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**OLLI REHN**

The energy security of the supply to Finland and the Balticconnector project



**MIKA ANTTONEN**

Blending mandate for advanced biofuels



**ARI-JUSSI KNAAPILA &  
JUKKA-PEKKA JOENSUU**

A maritime cable from Finland to Central Europe



**BRE**  
REVIEW

# BALTIC RIM ECONOMIES

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

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# BALTIC RIM ECONOMIES

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OLLI REHN

# The energy security of the supply to Finland and the Balticconnector project

Expert article • 1949

**H**ow much of energy production should be in a national context and how much we should trust that energy markets function? For some years the target of Finnish energy policy is that self-reliance and the security of the supply are increased.

The Finnish energy mix is very diverse and gas accounts for about seven percent of our total energy consumption. Not a large share but still important one due to its role in heat and power generation. The target is to keep gas as part of our energy mix. Although gas produces carbon emissions, its emissions are about 40% less than those of coal. Thus, gas is an appropriate bridge from coal to a carbon-free society. Further, the use of biogas provides clear potential to enhance carbon-free production.

The European Commission's Energy Strategy and the Energy Union strive towards fulfillment of the third internal market package in the energy sector. It is important that all EU Member States are committed to it. Especially the challenging times that Europe has faced over the past years in the gas supply and the supply interventions that took place with the Ukrainian crisis have made the voices in Brussels more solid in aiming for common gas market bases that have the possibility to take on board each EU country.

Finland's Ministry of Employment and the Economy provided almost €100 million in state aid for local LNG terminals in 2015. There are three projects – in Tornio, Pori and Hamina – that have been approved by the Commission to be eligible for state aid and their projects are already proceeding. These terminals provide new gas usage opportunities and do not replace traditional piped gas consumption. Maritime traffic, trucks and industrial processes utilize LNG and decrease carbon emissions with the increasing competitiveness.

The state of Finland has also taken an active role with the gas interconnector, Balticconnector, running between Finland and Estonia. Energy security and the security of supply are today increasingly important considerations for states. Commercial players concentrate on their business angle. In October 2015, the Government of Finland decided to set up a state owned specific company – Baltic Connector Oy – to implement the Finnish part of the construction of the gas interconnector.

The Finnish gas market has been the monopoly of Gasum until this, due to there being a single gas supply source. The long-term target is to open the Finnish and Baltic gas market for competition.

There are studies that show that a common Finnish and Baltic gas market with single entry exit zone would be the most beneficial one. Finland is also preparing new gas market legislation with an objective to open its gas market and to terminate the derogations it applies to the internal gas market legislation. This is about to materialize in the beginning of the 2020s. Balticconnector can enable this development and without it, it would be impossible.

**Balticconnector will be the first gas pipeline to connect Estonia and Finland and will significantly increase energy security in the eastern Baltic Sea region.**

As stated, the energy security and security of gas supplies are at the cornerstone of the EU Energy Union. Finland is still fully dependent on gas flows from a single supplier and, until recently, the three Baltic states also had to rely on gas imports from a single gas source. Once completed, Balticconnector and the gas link between Poland and Lithuania (GIPL) will allow Finland and the Baltic states

to diversify their gas sources and routes, and thus help to effectively deal with possible supply shortages in the future. It will also help integrate the entire region into the EU's internal energy market and benefit competition in gas supplies.

Balticconnector will be the first gas pipeline to connect Estonia and Finland and will significantly increase energy security in the eastern Baltic Sea region.

The EU Commissioner for Climate Action and Energy, Miguel Arias Cañete, commented on Balticconnector: "It marks an important first step for connecting the gas markets of the eastern Baltic Sea region with the rest of the EU gas market. Building missing infrastructure links, which is a prerequisite for a resilient, competitive and sustainable EU energy market, is a priority for the Energy Union."

In December, in the presence of Commissioner Miguel Arias Cañete and myself, a grant agreement of €5.4 million was signed for the studies necessary to launch the construction works of the Balticconnector gas pipeline. Although the amount of the grant agreement is very limited, this was symbolically a very important step for Finland, Estonia and the EU.

Expert article • 1949

Now project promoter Baltic Connector Oy and its Estonian counterpart, Elering AS, are bringing forward the project. Design and licensing are soon to be finished and an application for grants for works is to be filed in spring 2016. An EU decision on the grants for works is expected before autumn 2016.

Balticconnector has been a European project of common interest (PCI) since 2013. The pipeline will consist of three sections – the Finnish onshore section (22 km), the offshore section (81 km) and the Estonian onshore section (47 km). The total cost of the project is foreseen to be €250 million. The pipeline is expected to be operational by 2020.

Now we have to ensure that all these important targets will be reached and Balticconnector, together with other LNG and biogas infrastructure, will ensure our gas market and higher energy security for Finland, the Baltic states and the whole EU. The utilities and other gas market stakeholders can make it a revolution that boosts our energy sector and their business targets. ■



**OLLI REHN**  
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Pan-European Institute

# BALTIC RIM ECONOMIES

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LIISA OVIIR

# Recent development trends in e-Estonia

Expert article • 1950

Since the 1990s, digitalisation of services has been at the heart of the Estonian agenda, thus leading to a high extent to which ICT solutions are used in business, government, and everyday life of residents. In this time, more than 1500 e-services have emerged, ranging from banking, voting, parking, declaring taxes, prescribing drugs, accessing health records, establishing a company to many other activities that can be completed online. And why being online matters? It has provided us with a great deal of accessibility, flexibility and efficiency. Signing documents electronically, for example, saves us annually around 2% of GDP worth of time and money.

Facilitating and enabling new ICT solutions is however an ongoing process both for the state and the market, largely due to the changing needs of the economy and internationally prevailing trends that leave no one unaffected. Today, Estonia has a rapidly growing startup ecosystem which keeps producing globally-oriented technology companies with unique services, products and know-how. Government, which has contributed to developing this ecosystem, at the same time enjoys a high level of trust among the local startup community, attested by a recent Startup Compass' global study according to which an impressive 66% of Estonian startup founders are satisfied with the government compared to global average of 25%.

However, this by no means gives us an opportunity to rest on our laurels. One of the key tasks at hand, for example, is to expand our companies' access to new local sources of funding to mitigate their need to raise money in other ecosystems, including but not limited to London or Silicon Valley. For this reason, we recently signed a funding agreement with the European Investment Fund to establish EstFund which together with private investors will make additional €100 mln available for the region's enterprises in the following years.

Furthermore, most sectors are in need of talents as the quantity of available key competencies in Estonia is today insufficient to meet the growing need. To tackle this bottle-neck, we are actively looking into ways of improving regulations to increase employment opportunities for non-EU citizens. Some of the latest amendments have simplified residence permit applications for foreign students and reduced the length of time it is needed for a foreign national with specialised knowledge or skills to begin working in Estonia from previous 12 to only one week. In the near future, we are planning to implement even more ambitious amendments.

Another significant and globally well-received solution to improving foreign talents' access to Estonia is our e-Residency service which provides a transnational secure digital identity to everybody in the world interested in running a location independent international

business online. E-residents can establish and administer a company, conduct all the banking, declare taxes and sign documents online. In a year, around 200 companies have been established by e-residents and around 7000 people have received their e-ID. With the launch of e-Residency, we have thus not only created a new route to the market but also a new business model of residency to support our economic growth.

When talking about new trends and business models one also cannot ignore the impact which peer-to-peer-based sharing of access to goods and services through

online platforms (sharing economy) is currently having on traditional economies. While sharing economy is not a new phenomenon, its digitalisation has resulted in unprecedented growth opportunities. According to PricewaterhouseCoopers, current key areas of the sharing economy have the potential to grow from \$15 billion to \$355 billion by 2025, and Estonia definitely aims to benefit from this expansion. We therefore not only welcome already successful companies, but also support the emergence of innovative ideas and startups in

this field. In 2016, for example, we are in a phase of regulating and legalising ride-sharing services provided by Uber, Taxify and others. Being one of the first to do this in Europe clearly exemplifies our willingness to learn from prevailing trends and business models and to take action. As a result, the Estonian Tax and Customs Board and Uber are already developing a new tax declaration platform which is meant to simplify tax declaration process for Uber's partner drivers.

Last but not least, the year 2016 in Estonia is strongly about both reforming processes between state agencies as well as the state and the private sector. Our aim is zero bureaucracy, hence we have collected hundreds of propositions from companies on how to increasingly minimise the bureaucratic burden. Based on these propositions we are now redesigning our e-services so that everything that can be done by the government in the back-end, is done by the government, thereby providing more freedom and flexibility with minimum administrative burden to our service users. ■

LIISA OVIIR

Minister of Entrepreneurship  
Estonia

Today, Estonia has a rapidly growing startup ecosystem which keeps producing globally-oriented technology companies with unique services, products and know-how.

VLADIMIR ZINOVSKIY

# Belarus sails from turbulence of past challenges to quiet haven of advantages

Expert article • 1951

**B**elarus is often regarded as Europe's final frontier, where foreign businesses fear to tread. Still, there is a growing interest in the country among investors looking beyond the negative headlines and seeking to be the first to tap its potential.

For the majority of businesses it is vital to grow in a generally supportive environment, in which both external and internal risks would be foreseeable. Today economic turmoil in Eurozone and tides of regional conflicts around the Europe generate a total reevaluation of risk in the region. In this situation it is mutually beneficial cooperation and development of businesses than suffers.

Facing this turbulence the government of Belarus puts a special emphasis on ensuring stable business environment in the country and enhancing its value as a security and stability factor in the region. Possessing a clear strategic vision to be a transit hub between the Eurasian Economic Union and the EU, Belarus aspires to play a role of regional quiet haven for investors.

The main strategy of the government is to respond a common delusion that investing in Belarus is only for the risk-takers by a very strong monetary policy, a good budget consolidation in order to maintain the economic potential of the country, create a necessary environment to protect foreign investors, as well as an environment for efficient investment in the country.

There is a lot that has already been done and now the time has come to take a fresh look at what Belarus can offer to focused entrepreneurs in the rapidly changing environment.

First of all, Belarus benefits from a relatively balanced sector structure: the leading sectors here are manufacturing, trade, construction and agriculture. In Soviet times, thanks to its developed industry, Belarus was known as the USSR's 'assembly plant'. And even now, heavy machinery remains the staple of Belarusian exports, with every 10th tractor in the world produced in Minsk. Belarus fully satisfies its domestic needs in dairy products. The annual per capita milk output in Belarus is 2.7 times higher than its consumption. In 2015 Belarus gained a strong footing on the world market of dairy products, showing progress in all main positions. Par exemple in the export of butter Belarus moved the United States from the 3rd place in the list of world exporters.

