flight and upgraded buildings and the entire network in Jutland, all designed around our First Choice methodology which focuses on Voice-of-customers. DHL Express will be the only integrator capable of Pre-9 in West Denmark, and we will have the latest Pick Ups and best Pre-12 coverage.

The new setup with only 2 distributions centers in Jutland has already proven a great success.

DHL has been invited to more tenders from major players in the region, and many small companies has embraced the new capabilities from DHL and moved from the competition. The service has reached an all-time high with an End-to-end performance (from Pick-up in DK to delivery to the end user) well above 97% every week. The flying into Billund has meant that the road-blocks and queues on the A45 motorway from Copenhagen to Aarhus has been avoided, and that has a big impact on the stability of the performance.

The Danish market is rising again – Here is the visible proof

During the last 2 years, DHL Express Denmark has experienced less volume from their customers, and a declining import but this trend is now turning.

In the first 6 months of 2010 DHL Express Denmark has had a volume growth of 9%, which is even a few percent above the rest of the market. This has meant, that the Boeing 757 from Copenhagen is now too small, and a much bigger Airbus 300 will be implemented Oct 1st, 2010.

It is encouraging to see volume growth in the numbers, but when one stands at the airport and looks at the physical proof of growth in form of a much bigger plane, these numbers really materializes.

We have not yet harvested the full potential of the Billund flight, but my hope is that the B757 in Billund soon will need a replacement with a bigger plane like we have seen in Copenhagen.

Motivated employees

In order to keep our high level of service and quality we are implementing a training program this fall for all our staff. The program is aiming at bringing the core business and values in focus.

This is an indication of which we value and appreciate not only our management and staff but the most important thing for our business – our customers.

We are very focused on giving our customers the best service and quality in Denmark therefore we are making sure that our staff has a general and basic knowledge of the business.

Our philosophy is, that through active leadership we get engaged employees. With engaged and motivated employees we as a business provide our customers a great service and high quality – and therefore get happy and satisfied customers.

Through our Employee Opinion Survey which is performed every year, we get very valuable input from our managers and employees on how our workplace is going and what we can do to continuously develop our workplace and stay an attractive employer.

Running that extra mile

For the 26th year in a row, the DHL-Stafetten (the Danish word for Relay Race) is took place in Denmark. DHL stafetten is the largest relay race in the world. DHL Denmark is sponsoring the event, which is well-known throughout the country. It is a brilliant metaphor for DHL's daily business: handing over shipments in a chain from A to B and in due time, DHL-Stafetten signals one of the DHL values – to deliver excellent quality!

DHL-Stafetten is an event designed for companies where teams of five runners each run 5 kilometers and at the finish/start point hand over a DHL-branded baton to the next person on the team to continue the relay.

This year more than 200,000 runners are participating in the race. Around half the employees in Denmark are expected to participate as either a runner or supporter. The event also attracts thousands of visitors, colleagues and family members of company employees, coming together to applaud the runners from their company.

Focus 2010

A profitable network, loyal customers, great service quality and motivated employees – these are the goals of FOCUS 2010. After restructuring the business of the Express division in 2008 and 2009, it is now time to show a sustainable return. Uniting around the theme of "everyone is a salesman", the whole company is to be involved in the drive for an ambitious market share and a boost in profitability. The four pillars of FOCUS 2010 is listed below

1. Profitable Network
2. Customer Service
3. Operational Excellence
4. Motivating employees

Investing in our business, the new terminals and the flights and investing in our employees, education, Employee Opinion Survey and health initiatives have brought us back on a very good path in Denmark.

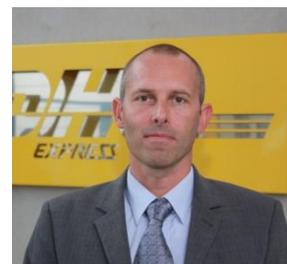
We now have some very strong pillars and foundation for driving a strong and successful business and we will keep investing till we have reached our goal of becoming investment of choice, provider of choice and employer of choice in Denmark.

Claus Lassen

Managing Director

DHL Express Denmark

Denmark



What do Finnish investment in Russia tell us?

By Kai Mykkänen

Is Finnish investment in Russia underestimated?

A recent estimate by the Bank of Finland put the total stock of Finnish foreign direct investment (FDI) in Russia at about €2.2 bln as of end-2009. We know this figure underestimates the true amount of investment as it omits three substantial aspects of Finnish investment in Russia. First, acquisitions of Russian assets are often structured in such a way that a Finnish company buys shares of an off-shore holding company and/or ownership of the Russian assets is transferred to a subsidiary of a Finnish corporation in a third country. Such transactions never make it into the bilateral statistics for Finnish FDI inflows to Russia. Second, FDI, as defined, does not include loans – the primary means by which many Finnish corporations finance their Russian subsidiaries. Third, holdings of less than 10 % in a company are treated as portfolio investment and not included to FDI columns.

The Bank of Finland estimates that the stock of Finnish portfolio investment in Russian companies (i.e. stakes of less than 10%) as of end-2009 amounted to about €1.7 bln. "Other investment" in Russia, primarily loans, was put at around €2.5 bln. Adding these amounts to the FDI figure gives us €6.4 bln. Unfortunately, this number now includes all fund investment (as part of portfolio investment), so we still do not have a precise figure for corporate investment.

An alternative approach to estimating investment of Finnish corporations is to use company-level data instead of customs data. At East Office of Finnish Industries, we have collected data about investments in Russia by our shareholders (19 leading Finnish corporations active in Russia). Our most recent data put the cumulative stock of our shareholders' investment in Russia at about €5.8 bln as of end-June 2010. This estimate for the most part includes all the types of investment mentioned above.

Using publicly available information, we roughly estimate that other companies listed on the Helsinki stock exchange have invested about €1.5-2.5 bln in Russia, while non-traded Finnish companies have invested some €100-300 mln. Using this method, we conclude that the cumulative sum of significant Finnish investments in Russia must be in the range of €7-8 bln. This amount exceeds that of previous authoritative estimates.

Part of the difference between earlier estimates and our new estimate may reflect the fact that previous company-level estimates have usually been based on the balance-sheet values of Russian assets. Here, our shareholders provide us with estimates of the cumulative sum of their investments. Balance-sheet valuation measures somewhat different things than cumulative investment. Balance-sheet values are typically revised to accommodate fluctuations in values of underlying assets. To clarify the picture, we asked our shareholders also to estimate the balance-sheet valuations of their investments in Russia. The aggregate amount of these estimates was about 10% lower than assessments of cumulative investment.

Why are manufacturers avoiding Russia?

The structure of Finnish investments to Russia differs sharply from the structure of foreign investments of Finnish corporations in other large markets. Manufacturers (e.g. pulp & paper, electronics, machine-building) dominate Finnish investment in Asia, the Americas and western Europe (even Sweden), yet Finnish companies have been loathe to build manufacturing facilities in Russia. Apart from Nokian Tyres, which operates a successful large car-tyre plant near St. Petersburg, the list of large Finnish investors in Russia is devoid of manufacturers.

The lion's share of Finnish investment in Russia focuses on businesses that don't compete directly with imports ("closed sectors"). Most notably, the electricity sector has captured the largest sectoral share of Finnish investment in Russia. The investment of Finnish energy giant Fortum in electrical power and heat production in the Urals region alone amounts to almost €3 bln. Construction and real estate have also attracted more than €1 bln; mainly investments by YIT, SRV, Lemminkäinen and Sponda. More than €500 mln has gone to retail, where Finland's two largest players, SOK and Kesko, are both active. There has also been significant investment in logistics (mainly Itella, nowadays a leading provider of warehouse logistics services in Russia) and print media (mainly Sanoma).

The wary attitude of manufacturers can largely be explained by the fact that they have the option of choosing between exporting to a target country or building local production facilities in the target country. In choosing the latter route, an investor requires assurances that the target

country will provide a competitive environment for production relative to production situated outside the target country. Russia has traditionally not offered this competitive advantage, even in such cases where production in Russia could in principle be established and quality standards met.

Unit costs for manufacturing in Russia are still competitive at least with the EU in most branches. This advantage, however, may evaporate as costs rise much faster than in the West due to significantly higher growth in producer prices. At the same time, productivity gains in Russia have been getting smaller in recent years, meaning that the country is no longer making big strides in catching up with Europe. In other words, imports, appear to be extending their advantage over local Russian production. Economists refer this situation to a resource curse. In result of this curse policymakers find it hard to diversify the economy away from the prevailing model of exporting raw materials and importing manufactured goods.

Bureaucratic red tape and uncertainty over property rights only make it more understandable as to why western manufacturers are hesitant about investing in Russia. In recent years, Russia has intensified the use of protectionist trade policies to favour Russian production. This approach has benefited some Russian manufacturing branches (e.g. car-making), but on the whole trade policy and president Medvedev's "modernization" program have done little to reverse the larger trend of diminishing attractiveness of Russia to large global investors. In particular, I would note the downgrading of the consensus on Russia's long-term growth outlook, increased risk aversion towards investments in non-WTO countries generally and better recognition on the part of investors for the fluctuation-prone nature of the Russian economy, which was highlighted by the severity of the last year crises in Russia.

If, and when, growth of the Russian economy again outpaces growth in developed countries, the investment climate will surely improve. Even so, it is unlikely to recover to the peak levels of 2006-2007 (and even then foreign invest in Russia lagged far behind investment in the other BRIC countries). This view is supported by a recent survey of CEOs of East Office shareholders: enthusiasm for investing in Russia has increased from the global financial crisis last year, but still is much dampened from what might have been anticipated if only the sharp recoveries in sales to Russia by the surveyed companies were considered.

Missing out on a services play?

Russia continues to offer promising investment opportunities in the service sector, most notably retail and construction. As long as the dollar-price of oil continues to appreciate, the Russian economy will experience higher consumption growth than in most developed nations. The Soviet Union ignored development of the service sector, and today many gaps in this oversight are still waiting to be filled by foreign investors willing to offer superior business models. The Russian state still does not regard services as a strategic function to be kept exclusively under its control, and instead appears quite ready to accept foreign dominance. Perhaps most importantly, services, retail and construction do not face competition from imports. Thus, one can incorporate high input price growth into sales prices without worrying about clients switching to imports.

In conclusion, we note that the current structure of the stock of Finnish investments in Russia corresponds well to the overall macroeconomic considerations for competitiveness in individual branches.

Kai Mykkänen

Economist

East Office of Finnish Industries Oy

Finland



Russia – not such a mystery after all

By Kalle Euro

"I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma; but perhaps there is a key. That key is Russian national interest", said Winston Churchill in a radio broadcast in October 1939. This historical quotation tells us much about the present day geopolitical configuration, too. From the points of view of Western Europe, Russia is still considered to be in opposition. "We" are cooperating with "them" in wide scale of things but still we can not quite figure out their way of thinking.

Could it be that "we" have not tried to approach "them" the right way yet? We know that mister Churchill had his reasons to feel suspicious of Kremlin, but nowadays the Russians live in completely different society. Why the "riddle wrapped in a mystery" has not been solved?

One reason might be, that Kremlin yet today takes care of its national interests in pretty harsh manners. On the other hand so does the United States. Many Europeans can not approve their methods of foreign policy, still those methods are not allowed to disturb the international development of business. "But Russia is protecting its economy by trade barriers", criticizes some sceptics. So have the Americans and many other WTO members. Why are we trying to make up reasons for not cooperating with Russia?

Russia's market has already showed us, that determined companies with realistic long term development strategies and well organized network of partners can open up possibilities for significant trading profits. That is why Turku Region Development Centre is encouraging local businesses to find their places in the processes of internationalization. And we are not only encouraging. There are many concrete projects going on right now.

Our Russian "twin city" St. Petersburg will be closer to us than ever, when our representative office will be fully operational during this autumn. The recruitment process is going on right now. Our representatives will take care of supporting both Finnish and Russian businesses in many fields: internationalization, finding contacts and financing, starting projects, strengthening their profiles through marketing and communication and so on. Besides the business interests, Turku office will maintain excellent administrative contacts with the St. Petersburg region. We have been gathering highly appreciated experience on the administrative level and we are very proud of that. This particular experience will help us to support internationalization of companies in other Russian regions.

One example of the near future project in St. Petersburg region is boosting the contact making between small and medium businesses. There lies probably the biggest potential for steady growth. We have already made the first proposals for starting the collaboration in those fields of businesses, which are the most internationally competitive. In case of Turku region those fields are biotechnology, ICT, maritime, logistics and tourism.

Turku office will also be responsible for media connections and communication. This is extremely important task because of the fact that in Finland there is still too little understanding for modern Russian everyday life. This is the basis on which the old stereotypical conceptions about Russia are still forming our mental impressions and therefore influencing negatively to our decision making.

Turku Region has lots of experience in Russian market. Our companies have been very successful with our Eastern neighbour, even though we are not located right next to the border. One reason for that are the well developed logistical systems. The other obvious reason is the high level of education in our region. The local universities and polytechnics have year after year been able to educate a big quantity of young professionals for our companies.

Besides the St. Petersburg region, there are other rapidly developing regions in Russia, too. Turku has already established administrative relations with Sverdlovsk region that has enormous potential for example in the field of innovations. During the golden years of Soviet era the city of Sverdlovsk – nowadays Yekaterinburg – was highly restricted area because of the military technology. The scientific know-how can still be found in the local universities. That is why the Kremlin believes that Yekaterinburg is the right promoter for nanotechnology.

This belief is well justified. The first look at the city tells you that investments have been made in right places. The streets and parks are very beautiful and clean, public transportation works without hiccups, public services are on high level, young people are well educated and they know several languages even better than their age mates in St. Petersburg and Moscow and so on. But the best thing is that the competition on market shares is not so tough than in those two other cities. Yekaterinburg has 1,4 million inhabitants and it's capable to offer many interesting prospects for internationalization, but so far with smaller risks.

The possibilities are there to reach. All we need is some more mutual understanding, more specialists to open the channels for cooperation and some more courage and professional planning to carry out the plans.

Kalle Euro

Business Development Director

City of Turku

Director of Turku Region Development Centre

Finland

Unconventional gas and Russia

By Alexander Karlik and Olga Garanina

Massive exploitation of unconventional gas has recently started in the US due to innovative drilling techniques. The shale gas bonanza has resulted in the region becoming a net exporter of gas, instead of importer as projected before. Now shale gas provides about 15-20 per cent of the total US gas production and will quadruple in coming years. The US can therefore expect not only to be self-sufficient in gas for a hundred years, but also to become a net exporter of liquefied natural gas (LNG).¹

The saturation of the North American market implied the re-routing of LNG (initially destined to the US market) towards Europe, causing a significant glut in European gas markets with correspondingly low prices and oversupply, and upsetting existing market structures. In particular, inflow of LNG to Europe, in the context of economic crisis and depressed demand, created serious competition to the Russian gas delivered under traditional long term contracts with oil-linked prices and take-or-pay formulae. As a result, by mid 2009, spot prices were about 50% to the long-term contractual Gazprom prices. Such market shift from seller's market towards consumer's market makes it necessary to reconsider the EU-Russia gas relations. The aim of this brief comment is to overview the major challenges posed by the surge of unconventional gas to the Russian gas export strategy.