Secondly, while not being very rich in oil and gas, Belarus benefits from its rich intellectual «resource», growing a basis of new technologies and scientific development, - people. There are about 500,000 students enrolled at Belarus's 55 higher education institutions each year, an impressive number for the country with relatively small population of about 10 million.

Belarus has a well-developed IT sector. In 2005 the Hi-Tech Park (HTP) was set up in Minsk to support Belarus's software industry. In total, there are 140 companies registered in the HTP and they work with a large number of respected clients: Barclays, Bank of America, Western Union, the London Stock Exchange, Google, IBM, Expedia, BP, Chevron, Microsoft and Airbus. In 2014 its production volume amounted to \$527m. Exports account for 88% all the software produced in the park in 56 countries of the world.

Thirdly, doing business in Belarus is less complicated than it is often believed. The investment climate of Belarus shows positive dynamics. The World Bank's 'Doing Business 2016' report ranked Belarus 44th among 189 countries for ease of doing business and the 4th place by number of reforms in all areas over the past 10 years.

There is a progressive Law on investments, which ensures that foreign investors have equal business conditions with individuals and legal entities of Belarus. Investors have the right to appeal for protection of their rights to international arbitration bodies and the International Centre for Settlement of Investment Disputes. Besides progressive local Belarus entered more than 60 agreements on assistance in the mutual protection of investments. Since 2012 the country has been a member of Multilateral Investment Guarantee Agency. Intellectual property rights are also protected by a number of national laws and international treaties. The country participates in multiple conventions on both copyright and proprietary rights. Being a member of the World Intellectual Property Organization (WIPO) since 1970, Belarus participates in many international IP agreements administrated by WIPO.

Besides to develop the potential of Belarus as a communication link between the CIS, Russia and Europe the China-Belarus industrial park Great Stone is opened for investors who are interested in the creation of high-tech enterprises. It provides for investors preferential taxation regime and regime of free customs zone.

And finally, today we offer a market of not only 10 million Belarusians but 176 million consumers in the Eurasian Economic Union. The union allows for the free movement of goods, equal access to services of natural monopolies, common technical regulations, a liberalization of trade in services. With a huge market of EEU, strong beneficial relations with traditional economic partners, new markets, which are being developed, export diversification and numerous favorable regimes for investors Belarus seeks to establish long-term partner relations with companies, which would be mutually beneficial. Thus Belarus can point to many examples of companies large and small operating successfully within it. There are such worldwide known and respected companies, which have come to the country to exploit the opportunities it provides, as HP, Coca-Cola, Bosh, Culligan, Stadler, Kapch, Heineken, Raiffeisen, Microsoft, IBM, Pepsi, Danone, Uniliever, Henkel, United Parcel Group among them.

So, when looking for a stable and predictable partner, Belarus should be on the top of the list. We welcome to Belarus all partners from East and West, North and South and we do not see any reasons not to come to our country. ■



**VLADIMIR ZINOVSKIY**  
Minister of Economy  
The Republic of Belarus



MIAPETRA KUMPULA-NATRI

# Steps towards an integrated Energy Union

Expert article • 1952

The Energy Union is one of the priority projects of the Juncker Commission. As the name depicts, it aims at maintaining and promoting the unity of European energy markets. The EU is used as a consolidator in disputes and challenges arising from the different policies adopted by the Member States. The Baltic rim economies are in a beneficial position due to their political capability of building a functional regional market and tackling the main challenges that are now driving integration in other parts of the European Union.

## Energy Union as a way to market-based decarbonisation

New technologies, knowledge and renewable energy sources are key reasons behind the push for Energy Union. The simultaneous decline in traditional electricity production means, lowering electricity demand and the abundant support mechanisms for renewables have caused serious threat for the market-based electricity wholesale markets. As a consequence, several EU Member States have developed different kinds of capacity mechanisms and capacity markets that, if designed badly, amount to little more than state subsidies to traditional forms of generation.

Capacity markets should be considered a last resort. Instead of national capacity mechanisms that have evolved in the EU, they should at least be regional, cross-border, non-discriminatory and established on the basis of rigorous security of supply and system adequacy assessments, as well as subjected to general economic viability checks of the technologies operating in the system. More abundant and affordable storage options provide a way to avoid capacity markets.

Security of supply and decarbonisation require a combination of short-term (day-ahead and intra-day) markets and long-term price signals. Short-term markets are crucial for integrating renewables and allowing for a market-oriented approach. On the other hand, investors need long-term price signals.

We can also ensure that the markets have a stable backup from flexible and sustainable energy sources. Flexible technologies, such as storage and demand-response, should be rewarded. There is also a need to focus on renewable generation capacity development and assess the need for support mechanisms for renewable technologies with different levels of maturity.

While pushing for a market-oriented approach, where energy flows freely across borders on the basis of the real needs, it is necessary to guarantee coherence with other EU targets, such as the gradual phase out of the most polluting fuels from the EU electricity mix. Determining national energy mixes remains a competence of member states.

Increased cross-border trade gives an opportunity to ensure the persistence of energy only-markets, at least in those Member States with a will to do so, by increasing flexibility and ensuring balancing responsibilities.

## Regional market integration within the Energy Union

Boosting cross-border interconnections and regional market integration is a natural way to increase flexibility of electricity markets. It is also a cost-efficient measure that facilitates the development of European internal markets and promotes energy security, especially with a view to ending energy islands. One open question remains, about how the Commission could motivate reluctant Member States to increase cross-border connections with their neighbours.

The strengthened regional coordination and cooperation needs to be the cornerstone of any future market design. On the EU level, agencies, bodies and institutions as ACER and the Regional Security Coordination Initiative (RSCI) are best suited for this purpose. Through these the Member States can optimize energy resource management, accommodate national peculiarities, and bring about a cost-reflective and market-based energy system. In addition, the issues such as technical barriers and discriminatory practices in network codes should be tackled to ensure the free flow of energy across borders and regions.

Different areas have different challenges and one size does not simply fit all. Therefore, we should be pushing for regional cooperation and coordination of national policy-making with neighbouring member states. In the Baltic Sea Region cooperation has strong traditions.

## Baltic Sea region within the Energy Union

In the Baltic markets the interconnections have already been developed by enhancing infrastructure through EU financing between the Baltic States and Finland, Sweden and Poland. The Baltic rim economies have a special interest in taking the first step towards European markets a small step - the Nordic Model in its current form is an energy only markets with several peculiarities that should be considered when choosing the right market model for Europe. At this stage, regional markets allow Europeans to explore a multitude of different options from which we can choose the best ones when forming the true Energy Union.

## EU as a dispute settlement forum for the Member States

The EU role is a consolidator of disputes and a negotiation forum to solve arising challenges. The Baltic rim economies have already made great progress towards a regional energy market. In practice, it is now essential that Energy Union delivers as a platform for the Member States to eliminate their disputes and to deliver energy to the economies in a more competitive price, more environmentally and socially sustainable way while ensuring that the security challenges are met. ■



MIAPETRA KUMPULA-NATRI  
Member of European Parliament

ANN-MARIE NYROOS

# Denmark and Finland: Nordics together

Expert article • 1953

**D**enmark and Finland are like siblings –even if not twins – at least seen from a global perspective.

The strengths of Finland and Denmark are similar. The five Nordics top more or less the same rankings in the world. Equality, welfare, high level of education as well as an open, democratic and stable society are some of our common characteristics. So much so, that we tend to take these for granted.

There are many common features in the history of Finland and Denmark. We have managed to survive and cope with our respective big neighbors. Maybe history has taught us to be practical in our approach, aiming at solving problems rather than creating them. And of course, the Baltic Sea is a uniting factor in different ways.

Both Finland and Denmark are known for design and architecture. We are forerunners in many areas of clean tech industry. Maritime knowledge is at a high level in both countries. The Baltic Sea needs also to be protected and both Finland and Denmark have the will and the knowledge to do their part.

Finnish – Danish cooperation is typically taking place in the context of Nordic cooperation, which is well established and practically oriented. It has never really provided much material for headlines or for passionate public discussion or disagreements. Rather Nordic cooperation works in a solid and consistent way in order to improve the everyday life of Nordic citizens.

## Finnish-Danish cooperation; could we do more?

Of all Nordic countries Finland and Denmark may be the two that have significant potential to deepen and broaden their bilateral cooperation. Both countries seem to have closer cooperation in particular with Sweden, but also with Norway. We do not yet fully utilize the potential to work together on the basis of our common strengths.

Political cooperation between Denmark and Finland could best be developed further in the context of the European Union and the Nordic institutions. Government representatives know each other well from multilateral fora. Even if in some cases the established structures seem to make more innovative cooperation difficult to achieve especially in the field of foreign and security policy. Now and then an occasional politician wonders whether it would be possible to bring more life, more politics, in the Nordic cooperation.

A topical situation, like the refugee flow, has underlined the need for timely and flexible political cooperation at all levels. The changed security situation and rising tension in the Baltic Sea area affects both Finland and Denmark. New challenges call for cooperation where also regional organizations in the Baltic Sea area could be used more efficiently for strengthening security and developing broader cooperation - also with Russia. Comprehensive security approach allows integration of many different instruments and actors, including the civil society.

Even if political cooperation can perhaps best be developed in the context of multilateralism, bilateral meetings and visits at political level are useful and have also great symbolic value.

The Nordics are well known globally as peaceful and democratic countries with high level of welfare and equality. With more intense cooperation at global level we could also contribute to responding to global challenges. Like the implementation of the just agreed Sustainable Development Goals. The Embassy is ready to facilitate contacts also at the grass root level. This year we are working together with NGOs in Denmark and Finland in order to promote equality and combat violence against women.

Many Finnish and Danish companies have already established close cooperation. At the same time there is plenty of room for deepening contacts. In the Embassy our aim is to facilitate these closer relations in the areas where both can benefit

and learn from each other. The whole Team Finland in Copenhagen works together in a systematic way with a view to enhance contacts, visits, trade, investments and cultural exchange.

Trade and investments between Denmark and Finland have a lot of growth potential. At some point we seemed to have a tendency to look beyond our neighbors. Luckily, many enterprises have realized that conquering the world is safest and easiest to start in the neighborhood where risks are considerably smaller. Also, Denmark can well function as a door to other international markets.

While Finland and Denmark are strong in some of the same sectors, this can often be complementary. For example Denmark has strong clean tech export, in particular in wind energy technology. Finnish companies on the other hand produce 3-4 % of the components used globally in wind energy technology. In bio economy Finland focuses on forests and Denmark on agriculture, but we are joined by our intense work towards climate goals.

There is an increasing realization today that it would be highly beneficial to join forces in third countries where small actors are simply not competitive enough. There a lot of will at the policy level and in businesses to get there. The final push is needed to better unable concrete joint Nordic ventures.