Reserves and production of shale gas: the Russian view

The world shale gas resources are estimated at about 456 tcm, compared to 187 tcm for conventional gas. Nearly 40% of the shale gas endowment would be economically recoverable.² Thus the natural gas industry may see significant changes on the global scale in the near future.

The resources are unevenly distributed. According to today's estimates, the US and the CIS together stand for more than 60% of the total endowment; Europe slightly overpasses 7% of the world total, while China and India hardly reach a 2% share each.³ However, resource and reserve estimates could be subject to substantial changes as exploration progresses; it will also depend on the evolution of the technological, economic and regulatory factors.

Despite a significant potential of unconventional gas in Russia, its production is currently not economical.⁴ The costs related to unconventional gas are higher compared conventional gas. However, in 2010 Gazprom launched the production of coalbed methane in Kuzbass which is the world's largest coalbed methane basin. The production in the basin could reach up to 20 bcmpa after 2020.⁵ Such projects are especially important for providing energy supplies in remote areas situated far from existing production zones.

Global long term production prospects of shale gas are uncertain. In Europe, the estimates of shale gas resources are quite divergent. Several exploration projects are ongoing and it seems that Europe may see increases to its shale gas resources. If the exploitation is economically viable, Europe would be interested to boost the shale gas production. In fact, gas has a modest carbon footprint in comparison to the other fossil fuels and complies well with the EU's renewable energy agenda. It can provide the required capacities to deal with the intermittency of renewable supplies. Moreover, the shale gas would become a serious card in the EU-Russia energy security play. In turn, Russia's gas exports towards Europe would decrease thus undermining the financial equilibrium of Gazprom and Russian state.

However, several obstacles have to be surpassed so as to kick off the shale gas revolution in Europe.⁶ In particular, the EU faces equipment shortages, higher costs; it lacks experienced drilling

workforce in shale gas sector, as compared to the US. Moreover, Europe is more densely-populated which means that environmental drawbacks would meet stronger resistance from the population. Finally, in Europe the mineral rights are owned by the state as opposed to local residents, and the shale potential is pursued by major energy companies, implying a lengthy decision-making processes and a generally risk-averse investment behaviour. While technological challenges could be resolved, the institutional adjustments can become a long process.

In consequence, in mid-term, shale gas is unlikely to revolutionise the European energy markets. Therefore, Russia is likely to remain a major supplier of natural gas to Europe for years. Nevertheless, the architecture of the EU-Russia gas relations could evolve due to the new market conditions.

What are the implications for the Russian gas strategy?

First of all, the reversal of market situation in Europe reinforced the credibility of spot markets. Today Gazprom is challenged by renegotiating its traditional long term contracts in order to increase flexibility of supplies.

The increasing weight of spot sales in Europe means greater uncertainty and stronger investment risk. From a producer's point of view, volatility of natural gas demand and prices implies higher risks of creating excessive production capacities. In particular, it explains the delays in putting into production of Yamal and Shtokman fields announced by Gazprom.

If the "low price low demand" scenario in Europe lasts, Russia may have to review its marketing strategy. In this case, the major options would be:

- concentration on internal market which accounts for about 440 bcm, as compared to 180 bcm delivered to Europe (in 2008). However, the major question is Russia's internal prices dynamics and the price indexation path;

- developing the Eastern dimension, in particular gas exports towards China. The price negotiations are currently ongoing with start of deliveries forecasted to 2015.

However, both of these options can be realised only in middle and long term.

At the same time, ramping up shale gas production at a global scale leads to downward pressure on gas prices. Therefore one can expect an incremental gas demand and possible shift in energy utilization from coal to gas in power generation, as well as increased use of gas in transportation. The surge of shale gas could therefore lead to readjusting the price/volume arbitrage played by producing countries.

Finally, the emergence of unconventional gas will have serious strategic implications for energy geopolitics. Even if Russia maintains its role of leading gas producer and exporter in the world, the emergence of new production areas in different countries will restrain Russia's ambitions to become an energy bridge between European and Asian markets, especially if the "shale revolution" spreads throughout the world.

On the contrary, if the shale gas "revolution" turns the shale "bubble", energy markets would become more prone to price shocks. Investment delays could lead to a lack of capacities in gas production and transportation in future periods, while highly competitive spot markets would perfectly mediate the price hikes.

Alexander Karlik
Dr., Prof., Vice Rector for Scientific Affairs

Olga Garanina
Dr., Head of Center for Energy Policy Research and Training

St Petersburg State University of Economics and Finance

Russia

¹ WEC (2010), *Survey of Energy Resources: Focus on Shale Gas*, World Energy Council, 2010.

² *Idem*, p. 3.

³ *Idem*, p. 3-4.

⁴ According to Gazprom spokesman S. Kuprianov, <<http://www.rusnovosti.ru/news/86260/>> (accessed Sept. 27, 2010).

⁵ <www.gazprom.ru> (accessed Sept. 26, 2010).

⁶ Kefferpütz R., *Shale Gas: The EU's Energy Wunderwaffe?* Centre for European Policy Studies; EU Energy Policy Blog, August 27th, 2010.

Europe's lethargy – Russia's opening

By Matthew Hulbert

On the face of it, European energy policy is working. Capacity margins are high, supply is plentiful, prices are cheap, and emissions have been dropping of late. Fantastic; or is it? The big problem is that much of this has been due to the economic crisis, not properly aligned policy making in Brussels. If anything, Europe is sleep walking its way into far greater dependency on Russian gas by failing to take proactive measures to diversify supply when times are 'good'. External energy relations are still predicated on a bilateral basis towards Russia; this works well for some, but extremely badly for others. Politicized pipelines will undoubtedly come with political costs down the line for Europe, not least because Russia's strategy remains as clear as it is rational: exert maximum economic and political leverage from its energy assets, and limit alternative competitive supplies to European markets to enhance rents. It makes perfect sense.

The two key pipelines designed to do this are North Stream and South Stream. As the names suggest, the routes have diametrically opposed geographical routes, but share an identical strategic intent: tighten Russia's grip over supplies. It's also comes as no surprise that transit states are being handpicked for political ends rather than energy means at this stage. As construction gets underway for the 55bcm Nord Stream link, Moscow and Berlin have gone to great lengths to bypass a single inch of Polish, Czech or Lithuanian territory. The preferred political 'option' was to route it under the Baltic Sea once Sweden and Finland buckled to German pressure. Despite feeble claims from Stockholm and Helsinki that it will have very 'limited' geopolitical impact, the reality will prove to be profoundly different. Moscow will use it as leverage over former Soviet states, including Ukraine (depending on the hue of Orange at the time), either to exact higher gas prices or greater political influence. Russia will be banking on EU members to look after their own bilateral energy security interests rather than safeguarding the autonomy of post-Soviet states. This is exactly what happened in 2006 and 2009; it will happen again in countries where Russian cuts can be made without affecting broader European supplies. The upshot is that a key geopolitical artery linking Europe to post-Soviet space has been severed, and severed largely at German connivance. This is a strategic reality the EU, and more importantly individual Member States must face up to. Yet the current pre-occupation across Western European states is not how to salvage CEE countries from Russian energy pressures, but how to secure downstream stakes in Nord Stream. France, Holland, and the UK are all in the queue.

Further South things don't look all that much better. Since 2002 South East European states have looked to Brussels to provide political and financial support for the EU inspired Nabucco pipeline. The idea was a good one; open up supplies from Central Asia and the Middle East to increase elasticity of supply and reduce Russian dependence. Moscow would have little choice but to stay on the straight and narrow on price. Alas, the execution has been lousy. Europe has failed to secure any serious reserves from either region; and even if it got its hands on upstream stakes, it would have transit highly sensitive routes via Georgia (or more tangentially the legally contested Caspian Sea). Settling transit terms and fees are no less sensitive; Turkey would inevitably leverage its position as an energy hub between the Middle East and Central Asia to European supplies, a factor that has already ruffled Azeri feathers. This is before we consider a chronic lack of funding for physical infrastructure further downstream in places like Romania and Bulgaria. The EU has basically failed to grasp that if Nabucco is to work, they have to turn pipeline economics on its head: build the pipe to the gas, not the gas to the pipe.

This has left the door wide open for the competing Russian South Stream pipeline. Despite only being launched in 2007 as a counterweight to Nabucco, Moscow has made considerable progress signing up Austria, Hungary, Bulgaria, Serbia and Greece. France has also come onboard with EDF striking a memorandum of understanding with Gazprom and Eni to purchase a 20% stake in the project. Many of the same states are of course putting a 'spread bet' on the Nabucco pipeline to cover both bases. The same scenario applies upstream where Azerbaijan has notionally struck supply deals with Russia and Europe. Turkmenistan has gone 'two better' adding China and Iran to its export mix. Turning potential reserves into actual output has always been a tricky business, but what's not in doubt is that Russia can also draw on its own reserves to fill the prospective 66bcm pipeline. In the long term this gives South Stream the critical advantage. Even RWE, the main utility backing the Nabucco pipeline knows this. They have yet to reject an offer from Gazprom to ditch Nabucco and join the South

Stream ranks. The writing is thus slowly appearing on the wall. If Nabucco fails, Russian pricing power will inevitably increase.

Many analysts argue this is all a bit melodramatic. Demand is down, LNG will give Brussels ample elasticity of supply, and shale gas could take off in Europe, just as it has in the US. If anything, Russia is on the ropes. Wholesale gas prices are tumbling, oil indexation is being broken up, and competing Atlantic and Pacific Basin markets are playing 'arbitrage' with Moscow to drive down prices further. Stop worrying about Russian gas dependency; that's old school.

Much of this is of course true, at least for now. But being sanguine about supply dependency when times are good would be a major mistake. Europe's 'four corridors' strategy to tap into Russian, Scandinavian, MENA and Central Asian reserves was always politically shaky, but a physical lack of demand presents formidable problems on two levels. The first is that producers will inevitably hold back on upstream investments until fundamentals tighten. Russia is pulling back on Yamal and Shtokman; Qatar is holding fire on developing any more LNG. Algeria is extremely nervous about squandering precious reserves in a buyer's market while politics (for differing reasons) is unlikely to see Iraqi or Iranian gas production increase any time soon. The second problem is that producers are diversifying export routes away from Europe towards Asia-Pacific where demand remains reasonably firm.

This has a direct resonance to Russia. Major capital investment decisions need to be made on liquefaction and new pipelines, not only to western, but eastern markets, and made quite soon. The penny might have finally dropped in Europe that Moscow really has no interest in signing the Energy Charter, but it hasn't woken up to the reality that Russia has half an eye on perfecting its arbitrage potential between East and West. It should have done; increasing energy supplies to Asia is official state policy. The good news for Europe is that the sheer geographical size and infrastructure deficiencies make it close to impossible for Russia to switch gas flows between West and East, and rather like North Africa supplies, Moscow's pipelines are hardwired towards European consumers through historical design and political practice. But the bad news is that Gazprom's ability to influence the lion's share of European gas supplies through price instruments and internationalisation strategies is increasing. It's certainly an easy sell in places like Algeria, where falling gas prices prompted Sonatrach to call for supply restraints on spot and traded markets. Central Asia and West African producers are sympathetic to such concerns where Gazprom's presence has been growing. MENA and Latin American players are considering their options. Now admittedly, this is hardly the stuff of gas cartels just yet, but the prospect of 'gas on gas' competition could be the glue needed to stark sticking bilateral price collusion together for European suppliers.

Whether or not this scenario materialises remains to be seen; the logic is certainly there should gas prices continue to set their own benchmark prices independent of oil, but the real concern for Europe is its inability to make the right moves now in the midst of a lax gas market. Investment in storage is low; liberalisation to reduce future pricing pressures is tepid, integration of grids remains at best, regional, if not localised. Brussels hasn't even been able to apply strong third party clause to stop Gazprom getting into downstream transmission. The holy grail of vertical integration could still beckon for Moscow should swap agreements for upstream assets entice European utilities to cut such deals. Obviously none of this looks particularly concerning right now, but if we imagine a scenario of rising Asian demand, economic recovery in Europe, creeping supply side constraints, unconventional gas flopping, and environmental imperatives favouring gas consumption over coal, then gas markets will assuredly tighten, and tighten very quickly. If Russia has managed to increase its share of European and Asia gas supplies in the interim, then it will not just be the unfortunate losers from Nord Stream and South Stream littering Central and Eastern Europe that feel the pinch, but European consumers as a whole.

Matthew Hulbert

Senior Fellow,
Center for Security Studies
ETH Zurich

Switzerland



Successful scientific and technological 'Modernizatsia' in Russia requires institutional and economic changes

By Eric Brunat

Since the financial collapse of 1998 and up to the present world economic crisis, the Russian economy had made a lively recovery in spite of structural weaknesses. In constant dollars, the gross domestic product has multiplied by a factor of 10 in ten years.

This result is remarkable but it must be put into perspective. The Russian economy constitutes less than 3% of the world economy; the GDP per inhabitant represents 28% and 35% of the GDP per inhabitant of the United-States and of Europe of the 27 respectively. It will be very difficult for Russia to attain its declared objective of 50% of the American GDP per inhabitant in 2020. To get even close to this ambitious objective, it will be necessary in the coming ten years to restore confidence and to boost both domestic and international investment. The principal motors of growth will come from the resilience of the private sector but articulated around a modern and healthy public sector, in education and research, with a restored social sphere and health provision, with modernisation of infrastructures and international cooperation. Apart from the effects of the world crisis, these are all fields of activity suffering adverse effects from the hardening attitudes of the authorities who have not succeeded in stabilising a clear legal framework understood and respected by all or in effectively liberating the economy and society through the democratic give-and-take of true political and industrial competition. The mechanisms of a 'western-type liberal market economy' have been at least partially deployed in a poorly-prepared framework with the ideological conviction that assuming the 'interplay of universal values' would be enough to modify the framework.

In such a context, the weight of natural resources in the economy often has a harmful effect. It has distorted investment flows and not contributed to a sufficient diversification of investment effort. It has led to a concentration of powers in a counter-productive fashion as well as to inefficient product distribution. The adaptation of market mechanisms has been brutal, unequal, and above all has contributed to an effacement of the specific solidarity reflexes of Russian society, modifying in a violent fashion attitudes to money and to work. The result is very negative, pointing to a society consumed by doubt and which is henceforth prone to retreat into nationalist reflexes which are worrying. For all these reasons, one of the primary motors of growth, which is the end consumption of households, can be effectively curbed, calling into question both the recovery from the present crisis but, more seriously, the sustainable character of growth and its transformation in human development terms. To re-launch the process of a modern economic and social transformation based on the positive and specific values of Russian society, the following should be considered:

- The principal problem of the country is its endemic problem of corruption. Many segments of public and private administration are concerned at all levels. Among the countries which are advanced on the technological level but with medium incomes – in the World Bank definition – Russia is among the most corrupt in the world, according to *Transparency International (Russia is ranked 146 out of 180 countries in 2009)*. Moreover,

government insiders and private owners (often under the influence of political and economic advisers –including international-) used private, state and hybrid (composite) institutions as vehicles for personal enrichment, instead of maximizing institutional and social welfare. The legal framework as well as the institutions of the economy (the relations based on respected contacts between the economic agents for example), the social sphere and a certain gradualism in the rhythm of reform process, have been neglected by the promoters of the 'shock therapy' through the 90s.

- Russia needs to lower the transaction costs and raise its global productivity in order to offset speculative trading as well as accept integration into a more diversified world economy. This integration process is indispensable to facilitate modernisation and the management of technological or financial complexities. So far, the protectionist climate, in particular in the numerous industrial sectors considered as 'strategic', but also in agriculture or finance, jeopardizes a rapid entry to membership of the World Trade Organisation which would be a catalyst for structural and institutional reform and a supplementary source for growth which the World Bank estimates at between 0.5 and 1% per year. However this sustainable opening to the outside world must be accomplished with proper respect for individuals, for social balance and for preserving Russian identities.
- A monopolistic State capitalism in Russia now exists alongside a concentrated private capitalism. The share of private and public capital contributes 50% each to the GDP. The competitive mechanisms are not functioning and this contributes to maintaining a level of inflation which is superior to 10% in recent years. Thus, this quasi-absence of competition, high transaction costs, monetary policy and the Ruble exchange-rate policy all have a negative effect on the general level of price increases. In addition, the flight of capital in the periods of declining confidence and the insufficiency of domestic and international investment (even if the latter have increased considerably from 2005 onwards) have contributed to moderate the structural inflation which is therefore not fully reflected in the levels recorded in recent years.
- In 2009, the percentage of investment was below 20% of the GDP in Russia and the overall level of investment still remains far below the level reached in 1990. This crucial point could jeopardize the proactive policy of modernisation and research and development policy announced by the central political power. In comparison, the principal developing countries of South-East Asia and the most successful transition economies have levels of investment superior to 30% of their GDP.
- The infrastructure of transport and communication must become a priority in order to improve

competitiveness and reduce the transaction costs. This implies a capacity to develop major projects attracting heavy financial investments and skills (including international cooperation and investors).

- A significant investment and a political commitment are necessary in the sectors of health, education, research and development towards a knowledge-based economy and society. The industrial surpluses in the private sector must also be in part oriented towards these strategic areas for development. Incentives to the private sector including fiscal ones could strengthen a social and desirable industrial policy.
- The banking system is dominated by several large State banks, which have played a positive role during the world financial crisis by mastering the mechanisms of the public and private finances of an advanced economy. On the other hand, the current system generates high costs and some private competition could prove to increase efficiency in the context of a modern economy.
- The external accounts, registering a surplus, are very dependent on the export of natural resources and on the world oil and gas prices. The structural competitiveness of the economy is not assured. The pressure exercised on short-term resources favours a « rent economy » (the future of which can only be fluctuating and inhibitive to growth), which distorts financial, technological and human investment flows, directing them to the prospection

and exploitation of natural resources to the detriment of other branches and sectors of the economy (*'Dutch disease'*). Moreover, performances based on energy saving and the environment are not an effective priority. Having for a long time been used to the illusion of virtually free energy, both private and public economic agents must now modify their behaviour towards a greater sense of responsibility for the individuals, the society and the environment.

Eric Brunat

*Vice-president in charge of
European and international
relations*

*Faculty of Law and Economics
IREGE Research Center*

University of Savoie

France



*Former UNDP Senior Economist-Adviser in Russia, Belarus
and Moldova, and European Union Projects Director in
Russia –Kaliningrad and Moscow*

Dmitry Medvedev's modernisation from above

By Viatcheslav Morozov

As argued by some observers, the fires that devastated many areas in central Russia in the summer of 2010 have put in question the entire political system that has been built over the last decade. The famous "vertical of power" has not been able to prevent the fires or to deal with their destructive consequences. The latter include not just the destruction as such, but also its social and political effects. Local officials, who have learned all too well that they need to stick to the letter of the law, do not rush to deliver on the populist promises made by top political leaders. Compassion to people whose property was destroyed or even to those whose relatives perished in the fires will not be a valid argument in one's defence if one happens to violate any of the numerous and contradictory directives that regulate the ways of spending public money. The economy, the public finances and, in the end, the political institutions have to carry the extra weight of growing food prices. The most logical response of the current centralized system in which the central authorities are responsible for everything, is to introduce price controls. This is an extreme example of a short-term solution that is likely to produce shortages on the market and lead to even greater instability.

These developments bring to light the problems haunting the pet project of the current presidency – modernisation of Russian society and economy. In all his recent statements on the subject, President Dmitry Medvedev has been keen to present the image of Russia as a dynamic society firmly on track towards modernisation, making significant progress in a matter of months, not years or decades. Some would argue that this image is in sharp contrast with the reality of widespread corruption, dysfunctional institutions and semi-authoritarian political system. It is not for this short article to try and assess the relative successes and failures of the modernisation project. What I will try instead is highlighting certain ideological flaws in the political thinking behind the whole project that are likely to be fatal in the longer run, unless they are addressed now. I do not share the pessimism of those who discard the whole idea of modernisation as pure rhetoric and propaganda. On the contrary, I believe that there are chances to change the situation to the better, but one thing that is needed for that is international involvement at a qualitatively new level.

Russian president loves to talk about democracy – indeed, it was obviously his decision to designate the criteria for democracy a key topic of this year's Global Political Forum in Yaroslavl. However, it is evident both from his speeches and from the actions that his administration takes that democracy is understood in the Kremlin in an extremely paternalistic way. The vertical of power remains the key instrument for modernisation: it seems that Russia's top leadership is still daunted by the ghost of the 1990s when both society and the economy were in disarray, while the political process reminded of the Hobbesian war of all against all. To avoid a repetition of this scenario, the Kremlin prefers to keep the "constructive" opposition on a short leash and the "radicals" suppressed, civil society and the media in check, the "strategic" industries and natural resources in state ownership, and the regional and local authorities firmly integrated into the bureaucratic hierarchy. Even when this system does react to the pressures from below, this usually takes place of a single-handed decision by the "first person", such as Vladimir Putin's order to remove the projected oil pipeline away from the Baikal Lake in 2006 or Dmitry Medvedev's suspension of the construction of a new road through the Khimki forest outside Moscow in 2010. The recent departure of the notorious Moscow Mayor Yuri Luzhkov followed the pattern: he was fired by Medvedev's decree after an orchestrated media campaign exposing alleged corruption in the city government.

Unfortunately, it seems that this top-down approach is an innate fault of the modernisation project, integrated its entire philosophy.

Despite his frequent declaration to the contrary, Dmitry Medvedev's approach to modernisation is fraught with paternalistic attitude. This was evident, for instance, in his speech at the Yaroslavl forum, in which he highlighted the state's efficient exercise of policing functions as a key criterion of democracy. Protecting citizens from crimes is a function of any state, and it can be performed in many different ways, including the most authoritarian ones. It cannot therefore be presented as a definitional feature of a democratic society.

This emphasis on security in fact reflects the obsession with control which was one of the distinctive traits of Putin's presidency and which survives into this day. The Russian authorities do not trust any grassroots initiatives and would strongly prefer protecting the citizens from all kinds of social evils rather than letting the citizens protect themselves. This paternalistic attitude is also evident in Medvedev's argument that one of the key tasks in the process of democratic development is to promote high culture, including "political and legal culture, the culture of social behaviour, the culture of civic dialogue". The "low level of culture", on the contrary, goes together with "intolerance, lack of responsibility, aggression", which "destroy democracy".

Here, the references to "culture" are used to legitimize state control over society. The people of high culture, according to Medvedev, would use the freedom of speech and the freedom of assembly in a wise way, whereas the abuse of these freedoms is a sign of barbarianism. The implication is, of course, that it is up to the authorities to differentiate between the civilized and non-civilized forms of political activity, and thus to decide which of them are to be supported and which must be suppressed. Moreover, "the citizens, who acquire a greater range of opportunities and more freedom, must attain greater responsibility". People of high culture are those who behave according to the rules, while everyone who, for instance, stages unauthorized protest, is classified as a barbarian.

I would argue that this mistrust of grassroots initiatives is the main obstacle on the way towards modernisation, much more serious than corruption or technological backwardness. However, so far the situation is not hopeless. It seems that at least some people in the Russian government, including President Medvedev himself, are genuinely interested in using the resources of the West in transforming Russian society, and, moreover, they do take western emphasis on liberal democracy seriously. What they do not like is Russia becoming an object of democracy promotion, but at the same time, they seem to be ready for an open dialogue about the meaning of democracy, in which every voice would be treated with equal respect. This is where international involvement in Russia's modernisation can potentially prove fruitful. Even if there is a degree of cynicism and propaganda involved in the Kremlin's democratic rhetoric, it would still be unwise to ignore this invitation for dialogue – if only because this would be inevitably interpreted to the effect that *no one* is serious and sincere in their advocacy of democratic values.

Viatcheslav Morozov

*Associate Professor of
International Relations*

University of Tartu

Estonia



Economies in transition and transition economics

By Stefan Hedlund

How long can an economy remain in “transition,” and what is the usefulness of “transition economics?” These may at first appear as purely rhetorical questions. Given that some of the “transition economies” are presently in much better shape than the economies of some of the old European Union member states, it should be obvious that the classification has outlived its usefulness, and the great discrepancy in outcomes should in turn convey the same message regarding the discipline of “transition economics.”

On second consideration we may find, however, that we are faced here with rather serious issues concerning our understanding of post-communist economic *transformation*, as opposed to *transition*. The reasons may be led back to the chaotic conditions that prevailed at the time of the collapse of the Soviet order in Europe, and to the fact that a small group of well placed actors succeeded in setting a radically new agenda for policy discussion.

Looking back at the two decades that have passed since then, we may find that the former communist economies have diverged substantially in their respective paths of development. There is nothing at all strange in this. Given that the task of undertaking a “triple transition,” including simultaneous reforms of economic, political and legal systems, represented a task of institutional transformation that had never previously been approached, wide variation was bound to emerge. This, moreover, applied to ambitions as well as to performance.

The main problem with the introduction of the notion of “transition” as such was that it was a purely ideological construction, based on a normative understanding that all formerly communist and centrally planned economies were ready, able and indeed willing to embrace and emulate the very same role model, i.e. free market capitalism. As is bound to be the case with ideological constructs, the understanding of “transition” was tacitly based on assumptions of homogeneity, i.e. that all countries were the same, and on predetermination, i.e. that all countries would succeed. *Ex post* it has also, quite logically, been widely claimed that the outcome was indeed a success.

The main cause behind the variation in outcomes was that the sudden collapse of the Soviet order also represented a sudden breakdown of an ingrained social order. As individual actors were called upon to develop new rationalizations, and to formulate new strategies, this was bound to wreak havoc on expectations, beliefs, values and norms. The effect was to call to the fore deeply rooted differences between countries in matters ranging from cultural heritage to preferred role models. As the tacit understandings of homogeneity and of predetermined success blinded the policy community to the crucial importance of such factors, both analysis and prescription were bound to be faulty.

Returning to the first part of our initial question, we may ask what it is that unites the present-day economies of, say, Estonia, Moldova and Turkmenistan. Apart from the fact that they were once Soviet republics, there is little indeed to suggest that they may in any sense be usefully grouped together as “transition economies,” or perhaps even as market economies. Once Estonia has joined to euro zone, it will be hard indeed to claim that there is anything left for that

country to be completed in terms of transition, and it would be even harder to suggest that the economy of Turkmenistan remains in transition to anything even remotely resembling the original vision of rules-based market economy.

This said, one should not discount the staying power of vested interests and of sheer organizational inertia. It is after all a fact that up until April 1946, the League of Nations, once created to avert a second world war, was still busy playing tennis in Geneva, seemingly oblivious of the fact that WWII had come and gone. Given that the process of academic and organizational institution building was the only dimension of post-communist adaptation that was truly successful, including special purpose conferences, journals, and indeed research institutes, it is only to be expected that dismantling will be slow, and perhaps it does not matter much.

Far greater importance must be assigned to the second part of our initial question, namely whether the emergence of a separate discipline of “transition economics,” designed to study and pave the way for successful post-communist transformation, could be viewed as a useful addition to the family of social sciences. The essential litmus test, which it failed to pass, was whether it would be able to capture such differences in initial conditions that served as determinants of degrees of success in transformation. The reason for this failure was simple.

Once it is shorn of purely ideological pronouncements on the superiority of markets and of private property, “transition economics” may be reduced to an exercise in macroeconomic stabilization, coupled with theorizing around property rights. While there was nothing inherently wrong with any of this, it was a far cry from a new departure, from the introduction of a new science created to study the complex problems of broad and sudden institutional transformation under conditions of great uncertainty.

Whether the process of “transition” will ever be proclaimed to have been ended – in success or in failure – is an essentially political question that need not occupy us here. Whether economics was ready and able to meet the challenges entailed in post-communist transformation is far more daunting. The emergence of transition economics suggests a negative answer, and in consequence also a need to reconsider how the discipline as such has blinded itself to the importance of cultural and historical factors, and to the impact of beliefs, values and norms on economic behavior. This surely must be the main lesson of two decades of debate on “transition.”

Stefan Hedlund

Professor

Uppsala Centre for Russian and Eurasian Studies

Uppsala University

Sweden

Common understanding of quality as a basis for the development of cooperation in higher education between Finland and Russia

By Riitta Pyykkö

Finland has traditionally been considered an expert on Russia, and Finnish and Russian universities have a substantial number of cooperating relationships. Unfortunately some of them function only partially. There are problems in student as well as teacher and researcher mobility; cultural differences and poor knowledge of the educational system of the other country also cause problems.

Finland and Russia are both involved in developing the European Higher Education Area, the Bologna process, together with 47 European countries. Finland signed the Declaration in 1999, four years ahead of Russia. What is noteworthy is that the Bologna process is a pan-European process which is not limited to the European Union. What is also noteworthy is that the purpose of the process is not to harmonize higher education, but rather to create a framework for different national systems to develop along the same lines in a coordinated way. In order to be comparable, some countries have had to make substantial changes to their educational systems, while others only needed to slightly adjust their existing structures.

In all participating countries, quality assurance of higher education is developed as part of the Bologna process, and all countries are describing the core competences of their degrees according to European qualifications frameworks. The Russian degree structure differs somewhat from the Finnish system, but there are also similar differences between other Bologna countries. Admission to higher education is a big issue in both countries today. The Russian system was formerly based on the certificate of secondary education and entrance exams, but has now moved to an admission based on the Uniform State Examination, comparable to the Finnish Matriculation examination. In Finland, the Ministry of Education and Culture is pushing the universities to increase use the matriculation examinations instead of separate entrance exams. Discussion in both countries on this issue is lively. The current situation offers an excellent opportunity for improving the comparability of higher education and degrees in Finland and Russia.

Although both Finland and Russia are Bologna countries, and national quality assurance agencies of both countries are full members of the European Association for Quality Assurance in Higher Education ENQA (which means that they both follow the European standards and guidelines for quality assurance), there are differences in the quality assurance of higher education.

In Finland, the higher education institutions bear by law the main responsibility for the quality of their operations, and they are by law required to take part in external evaluations and to publish the results. The main principle of evaluations conducted by the national quality assurance agency FINHEEC is enhancement-led, development-oriented evaluation. The aim of evaluations is not to control but to assist the institutions when they themselves develop their operations.