All in all, we are similar enough but still different, in a good and mutually beneficial way. Nordic brand is strong and it makes us stronger together. ■

■

We do not yet fully utilize the potential to work together on the basis of our common strengths.



ANN-MARIE NYROOS  
Ambassador of Finland to Denmark

SERGEY KIZIMA

# The role of economic diplomacy in the foreign policy of the Republic of Belarus

Expert article • 1954

**B**elarus is one of the few countries in the world, in which the activities of the foreign policy for 80-90% are dictated by economic interests of the nation, economic entities and Belarusian citizens. This is a very pragmatic foreign policy, designed primarily to create a favorable environment for the functioning of the Belarusian economy. What factors led to the formation of such unusual for many countries the foreign policy?

First of all, an unusual situation in the country in the 1990s. From 1994 the Belarusian president took non-standard for other countries in the region decision to retain as a basis the previous structure of the economy and economic activity, which was dominated by large industrial enterprises that produce goods mainly for export, and large-scale farms. Another potential scenario could be called the Latvian – in 1990-1995, Latvia has lost 68% of industrial capacities, and in many ways it was a political decision aimed at reducing the dependence on Russia and reduce the political influence of the employed in large industrial enterprises Russian-speaking population. Belarusian scenario required close integration with the Russian economy as a source of essential natural resources for the operation of industrial plants and as the main market.

Secondly, the close military integration with the Russian Federation. As a result of the achieved agreements in the framework of the Union State, Russian Federation acted as the guarantor of the sovereignty of the Republic of Belarus, committing themselves to protect the country from any military incursions. Accordingly, such protection from the country with a huge arsenal of nuclear weapons reduced for Belarus the need for continued emphasis in foreign policy on military security, giving priority to increasing exports, attracting investments and turnover growth.

Third, also unusual for the region focus on social security and public safety. Here are some facts. Child mortality (at birth and up to one year) in Belarus in 2013 went to the German and French level that is several times better than in the other republics of the former Soviet Union. The number of violent crimes recorded per 10000 people in Belarus, according to the results in 2014, was more than three times lower than in leading post-Soviet Union country – in Russia. But the developed system of social policy, medical care and properly structured work of law enforcement bodies requires sufficient expenses that could be financed only from effective foreign trade.

An essential factor in the importance of economic diplomacy is the relatively small size of the country and the absence of any imperial past, so Belarus has no need to protect the former high status, which is a very important vector of foreign policy of countries like France, Russia, UK, Turkey, Poland, Sweden and many others. As a result, instead of significant spending on a favorable positioning of the country in the world on the basis of a great past, Belarus spends money on overseas visits of business delegations in order to ensure a favorable economic development in the present and in the future.

Permanent factor is the need to deal with the problems that have arisen due to the Chernobyl disaster, when 23% territory of the country was contaminated with radiation. At the moment more than one million citizens of Belarus living in areas with high radiation levels. A successful foreign trade activity is a prerequisite for further rehabilitation of the affected regions, carried out by the state bodies at the system level.

We should not forget also about the inevitable impact on the mentality of the population of the huge loss of people due to the inevitable involvement of Belarusians that live in the center of Europe in all large-scale military battles during last centuries. As a result Belarusian anthem begins with the words “We, Belarusians, are peaceful people”, and all statesmen should take into account the absolute unwillingness population for aggressive or bellicose statements, which may once again plunge the country into the horrors of war.

The understanding of importance of role of economic diplomacy in the Belarusian foreign policy is necessary for other countries for the building fruitful relations with Belarus. During the last twenty years, Belarus has had a lot of misunderstandings related primarily to the fact that some countries unreasonably assuming that Minsk's foreign policy priorities are no different from Moscow's, Warsaw's or Washington's ones. As a result, very often the actions aimed to protect the interests of Belarusian economy were treated totally wrong in terms of foreign policy as a manifestation of some ambitions to regional leadership, the desire to change partners for new ones or as an aspiration to challenge other countries, regardless of the consequences. Proper understanding of the foreign policy of Belarus may allow any country in the world to build with Belarusian state smooth and peaceful relations. ■



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# 25 years of the Baltic Sea Parliamentary Conference

Expert article • 1955

The Baltic Sea Parliamentary Conference (BSPC) was established upon the initiative of the Finnish Parliament in 1991 in Helsinki, Finland as a forum for political dialogue between parliamentarians from the Baltic Sea Region. Today parliamentarians from 11 national parliaments, 11 regional parliaments and 5 parliamentary organizations work together in frames of BSPC with an aim of sustainable environmental, social and economic development of the Baltic Sea Region. But the very first conference was dedicated to the economic reforms and the transition to market economy in the former countries with planned economy around the Baltic Sea. It already called on cooperation in the cultural and educational fields as a base for common understanding among the peoples and sustainable development of the region. At present BSPC still remains a connecting link between EU- and non-EU countries of the area. The Conference committed itself to promoting the strengthening of democracy, rule of law and protection of human rights.

At the second Parliamentary Conference in 1992 in Oslo representative of St. Petersburg regional parliament called for Baltic states to clean the Baltic sea bottom from chemical weapons which were flooded after the second world war. It was the first such appeal in world practice.

The Baltic Sea Parliamentary Conference arranges annual assemblies in participating countries, each year in a new one. The main decision-making body of the BSPC is a Standing Committee which acts between annual conferences. The Standing Committee considers and decides on strategic issues concerning the mission, political priorities, working modes, finances and administration of the BSPC. The Standing Committee has the overall responsibility for preparing the annual Conference. It consists of parliamentarians from all national parliaments, regional parliaments and parliamentary organizations represented at the BSPC and meets at least four times throughout the year – at the beginning of the year, in spring or early summer, during the annual Conference and upon the results of the Conference in autumn. The BSPC Secretariat coordinates all activities and delivers administrative and organizational support. Formerly The Standing Committee had another structure. In 2008-2011 there was The Standing Committee which consisted of nine parliamentarians headed by a Chairman that rotated annually (2 Germany, 2 Russia, 2 Nordic Council, 1 Baltic Assembly, 1 Poland, 1 European Parliament) and the Enlarged Standing Committee (ESC) which gathered parliamentarians from altogether 27 national parliaments, regional parliaments and parliamentary organizations throughout the Baltic Sea Region. The ESC was discontinued at the 20th BSPC in 2011, and replaced by the new Standing Committee. The provisions for the new SC are laid down in the Rules of Procedure for the BSPC, adopted by the 20th BSPC. The political recommendations of the annual Parliamentary Conference are expressed in a Conference Resolution adopted by consensus by the Conference. The BSPC Secretariat coordinates all activities and delivers administrative and organizational support. It is situated in Copenhagen and acts on permanent basis.

The Baltic Sea Parliamentary Conference is represented by different working groups, observers and rapporteurs. For instance Working Group on Innovation in Social and Health Care, Rapporteur on Eutrophication, Rapporteur on Labor Market and Social Welfare, Rapporteurs on Integrated Maritime Policy and Rapporteurs on Green Growth and Energy Efficiency. The BSPC also has its observers in HELCOM.

Annual meetings are held under the aegis of different working groups on different issues: 2006-2007 Working Group on the Baltic Sea Eutrophication, 2007-2009 Working Group on Energy and Climate Change, Working Group on Labor Market and Social Welfare, 2009-2011 Working Group on Trafficking in Human Beings and others. This Year Working Group on Sustainable Tourism will be general on par with the Working Group on Innovation in Social and Health Care.

The main idea of the BSPC is to provide a playing field for parliamentarians from the Baltic Sea region. Representatives of different countries and sub regions are able to intercourse their ideas and plans which have significant importance for local life, for region, Europe and for the whole world after all. What is more local citizen and groups of citizen could influence on the policy of the whole region by common elections and nomination of their candidates to local legislative bodies.

Today we can say that the BSPC is a kind of modern Hansa in political sphere. As an ancient union of merchants Conference protects the region from all kinds of modern threats and what is more solves the same problems such as trade, human trafficking, piracy, security and other kinds of everlasting challenges.

Despite of only a consultative role of the Conference, it formulates recommendations and proposals to the governments, national parliaments and international organizations after joint decision making and it means that recommendations and proposals are negotiated, deliberated and are aimed on the common welfare and do not lead to the infringement of the rights of participating sides. Sustainable development of the region is impracticable without of consensus among all neighboring countries and sub regions. Sustainable development also implies cultural interaction for better mutual understanding. Representatives of St. Petersburg usually pay attention to financial problems of Northern Dimension and to the political and economical role of this program. Also they usually raise the issue of the health care system.

This year the BSPC celebrates its Silver Jubilee. Upcoming conference in Riga, Latvia, 28 - 30 August, will be dedicated to the topic of education and labor mobility. Also Working Group on Sustainable Tourism is preparing a series of reports and presentations. Such an ordinary topic as tourism has turned out to be very complicated and multidimensional. As Mr. Petteri Takkula at the 2nd meeting of the Working Group declared, the highest challenge is to preserve the cultural heritage on the one hand and to present and market it on the other hand. His core conclusion is that the protection, preservation and

presentation of the intrinsic value produces sustainable extrinsic value for the destination. The other significant issue as we speak about tourism on the Baltic Sea is pollution from cruise ships. The very first country which started studying this problem was Finland. An impact of cruise ships, especially problematic of waste waters, is significant in ports of Helsinki and Turku. In St. Petersburg, Russian Federation, city government also started paying attention to this problem after consultations with Finnish colleagues. For instance the Committee for nature use, environmental protection and ecological safety initiated evaluations of exhaust fumes from cruise ships as this kind of international travelling is most popular in St. Petersburg. The problem is that regulations of sea ships exhaust fumes differ greatly from regulations of common vehicles with the internal combustion engines and maybe we are at the doorstep of new legislation in this sphere. In its turn St. Petersburg became an example for the legislative initiative in Finland on the subject of visa-free stay for tourists who come by cruise ship on 72 hours and go down to the shore in organized groups. This system successfully runs in St. Petersburg and attracts a lot of foreign tourists to the city.

City government of St. Petersburg constructed South-West sewage treatment plant with financial help of Finland and Sweden. Today 98,5 % of waste waters in St. Petersburg fall into the Baltic Sea after purification.

The Baltic Sea Parliamentary Conference made a long path from the instrument of assistance in overcoming from the plan economy to market economy of former Soviet countries to the body with a wide range of interests and with a high political influence in different spheres of life. The Conference creates a single Baltic cooperation space through improved regional synergy and cohesion. Ongoing work for 25 years allowed to draw together different countries and multinational sub areas of the Baltic Sea Region and to promote understanding of common problems and challenges. ■

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# BALTIC RIM ECONOMIES

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WOJCIECH SZCZUREK

# Gdynia's international cooperation in the Baltic Sea Region

Expert article • 1956

**A** young and dynamically growing city, Gdynia (Poland) is celebrating its 90<sup>th</sup> anniversary in 2016. With a population of about 250,000 and a seaport, Gdynia is a hub for new advanced industries and innovative technologies. It is also an important research and education centre in north Poland and the venue for a number of exciting cultural and sport events.