To understand the Russian system of quality assurance it is important to be aware of the great changes in the higher education sector which took place in the 1990s. There has been a growing number of higher education institutions and

increased heterogeneity, which has led to a growing concern for quality. There are different types of institutions, private and state, smallish and multi-faculty institutions, with or without study fees. A significant reform project during the last two years has been a new 'gradation' of universities into two 'unique' institutions (Moscow and St. Petersburg State universities), 14 national research universities and 7 federal universities. The higher the institution stands in the hierarchy, the more independence it has, for example, in curriculum decision making. The final aim of the reform is also to decrease the number of weak institutions. Rankings attract more and more attention in Russia, but also in Finland.

The students' role in the development work in Russia is much smaller than in Finland, and the State Educational Standards (the third generation standards accepted this year) play a fundamental role in the quality assurance of higher education. Studies are conducted according to these Standards, while in Finland the institutions have extensive autonomy in curriculum development. The new Russian standards are written in a competence-based form, emphasising the role of the learner, and they also give more freedom to the institutions to decide on the content of curricula. There are some cultural differences in the conception of academic honesty among Finnish and Russian students, which may cause problems in cross-border education. Corruption, or 'shadow economic relation' can take various forms in Russian higher education, including, for example, enrolling in a HEI or passing an exam by paying or by purchasing a final thesis.

Although both Finland and Russia are a part of the European Higher Education Area, there are differences in the higher education systems, both in structures and in concepts of the quality of education. The current situation creates a demand and offers an excellent opportunity for improving the comparability and recognition of higher education and degrees in Finland and Russia. To my mind, there are perspectives for increasing student and teacher/researcher mobility both in fields with similar curricula and fields that complement the education offered in the other country. The Bologna process is founded on mutual confidence in the quality of higher education. The more we know about each other's educational system, the more confidence we can have in it, in spite of the differences.

Riitta Pyykkö

*Chair of the Finnish Higher
Education Evaluation Council
FINHEEC*

*Professor of Russian Language
and Culture*

University of Turku

Finland



Trade, trade, trade – Russia from a French perspective in 2010

By Louis Clerc

One wonders whether, during his visit to Paris in March 2010, maybe while crossing the bridge Alexander III, Russian President Dimitri Medvedev made the parallel between the present days and the irenic era of pre-World War I Franco-Russian cooperation. Supposing for a minute that he did, he would not fail to acknowledge the domination of commercial and economic matters in nowadays Franco-Russian relations.

True to form and in the same way as in 1892-1914, when France and Russia were linked by a military alliance, the domestic debates regarding the nature of the Russian regime have hardly influenced the main trend of French official relations with Russia. The French civil society, press and commentators have not spared Russia and have regularly criticized the demagoguery and authoritarianism of the Russian leadership since the advent of Vladimir Putin as Boris Yeltsin's successor. But it has done little to influence official relations with a country that, in the same way as China, France cannot seriously ignore or ostracize despite the unsavory nature of its regime.

The personality of the leaders has been an important aspect in relations between countries that have traditionally been top-heavy in their management of foreign affairs, and where the link between big companies and political leadership has been strong.

Elected president in 2007, Nicolas Sarkozy had worked during his campaign to separate himself from his predecessor Jacques Chirac's overtly cordial relations with the Russian leaders, delivering a few critical declarations for example on Moscow's policy in Chechnya. But the pragmatic volte-face came and relations warmed up quickly.

The reason of this evolution is, of course, economy and trade. France's foreign trade structure is heavily loaded towards its neighbors and especially towards the EU 27 zone. Russia remains a comparatively small partner for French foreign trade, and especially for the big industrial and infrastructures companies whose leadership forms the inner circle of Sarkozy's France. The modest place of France in the Russian trade was recognized already in 2004-2006, when the French authorities started a program aimed at improving trade relations with a group of 5 target-countries including Russia. Since then, France has moved up the ladder amongst Russia's trade partners, this improvement in trade relations being marked by a few big items publicized both in France and in Russia.

After years of negotiations, the French company Total was for example chosen in July 2007 as Gazprom's partner in the exploitation of the Chokman gas field. Sarkozy explicitly supported the project. The Franco-Russian trade, dominated on the one hand by energy and on the other hand by luxury goods and alimentation, saw after that an increasing amount of industrial contracts for French companies in Russia. Energy companies EDF and GDF Suez are now participating in the North Stream and South Stream pipelines projects, Air France and Aeroflot are strengthening their partnership, while Alstom gears up to buy 25 % of the Russian Transmashholding, ahead of a renovation of the Russian rail network.

Relations have also improved in such sensitive domains as armaments and atomic energy. Medvedev's March 2010 visit was the occasion to conclude a deal on the sale of two Mistral-type command and landing vessels to Russia, along with a contract involving the production of more such vessels in Russia and in France. In Russia, the boats will be built in the dockyards of Sergueï Pougatchev, whose son Alexander owns the French daily *France-Soir*. EDF's Henri Proglio also met in March with the leadership of Rosatom to talk about cooperation in the civilian nuclear sector. The French remains behind the Germans and even the Italians in Russia, but the political leadership works actively to improve the situation.

If inevitable in relation to Russia, the energy question seems to be less of sensitive issue for France than it is for example for Germany. 80% of France's imports from Russia in 2010 are energy and raw materials. France's nuclear energy sector, however, produces next to 80% of its electricity, and the country's geographical situation and historical links with Northern Africa give it the possibility to diversify its resources.

Diplomatically, Franco-Russian relations are infused with Moscow's distaste for European-wide discussions and preference for bilateral bargaining, and by France's traditional policy of balance between its partners, the United States, Europe, and Russia. But it is impossible to consider these relations in a vacuum. Much depends of a wider context dominated by Russia's relations with the United States. Inside the EU as well, Moscow has other partners than France, with which the Russians can easily balance their relations with Paris. It has thus been difficult to capitalize on Sarkozy's August 2008 mediation during the Georgian war, mostly because the result "obtained" here was the only possible in front of a Russian leadership completely in command of the situation. As well, France has been reluctant at best to side with EU members overtly critical of Russia's policy such as Poland.

Despite the often difficult attitude of the Russian leadership regarding international affairs, both the United States and the EU need Russia's, if not direct help, at least quiet benevolence in treating some of the world's diplomatic and strategic problems. In that respect, France is no different. The real question is Russia itself, not so much the French will to collaborate. Far from being the main concern of the French leadership, Russia is seen from a relatively safe distance as a promising market, a source of raw materials, and a possible support on a wide range of issues.

Louis Clerc

Ph.D., University Lecturer

Department of Political Studies

University of Turku

Finland



Do we need better "institutional marketing" in Russian trade?

By Ilmari Larjavaara

According to one informal estimate, in decisions to buy in Russia, 75% of the weight is on personal relations, and 25% of the weight is on product-related factors. Russia does not function alone, if so much, by markets and by the law, but there is also in operation and even more a variety of other practices. A basic question is then, what structures and practices in Russia are present, if not so much markets and laws? It is important to understand how Russia really works - and ponder this question for business success.

In Russia, structures of society consist of at least following institutions: (i) persons and networks, (ii) hierarchies, power and power structures, (iii) managers, decision makers and gray eminences and (iv) groupings, clans, fiefdoms and mafias, etc. Decision makers and situations are, of course, changing constantly as the power struggle is going on. It is well known fact that a change of a company director opens new opportunities for business partnerships.

As other structures are still weak in Russia systems are dependent on individuals. Consequences of this feature include strong managers, hierarchical structures and concentration of power. It also follows of this feature that decision-making is inherently irrational, and to some extent, the key is, what are the personal benefits of a commercial exchange to the trading persons.

It is known to be essential in b-to-b marketing in Russia to find the actual persons who can decide. There may be gray eminences, whose names change, in the background of the formal decision-making structures. We know this, but should and could we know institutions in marketing in Russia still significantly better and deeper?

An interesting question in Russia is for a marketing point of view, what are "utility" and "rationality" in Russia. Only a good price and a good quality (etc.) do not provide best sales results in Russia (of course, these are needed as one factor). Also it is described that a simple sell + buy export to Russia does not work very well. It could be valuable to understand business in Russia in a more comprehensive and institutional way.

In Russia, purchasing decisions can be a difficult combination of rational (market) and irrational (who benefit personally from the exchange with whom) factors. Purchasing decisions at least in public procurement in Russia are a multi-layered combination of politics, bureaucracy, technology, economy (more than in one sense), corruption (or of a genuine attempt to get development) and personal chemistry of people.

Should we understand more about why the importers buy (or not buy) from Finnish companies? What factors determine purchasing decisions and how should we sell to Russia?

A FINTRA's study published in 2009 "Competence Assessment of Finnish Companies in Russia" confirmed that Finnish companies still do not sufficiently manage personal relations when doing business in Russia. At least a novice Finnish salesman still continues to believe that products sell in Russia by a good quality and price. In fact, the quality of technology is important, but in most cases it seems clearly secondary to the right relations and partnerships.

In generally, therefore, a challenge may be that the Finns are not able to take advantage of Russia's special features and are performing below potential. This applies particularly to government and education units in Finland

that are not working with regular contact with daily life in Russia.

Typical for the Finns is that Russia-specific institutions are seen largely as threats only (corruption, theft, corporate takeovers etc.). Institutions are not seen as business opportunities and challenges. The specific social structures and practices in Russia do not only mean risk and uncertainty. Better knowledge of them could be a potential advantage for companies.

One problem concerning institutions in Russia is that it is not in a best way understood how to examine and make models them, and therefore, is thought to be not possible to systematically investigate, educate and take advantage of them. Factors of success in Russia are known by a folkloric, but systematic mapping, analysis and training is not abundant. Businesses learn how to make success in Russia still largely empirically without formal training, formal promotion and research support. In Finland, Russia's institutions could need a systematic understanding and training.

There have not been many service providers for Finnish companies in the field of lobbying in Russia. Finland currently has no official state lobbying unit providing lobbying services in Russia. Finnish companies might have been forced to resort to services of foreign lobbying services providers (AmCham or like).

Concept of marketing could be expanded including not only the economic and communication factors but as well politics and government in Russia and personal exchanges between individuals. In many cases, companies in Russia do not act economically rational in a meaning in which firms are rational in circumstances where the marketing theories have been created.

Structures in Russia have been studied quite enthusiastically in general level (such as networks have been studied a lot), but this expertise does not in the best way provide necessary assistance for companies. There could be some new forms of research and training that could combine marketing and peculiar institutions in Russia. Marketing could be considered in conjunction with items such as networks, decision-making, power structures and clans in Russia.

Some sort of "institutional marketing" -concept could raise Russian studies to a new systematic and innovative level. Such approach could (i) help to analyze most core structures and the success factors in Russia. (ii) This concept would guide research to the very essential fields (b-to-b marketing). (iii) High-quality (scientific) analysis could be combined with very practical application areas. (iv) Traditional and diffuse knowledge of business success strategies of well established companies could be collected and converted into research and education of new generation businesspeople.

Ilmari Larjavaara

Dr. (Soc.Sc), Researcher

*Tampere University of Technology
(TUT)*

Finland



Pskov State Pedagogical University on the way to the European higher education area

By Alexander Gogolevskiy

Pskov is one of Russian ancient cities. Pskov State Pedagogical University has 100 year history. Pskov is a unique city in its geographical position and history. Pskov region is a part of North-Western Federal district of the Russian Federation. Total area is 55,3 thousand square kilometers. The length from North to South is 380 km, from East to West – 260 km. Pskov region is the only region of the Russian Federation, which borders on three states: Estonia, Latvia and Belarus. The length of external border with Estonia is 270, with Latvia – 214 km, Belarus Republic – 305 km. Pskov region borders on Leningrad, Novgorod, Tver and Smolensk regions as well. The distance from Pskov to Moscow is 689 km, from Pskov to St.-Petersburg 280 km.

Proceeding from geopolitical location and settled relations with Baltic universities, Pskov State Pedagogical University considers Baltic region as the priority direction for establishing international relations. For the last 2 years (2009-2010) our university signed bilateral agreements with the following universities:

Daugavpils University, Latvia – January, 2009
 Estonian Business School, Estonia – February, 2009
 Siauliai University, Lithuania – March, 2009
 Vilnius pedagogical university, Lithuania – May, 2009
 Gotland University, Sweden – June, 2009
 Daugavpils University, Latvia – January, 2009
 Tartu University, Estonia - 2009

Major tasks for the relations with the universities of European Union and Baltic region are:

- Support and development of relations with universities of Baltic States
- Experience exchange
- Academic exchange
- Harmonization of academic curriculum and programs
- Participation in international conferences
- Joint research work
- Participation in grants and projects

During this time period the following events took place in Pskov State Pedagogical University: students' of Gotland University practice on cross-cultural communication as an example of Bologna process realization, international theoretical and practical conference "Theory and practice of endowment funds' functioning in Russia", international educational seminar within the bounds of the project

"Integrated control of water resources in the Russian Federation", etc.

Good relations are established between the faculties as well. In 2009-2010 the relations with Narva college of Tartu University became closer. In the Narva College there was a seminar held for the deans of Pskov State Pedagogical University to study the experience of Estonia on their way to Bologna Declaration realization, January, 27-28 there was seminar "Estonian experience in realization of Bologna convention", April, 16-18, 2010 students and lecturers of the Faculty of Foreign languages took part in X International Student conference and presented their reports on the suggested topics. May 13-15, 2010 academic staff participated in International research conference "Innovative methods in cross-cultural education". Moreover, there was an academic exchange within the bounds of pedagogical practice on Methodology of teaching Russian language as a native language. For this purpose there came a group of students of 4 and 5 courses from Narva college (Tartu University). There was a group of the students from Pskov State Pedagogical University in Narva for the course "Basics of project management" in April, 2010.

On the way for entering Bologna area our University has something to suggest to the foreign partners as well. This year two conferences are planned to be led during the beginning of this school year. There will be international practical conference "Youth in modern society: problems and solutions" on the faculty of Psychology September, 30 – October, 2, 2010 and conference devoted to the problems of cognitive linguistics and cross-cultural communication on the faculty of foreign languages November, 10-12, 2010. Faculties of Pskov State Pedagogical University have established long lasting contacts with European higher institutions of learning with the purpose of development joint educational and research projects for academic process, professional level of academic staff and international image of the university will improve thanks to such relations.

Alexander Gogolevskiy

Professor, Doctor of History

Rector

Pskov State Pedagogical University

Russia

The Russia-Belarus energy relationship – a reluctantly continuing affair

By Jesper Roine

Looking back, 2006-2007 looks like a turning point in Belarus-Russia relations with respect to the crucial oil and gas trade. In an agreement from January 2007 it was made clear that the previously heavily subsidized gas imports from Russia would double in price that year and then gradually continue increasing so as to reach a "market price" level by 2011. Roughly this meant an increase by a factor five (in real terms) compared to the 2006 situation. At the same time a gradual increase in export customs' duty rates on Russian oil was announced making this trade less favorable for Belarus. Now, almost three years on, it appears that the direction set out in the 2007 agreement has been followed and Belarus is increasingly being treated like any other country in its energy relations with Russia.

As is well known, energy related aspects of the economy are especially important for Belarus. The country is one of the largest natural gas consumers per capita in the world (in 2006, per capita consumption was about 20 % higher than in Ukraine which is typically used as an extreme case in itself). Much of the industry is also – largely as a function of cheap gas – still very energy intensive and the low cost of energy has constituted an important competitive advantage for Belarus. In particular this is true for much of metallurgy and chemical industry, the production of which jointly make up about a quarter of Belarusian exports. Another cornerstone in Belarus industry is its oil refinery activity. Approximately three quarter of all imported oil is processed in Belarusian refineries and then re-exported, much of it to the West, as petroleum products. These constitute about 35 % of total exports. Parts of the gains from this activity come from genuine value added, but much also stems from various tariff agreements and from paying a relatively low average price on the oil imported from Russia. Crudely speaking much of the transactions relating to oil serves as a way for Belarus and Russia to split the total gains from selling Russian oil, refined in Belarus, to external parties.

Given the importance of oil and gas in Belarus, the "new policy" from the Russian side has constituted a terms-of trade shock to the economy. The short run answer was and has continued to be to borrow money and to sell government assets and to attract FDIs (the two latter often showing up in similar ways in the statistics). An already problematic situation was of course made worse by the global crisis in 2008 that eventually led to a devaluation of the currency and an IMF program. Even though the crises clearly did not make anything easier for the Belarus government it did serve the purpose of mixing the previous internal unbalances with the externally induced shock making previously unthinkable measures possible.

The most recent major development is the new oil deal signed in January this year. It is worth mentioning this not only because it is yet another step in the trend started in 2007, but also because of the sheer magnitude of the losses to Belarus from this agreement. A rough approximation of the different consequences suggest that this is yet another shock to the Belarus economy;

Loss of volume. In 2010 Belarusian factories are planning to refine 15.8 million tonnes of crude oil. This is about 5.7 million tonnes less than in 2008 and 2009. This translates into Belarus losing about \$1.05 billion (5.7 million tonnes x (export price \$553 per tonne – import price \$368 per tonne) = \$1.05 billion) on volume.

Loss on duties. If Belarus processes 15.8 million tonnes of crude oil in 2010, it will import 6.3 million tonnes of Russian duty-free oil, 4 million tonnes from Venezuela (according to the plan) and for the remaining 5.5 million tonnes imported from Russia Belarus will pay the full amount of the duties. Suppose the rate of export duty levied on the crude oil remains \$275 per tonne throughout the year then Belarus is losing \$1.513 billion (5.5 million tonnes x \$275 = \$1.513 billion) on the duties imposed.

Cost of Venezuelan oil. One can only speculate about the price of oil to be imported from Venezuela. Assuming a very positive scenario, Belarus pays nothing for the 4 million tonnes of oil. Even

in this case there are transport and transit costs associated with this. A lower bound would be based on that Ukraine has declared that it will earn \$120 - \$130 million on transit of the Venezuelan oil through its territory.

Taking the IMF forecast of 2.4% GDP growth rate in 2010 implies a nominal value of \$50.2 billion, which would mean that the total losses from the new oil situation would be about 5.4% of the GDP ($(\$1.05 + \$1.513 + \$0.125)/\$50.2 = 5.4\%$).

Given the steadily deteriorating oil and gas situation vis-à-vis Russia it is not surprising that Belarus has started to look for alternatives. The challenges are somewhat different for oil and gas respectively.

The oil dependence is mainly economic meaning that favorable conditions have made oil trade an important source of income but in principal oil is traded in a world market and can be bought from anyone. Consequently, if Belarus manages to strike favorable deals with other countries the tougher attitude from Russia need not be a major problem. One example of trying to find such "new partners" is the agreements with Venezuela about "cooperation in petrochemistry, industry, construction, energy and science" signed earlier this year. According to these, Venezuela is to deliver up to 4 million tons of crude oil to Belarus, and the two countries plan to set up a joint oil supply company in which Venezuela will hold 75% of the stake and Belarus 25%. The basic plan is to transport crude oil via the port of Odessa (Ukraine) for the further processing in Belarus and export to Europe. There has also been talks with Iran about similar cooperation.

The gas dependence is more complicated because it also has an important physical aspect in the pipeline network, which makes diversification slower and more costly. Nonetheless there are several initiatives in the recent past that can only be seen as attempts to diversify away from Russian gas. One example is the Belarusian plan to build nuclear reactors. This would clearly serve the purpose of becoming less dependent on gas a source of energy but also holds a strategic component in terms of potentially becoming an energy exporter in the region. Other countries are also facing increased gas prices and some have been forced to close down their own nuclear plants to follow EU directives (the closing of Ignalina in neighboring Lithuania being an example) and this means that demand close to Belarus may increase in the near future. Yet another very recent initiative is the talks this summer between the Belarusian President and the Lithuanian prime minister about the joint construction a LNG (liquefied natural gas) terminal in Lithuania. Despite the high fixed costs, including new pipeline routes connecting it to Belarusian territory, it may still be a worthwhile project to consider.

So what should one conclude about the situation going forward? First, it seems that no matter how hard Belarus tries to diversify away from the dependence on Russian gas, it will remain important for the economy in many years to come. Second, even if alternatives are created this will take time and it will not be a return to the extremely favorable conditions that Belarus had before 2007. This in turn means that, even if short-term solutions can delay adjustments, real reform of the Belarus economy is the only way to adapt in the longer run.

Jesper Roine

Associate Professor of Economics and Deputy Director

Stockholm Institute of Transition Economics (SITE)

Sweden

Belarus – a Baltic Sea country?

By Gabriele Kötschau

As the “non-Baltic-Sea-country” being geographically the closest to the Baltic Sea shore and taking into consideration that nearly 50% of fresh water entering the Baltic Sea, originates or passes through Belarus, and that 60% of Belarusian trade is carried out with the countries in the Baltic Sea Region, it is obvious that there are many issues of common concern and joint interest making close cooperation valuable for both sides.

Geographically in central Europe, with close historic and cultural links with the states in the Baltic Sea Region, Belarus still has to struggle to be accepted and included in the established and enhancing multinational network. This however has been significantly improving over the past few years. What is the state of play, and what is the expected added value of a closer cooperation for Belarus, but also for the region as a whole?

Cooperation of Belarus with Regional Organisations

Belarus attaches great importance to the cooperation with the regional organisations in the Baltic Sea Region, such as the Council of the Baltic Sea States (CBSS), the Baltic Sea Parliamentary Conference (BSPC), and further actors and stakeholders in the region.

As a neighbour country to the Ukraine and to the Baltic Sea countries Poland, Lithuania, Latvia and the Russian Federation, the Republic of Belarus has already concluded some bi- and trilateral agreements with her neighbours in 2010, encompassing visa-free or simplified border crossing for people residing in the frontier areas (30–50 km zone). Such an agreement between Poland and Belarus was recently signed in Warsaw; lately the Ministers of Foreign Affairs of Belarus and Lithuania agreed that the issue of facilitation of travels for the residents of border areas had to be solved in the nearest future. One such deal was signed with Latvia in Riga simplifying the visa regime between the two countries.

After a fact-finding mission of the CBSS Secretariat to Minsk in May 2007 with Belarusian experts and networks, including line ministries, universities, NGOs and the Academy of Science aiming at exploring possibilities for initiating new or for enhancing existing cooperation the activities of Belarus in the Council's working structures have significantly increased. Since then Belarusian experts have been actively participating in expert groups and projects and contributing to improvements in this region. Since 1 July 2009 Belarus has been accepted as CBSS Observer State.

Civil Security

Combating illegal migration and trafficking of people are main fields of enhanced cooperation with the networks in the Baltic Sea Region. Besides common activities with the International Organisation for Migration (IOM), also the CBSS Task Force against Trafficking in Human Beings (TF-THB) and the Expert Group on Children at Risk have been participating as trainers at the “International Training Centre on Migration and Combating Trafficking in Human Beings” (ITC). Belarusian experts - governmental experts, NGOs and universities - are increasingly contributing to conferences and seminars in the region.

The Baltic Sea Border Control Cooperation (BSRBCC), a flexible tool for daily inter-agency (Police, Customs, Coast Guard and Border Guards) interaction to combat cross-border crime and environmental protection of the maritime areas, accepted Belarus in November 2009 with full observer status including the country into the actual work in expert groups and in multinational training.

On the background of nuclear and radiation threats, originating from Nuclear Power Plants, terrorist attacks, and other challenges, a close cooperation in the region has been established throughout the years. For several years Belarus, also a member of the International Atomic Energy Agency (IAEA) since 1957, has been invited to the activities of the CBSS Expert Group on Nuclear and Radiation Safety (EGNRS), and there are ongoing discussions whether Belarus will become a part of the “Agreement on the Exchange of Radiation Monitoring Data” all countries in the Baltic Sea Region have joined. All parties having signed the Agreement commit themselves to communicate their own monitored

data through a special system and thus making them transparent and subject to controlling.

Marine Environment

Although not a country directly situated at the Baltic Sea Belarus is a Party to the “Convention on the Protection of the Marine Environment in the Baltic Sea” in the framework of the Helsinki Commission (HELCOM). Beyond that, the country has been included in urban and rural development, ecological tourism, and in bio energy promotion projects. In this field Belarus has increased cooperation especially with the CBSS Expert Group for Sustainable Development/ Baltic 21.

Health and research

Besides long-term bilateral cooperation between hospitals, and in the health-research sector, Belarusian experts have actively participated in the work of the Northern Dimension Partnership in Public Health and Social Wellbeing (NDPHS), focusing on the improvement of the primary health care system, combating HIV/AIDS, and Prison Health, contributing to the work and hosting meetings of expert groups.

Civil Society, Culture and Education

While Belarusian NGOs have participated actively in the Baltic Sea NGO Forum for many years there has not been any connection to education activities. However faculties of the Belarusian State University and other higher education institutes are involved in the Baltic University Programme (BUP). Contacts to ARS BALTICA, the network connecting the Baltic Sea States in a cultural collaboration, could be enhanced; as well as in the field of Cultural Heritage Belarus could relevantly contribute to.

Conclusions and Perspectives

The inclusion of Belarus into the networks of the Baltic Sea Region has opened a new dimension of multinational cooperation for the country. Already in 2001 the Grodno and Vitebsk regions of Belarus had obtained observer status in the Baltic Sea States Subregional Cooperation (BSSSC). The Baltic Sea Parliamentary Conference has invited a member of the Belarusian Parliament to the Annual Conferences since 2009; in October 2009 the Nordic Council agreed to open an information office in Minsk, and in June 2009 the Council of Europe opened an Information Point in Minsk.

Taking into consideration that 50% of fresh water entering the Baltic Sea comes from or passes through Belarus stopping pollution and cleaning of the Baltic Sea will not be possible without the active cooperation with Belarus. In addition to the aforementioned fields, energy, for example, is an area where the country should seek for closer cooperation, benefiting from long-term experiences especially of Germany and the Nordic countries. Belarus has the potential for modern energy planning encompassing energy saving, energy efficiency, and renewable energies.

The development of the cooperation between Belarus and her neighbour countries is promising, and every improvement contributes to establishing mutual trust and confidence between our countries to promoting our common region and - not at the least - the elaboration of common values.

Dr. Gabriele Kötschau

Lawyer in Flensburg

Germany



Former Director General of the CBSS Secretariat (until August 2010)

Two neighbours

By Juhani Salokannel

Finland and Estonia are neighboring countries, with only 80 kilometers between their capital cities, Helsinki and Tallinn. Finnish and Estonian are closely related languages, much like Swedish and Norwegian or German and Dutch. Europe is full of such neighbors.

However, the relationship between Finns and Estonians differs from the relationships that most European peoples have. We know what kind of attitude the Basques and the Catalans have toward the Spanish and the French, the Irish toward the English, and the Polish toward the Germans and Russians.

On the north and south shore of the Gulf of Finland, however, attitudes are different. This can be exemplified by a small, but striking detail: I, a Finn, can tell numerous jokes about my eastern and western neighbors, the Swedes and the Russians, but I do not know a single joke about the Estonians. They simply do not exist.

There are reasons for this. Even though a millennium ago Finns and Estonians practically spoke the same language, these two neighbors have been divided by barriers set by both man and nature. Due to this, instead of a relationship based on disparagement and resentment, the relationship between the neighbors is more one of mutual longing.

The first barrier was created by nature itself in the form of a sea, the Gulf of Finland. The sea often unites the nations, but it can also separate, as was especially the case during the Second World War, when it was sown full of mines, with the Iron Curtain continuing where the mines left off.

Man-made barriers, on the other hand, have been created by the people in power in both countries and their different forms of government. Finland and Estonia are located in the northeastern corner of Europe, far from the centers of the continent, but yet they are part of Western Europe. However, Western culture and social order entered the north through different routes, and this has had a significant effect on the countries.

Christianity was brought to Estonia from Germany, and along with it came a feudal aristocratic regime. Finland, on the other hand, was made part of the Swedish Empire, where the land owning conditions were different and the peasants were never subjected to serfdom. When nationalism swept through the entire continent in the 1800s, it combined with industrialism to ignite rapid progress, making it possible for Finns to make use of their natural resources and develop the institutions of society. Foreign rulers, on the other hand, slowed down Estonia's development throughout the century.

Both Finland and Estonia gained independence after the First World War. Nevertheless, the countries had different fates, the major difference being that while Finland succeeded in holding on to its independence, Estonia became part of the Soviet Union.

What, then, are the interactions of these two nations like today, with both being members of the European Union, and as of 2011, sharing the same currency? Superficially everything seems to be working fine. The younger generation of businesspeople negotiates business deals in English, and the staff of Estonian hotels and spas have learned enough Finnish to help Finnish pensioners visiting the country.

However, this does not result in deeper understanding of one another, which is necessary when dealing not only with mutual issues, but with broader international issues as well, the most topical of which is the conservation of the Baltic Sea. This sea is the Mediterranean of northern Europe, and now its

delicate ecological balance is under threat from pollution caused by humans. Other challenges – and possibilities – for the two neighbors are created by the proximity of Russia and by high technology, for example. Russia is a huge market for both the products and transit traffic of Finland and Estonia, and in information technology both countries are larger than their size suggests – Finland is the home of Nokia and Skype was created in Estonia.

A good way to understand a business or organizational partner has already been discovered, when Americans have met with Asians or Germans with Arabs – one needs to learn the other country's culture. Through cultural knowledge, one will understand foreign thinking patterns and attitudes as well as be familiar with customs and traditions.

Estonians are familiar with Finnish culture for two reasons. For one, Finnish literature has been translated into Estonian, and it has even been included in the school syllabus for decades. Secondly, as Finnish television broadcasts could be seen in northern Estonia during the Soviet era, they were a unique window through the Iron Curtain for Estonians.

Finns, on the other hand, know little of Estonian culture, although they often go on shopping trips to Estonia. Therefore, interest in Estonian culture ought to be promoted on the northern shore of the Gulf of Finland. The best way to implement this is through keen civic activity. This interest and initiative has created the Tuglas Society – the national organization for the friends of Estonia – and other associations. The Tuglas Society organizes lectures and seminars, artist visits to Finland, and excursions to Estonia. The Society's library in Helsinki is the world's largest Estica collection outside Estonia.