The city has always welcomed international cooperation, especially around the Baltic. Links with sister cities are at centre stage of the cooperation. Established to forge relations with Gdynia's partner cities from across the Baltic Sea Region, the Baltic Ring of Gdynia's Sister Cities delivers a variety of projects that engage many stakeholders.

Germany's Kiel is an interesting example of cooperation with a history of more than thirty years. For nearly ten years the communities from both cities travelled to one another and learnt about the culture and customs, breaking national stereotypes and making long-lasting friendships. Since 1997 Gdynia has had an annual informational stand at Kiel's International Market during the Kiel Week. There have been a number of joint cultural projects, theatre plays, music performances and photo and art exhibitions.

Over the years both cities have pursued sport collaboration with regular sporting events such as Twin Cities Sporting Competition in Gdynia and football and handball tournaments. In 2015 to mark thirty years of sister city cooperation a long-distance relay run was organised with Kiel's city officials taking the challenge from Kiel to Gdynia.

Links with Karlskrona, Sweden, started in 1990 and have produced a number of joint initiatives with Gdynia. There is a ferry service between Gdynia and Karlskrona. In operation for more than twenty years, it has made mutual contacts between the residents much easier. In March 2014 Karlskrona launched an intermodal terminal making it possible for shipments going through Gdynia and Karlskrona to and from Scandinavia and on to Europe to use the rail-ferry service. The development has boosted Gdynia port's business potential. The links with Karlskrona are also strong in the area of education thanks to cooperation between schools and joint sports and tourist projects. There are visits and exchanges between both cities helping the unemployed into work or applying modern standards of service for disabled customers.

These are just some of the examples of joint activities with sister cities. Within the framework of the Baltic Ring of Sister Cities Gdynia also cooperates with Klaipeda (Lithuania), Kaliningrad (Russia), Kotka (Finland), Kristiansand (Norway), Kunda (Estonia), Liepaja (Latvia) and Aalborg (Denmark).

Gdynia's international cooperation also means engaging in the work of the Union of the Baltic Cities (UBC), an international association which it joined in 1991. Gdynia chaired two of UBC's commissions: the Commission on Transportation and Commission on Sport (together with Karlskrona) until the organisation decided to restructure. Following this, the Commission on Transportation became part of the Sustainable Cities Commission, and the Commission on Sport was incorporated into the Inclusive and Healthy Cities Commission. Currently, Gdynia's representative is the vice chairman of the Inclusive and Healthy Cities Commission covering areas of social and health services, older people, social cohesion and social inclusion.

For many years Gdynia has been active in UBC's Commission on Urban Planning (currently the Planning Cities Commission). A representative of Gdynia is a member of the Steering Committee of the Planning Cities Commission which aims to promote cooperation between Baltic Sea Region cities in the area of spatial planning, construction and architecture.

During its time on the Commissions and in cooperation with the UBC Gdynia has organised a number of seminars and conferences attended by local authorities, non-governmental organisations, public bodies, business and academia. A recent event was the UBC General Conference hosted by Gdynia between 27 and 30 October 2015. Its main theme was Building Smart Cities in the Baltic Sea Region.

While Gdynia is open to cooperation with countries from across the world, its main focus will always be on cooperation with Baltic Sea Region cities because of the similarities and shared goals and challenges faced by the region's cities. ■

The city has always welcomed international cooperation, especially around the Baltic. Links with sister cities are at centre stage of the cooperation.



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JØRGEN H. KRISTIANSEN

# Cooperation and exchange

Expert article • 1957

**T**he City of Kristiansand has a long international history. Both trade and tourism have had a decisive impact on the harbor city's development, since it was founded in 1641, on Norway's southernmost tip. During the last few years an influx of refugees as well as labor immigration and, not least from our Baltic neighbors, has further strengthened the diversity of the city and strengthened the city regions growth and economic development. However, in order to succeed with the integration of refugees, the municipality must implement new solutions and learn from other cities.

## A shared challenge

Cities all over Europe, also in the Baltic Sea Region, have lately experienced an increase in refugees, flying from war and crisis ridden countries. Discussions on how many people are to be given refuge in each country are led at national levels and through multilateral negotiations.

Individuals in need are, however, not hosted by nations – they are hosted by local communities. In other words, refugees are to be integrated into the local society, thus making this a municipal, and not a national, task. The challenge has a vertical dimension, where the responsibility for the number of immigrants is national, whereas the municipalities play a crucial role as facilitators of the integration process. Cities have little influence on timing or scope of the settlement of immigrants and refugees. Nevertheless, local communities have at large met their humanitarian and moral duties by housing and feeding the arriving

At the one hand, cities and regions all over Europe play a role in meeting the refugees' most basic needs like food, health care and shelter. These efforts are necessary and must by no means be underestimated. They are however not sufficient.

Governments at national and local levels cannot master this international challenge on their own. The refugees fleeing from their homes are not an abstract wave or just a political crisis. Behind big numbers are hundreds of thousands of individuals that were forced to leave their homes. They have to be met by caring, welcoming individuals not only systems managing their housing and food supply.

## Local communities and the civic society

Integration is an act that is difficult to adopt only by political decisions. An integration process is a process where individuals meet and build relationships. It is citizens, not politicians, who are the key to successful integration.

As a political leader in Kristiansand, it has made me proud to see the level of involvement among the citizens of Kristiansand, in this refugee crisis. Volunteers have shown a high level of compassion and solidarity and most importantly respect for the human dignity.

Integration cannot be managed vertically and top down; it has to grow horizontally and organically between individuals. People have to interact, to socialize and to befriend each other. Public administrations have, beyond the supply practical necessities, a facilitating responsibility for the many warm helping hands of our volunteers. We have to support good private initiatives, provide arenas for interaction and publicly encourage people to this collective obligation.

The refugee crisis is not a Norwegian challenge – it is a regional, European and global challenge. This calls for joint solutions – and also for lesson drawing across borders.

There are concrete examples for praiseworthy civic engagement in all our cities in the Baltic Sea region. In my own city, Kristiansand, NGOs have developed an exciting initiative, called the "buddy system". This is a new voluntarily organization who finds individuals or families who want to meet refugees. They go to the zoo, eat dinner in the homes of the buddies, show them the city or go for a walk somewhere. And as often, when people meet, friendships are made.

It is also valuable to see how different sport clubs are making activities for the refugees; some clubs have collected sports gear and arranged football practices for refugees. Different churches have opened cafeterias, some with a focus on vocational training and others with an idea on socializing people. Retired teachers have started to teach refugees Norwegian and Agder has collected and distributed clothes among migrants.

## The need to draw lessons from others

The refugee crisis is not a Norwegian challenge – it is a regional, European and global challenge. This calls for joint solutions – and also for lesson drawing across borders.

Just recently cities and NGOs from all around the Baltic Sea region gathered for a fruitful and valuable conference in Rostock, Germany. Representatives from more than 10 countries and 24 cities attended the conference "The impact of the European Refugees Crisis in the cities of the Baltic Sea Region", hosted by the Union of the Baltic Cities (UBC). It is the privilege of public organizations that copying and adapting others ideas are not only allowed but rather the core of innovation and development of services. And this conference provided a unique opportunity to do so, to exchange and discuss possible answers on how to welcome refugees and deal with integration challenges.

Now is more than ever the time for cooperation, both between cities but not least between public administrations and civil society. Without it, we will not succeed in handling this situation in a respectful and dignifying way. This is a joint challenge – and a joint responsibility. ■



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RISTO E. J. PENTTILÄ

# Why we need a new Nordic treaty

Expert article • 1958

**S**chengen is crumbling. Brexit is looming. The Greek drama continues. Euroscepticism is part and parcel of political life in every member states. Populism is more popular than ever. In other words, the European Union is in the middle of an existential crisis.

How should the Nordic countries respond? Should they watch the world go by and hope for the best? Or should they take charge of their own destiny? We take pride in being pragmatic problem-solvers. Watching from the sidelines is, therefore, not a real option. Leading by example is a much better alternative.

The Nordic States should respond to the European-wide crisis by deepening the integration between the Nordic countries. This goal can be best achieved by replacing the Helsinki Treaty of 1963 (the framework treaty of Nordic co-operation) with a completely new Nordic Treaty.

A new Nordic treaty would serve two purposes. First, it would show a regional way forward for European integration. Second, it would prepare the Nordic countries for the (hopefully unlikely) scenario that the European Union would disintegrate even further.

The question is what kind of a new treaty should the Nordic states pursue?

## A New Kalmar Union?

The most talked about idea for a new treaty is Gunnar Wetterberg's suggestion of a new Kalmar Union. The Kalmar Union (1397-1523) brought together the kingdoms of Sweden (then including Finland), Norway (then including Iceland) and Denmark. Recreating such a union as a Nordic federal state would in Wetterberg's view give the Nordic countries more economic and political clout.

The problem that a new Kalmar Union would amount to a massive transfer of sovereignty from the five independent states to the new federation. Norway and Iceland have stayed outside the European Union in order not to give up national decision-making powers in areas they consider vitally important. It is difficult to see how they would accept the proposed federal structure. For Denmark, Finland and Sweden (the three member states of the European Union) a new Kalmar Union would create an extra decision-making layer between Brussels and national parliaments. A cure for Europe's democratic deficit? Hardly.

## A New Nordek?

Remember Nordek? It was an attempt to create a Nordic Economic Community as an alternative to the European Economic Community (EEC) in the late 1960s. The plan failed for two reasons. Finland did not ratify the treaty because of its bilateral relationship with the Soviet Union and Denmark joined the EEC.

Could Nordek work in today's conditions? It might. Finland is no longer the odd man out in Nordic co-operation. Quite the contrary. Helsinki is committed to stronger Nordic co-operation in economic, political and security affairs. Norway and Iceland are interested in securing their influence in a changing Europe. Denmark and Sweden might see a new treaty as a way to improve their influence within the EU.

## Nordek Plus

But why stop at an economic treaty? There is no reason why the new treaty should not include provisions for co-operation in the fields of energy and transportation – two areas where joint investments in all-Nordic infrastructure would make a lot of sense. Security co-operation should also be included in a new "Nordek Plus" deal. How about the idea of a "Nordic citizenship" proposed by the Centre Group of the Nordic Council? The idea is fascinating but is not compatible with the basic principles of the European Union. A simpler solution would be to make sure that all the Nordic social security and tax registries would function as one. The new treaty should also include a mechanism for making sure that the implementation of EU directives does not lead to new border obstacles between the Nordic countries.

Who should be included in the new treaty? The five Nordic countries and the three autonomous areas of Åland, Faroe Island and Greenland are obvious candidates but how about Estonia? Estonia considers itself a Nordic country. Significant parts of Estonia were under Swedish rule until the Great Northern War of 1710. Thus, it could be argued that Estonia ought to be invited to join. How about the United Kingdom in case it decides to leave the EU? An interesting idea.

## Next Steps

It is time for a major Nordic politician – preferably a Prime Minister – to step forward with a forward-looking proposal about a new Nordic Treaty. At the time when Eurosceptic parties are mainstream parties, Brussels will not be able invigorate European integration. Neither can we leave it to France and Germany alone. What we need is a regional example of successful economic integration.

Sixty years ago the Nordic countries were champions of regional economic integration. We can do it again! The time is ripe for a big step forward in Nordic integration. ■



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MARKKU KAKRIAINEN

# Finland: wedged in between superpowers

Expert article • 1959

**B**efore its independence, Finland was under Swedish and Russian rule. It is amazing how the independence cause developed and grew stronger within the small nation. The autonomous position granted to Finland when the country was part of Russia (1809–1917) gave a decisive impetus to the independence process, which could not be crushed even by two periods of oppression.

The era of the reformist tsars gave Finland its own language and currency, while also setting in motion significant industrial development and the construction of a number of magnificent public buildings. For eastern Finland, the proximity of St Petersburg meant trade and work opportunities. For a while, St Petersburg was 'Finland's second largest city' in terms of population.

The positive developments were cut short by the years of oppression, which left the nation badly scarred. The actions of the worst oppressor, General-Governor **Nikolay Bobrikov**, also proved fatal to the governor himself in the end, when **Eugen Schauman** shot him in 1904.

As a layman, I am convinced that Finland developed more rapidly under the rule of reformist Russian tsars than it would have done had it been part of Sweden. Living in eastern Finland, I have formed a picture in my mind of Swedish kings doing not much more than taking peasants off to war and levying heavy taxes. The link with Russia and Lenin also paved the way for Finland's independence.

The Russian revolution, Finland's declaration of independence, our civil war, World War II and surviving that war are viewed as miracles by our nation. The resettlement of Karelian evacuees and the establishment of an international position prove that even a small country can survive with the help of internal unity and unanimous political decision-making in tough times.

## From the Soviet era to present-day Russia

Political decision-making as a neighbour of the 'Great Bear' has also called for strong practitioners of *realpolitik*, such as Presidents **Paasikivi** and **Kekkonen**.

After World War II, Finland went through an intensive period of reconstruction. War reparations forced our country to industrialise, giving a major boost to the internationalisation of our businesses, which also entered Western markets. Before the crisis in Ukraine and the current sanctions policy, Russia – and the Soviet Union – was a key trading partner of Finland for decades.

Admittedly, the operating environment has been challenging on several occasions due, for example, to the volatility of the Russian rouble as well as the unpredictability of the Russian way of doing business and the country's red tape. The collapse of the Soviet Union in the early 1990s was followed by astonishingly rapid economic development – albeit in the form of Russian capitalism. Its downside was the 'socialisation' of national property into the hands of the few. The result was an elite of oligarchs, which is probably one reason why the country's economic growth has generated so few small and medium-sized enterprises.

Finnish companies' trade and investments in Russia grew rapidly until 2013. The global financial crisis triggered the current era of economic uncertainty. At the same time, mounting tension between the

superpowers, and the escalation of the conflict of interests in Ukraine in particular, led to the EU and US imposing economic sanctions on Russia. Meanwhile, oil prices plunged due to the struggle between oil producing countries, resulting in a sharp decrease in the value of the rouble (EUR 1 = RUB 37 on 1 April 2008 and EUR 1 = RUB 77 on 1 April 2016). The factors mentioned above have led to a situation in which our trade with Russia is heading for the level of the early 1990s. And it is Finnish farmers, and tourism and trade in eastern Finland and Lapland in particular, that suffer the worst blows.

## A layman's analysis

Russia's foreign relations have been difficult to predict at all times. The country has occasionally sought cooperation with the West, but then a strong policy of national isolation has suddenly taken hold. The latest phase has been seen after the fall of the Soviet Union. Up to the first years of the present decade, it seemed that Russia had chosen the path of openness, democracy and internationalisation.

In May 2012, I had an opportunity to interview State Duma Speaker **Sergey Naryshkin** in Moscow for the publication of our Chamber of Commerce. Naryshkin, whom I have known for more than 15 years, then expressed the view that "Russia's WTO membership will also provide new opportunities for economic activity between Finland and Russia". He also said that "in the long run, WTO is an opportunity for Russian business. The membership will also open Russia's large market to international corporations".

Hardly two years had passed after this meeting when the Ukraine crisis abruptly interrupted the upward trend in Russia's international relations. Then again, Finland's largest daily newspaper, Helsingin Sanomat, had published an editorial in late May 2009 expressing concern over the increasing efforts of the Russian government to use history as a political tool. Russia later justified the annexation of the Crimea with its historical rights.

However, there are grounds for asking whether the West has acted rationally and correctly in its relations to Russia? Has the EU, and the US in particular, provoked Russia's behaviour and power politics? One thing is certain: Russia is, and will continue to be, a superpower and a neighbour of Finland. If a peaceful solution is not found, we Finns will be among the hardest hit. Russia should not be irritated; if the West does not understand this, there could be unexpected repercussions in terms of, for example, refugee flows at our border crossings. We should all cultivate friendly relations with our neighbours. Finally, I would like to express my sincere thanks to **President of the Republic Sauli Niinistö** as well as **Prime Minister Juha Sipilä's** government for their understanding of *realpolitik* along the lines of the policies of Paasikivi and Kekkonen. ■



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MICHAEL MIATLIKOV

# Role of the Belarusian Chamber of Commerce and Industry in promoting bilateral trade and economic relations drawing on the example of Belarus and Finland

Expert article • 1960

**T**he Belarusian Chamber of Commerce and Industry is the oldest and largest business association in Belarus with more than 2,000 members ranging from small businesses and individual entrepreneurs to the largest enterprises – the flagships of Belarusian industry.

The Chamber members are mainly exporters, as well as the companies supporting export-import operations. One of the major targets of the BelCCI is to help these companies secure a foothold on traditional markets and to explore new export destinations.

To this end, the Chamber arranges business visits, presentations of Belarusian and foreign companies, as well as the participation of Belarusian companies in international exhibitions, forums and seminars, and at the same time assists in attracting foreign businessmen to participate in such events in our country, providing foreign partners with the opportunity to become better acquainted with Belarusian business and to establish necessary contacts for mutually beneficial cooperation.

In the past two years alone the Chamber and its regional branches arranged more than 1,600 foreign economic events in Belarus and abroad. At the same time we assess the efficiency of our efforts not in terms of quantity but quality of the events. Each event is result-oriented and designed to achieve certain goals including new business ties, sales markets and agreements for event participants.

In addition, we get our priorities straight when working with our foreign partners. We encourage the foreign business delegations not just to negotiate the sale of their goods, but also to examine possible collaboration and investment opportunities, joint ventures set-up, and technology transfer to Belarus. We as well invite investment authorities and procurement organizations from other countries to visit Belarus.

Finnish market is one of the promising ones for the members of the BelCCI. In the last year alone the trade volume between the countries exceeded USD 108 mln Belarus mainly exported products made of steel and ferrous metals, fur materials, light industry and engineering products. Finnish woodworking products, equipment for agriculture, horticulture and forestry, lubricants and transformers are in high demand in Belarus. Moreover, over the last five years Belarus has attracted more than USD 140 mln of Finnish direct investment.

Belarusian and Finnish businessmen experience mutual business cooperation interest on a wide range of issues. Sharing border with the European Union and being an active member of the Eurasian Economic Union, Belarus has practically become a "gateway" for foreign businesses. With an access to the Belarusian domestic market, foreign investors can explore new opportunities within an ample market of the EEU of the 5 member countries of 180 million people with equal conditions for economic entities, free movement of goods, services, labor and capital.

The successful innovative development of Northern European countries has spurred the interest of Belarus seeking to expand bilateral relations, especially in trade and economy.

The successful innovative development of Northern European countries has spurred the interest of Belarus seeking to expand bilateral relations, especially in trade and economy.

The significant potential of Belarus-Finland relations offers further expansion and strengthening of bilateral cooperation.

And the Belarusian Chamber of Commerce and Industry in cooperation with Finnish partners is always ready to provide necessary assistance to the business community representatives of

the two countries with an aim to increase bilateral trade level and develop cooperative ties.

The BelCCI has signed the Agreements on Cooperation with the Central Finland Chamber of Commerce, the Finnish-Belarus Trade Association and the Finnish-Belarusian Chamber of Commerce.

Besides, Finland is among the 30 countries where the BelCCI has appointed its representatives. In Finland, it is Mr Nicklas Pohjy-anvirta. In general, the main mission of our representatives in foreign countries is to assist businesses in partner search, contract signing and management.

The large-scale events organized by the BelCCI in cooperation with Finnish partners over the last two years: Business matchmaking session between Finnish and Belarusian businessmen in Minsk, IV Belarus-Finland Economic Forum in Turku, "Belarusian Market and Eurasian Integration as Opportunities for Finnish Business" round table in Helsinki, a broad-scale Belarus-Finland Business Forum in Minsk. These four events alone were attended by the representatives of more than 60 Finnish companies. Businessmen of the two countries signed agreements on cooperation in the spheres of fish

Expert article • 1960

farming, alternative energy, transport and logistics, science, investment, forestry, consulting, and financial activities. The most successful Belarusian-Finnish industrial investment project was the inclusion of the OJSC "Lidskoe Pivo" into the Finnish Olvi Concern.

We are constantly improving our approach to joint business events organization, realizing that today it is high time to be active and achieve tangible results. Therefore, every visit is preceded by thorough preparations. For every business event our Chamber partners conduct thorough preparatory activities, search for partners interested in mutually beneficial cooperation, and settle key organizational matters.

Thus, our company members can benefit from a single platform with potential partners and mutual interest to establish contacts. As a rule, all events result in the signing of protocols, agreements, memoranda of cooperation, and contracts between companies and organizations.

And, certainly, during the foreign economic events carried out under the auspices of the BelCCI we always communicate the most extensive information on the investment climate in the Republic of Belarus, benefits and preferences available, and state property objects subject to privatization.