Indeed, Finns have learned to listen to the music of Arvo Pärt, a world renowned composer, and appreciate its deep spirituality. Another introspective character in Estonian culture is poet Jaan Kaplinski, whose name is often brought up as a nominee for the Nobel Prize in Literature

The differences between Finnish and Estonian mentalities are illustrated by the countries' literary classics – Finland's Väinö Linna and Estonia's A.H. Tammsaare. However, a true lesson in what it means to be Estonian is provided by the works of Jaan Kross. They depict the history of Estonia over a period of almost 500 years and show especially well what the Finns have been spared from – the era of Soviet occupation. In this way, Jaan Kross – an Estonian intellectual banished to Siberia in his time – acts as a guide to the experiences of the entire Eastern Europe.

Juhani Salokannel

Executive Manager

Tuglas Society

Finland



Photograph Tiina Pyrylä

Tuglas Society is the traditional Finnish-Estonian association working mainly in the field of cultural change and connections.

ICT use and ageing populations in Baltic area

By Pekka Räsänen

Academic researchers and policy-makers alike share the view that the new communication and information technologies (ICTs) are in many ways crucial for the future of the advanced societies. In this sense, the role of the Internet is central, especially among general population. The Internet offers increased opportunities for information retrieval, gaming, social interaction, and consumer spending. It can also provide possibilities for acquiring new skills, such as learning languages or finding novel past-time activities. In addition, the Internet is also considered as a vital tool in improving the services offered by the public sector organizations. For example, it is believed that the Internet-based systems will soon offer the primary way to receive professional support on health issues and daily advice on local occasions. In this respect, *eGovernance* and *ePublic services* are perhaps the most widely discussed topics among social and public policy researchers.

While the Internet and other new communication technologies are in many ways useful, their proliferation can also connect with the already existing inequalities. In this context, such conceptions as 'digital divides', and 'information haves' and 'information have-nots' have been referred to. These conceptions basically mean that the new technologies are creating social problems simply because some individuals are less likely than others to use the new technology. It follows that technology gaps between those who have access to the new resources and those who have not are being established. At present, the divergence of ICT use occurs both between population groups and between countries.

A constant finding reported in research literature is that young, highly educated and well-off individuals are often the most frequent Internet users. Age in particular should be considered a relevant factor in the light of prevailing demographic structures. While the populations are ageing, the knowledge of new technologies continues to be strongly connected with youth. It is often assumed that low ICT use frequencies among older people are often connected with the difficulties of learning computer skills. Therefore, the most challenging question is whether the expansion of new technologies may further impair the existing social disparities.

The recent development of the ICT infrastructure has been largely identical across the three Baltic countries. Some differences could naturally be observed, typically so that changes took place first in Estonia. Latvia and Lithuania followed soon behind. For instance, broadband Internet access continues to be provided by a monopoly company in Lithuania. But in general, whereas before the early 2000s there were either monopolies or only a few operators in each country, ten years later there were already many licensed players within telecommunications, several network operators and Internet service providers. Together with the vigorous economic growth during the late 1990s and early 2000s these changes have resulted in a rapid increase in the supply of ICT services. After that, Internet user rates have blossomed in these countries. We can observe this by looking at the statistics on the penetration of Internet access around the world.

According to the Internet World Statistics database, 75 per cent of the Estonians were Internet users in 2009. Latvia and Lithuania showed Internet usage rates of 68 and 59 per cent, respectively. Also the percentage of the enterprises having an Internet connection is relatively high in each country. It is thus

obvious that Baltic countries are becoming among the most active information societies in Europe. The leading countries, Denmark, Finland and Sweden, show penetration rates between 80 to 85 per cent. Many other countries are already lagging behind. Portugal and Greece, for example, show internet usage rates below 50 per cent. In Russia, on the other hand, just over 40 per cent of individuals used the Internet in 2009.

While there are obvious differences in today's Internet penetration rates, the magnitude of user growth during the past few years shows dramatic differences between different countries. In some of the older information societies, such as Sweden, the proportion of Internet users has increased by 100 per cent during the last decade. Across the Baltic countries, however, the increase during this time period has been at least twice as fast. Latvia and Lithuania have witnessed a growth of over 800 per cent since the year 2000. But what is more important here is the fact that Internet access rates vary considerably between age groups and educational categories. Moreover, disparities by age groups are clearly stronger in Baltic countries when compared to age disparities in most other European countries. Older age groups, particularly those who are aged over 60, are less likely to access the Internet at all.

Now, statistics indicate relatively unambiguously that the Internet – and therefore communication, entertainment and information processing based on its use – has entered rather effectively into people's everyday life within Baltic countries. This underlines the notion that the Baltic States are quickly developing into advanced information societies. Simultaneously, however, it is also reasonable to stress that the Internet has not proliferated evenly across the different population groups. Those citizens with low educational qualifications and aged in particular are clearly underrepresented among the users. The disparities by age and education can become a central issue in everyday life when the Internet-based applications open the principal way for commercial and public sector utilization. Even today, online services are often the most efficient and also cheapest method, for instance, to pay a bank bill, or to make library and package tour bookings.

The availability of the new ICTs does not result in equal distribution of use between age groups. On the contrary, new technologies tend to create social inequalities, which are often interrelated with the already existing inequalities. In this sense it is feasible to consider whether the use of the new ICTs is developing a similar source of social inequality as we have witnessed earlier in connection with literacy and illiteracy. It is reasonable to argue that the differences in the Internet access by age may become crucially important in the future, since the populations are ageing across the Baltic countries, and across whole Europe.

Pekka Räsänen

*Professor of Economic
Sociology*

University of Turku

Finland



Baltic success story – but what next?

By Marko Lehti

The Baltic Sea Area (BSA) has today been anchored so strongly in our consciousness that it is hard to remember that it was in practice a non-existing entity just a little over two decades ago. Or, it was just empty notion that belongs to the past describing either German dominance in the area or the clash between the East and the West, or quite frequently, both. If the BSA had any meaning for contemporaries of the Cold War era it was used for describing one sub-sphere of great power tensions. Today the BSA is widely known and recognized among the regions of Europe and is seen among them as a model case. The EU's Strategy for the Baltic Sea Region has even been presented as a pilot for following regional strategies within the EU.

The Baltic Sea Area has been sometimes described as a "test case" for European regionalisation and if that is the case we have a prime example of successful regionalisation or I would say region-building process. It is hard to find a similar region to compare that has arisen from nowhere to constitute a self-evident flourishing sphere of regional doing and which in a similar manner combines a diversity of countries, regions and other actors under one regional umbrella. Geographer Anssi Paasi describes 'new regionalism' of being multidimensional, complex, fluid and non-conforming and it involves a variety of state and non-state actors that often come together in rather informal ways. This definition could not fit better to describe BSA.

Thus, it is obvious that two decades of the BSA can and should be presented as a true success story and a model case that others can admire and follow. Nonetheless, it looks to me that this uniqueness is too often forgotten and hidden. The BSA is quite often branded as high-tech region, knowledge-based society and the most competitive region. Even these features perhaps in certain terms characterize the BSA, they are too vague conceptualisations and merely can be regarded as neo-liberal marketing strategy of selling the BSA to Brussels (that has also been success) but also to convince actors and people around the Baltic Rim about their own superiority. This image is however at least partly based on statistical blustering in which figures of each Baltic Sea country are just added together without asking if there is really regional dynamism existing. What is lacking is to describe regional processes and regional ways of doing things.

What has been characteristic to the BSA is diversity – diversity of actors and diversity of spheres participating to regional-doing. In the very beginning it was an initiative from below but since the foundation of the Council of Baltic Sea States (1992), states have tried to hijack cooperation or at least take a lead. For awhile summits of foreign ministers and then head of states dominated headlines in the 1990s but beyond that intensive networking and institutionalisation among NGOs and local actors continued. When till the end of 1990s the politicians lost their interests to the BSA and it disappeared from political agenda the networks and institutions created below saved the BSA. Because of the large spectrum of networks the BSA had turned out to be resilient and protean in the front of changes.

In the first place, the BSA can be regarded as a brave vision of an alternative future combining areas from both sides of the former Iron Curtain and helping to cope with uncertainties that the end of the Cold War brought. Before the northern enlargement of the European Union, in 1995, the BSA also offered an alternative form of regionalisation and contribution to a Europe of regions. Through the BSA it was also easier to find common elements between Nordics and Balts and by looking at a common past it was legitimate to envision a common future. When the post-Cold War transition era slowly gave away these functions lost their meaning and thus the BSA lost its political driving force but also its future-orientated gaze. That was serious because new regions are entities that are perpetually 'becoming' instead of just 'being'. That is why a future is needed to legitimise their existence.

By the eastern enlargement of the EU, the BSA has been changing from a dynamic region to the EU's boring inland sea. Therefore, I am regarding the EU's Strategy for the Baltic Sea Region as a new momentum for the BSA. Political initiatives preceding strategy and intensive negotiations and hearings in preparation for the Strategy brought the BSA back to centre of political life but in the changed mode. The Sea itself is now in the spotlight and common care of the Sea is seen as regional glue to bring different sides of the BSA together. After

launching the new Action Plan in just last year it might be too early to argue anything permanent about success of the Strategy but what we could do is critically observe the visibility of the Strategy but also contextualize the Strategy with two decades of preceding cooperation.

I am arguing in this essay that even if the EU's Strategy for the Baltic Sea Region, on the one hand, represents a new momentum for BSA and it simultaneously marks a threat that the BSA would be banalized and thus lost its future-orientated visionary function. Simultaneously what has previously been characteristic of the BSA – diversity and regional-doing – are in danger to be lost.

The Northern Dimension (ND) policy offers an interesting example how a programme can disappear even if it is officially still in existence. The ND was (and still is) an umbrella policy without its own budget line gathering different projects under one label. Still the ND has disappeared as a label from regional policies because it is not anymore seen significant from a local point of view and when it is changed a policy governed from the Brussels. The Strategy with its 80 flagship projects does not have same threat at moment but it also disappearing from political debates to fragmented and specific projects. After setting down action plan there is a threat further activity is just concentrating to implementation of the action plans and evaluation of single projects without continuously critically debating on overall goals.

There need to be overwhelming reminding of importance of the Baltic Sea label and its significance for common future. Thus what seemingly is already now disappearing is a spokesman for the BSA. The Strategy lack regional meeting place or centre but, in practice, the Commission and Parliament hold the regulating power. Therefore, I would even argue that by its fragmented structure the Strategy lacks regional ownership even if its objectives are executed by local projects.

The diversity of actors and issues characteristic to earlier Baltic Sea cooperation is seemingly also changing. Environmental questions dominate the field and as important as they are, there is not much room other kind of regional doing.

From the very beginning the BSA was also the only European regional projects combining Russia and EU countries. The strategy the BSA introduced as EU's policy and even if the ND is reserved for EU-Russia relations in the North the Strategy is transforming the BSA from inclusive to exclusive entity. Earlier the BSA was open project building one uniform Europe in the North and it was open was for all who find it relevant for them. Even though there is still a variety of other regional networks created in the 1990s, the Strategy has been given the status of being THE project and it is unambiguously EU's internal policy. Simultaneously, there is even an increasing demand for trust-building between Russian and the Baltic States and thus another function the BSA available.

Therefore, I would conclude my essay to three arguments:

1. We should be more proud of our recent regional achievements and present the Baltic as a success story. This would introduce also more realistic image of the BSA and help us appreciate diversity and resilient nature of the BSA.
2. For achieving back regional ownership of the BSA we need again region-builders and visible centres of meeting.
3. The BSA also needs new visions where the future of the BSA can be envisioned separate from the EU and its regional governance.

Marko Lehti

*Senior research fellow, Tampere Peace Research Institute,
University of Tampere*

*Academic Director of Baltic Sea Region Studies, University of
Turku*

Finland

“To Be or Not To Be” business relations between the Baltic States and China, example of Estonia

By Xiaotian Zhang

Since the “reform and opening-up” on 1978, Chinese economy has changed dramatically. Nowadays, China is one of the fastest growing countries in the world and it is also known as one of the world’s leading foreign direct investment recipients. According to IMF, China is the second largest trading nation in the world i.e. the largest exporter and second largest importer of goods. Meanwhile, the Baltic States (Estonia, Latvia and Lithuania) are also among the fastest growing economies within the European Union. With their favorable geographic position, good infrastructure, advanced scientific and technical potential, the Baltic States have their own economic/trading advantages.

However, when comparing the economic scope of these two regions, it is not hard to see the wide gap between them. Especially due to their limited population and size, the Baltic States are considered as “forgotten land” by most of the Chinese people. Even though the positive results may be limited, the governments of both of these two regions have never abandoned their efforts to build up their economic relations during the past few decades. Recently, Chinese investors have started to display stronger interest in the Baltic States, with the focus on international logistics; and the Baltic States are also trying to present themselves with the help of 2010 Shanghai World EXPO. Few months ago, the “China Investment Forum” was held in Shanghai EXPO. Nine Central and Eastern European countries attended. The purpose of this seminar was to introduce investment opportunities in the countries of Central and Eastern Europe and provide examples of success stories of Chinese companies that have already made investments. The commissioner of the Estonian pavilion said at the seminar, “Estonia will make the changeover to the euro from the new year, attesting to confidence in the Estonian economy. In addition, Estonia is geographically the closest EU member state to China.” This is considered one of the most important pieces of information for the entrepreneurs who visited the Estonian pavilion.

Governmental Level Cooperation

The Republic of Estonia and the People’s Republic of China established diplomatic relations on 11 September 1991 during the visit of China’s Vice Minister of Foreign Affairs Tian Zengpei to Estonia. Since 1992, Estonia and China have good and stable economic relations, most of the main economic agreements have been signed, and the emphasis is being placed on expanding co-operation at the local level and on the creation of business contacts.

China’s has interests toward Estonia foremost due to latter’s favorable geographic position, its good transport infrastructure and strong scientific and technical potential. Potential co-operation areas include textile, customs technology, timber and food processing, information technology, biotechnology and oil shale processing. Recently, Chinese people are primarily interested in Estonia’s accession to the European Monetary Union and in the country’s IT sector. The business people were briefed on various Estonian e-solutions, ranging from the electronic version of the Police Board to e-school and digital prescriptions.

Estonia seeks to attract further Chinese investments, and hopes to increase the use of Estonian port and transit

facilities by Chinese companies. China is interested in the modern infrastructure of Estonia’s transportation network that would allow it to use Estonia as a transshipment point for goods on the way to Western Europe and Nordic countries. In order to carry this project out, Estonian Railway and Shanghai Railway signed a co-operation protocol. In addition, Estonia is interested in developing co-operation in the field of sea transport.

It is necessary to mention that Estonia plays an important role with its transportation infrastructure in relations with China. As having potentially one of the largest cargo volumes and acting as a necessary base for developing distribution and logistics, the Tallinn Harbor project has been widely discussed. Estonia welcomes China to make investments in the construction of Tallinn Harbor. The proposal made by China’s Ningbo Port is considered reasonable by the Estonian side, by this proposal, Ningbo Port is viewed as a reliable partner for the perspective of long-term co-operation, since this project will enhance Tallinn Harbor’s handling capacity and transport ability. Thus, with the words of the minister of Economic Affairs and Communication of Estonia, the Estonian government will provide practical support to the cooperation between two ports and international logistic enterprises of the two countries, in order to enable the both sides to turn their resolve for cooperation into reality as soon as possible. Estonian team has visited Ningbo and few other coastal cities in China and in return Chinese officials and experts have also visited Tallinn for the in-deep discussion of the port construction. The positive example of Tallinn Harbor will increase two countries trading performance; it will also bring new opportunities to the Baltic Region.