I'd like to summarize that the Belarusian Chamber of Commerce and Industry is acting as a bridge between enterprises and their potential foreign partners. The role of the Chamber is to assist both the state and any single business entity in reaching the goals and objectives set for the development of international relations. But we are not going to rest on our laurels. We will always aim at quality improvement and the extension of services list, as well as maximum consideration of interests and needs of our members in the development of cooperation with public authorities and international partners, including the Finnish business community. ■



**MICHAEL MIATLIKOV**  
Chairman  
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ALISE BARVIKA

# Finnish-Latvian cooperation and the growth potential in the region

Expert article • 1961

Living as a foreigner in Finland, one can observe topics of the public debate and current business trends in the country – efficiency, automation and downsizing as the main focus but also pick up on the positive sense of hope among Finns for the economic growth. When looking for ways to grow the economy, advantages should be utilized from the already available opportunities. Like the value of regional proximity of Latvia and Finland, both located in the Nordic-Baltic region, renown globally for its excellence in many fields.

Both Latvia and Finland have among top IT infrastructures in the world, and both are strong in such industry sectors as metalworking, engineering, electronics, woodworking and chemical industries as well as cleantech and food processing. Additionally, Latvian business culture shares many of the same Nordic business ethics – people are result-oriented, hard working, responsible in meeting deadlines and keeping their promises.

## Latvians are eager to broaden the cooperation on trade and investments

Latvia's remarkable ability for dynamic change is at the core of the country's entrepreneurial spirit, and it was displayed vividly a few years after the post-financial crisis years when public discussions turned to the trade diversification and growth opportunities.

Later on, as a response to changing geopolitical situation in 2014, the government agency tasked with foreign direct investment attraction, export promotion and tourism policies, the Investment and Development Agency of Latvia (LIAA) decided to foster trade and foreign direct investment into Latvia by opening up new offices around the world, including in Finland. The LIAA representative office in Finland was established to broaden the assistance to Latvian exporters and also to be a pragmatic partner for Finnish companies looking at Latvia both on the investment and sourcing side.

With the exception of service export, the trade balance between the Baltic States and Finland remains historically negative – with more goods sold to the Baltics from Finland than vice versa. Still, the trade between the Baltics and Finland is sizable – reaching over five billion euro. Over the years, the Finnish-Latvian trade has been stable. Finland is Latvia's 8th biggest trading partner. Comparatively, however, of the five billion euro trade between Finland and the Baltics, trade with Estonia accounts for 3.4 billion. If the same intensity of trade as among the Finno-Ugric nations would be applied to the rest of the Baltics, the Finnish-Baltic trade could easily reach 10 billion euro, thus, adding a significant growth potential to all parties involved. Furthermore, while Latvia has seen a steady growth of Finnish capital companies (12% increase over the last two years), when compared to the Finnish presence in Estonia, there is almost a ten-fold difference between the two Baltic nations.

Building on the similarities between Latvia and Finland, there is a positive interest from both sides to further expand business interactions that will in the long-run bring more volume to our trade. A clear indication of Latvia's eagerness to explore opportunities and

synergies with Finnish companies was the active participation of 85 company delegation from Latvia visiting Finland last year during the State visit of Latvia's President. Since then, a number of Latvian and Finnish delegations have been working on exchange initiatives for cooperation.

## The long-term outlook for closer collaboration within the region is promising

Large Finnish companies are brave to explore foreign markets, including the Baltics, and reap the deserved benefits from expanding abroad. In regards to tapping into foreign markets, Latvia's small and medium-sized companies are as active in the foreign markets and more small and medium sized Finnish companies are following the trend.

Having a presence in our home region is important but yet more could be done by jointly penetrating global production and export value chains. In this context, locating a business in Latvia could be explored as an option. If a company or a private investor is looking for efficiencies in the taxation or production volumes and costs, Latvia might just be the business destination they need. Latvia has many business incentives and advantages to offer, especially for widening the product portfolio and efficiencies in logistics. Significant European Union structural funds are available.

Furthermore, the flight connections from Helsinki to Riga are convenient, making trips between the countries easy. Up to seven daily flights are operated by Airbaltic and Finnair between Riga and Helsinki, and connections to Turku are also available. The numbers indicate that Finns are already taking the advantage of the great air transport connections. In 2015 tourists from Finland to Latvia grew by 10.6%. On the ground transportation side, *Rail Baltica*, the European Union's transportation infrastructure priority project for the Nordic-Baltic region, will soon enter the implementation phase. If as a recent feasibility study suggests, the Helsinki-Tallinn rail tunnel will become a reality yet during this generation, the Baltics will be closer to Finland than ever before. In a more global perspective, the linkage to the Arctic region might also be explored in the future.

## Unlocking the growth from the Nordic-Baltic region

Pursuing closer cooperation between Finland and Latvia can both unlock the growth opportunities in the region and also enhance our common trade to the rest of the world. ■



### ALISE BARVIKA

Head of the Representative Office in Finland  
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ANTTI VASARA

# Innovations boosting prosperity

Expert article • 1962

In the global economy each country's performance is measured by its competitiveness. Is this sustainable and the right way to evaluate success? Should the focus be instead in innovations that really boost the economy and at the same time create welfare, balanced and sustainable growth? New technologies and science-based innovations offer sustainable advantage for nations. This has been the historical case for Finland to deliver competitiveness for the national economy and for the whole society.

From the innovation capabilities point of view, Finland, along with other Baltic Rim countries, is in a good position. Our infrastructure is good. We have highly educated people: 84% of Finnish people over the age of 25 hold at least an upper secondary education certificate and almost 40 percent of Finnish people hold a higher education degree. According to the WEF Global Competitiveness Report 2015 - 2016, Finland is the second most innovative country in the world among the 140 economies evaluated in the study. Also Bloomberg Innovation Index 2016 rates Germany, Sweden, Finland and Denmark among the most innovative economies of the world. Both the government and companies understand the importance of innovation: the R&D intensity of Finland has for long been among highest in the EU countries.

Finland is living from exports and dependent on industries with high tech sales. At the same time we are facing severe challenges and radical structural changes. There is an urgent need for game changing technologies and supporting business models with accelerated pathways to markets in order to increase the Finnish competitiveness and reindustrialisation.

A number of megatrends are of high relevance to the whole Baltic Rim area: Individualism; Demographic shifts; Health and well-being; Urbanism and mobility; Digital disruption; Connectivity and convergence; Energy efficiency; Resource efficiency; Natural resource scarcity; Climate change; Globalisation. These megatrends guide the innovation activities in Finland.

VTT Technical Research Centre of Finland Ltd, is an integral part of the Finnish innovation infrastructure. We co-create together with companies and other R&D actors. Our research and innovation focus areas are in the fields of knowledge intensive products and services, smart industry and energy systems and natural resources and environment, in alignment with the national spearhead areas.

We have identified five key value propositions to aid the Finnish industrial transition: 1. Prosperity from Natural Resources: Natural resources, waste and side streams provide new potential for added value products and production for the Finnish export industry. 2. Empowerment by Digitalisation: Finland is a frontrunner in the promotion of the digital disruption. 3. Energy Security from Clean Energy Systems: Clean and smart energy systems provide Finland new export opportunities together with the increased energy security. 4. Competence from Industrial Ecosystems: Productivity leaps to the Finnish manufacturing industry, special target on SME sector, by automation and digitalisation. 5. Sustainability from Smart communities: Good connections, smart traffic, eco-efficient communities for smooth and sustainable everyday life.

Since we are competing in the global setting, network-based cooperation with the world's top players is vital also in R&D&I. One of VTT's objectives is to connect Finnish companies and other actors with international, particularly European value chains and EU projects. VTT was involved in 445 international public projects in 2015. VTT has maintained its position as the single largest recipient of EU research funding in Finland. VTT was 8<sup>th</sup> largest recipient of all the 8,000 organisations that received funding from EU's Horizons 2020 programme. VTT has actively been promoting also domestic networking and cooperation between research institutes, universities, higher education institutes, and the business sector, both big companies and SMEs.

Increased global cooperation doesn't mean that we would or should forget the cooperation with our closest neighbouring countries. Nordic governments are promoting research cooperation, for example, through NordForsk funding and Nordic Innovation Institute's support for partnership creation. This cooperation will increasingly cover the Baltic countries, the Arctic area and Russia.

Strategic focusing of research activities is important. On the other hand, we must not all focus on the same themes and technologies. We should find our own strengths, study the demand, and make foresight research to find out which sectors will go on or start growing. We as rather small nations should have a multidisciplinary approach since new opportunities are often found by crossing borders and mixing different disciplines and people. This trend is strengthening as a consequence of open economies. ■

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ANNALEENA MÄKILÄ

# Intelligent investments in Finnish ports?

Expert article • 1963

**F**or the past couple of years the economy of Finland has not achieved to get grasp on global growth. Instead Finnish industry – paper and forest industry and steel and metal industry – has been struggling with structural change in which some positive results are to be seen. The seaborne transportation is crucial for Finland. In that respect there has been at least two very difficult years for Finnish ports as the volume of transported cargo has decreased. Reasons for that are clear: Finnish products have not been competitive, there have not been enough investments in Finland and the recession of Russian economy has affected in some respect also to some ports.

Port business is a business much relying on developing the physical infrastructure – both within the port area and outside of it, hinterland connections and water fairways. More and more Finnish port companies take role in developing different kinds of services that evolve from the infrastructure they are holding. Despite of diminishing volumes of seaborne transportation Finnish port companies believe in their future. Port companies constantly develop port infrastructure and in that way answer to the demands that their present and future coming customers are expected to have.

In January 2016 was published a report on a broad outline of planned investments in Finnish ports. This survey covers investments made and planned by port authorities (port companies) and port operators. Good news is that Finnish ports plan to have annual investments approximately for around 120 million euros during the next five years. Main resources are targeted to quays, fairways in port area and port basins. It is also good to notice that port operators plan to have remarkable investments on cargo handling equipments. All this is necessary due to the growing size of vessels and land based industry's urgent need for more efficient logistic chains.

During the years 2011-2015 the investments in Finnish ports were in total 437 million euros which is by annual average 87 million euros. 83 percent of the total investments were made in the public sea ports. According to the survey the investments under planning for the years 2016-2020 will be over 600 million euros which is even 38 percent more than during the previous period under examination. The future planned investments split quite equally between different public ports at all three sea areas of Finland.

Not only the public ports but also the industrial sea ports have increased their investments during the past five years and it seems that this will continue in the near future.

Even many Finnish ports are relatively small by their size and capacity it still is important for all port companies to continuously keep on investing in port's infrastructure, premises and services that are closely related to the role port companies have in holding the physical infrastructure. It is quite obvious that in the near future some of

the Finnish ports have difficulties with financing the investments. Previously it has been quite simple to arrange financing of an investment – even a large one – within the municipal budget. Now being independent market oriented port companies it is not that simple. It has been seen already by now that the interest of port companies is rising towards new financing instruments. It has been a pleasure to notice that the main port companies with some of their stakeholders have activated in utilising Connecting Europe Facility (CEF) and Motorways of the Seas (MoS) -programs with financing tools in those and even being interested in financing instruments of the European Investment Bank (EIB).

In order to promote investments in maritime cluster in Finland a group of associations got together and established a joint platform for co-operation. This Finnish Maritime Cluster (FMC) platform gathers not only port companies and port operators but also shipowners and the whole marine industry to promote innovations and develop investments. Some projects have even now started and for the latest there has been a real step to enlarge the Finnish co-operation with Swedish Zero Vision Tool (ZVT) –method. Target has been put very high. The partners of FMC and ZVT –platform plan to widen the co-operation method all over the Baltic Sea Region.

Mobility as a service (MaaS) is new perspective to transportation. Finland pushes the idea forward within EU as digital markets are in the focus of European Union and it's transport policy. I believe Finland has a lot to give in the field of ICT. To have all transportation modes even more efficient it is all about taking advantage of knowledge (that mostly already exists) and develop totally new market driven digital services for customers in passenger transportation as well as in cargo flows. Ports are hubs for information and have a real potential to create new roles in digital services within logistic chains.

Digital services are not only taking advantage of traffic information and delivering it but more and more about totally new service concepts for customers of transportation. ■



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ARI-JUSSI KNAAPILA &amp; JUKKA-PEKKA JOENSUU

# A maritime cable from Finland to Central Europe: Baltic Sea area becoming a new data hub and connecting European Single Market

Expert article • 1964

**1 Background**  
Finland has a unique position in the European Union with a central position in the Baltic Sea and also geographically connecting northeastern Europe with Eurasia and Asia. This has been very true in relation to telecommunications and data networks. Traditionally due to close relations in business and building of business links Finland has been connected to Sweden through various networks. This has been the way for the Finnish companies establishing pan-Nordic business and also creating data connectivity towards central Europe. In the late 90's due to rapid increase of telecommunications traffic this also became a highway connecting east to west and today most of the internet and telecommunications traffic is carried through Finland and Sweden towards main European internet hubs and serving the demands of the capacity needs of Russian, Asian and international carriers and businesses. Also connectivity to the Baltic states and routes through Baltic Sea countries were created in early 2000.

In 2010 Ministry of Traffic and Communications in Finland started to look for the ways to create a new connectivity between Finland and Germany and increasing the demand for new era of telecommunications data traffic. The emergence of OTT's like Google and Facebook building their data centers together with Russian Yandex started the new phase of development. In 2013 a feasibility study was conducted and the results of this study made by Pricewaterhouse Coopers Oy (PWC) and a wide consultation process paved a room for the new investment to build a maritime cable from Finland to Central Europe.

The Finnish Government and Prime Minister's Office made an important decision in late 2013 to purchase a company called Corenet Oy running a backbone railway telecommunications networks and to develop and run the sea cable project, called Sea Lion, one of the highest governmental initiatives. The whole project including the transformation was expected to have a budget of 100 M€ with the sea cable between 60-80 M€.

## 2. Public-Private consortiums leading the way to New European Digital Highway

As European economy is undergoing a major transformation and at the same time facing very rapid digitalization there is need for new kind of thinking. A traditional way of financing and building vast infrastructure projects needs a more holistic approach to neutral networks which can carry vast amounts of data and provide a platform for innovativeness, new services and mobility.

Sea Lion project was built to meet the demands of this new era and combining industrial know how, strong governmental support with public funding and private actors to join the consortium. A wide public consultation provided an open and transparent process and this led the European Commission to accept the notification of the Finnish Government to build a Sea Lion project with 20 M€ public support funding to

build the sea cable with cybersecurity, redundancy and promotion of Single Digital Market in Europe.

The support of the European Union for the project was one of the key elements to the institutional funds and financial market and after the notification received on September 16<sup>th</sup> 2014 the next steps of the project continued in a rapid pace. By end of October 2014 after several discussions with interested parties a private consortium of Ilmarinen and OP Group were chosen to meet the matching equity investment of Governia's public 20 M€ investment. Early December 2014, after a thorough tendering process, a French company ASN Submarine Networks was chosen as the turnkey provider to deliver this challenging project.

For the transformation of this new entity Corenet was renamed into Cinia Group and a separate SPV C-Lion1 Oy was created to own and operate the sea cable system.

**3. Delivering the project**  
The project had a very demanding 16-month project plan to study the final route, build the cable, apply for permits in the Baltic Sea territorial water owners and under economic zones, and lay the cable in the seabed.

Finland has a unique position in the European Union with a central position in the Baltic Sea and also geographically connecting northeastern Europe with Eurasia and Asia.

Expert article • 1964

The Baltic Sea is a shallow water area and laying the 8 fiber pair system has had several challenges, including mines, archeological and other nature reserve areas, a very rocky seabed especially in the northern part of the Baltic Sea and also winter conditions which could have in the worst case set serious hurdles for the project.

With a very strong professional organization of ASN and wide capabilities in delivering the projects and also with a dedication of the Sea Lion project team the project was ready on time and in budget. After the delivery of the project the Finnish Government and the stakeholders of the cable system have a 144 Tbit/s system in use and the European economy can utilize the green energy markets in the Nordics to build data center connectivity and data centers to meet the demands for the European SME's, corporate and public organisations and connect the European hubs with Asian and western data hubs.

**4. What's next**

The maritime cable system has a life cycle of over 30 years and will experience several new development phases. In less than 15 years we have seen the emergence of the Big Data, cloud providers and business growing more and more digital. This cable building a bridge between Northern Europe and Central Europe directly through the Baltic Sea will open new possibilities between the continents.

Therefore, aiming for the future is the Arctic Connect. Building a physical data connection from top of Europe through Northeast passage will connect the Asian and European continents and enable a new silk route to emerge. This should be the next aim for the Nordic countries and Barents Region which will make the truly global digital economy possible. Neutral networks, connectivity and data security are the building a better society for the business and for the people.

We also believe that Sea Lion is a concrete example that combining private and public funds, building open access network with high focus on data security and neutrality and including carriers, OTT's and all players in the system will fuel the digital economy and build better society. ■



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# The Finnish navy safeguards merchant shipping connections

Expert article • 1965

A sound economy and infrastructure are essential to our society in all conditions. Finland's geographical location, at the edge of Europe, presents a great challenge for our national economy and it generates great impact on our nation's competitive strength. Not only is the distance that the goods travel longer than for our competitors, but during winter hard ice and weather conditions also generate greater challenges for Finnish companies. The Finnish economy leans largely on foreign trade. Import makes up some forty per cent of our trade balance and also export reaches the same order of magnitude. Approximately eighty per cent of Finland's imports and ninety per cent of its exports travel by sea. During the past two decades the volume of international transports conducted by sea has increased by approximately seventy per cent. The growth has been steady, at around just under three per cent a year. Germany, Sweden and Russia being our most important trading partners, the Baltic Sea has become the main transport channel for imported and exported goods. Big cities at the Gulf of Finland, a few greater ports at the Gulf of Bothnia and the oil terminal in Naantali handle most of Finland's imports and exports. The export is mainly directed towards ports at the Baltic Sea or the North Sea, or to other European ports. Based on this description, the Finnish slogan "Suomi on kuin saari", Finland is like an island, provides a logical description of Finland's position in a European setting.

As a consequence of globalisation, the national self-sufficiency has decreased in critical production areas. Critical imports are above all energy and food products. To be able to maintain the equilibrium of our national economy, it is of critical importance to be able to secure the export channels also during abnormal and especially during prolonged abnormal conditions. The longer the abnormal conditions prevail, the more emphasized the need for export transports becomes. The Government Report on Security and Defence Policy 2009 states that transport operations that are vital to Finland shall be safeguarded in all conditions. The Security Strategy for Society from 2010 presents a similar statement and defines foreign trade to be safeguarded so that import and export, vital to the security of supply and the functioning of the business community, can go on as uninterrupted as possible also during emergency conditions.

The Finnish Navy plays an important part in securing the functioning of the vital foreign trade. The main tasks of the Finnish Navy include the surveillance of our territorial waters and ensuring their integrity, the securing of maritime connections and the repelling of attacks by sea. The first two of these tasks are directly connected to securing the foreign trade conducted by sea. As a territorial surveillance authority the Navy is responsible for monitoring and securing Finland's territorial integrity at sea in cooperation with other Services, the Border Guard, the Finnish Transport Agency and the Finnish Transport Safety Agency, that are subordinate to the Ministry of Transport and Communications.

Even though the Finnish Transport Agency and the Finnish Transport Safety Agency hold the main responsibility for securing the foreign trade conducted by sea during normal conditions, the Finnish Navy, as a territorial surveillance authority, participates in the surveillance

of our sea areas. Based on this surveillance the situation awareness needed to evaluate the situation is maintained. The territorial surveillance of the sea areas is mainly conducted by stationary equipment and supplemented by information from mobile and portable surveillance units, situation reports from other authorities and international cooperation on producing an up-to-date maritime situation picture. The Navy produces a situation picture for the areas with maritime traffic and drafts an assessment primarily for military threats that might affect the maritime traffic and maritime connections. Based on the assessment the maritime transport authorities direct the maritime traffic and prepare to take measures to secure the operational requirements of the maritime traffic.

During emergency conditions, the Navy's task to secure the merchant shipping is especially important, but the range of available measures is also more varied. The Navy's naval units carry out reconnaissance and surveillance tasks in the areas used for maritime traffic. They can also carry out immediate defence and long-range defence tasks, lay naval mines in our territorial waters in order to reduce threats against the maritime traffic and to prevent the enemy from operating in the area. The naval units also take preventive measures and secure the central waterways and sea-lanes used for merchant shipping. Combat vessels can also be used to protect vital areas through surveillance and reconnaissance tasks or to defend them with weapons. Such areas are for example narrow passages or harbour areas. Vital maritime transports are provided with convoy escorts, which means that the combat vessels travel with the ship that needs protection. If needed, ships from the Border Guard and the Navy's coastal units may also be used for this purpose.

Our location at the edge of Europe, beyond the seas and far from Europe's main waterways requires that we can secure the operational requirements for our merchant shipping in all conditions, all year round. The Finnish Navy shall be able to do this also in the future, in accordance with what is required from us, no matter if the sea is open or frozen over with ice. ■



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REIJO KARHINEN

# Job creation in Finland rests on small and mid-size enterprises

Expert article • 1966

**F**innish economic growth has remained practically non-existent in recent years. GDP has still not reached its pre-financial crisis level and there is no quick recovery on the horizon. The economic picture is unparalleled.

In Finland, economic restructuring and adjustment to it have made slow progress, especially compared with other Baltic Rim countries. The Baltic economies have proved their dynamism after a dramatic transformation of private and public sectors. Meanwhile, Germany and Sweden managed to modernise their labour markets well in advance before the financial crisis.