Firm Level Cooperation

The geographic distance and the size difference between the two countries is impeding co-operation. Few years ago, small amount of Chinese enterprises have been registered in Estonia with limited capital, they are mainly engaged in commodities wholesale and retail sales, entertainment (restaurants) and most of these businesses are being conducted individually or through individual contacts.

Recently, with the influence of 2010 Shanghai World EXPO, more and more Estonian entrepreneurs have started to show their interest toward China. In order to encourage potential cooperation with China, the Estonian government has organized few business visits to China. The Enterprise Estonia (EAS) has also established a representative office in Shanghai to help Estonian companies enter the Chinese market. Few Chinese PhD students from Estonian universities have also founded a research and trade service company “Raatuse International Trade (RIT)” which is specialized in helping Estonian firms to import/export from/to China. On June 2010, the first non-governmental business forum “2010 Baltic-China Annual Business Conference (BCABC)” was held in Tartu, Estonia; more than 400 Estonian entrepreneurs joined the conference to learn more about cooperation opportunities with Chinese enterprises.

According to the results of BCABC’s and RIT’s research which included more than 1000 firms:

1. Import from China is still the main activity when considering the business cooperation of these two countries;

2. More and more Estonian firms are willing to export their products to China and some of them (such as IT and forest industry) have already started with the implementation of these plans.

However, following factors are the main barriers of their performance:

1. Geographic distance and culture differences.

China is considered a far away market for the Estonian firms, most of Estonian firms are internationalized according to the traditional Uppsala model, according to which it is preferable to go to neighboring countries first, due to lower risks;

2. Lack of information.

Both the Estonian and Chinese firms have limited knowledge of each other. For a Estonian firm, the Chinese market seems to be too big to enter and easy to get lost in; meanwhile for a Chinese firm, Estonian market is too small to notice.

3. Difference of scope and quantity.

Due to Estonia's population and small quantities of Estonian import orders, it is usually very hard to attract Chinese manufacturers and also to lower the prices.

In fact, both markets have their own advantages. For the Estonian firms, it is necessary to know more about the Chinese market via formal and informal approaches; better understanding will bring better results; choosing right

products such as high-tech products and raw materials will have more advantages to gain success in China, and it would also be a good idea for the Estonian firms to enter the Chinese market together with other firms from the Baltic States and Nordic countries. On the other hand, Chinese firms should see Estonia more as a gate to the European Union rather than as a single small country; Estonia's favorable geographic position, its good transport infrastructure and strong scientific and technical potential will help Chinese firms to build up better trading relations within the European Union.

Xiaotian Zhang

*Ph.D. exp, Doctoral
Researcher, Co-lecturer*

*Faculty of Economics and
Business Administration
University of Tartu*

*Chairman & Founder
Raatus International Trade*

Estonia



Black Sea economic cooperation – how good example it is for the Baltic Region?

By Venelin Tsachevsky

The Black Sea Economic Cooperation (BSEC) was launched in June 1992 in Istanbul with the adoption of **the Summit Declaration on Black Sea Economic Cooperation**. It represents a rather unusual composition of countries with heterogeneous background from Europe and Asia, some with no access to the Black Sea. Nonetheless, the underlying principle is the common economic and environmental interests of the participants. In the Declaration the BSEC was recognized as a contribution to the OSCE process and the establishment of a Europe-wide area and a higher degree of integration into the world economy. The BSEC has further grown to be a forum which proves instrumental in fostering the good-neighbourly relations and confirming the peace and stability in the Black Sea region. Currently the BSEC is composed of a total of 12 states occupying 19.3 million km², having a population of nearly 335 million people and an overall GDP amounting to \$ 4 220 billion (PPP). The Black Sea region is the second richest area in oil and natural gas fields after the Persian Gulf. Its strategic position as a transit energy and transport corridor between Asia and Europe will be additionally appreciated upon the start of Nabucco and South Stream gas pipelines, as well as the implementation of other major infrastructure projects.

The Charter of the organization of the BSEC, signed in Yalta in June 1998 and officially put into effect in May 1999, has transformed the BSEC into an international organization. The Charter laid down a framework and a mechanism which comply with the existing heterogeneity of the region in political, economic and cultural terms, paying due respect to the specific conditions, interests and affiliations of the Member Countries to other international structures. A sustainable trend within the BSEC is the expanding multilateral cooperation which presently covers 18 areas, including economy, environment, transport and energy sectors, culture, education, R&D, emergency assistance, combat against organized crime and illegal migration, trafficking of arms, drugs and radioactive substances, etc. In 1993 was established the Parliamentary Assembly of BSEC, followed by a set of related bodies and affiliated centres – Black Sea Trade and Development Bank (1997), International Centre for Black Sea Studies (2004), BSEC Business Council (2005) and others. A whole 21 countries and about 15 international organizations enjoy observer status or act as sectoral dialogue partners. The BSEC itself has observer status at the UN General Assembly and cooperates in a number of international programmes and institutions.

Of paramount significance is its partnership with the EU which is involved in the Black Sea region through its complementing policies. **The European Neighbourhood Policy** was introduced in May 2004 with the participation of Ukraine, Moldova, Armenia, Azerbaijan and Georgia. **The Eastern Partnership** followed up in May 2009. The strategic partnership with Russia is another key element of the EU policy. As a result of Bulgaria and Romania's EU accession in 2007 the Union received access to the Black Sea. The EU policy entered a new stage with **the Black Sea Synergy** that was officially launched in February 2008. **The Environmental Partnership of the Black Sea Synergy** (March 2010) aims at finding cooperative approaches to the common challenges the wider Black Sea region is faced up with.

Despite the achieved progress, the BSEC still doesn't make the most of the accumulated potential for multilateral cooperation. In **the Declaration on the occasion of the Fifteenth Anniversary Summit of the BSEC** adopted in June 2007 the emphasis was put on the need of the organization's adaptation to the changes in the world, deepening the cooperation in the priority areas of common interest with special prominence given to energy, trade and transport, as well as enlarging the contractual foundation of the BSEC. A wish was declared that the BSEC would become a project-oriented organization. That goal has not been fulfilled yet. The

lingering conflicts in the wider Black Sea region and the diverging political and economic aspirations of the Member States leave in limbo the coordination of policies and realization of common initiatives.

The financial and economic crisis in 2009-2010 has taken its toll in this respect. Among the few good instances of regional cooperation are **the Memoranda of Understanding for the Coordinated Development of the Black Sea Ring Highway and of the Motorways of the Sea at the BSEC Region** signed in Belgrade in April 2007. Those projects were described as a regional contribution to the extension of Trans-European networks and the development of Euro-Asian transport links. The headway of their implementation is however slow. Apart from that, much can be done in the field of environmental protection as well. The execution of **the Convention on the Protection of the Black Sea against Pollution** endorsed back in 1992 is not satisfactory. That is the reason why Greece has promoted "**Black Sea Turns Green**" as a motto of its rotational presidency of the BSEC (June – December 2010).

The model and the priorities of the BSEC are similar to those of the Council of the Baltic Sea States (CBSS). The BSEC activities deserve attention as the Baltic Sea region represents also a non-homogeneous area in political and economic respect. Unfortunately, so far there has been established no institutional cooperation between the two organizations – the CBSS has no observer status, nor is it a sectoral partner of the BSEC. The expectations are that in the short term things will change for the better, since there is a growing need of concerted policy by the BSEC and CBSS on issues whose resolution proves of interest not only for them but for the other European countries as well. Of particular relevance is the building of the pan-European infrastructure system, the upgrading of the transport links in the Euro-Asian region and the guarantee of energy security for the whole of Europe. The Black Sea region plays a key role as a transit transport and energy corridor but the successful implementation of large projects requires a more vigorous foreign support, including that of the CBSS.

The overall potential of the two institutions is immense – there are 42 countries and 29 international organizations participating one way or another in their activities. Ten of these states are members, partners or have observer status in both the BSEC and CBSS. The key beneficial factor is the regional involvement of the EU. The EU enlargement to the East has created new opportunities for carrying out its policy in the Baltic and, though not so prominently, in the Black Sea region. When the CBSS and BSEC were founded in 1992 as few as three of the participating countries were EU member states, compared to nowadays, when they are already 11 and more will follow suit. By and large, this provides a sound basis for the future role of the EU in boosting the cooperation within and between the BSEC and CBSS.

Venelin Tsachevsky

Ph.D., Professor, Director

*Contemporary Foreign Policy
Studies Centre*

Bulgaria



Former Bulgarian Ambassador to Finland and Estonia

Turkey as an energy import corridor

By Zeki Kütük

Turkey is increasingly at the crossroads of the energy transportation from north to south and from east to west. In accordance with its new foreign policy strategy, Turkey has been implementing a pipeline politics as a means of regional cooperation with the EU and other countries in need of energy, and also with the energy suppliers. The aim of Turkey is to become an energy corridor or even a hub. Within this context, the role of Russia has become surprisingly important, although initially Turkey's role was designed by the European Union (EU) to reduce European dependence on imported gas from Russia.

Turkish-Russian energy cooperation has started as early as in 1984 when Turkey and the Soviet Union signed an agreement on the supply of natural gas. The second agreement for additional gas was signed between Turkey and Russia in 1996, and the increasing demand of Turkey for more gas led the two countries to sign the Blue Stream Agreement in 1997. The terms of the agreement and the price of the gas were kept secret; therefore, Turkish governments were criticized for not protecting Turkey's interests enough. The criticisms and speculations around Blue Stream forced Turkey to explore new suppliers.

Turkey has found a new partner in Azerbaijan to reduce its dependence on Russian gas and to boost its position *vis-à-vis* Russia in energy cooperation. Turkey became a shareholder in the Baku-Tbilisi-Ceyhan (BTC) Pipeline Company in 2002 and oil started to flow to the port of Ceyhan in 2006 as symbolizing Turkey's aspiration to become a transit corridor for energy resources between the buyer in the West and the supplier in the East. The following year the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline has become operational. Thus, Turkey has offered a limited alternative to break Russian energy hegemony over gas supply and pricing in Europe.

Obviously, its geostrategic location offers an advantage to Turkey to become an energy corridor and even a hub as it is positioned in a geographical region where the world's richest oil and natural gas reserves are buried. Therefore, Turkey is rich in its own alternatives and sees itself as a natural bridge between the source countries and the consumer markets, and seeks to become an energy hub. According to its five year-energy plan, Turkey has the objective of contributing to energy supply security and becoming the fourth main artery of natural gas, after Russia, Norway and Algeria.

For the purpose of becoming an energy hub, Turkey is seeking the realization of many projects at the same time, such as the Trans-Anatolian (Samsun-Ceyhan) bypass oil pipeline, the Trans-Caspian Natural Gas Pipeline Project, the Southern Europe Gas Ring Project, the Arab Natural Gas Pipeline, and the Nabucco Natural Gas Pipeline.

All these projects will pass through Turkey. The Nabucco project is designed to carry natural gas from Caspian and Middle Eastern sources via Turkey and the Balkans to Austria. During the 2000s, Turkey has sought to become a serious alternative route for gas deliveries to reduce its own and Europe's increasing dependence on Russia. Therefore, Nabucco is the pipeline project most supported by the EU for the diversification of Europe's gas supplies. In addition, Turkey, a staunch ally of the West, has been one of the leading lobbying country for the supply of Caspian and Middle Eastern gas, including Iranian gas, to Nabucco.

Turkey's Changed Energy Policy

Turkey surprised and confused the supporters of Nabucco when it granted Russian Gazprom to carry out feasibility and seismic

studies for the South Stream project of Russia in Turkish territorial waters in the Black sea. In exchange, firstly, Gazprom has agreed to build the pipeline between Samsun and Ceyhan. Secondly, Turkey has advanced its aim to reduce tanker traffic in the Straits in which growing shipping has become very dangerous and no longer sustainable. Despite the fact that this deal means that Turkey's aim to become an energy corridor or even a hub advanced, the Nabucco has faced a backlash because South Stream is a rival to Nabucco. South Stream, too, is designed to bring gas from Central Asia and the Caspian to Europe, but in contrast to Nabucco's aim, it is meant to increase Europe's dependency on Russian gas.

Frustrated by the EU leaders to its EU membership bid, Turkey has changed its traditional foreign policy since around 2005 and started to follow an active and multifaceted one. In accordance with its multifaceted foreign policy, Turkey was not satisfied with its role to act as a bridge or corridor anymore and decided to play a great energy game in order to gain more. While the supporters of Nabucco and South Stream accused each other of not having sufficient gas to transport via their pipelines, Turkey decided to ride with two horses simultaneously. Turkey which is the key country in Nabucco, started to support also South Stream in 2009 in order to strengthen its position in the energy market.

Despite the fact that both Russia and Turkey underline that neither Nabucco nor South Stream will have a negative impact on each other, ambiguities over gas sources and financiers present problems for realizing these two projects. As a result of Turkey's decision to support both the projects, it might become necessary to put Nabucco and South Stream and possibly other projects into a larger "southern energy corridor" in order to create Western-Russian cooperation as the United States has already proposed.

In conclusion, it can be said that Turkey has managed to play its cards well by following a pragmatic policy in the great energy game, and the old rivals Turkey and Russia have found new common ground. Russia has become Turkey's biggest trade partner in 2008 and the interests of the EU do not have priority in Turkey's self-confident foreign policy anymore. Although Turkey has increasingly become over-dependent on Russian natural gas imports in the 2000s, the agreements signed by the two parties are part of a "give and take" package which made the old rivals strategic partners. Therefore, Turkish-Russian energy cooperation rises the crucial question whether the EU can trust Turkey in energy security anymore, especially at a time when the EU wants to reduce its dependence on Russian gas.

Zeki Kütük

Docent, researcher

*Tampere Peace Research
Institute*

University of Tampere

Finland



Ukraine and its future role in the EU-Russia gas transit

By Andriy Chubyk

After independence in 1991, Ukraine inherited from the Soviet Union a powerful of hydrocarbons' transportation system, which made it one of the key oil and gas transit route to European countries. However, the key energy sectors didn't become the subject of separate agreements in bilateral relations between Ukraine and the EU. Gas sector remained the most unresolved sphere. After assignment of a number of direct contracts between the Russian Gazprom and European oil and gas companies, according to which the Russian company assumed responsibility for delivery of natural gas to the eastern borders of the EU, Ukraine was excluded from international energy relations in Europe, despite the fact that for a long time it retained the right to re-export Russian gas to the EU. Instead, relations in gas sphere were interpreted as bilateral relations between Russia and Ukraine.

Becoming a regional field of activities and attainment of enormous profits for a limited group of people from both countries, energy relations have ceased to be transparent, conform to the principles of protection of state interests and made Ukraine largely a passive player in matters of improving energy security in Europe. The reason was the absence or ineffectiveness of Ukraine's involvement into European energy relations under conditions of appropriate EU legislation. By focusing on maintaining by any means existing price preferences for natural gas, Ukraine has also left aside the issue of energy efficiency, creation of transparent energy market and its modernization according to European standards.

Preserving the existing status can result in loss of attractiveness of transit facilities for European partners, their reorientation on alternative sources and ways of energy supply and eventually complete elimination of the Ukraine from energy relations in Europe. At the same time, implementation of European norms and standards, internal reformation and accession to the European energy market can increase the importance of Ukraine in ensuring energy security of Europe, including the use of underground gas storage facilities to balance gas consumption in peak periods.

Gas crisis brought to light one of the most sensitive areas, where manipulation provided reasons for the conflicts. In the case of Ukraine, it is the hydrocarbons' transportation system, especially natural gas transit pipelines. On March 23, 2009 in Brussels the Joint Statement on the outcomes of the International Investment Conference on Modernization of Gas Transport System of Ukraine was signed. The EU expressed its readiness to participate in improving the technical state of pipelines in order to increase energy security in Europe. However, further practical steps in this direction were hindered by negative assessment of the signed document by Russia and the slowness of reforms in the energy sector of Ukraine. Even assessment of investments differs. So, in 2009 according to estimations, made by the joint working group from the EU and Ukraine representatives, it should be around \$ 2,5-3 billion. Recently the Ministry of Fuel and Energy of Ukraine announced that \$ 6.5 billion are needed for modernization of Ukrainian GTS. These funds should be used for the reconstruction of transit gas pipelines, reconstruction and technical re-equipment of compressor, gas distribution and gas metering stations, as well as technical upgrading of underground gas storage facilities. Such difference can hardly help to conduct an effective dialogue.

The law "On principles of the functioning of the natural gas market" aims to be a step toward the beginning of modernization of Ukrainian GTS, but some provisions (absence of the principle of companies mining, transportation and distribution sectors separation, NERC broad powers to regulate prices and tariffs) are

not corresponding to its desire of the full compliance with the Directive 2003/55/EC.

On September 24, 2010 a Protocol on Ukraine's accession to the European Energy Community was signed. As expected, after its ratification by the Verkhovna Rada the process of Naftogaz of Ukraine reformation and separation of an independent GTS operator will start. This can be an important step towards integration of Ukraine into the European energy market and open access to work with European companies according to European standards. Among other things, it can help to establish direct contractual relationship with the European importers of Russian gas concerning purchase of natural gas on the eastern border of Ukraine. It will increase the filling-in of Ukrainian GTS as well as profits of the operator. Accordingly, the independent GTS operator will be able to secure a loan for the necessary modernization without creating an international consortium or other associations that do not correspond with current EU legislation in the context of vertically integrated oil companies functioning in the domestic energy market.

Creation of an independent GTS operator and its work within European standards (uniform tariffs, equal access, openness of information regarding GTS and gas storage facilities in the current, quarterly and annual formats) also will increase Ukraine's role in ensuring energy security in Europe, especially in the most energy dependent countries of Central and Eastern Europe, which currently do not have necessary infrastructure for the collection and storage of natural gas.

Naftogaz of Ukraine reformation according to EU requirements is significantly hindered by Russia's interest to get control over the Ukrainian GTS, which is and will remain high. Ukrainian GTS is a key element for ensuring full-fledged role of the main gas flows' supervising point of the EU in the east-west direction during the whole year, particularly in periods of greatest growth and decline in gas demands in winter and summer periods, which can not be provided by any of the proposed bypassing pipeline routes.

Based on the defined situation, the role of Ukraine in the transit of Russian gas to Europe could be as follows:

1. Decisive position of Ukraine in the implementation of European legislation and fulfilment of its commitments will create a transparent transit corridor between Russia and the EU.
2. Delay in appropriate reforms will lead to deterioration of the image of Ukraine as a reliable transit country and the re-orientation of EU member states on alternative hydrocarbons' transit routes and sources.
3. Reversal of reforms and Ukraine's entry into Russia's power structures, such as a merger of Gazprom and Naftogaz of Ukraine will lead to the formation of Europe's largest energy company, which is governed by another than European standards of market relations and often used as an instrument for achieving goals of geopolitical domination over unilaterally defined "spheres of influence".

Andriy Chubyk

Executive Director

*Centre for Global Studies
"Strategy XXI"*

Ukraine



Entering Russian markets – a point of view of a Finnish SME

By Petteri Hannonen

Russia is seen as a huge business opportunity all around the world. We Finns are in a unique position, because these mass markets are right next to us. Despite of this closeness, it can be questioned, are Finns really utilizing these opportunities as well, as they could be utilized? For example, right next to Finland there is a real metropolis, St. Petersburg, with some five million inhabitants. After living some time in the city, as well as visiting it more than dozen times, I still think that the presence of Finland in St. Petersburg is rather small..

In case there is a “gold mine” close, it is worth of asking why Finnish businesses are not “running” towards it? Even though business aspects to enter Russian markets would be in order, one of the biggest reasons for hesitation is the uniqueness of Russian culture. Finnish business culture as well as Finnish business environment is more or less fact-based – in case a company has a solid business idea with a good quality product/service, usually a company is able to enter markets successfully. In Russia that is not possible – having “just” a good product/service with a solid business idea is not enough to succeed. On top of adaptation (which even McDonald's has done for Russian markets) there are few other essential elements, so that succeeding in Russia is possible:

1. Understanding Russian culture
2. Right kind of personal contacts
3. Local presence
4. Language skills

While living in St. Petersburg, I had the opportunity to meet a real Russian business veteran from Finland. He had been working in Russia already much more than a decade. He told me a story, how once he had to fire his Finnish employee, even though the Russian language skills of that particular person were excellent, almost on native level. Unfortunately that person did not have any cultural understanding whatsoever and could not get along with customers in Russian business environment. That story was a real wakening call for me.

After having some understanding of Russian culture, establishing personal contacts will become significantly easier. For example, trying to get in touch with a Russian director will suddenly become almost like calling to a friend, in case there has been a possibility to have some activities outside business hours (having a lunch/dinner, meeting in a hobby, meeting at a party/birthday/wedding, visiting one's home...). If possible, living in Russia with Russians is definitely the best way to acquire cultural understanding. Then there is a possibility that a person can little by little start to understand 'Русская душа' (the Russian soul).

There are two important elements connected to personal contacts. Firstly, personal contacts should be so called 'right kind'. For example, employees and managers rarely have real power in decision-making. Secondly, connected to personal contacts, maintaining them is at least as important as establishing them. For instance, unlike for many Finns, an e-mail is not a proper way to maintain contacts, but phone/Skype call (with video) and face-to-face meetings are. Every now and then remembering the other one with a small gift is a must in a longer run. Here the issue is not bribes, but a small gift, which shows the courtesy and respect towards the other person.

As the matters presented above already give an indication, successful business operations in Russia are not possible without strong local presence. For a foreigner it is impossible to deeply understand another culture (as own culture is known) as well as local language. That is the reason, why local presence with at least partially local personnel is essential. In the end, locals always know “those unwritten rules”, which are crucial to be able to succeed. When managing Russian personnel, the exact same ways of behaving, as for maintaining personal contacts, are applied – e-mail is not a proper way to be in contact, but phone/Skype calls (with video) and face-to-face meetings are.

Even though Russian personnel would speak good English (or Finnish), being able to communicate also in Russian language is important. Managing own personnel at least partially also in Russian is impressive for Russians (who think that their language is difficult) and will prevent unnecessary misunderstandings and conflicts, which language barriers easily create. Furthermore, direct translation can change a whole meaning of a sentence so significantly that a foreigner might understand a situation in a totally wrong way.

Connecting all four essential elements, for the biggest sales and partner negotiations, presence of top management is needed. In those cases not knowing Russian (well enough) might become expensive and mean a loss of deals. As business in Russia goes down to personal relationships, often the biggest decisions are not being made in business meetings but while having a dinner, in banya (sauna) or at a party. In those occasions the importance of being able to communicate with locals becomes very important – Russians are talkative and social people and communicating in their language and participating actively to an event is respected. One should also not forget that an invitation to someone's home is a great honor.

As seen, Russia requires a lot, especially, in case an SME with its limited resources decides to enter Russian markets. However, the matters described above are not rocket science – they are things, which can be learned and understood. After all, from the perspective of Joensuu, St. Petersburg with some five million inhabitants is geographically as close as Helsinki area with one million inhabitants. However, after establishing a solid foundation to do business in St. Petersburg, Russian markets do not end there – there is still Moscow, the business capital of the country, and ten other cities with more than one million inhabitants waiting to be conquered.

Ampparit Oy is a SME/start-up company from Finland, which is entering Russian markets with its Witpik Media Monitoring. On top of Finnish online media, Witpik Media Monitoring also monitors online media in Russia.

Petteri Hannonen

CEO

Ampparit Oy

Finland

Finnish press presents an image of a nauseous Baltic Sea

By Timo Painilainen

"Today, some of the richest and most environmentally conscious countries on Earth live on the shores of one of the world's most polluted seas. Isn't that a tragedy?" Tarja Halonen, the President of Finland (18.2.2010).

As we know, the Baltic Sea of the 21st century is in the middle of innumerable possibilities and, at the same time, threats that are more versatile and, perhaps even more so, more complicated than ever before. In particular, the state of its environment is continuously a target of wide ranging public debate. In recent years in Finland, for instance, many experts, business and NGO representatives as well as politicians from members of municipal councils to President Tarja Halonen have spoken out of their concerns over the eutrophication problem of the catchment area's marine environment and, as a more recent example, over the shortcomings of the Nord Stream gas pipeline project.

These days, media in all brings up an increasingly wide variety of themes and perspectives in relation to the Baltic Sea. Especially, the press' constantly diversifying talk about the state its marine environment creates and upkeeps the reality basis from whereabouts the citizen's well-known dichotomical environmental information and even conflict-sensitive attitudes are formed. An increase in general environmental awareness contributes, in turn, to environmental protection all the way from grass root level to the top of international politics. At the same time, the flood of information certainly has its downside as well: in peoples' minds, the blue-green algae blooms are slowly but surely normalizing as a typical part of the summerly cycle of nature.

This article is based on my Master's thesis, in which I tried to examine what sort of an impression one might have gotten about the current state of the Baltic Sea's natural environment by following the writings of two daily Finnish newspapers (Helsingin Sanomat and Turun Sanomat) during the years 1999 to 2009. My researches on the subject matter are currently expanding into a dissertation project. The research material was collected from the papers' Internet archives by means of specific search words and other restrictions and consisted, in all, of 2337 articles, which I analyzed using both quantitative and qualitative methods. A vast majority of the material comprises of usual news reports and stories, but, for example, a total of more than 550 editorials, expert articles and opinion texts were included.

On the basis of my research material, it can be said that the Baltic Sea themed news coverage has evolved as a part of a more general societal greening, both quantitatively and qualitatively. Put differently, media has, in a relatively short period of time, moved from narrowish reporting about accidents and the likes of the white-tailed eagle's extinction threat to a significantly diverse and even regionally extensive processing of environmental topics. In addition, an increasing number of agents from politicians to laymen and from experts to sceptics have been able to make their voices heard.

All in all, the amount of published Baltic Sea themed writings doubled annually during the review period, which complies well with the exponential general growth trend of news coverage on environmental issues. Monthly, the publication of texts concentrated on summer, in other words, on the ecologically most active time of year in the northern hemisphere. Additionally, the multiple risks of wintertime shipping caused a separate publication peak timed on the ice-capped season.

Scientists identified and defined the environmental problems of the Baltic Sea comprehensively throughout the review period, which also complies with previous research results. Indeed, an expert of some sort was the main agent in more than a quarter of the articles in both newspapers, even though the findings, otherwise, were distributed surprisingly evenly. Anyhow, according to measured frequencies, secretary-general of the Nordic Council Jan-Erik Enestam, WWF's marine biologist Anita Mäkinen and oil spill clean-up expert Kalervo Jolma from the Finnish Environment Institute were the three persons that were mentioned most often.

Geographically the texts covered the whole scale from local to global with emphasis on the latter. The word Baltic Sea was mentioned nearly 8,000 times, a sum out of which about 600 were headers. With approximately one-third's share the Archipelago Sea was, quite predictably, highlighted by Turun Sanomat (a newspaper located in the southwestern Finland) whereas the Gulf of Finland was dominated in Helsingin Sanomat (a newspaper located in the capital of Finland). An interesting observation was affiliated with the European Union: the Baltic Sea became, in practice, an internal sea of the EU in the middle of the research period, which was reflected well in the debate.

One of the most surprising findings was that climate change got very little direct attention in the articles even though the environmental debate is, nowadays, almost exclusively prevailed by it and its ramifications. Instead, the worst environmental problem of the Baltic maritime area, eutrophication, was quantitatively the most important issue. This is at least partly explained by the familiarity of the blue-green algae phenomenon. The main differences between the newspapers were that Helsingin Sanomat focused primarily in oil transportation-related energy subjects, while Turun Sanomat highlighted the elevated concentrations of harmful substances and environmental toxin, which are found in Baltic herring populations for instance. Fishing, in all, was present in significant numbers.

According to my editorials based qualitative analysis, Finland is often constructed as a textbook example country of national environmental protection. Moreover, even as a member of the EU, Finland is said to be unable to do much to improve the state of the Baltic Sea, if other countries do not commit, with same intensity, to the same goals. This could be related to the fact, that the societal environmental issues concerning sea areas are increasingly international by nature.

My researches showed that, in two major Finnish newspapers, there is a broad consensus about the nauseous state of the Baltic Sea marine environment and, perhaps even more so, about the variety of the risks threatening its future. Helsingin Sanomat and Turun Sanomat are, in addition, so widely circulated in Finland that the results can, at least to some extent, be assumed to apply also to other domestic newspapers. Although I decided not to evaluate neither convicted culprits nor possible means of solutions in this particular research, it can be said on a side note, that no absolute divide between, for example, nature's well-being and economic welfare can be depicted.

In the articles, the Baltic Sea was constructed increasingly as the interactive sum of its components. What was interesting was that, instead of just one or two overwhelming themes, the whole scale of its environmental problems was presented and treated in almost equal manner. In the light of my examinations, it seems legitimate to argue that the major Finnish newspaper press has fairly strongly, for its part, created and maintained the vision of a nauseous Baltic Sea. The image is supported, above all, by experts according to whom a wide range of uncontrollable environmental risk factors, from the so-called vicious circle of internal nutrient load to the conflicts caused by great cormorants, threatens its very existence.

Regardless of the amoebic and kaleidoscopic protection agenda which has its roots in the 1970's, it is fairly easy to say, after scrutinizing the articles published between 1999–2009, that the Baltic Sea still appears to be world's most polluted sea area. Thus, it is to be hoped for that the environmental journalism will remain impartially up to its ever more demanding tasks in the future and strives to provide the readers with a comprehensive picture of the Baltic Sea and its sustainable development. Based on both my research material basis and common scientific understanding as well as, for example, on the recent Baltic Sea Action Summit Conference organized in Helsinki no less environmental, journalistic or political challenges are decreasing at all.

Timo Painilainen

Master of Social Sciences
Researcher

Environmental Sociology

University of Turku

Finland



To receive a free copy, print or register at www.tse.fi/pei

ISSN 1459-9759

Editors-in-chief Stefan Ehrstedt and Kari Liuhto

University of Turku

Turku School of Economics, Pan-European Institute

Rehtorinpellonkatu 3, FI-20500 Turku, Finland

Tel. +358 2 4814 522, fax +358 2 4814 268

www.tse.fi/pei



Turun yliopisto
University of Turku