In Finland, the economic and labour market policy seems to have been stuck in a position where painful decisions are held off or watered down in anticipation of economic recovery stemming from large corporations and exports. This despite the fact that Finnish economic problems have turned out to be structural – not merely being due to the economic situation.

Large corporations have always had a major role as an engine of exports and economic growth but something seemed to have changed in the traditional landscape as manufacturing and subcontracting have been offshored. Furthermore, adjustment to plummeting exports to Russia is still underway.

Now large Finnish corporations have begun to reinvent themselves and there are signs of recovery in fixed investments. Although they will continue to play a big role in the future too, the Finnish economy and especially the export sector need restructuring. Attaining sustained economic growth in Finland requires bold investments in new business.

Future growth and job creation will increasingly rest on small and mid-size enterprises. Between 2001 and 2012, SMEs accounted for up to 93% of job growth in the corporate sector. The SME sector's share (66%) of the corporate sector workforce has continued to increase in recent years.

We can expect a lot from the SME sector but sad to say that the rate of new business creation in Finland is, however, low. In 2014, 3.4 new businesses per 1,000 people of working age were created in Finland whereas the same figure in the other Nordic countries was almost double and triple in the Baltic countries.

Finnish SMEs are faced with the challenge of their being highly dependent on domestic markets and large export companies. According to a survey of large corporations commissioned by OP, large corporations have also begun to move subcontracting abroad. Consequently, SMEs have lost some of their traditional markets.

Finnish SMEs should find new markets abroad, but only 33% of them are engaged in exports, as against over 50% in the Nordic countries and the Baltic countries.

Meanwhile Finnish SMEs feel that their challenge is greater in the suitability of their product and service range and personnel export expertise than their Nordic and Baltic peers. The population age structure and transfers of business to the next generation in Finland also present challenges, as a third of entrepreneurs are over 55 years of age.

Enhancing business opportunities for SMEs requires action on a wide front in Finland. We should learn something from the other Baltic Rim countries. Courage is needed from various parties: not only from companies themselves but also law-makers and, of course, banks.

Unlike the rest of Europe in general, sufficient financing is not an impediment to business in Finland.

According to the results of a bank lending survey issued by the ECB last October, 79% of Finnish corporate loan applications were approved in their entirety where the euro-area figure averaged 67%. Furthermore, the average corporate borrowing rates in Finland is markedly lower than in the rest of the euro area.

OP has had a critical role in securing the financing needs of corporate Finland during the prolonged recession. OP's corporate loan portfolio increased by 42% during the last five years, which accounts for over 70% of growth in total corporate loans in Finland.

Still, it has been necessary to improve the availability of risk financing for new businesses so that companies operating in the most innovative growth sectors and without collateral securities can get into full speed. The Finnish government has set the availability of financing for start-ups as one of its main goals. OP too has been willing to contribute to this. We have offered a new financing product to start-ups that combines traditional bank loan and risk financing in the same package.

Moreover, OP as the first intermediary bank in Finland and the Baltic countries has signed a guarantee agreement with the European Investment Fund (EIF) for corporate lending supported by the European Fund for Strategic Investments (EFSI). This lending is specifically targeted at innovative SMEs and small-caps. This is a relevant target group because the very same firms also usually make dedicated efforts to target export markets.

As a socially responsible cooperative business, OP is strategically highly determined to promote SME business both in Finland and the rest of the Baltic Rim.

We will continue to develop ever-more flexible and diversified financing solutions. We want to help in starting a business, alleviate administrative burden on businesses and facilitate business control through new digital service solutions. We want to make services supporting internationalisation more readily available to small companies too. ■



REIJO KARHINEN

President and Executive Chairman  
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SERGEI ROUMAS

# Development Bank of the Republic of Belarus: evolution of success

Expert article • 1967

This year the youngest financial institution of the Republic of Belarus will celebrate its first anniversary, five years from the date of establishing. During this rather short period of time the Development Bank has evolved into one of the top-ranked leaders of the Belarusian financial market which applies unique financial solutions in its operations. In terms of many performance assessment parameters the national institution of the Republic of Belarus excels over the majority of development institutions in the world.

The secret of such vigorous progress and fast growth is a vital issue which concerns numerous experts, partners and analysts. To a large extent the answer lies in the business model concept of the Bank itself. It is worth noting that the project implemented in close cooperation with international experts turned to be a successful endeavor on the part of Belarusian state to form a full-rate national development institution.

Created in 2011 in compliance with recommendations from the International Monetary Fund and the World Bank the Development Bank of the Republic of Belarus was initially focused upon financing of government programs including by means of acquiring assets of core commercial banks of the Republic of Belarus. Thus the process of stage-by-stage concentrating within the Development Bank of directed lending and transition of active banking operations of commercial banks to market-based principles began.

The Bank however did not stop at what was achieved: it improved the traditional business processes and started mastering the advanced foreign practices.

First of all the Development Bank brought the state targeted financing to a fundamentally different level. Each project passes through the most scrupulous filters of the Bank's approval from the point of view of its return rate, efficiency, relevance and viability. Only the projects that passed this examination successfully may apply for preferential investment resources. The efficiency of this approach was highly appreciated by the Government and since 2016 the Development Bank became the only operator in the area of all government programs financing in the Republic of Belarus.

Secondly, the Bank began to successfully operate as classic development institution and focused its efforts upon maintenance in the Republic of Belarus of the export financing system based upon globally accepted OECD methods. For the open Belarusian economy export increase is the key mission which determines the economic safety of the state. Today the Bank takes the share of about 85% of the national market of export financing to non-residents and actively promotes Belarusian goods and services in various regions of the world: Africa, Asia, Latin America, CIS countries.

The third direction of the Bank's activities became the elaboration and implementation in the Republic of Belarus of the support platform for small and medium entrepreneurship, which makes up the most active, dynamic and creative economic formation in any state. With participation of 11 local partner banks and 1 leasing company the Bank performs a large-scale wholesale financing of the SMEs and by the end of 2015 its portfolio in this area reached the amount of USD

32 million. It is due to the resources of the Development Bank that the amount of long-term loans in rubles granted by Belarusian banks grew by more than 70%.

As the Bank's activities expanded the proper funding was required, and the Bank reached the optimal balance in its structure. Since 2015 the Development Bank has been an institution authorized to manage the family funds within the frames of the government program of support to families with children. The Bank monthly accumulates long-term financial resources which enable to finance the projects vitally important for the Republic of Belarus and having longer payback periods. For the demands of short-term export financing the Bank actively uses instruments available in the international financial market (bilateral and syndicated loans).

It is to be noted that international vector is one of the main directions in the Bank's operations. Apart from solving the tasks of its own funding the Development Bank also plays a peculiar role of a so-called financial diplomat in the international market, which means that the Bank holds a number of events to draw a much larger attention of the global financial and banking public to the Republic of Belarus in general. Thus the Bank is the first and so far the only Belarusian financial institution which opened its representative office in the City of London. The applied concept of office operation allows the Bank to function not only in London, but also in many other business locations, such as Beijing, Doha, Tokyo, Paris, Manila, New York and others.

The efficient work results in high performance (first place among all Belarusian banks as of 2015 year-end), which permits the Development Bank to take a significant part in realization of social projects in the Republic of Belarus. Sports, education, health care, culture and arts – all those spheres bear an imprint of the Bank's influence. A special pride is the School Bus program. Within the frames of the program realization the Bank will give to children from Belarusian rural districts more than 300 modern buses which will serve as excellent helping aid for maximal development and self-fulfillment of schoolchildren from the countryside.

In its new 5-year strategy the Development Bank stipulates even more challenging tasks. At the same time the concept of work of the Belarusian development institution shall not change and the Bank will remain an efficient, reliable and multi-functional instrument for realizing state financial interests both in domestic market and in any other place of the world open for partner relationships with the Republic of Belarus. ■



SERGEI ROUMAS

Chairman of the Management Board  
JSC "Development Bank of the  
Republic of Belarus"  
Belarus

PEKKA VAURAMO

# Connecting the Baltic rim to Asia: Finnair's mission

Expert article • 1968

**F**innair, the flag carrier of Finland, has a long and rich history as one of the world's longest-operating airline. In fact, it all began in the Baltic region with our very first commercial flight, which was operated by Aero Oy, delivering 162 kg of mail between Helsinki and Tallinn on March 20, 1924. Ever since then, our company has played an integral role in the economic development of the Baltic Sea countries. Currently, we fly to eight cities which border the Baltic Sea and offer a fast, convenient and efficient network of connections to European, Asian and North American destinations. Finnair's brand is very well known and positively recognized by our Baltic region customers for its quality and reliability.

Coming from a smallish country with only some five million inhabitants, it has always been clear for Finnair that we must look outside our own home market for growth opportunities. The strategy that Finnair has chosen and built on over the past 10 years arises from geography, i.e. the geographical location of our Helsinki hub.

Helsinki is situated directly on the shortest route between many European cities and key cities in Northeast Asia. This allows Finnair to offer fast and smooth connections between Asia and Europe, and in many cases flying the northern route enables hours of savings for our customers. The location of our Helsinki hub also gives us the opportunity to serve many Asian megacities within a 24-hour rotation - an aircraft departing from Helsinki to Asia in the afternoon will return to Helsinki within 24 hours, and be ready for its next flight to Asia. This means very efficient aircraft utilization rates - in fact, Finnair's utilization rates for our long-haul aircraft are truly world-class.

The geographical location of Helsinki and the efficient operational benefits it generates for Finnair has been the foundation of our strategy, which centers on offering the best connections between Europe and Asia. We currently connect over 70 destinations in Europe with 17 megacities in Asia, and also offer direct connections to three cities in the US. Our timetables have been built to support transfer traffic, and we have worked hard to build the Helsinki Airport into a hub that ranks amongst the best in the world in terms of punctuality and connection reliability.

Finnair's focus on Asia-Europe traffic has also benefited the Baltic rim countries; due to the short flight time between Helsinki and many of the Baltic rim countries, our hub in Helsinki has emerged as a key transfer point for customers from Estonia, Lithuania, Sweden, Russia, Poland and Latvia. On average, approximately 90% of our Baltic region customers transfer in Helsinki on their way to their final destinations.

We have worked hard in recent years to improve our competitiveness in a fast-changing industry, and recent developments have proved that we are clearly on the right track. In 2015, Finnair carried over 10 million customers, with over 100,000 flights. We are all set for growth, with an investment plan in place to further increase our capacity and improve the customer experience onboard. The growth of Finnair will also bring improved connections and new opportunities for countries surrounding the Baltic Sea.

We have made it a strategic objective of ours to double Finnair's traffic between Asia and Europe by 2020 from the 2010 level. This spring, Finnair opens routes to Guangzhou in China and to Fukuoka in Japan, and we will continue to expand our network also in the future.

Our investment in a new fleet of A350 XWB aircraft is the backbone of our new strategy and in 2015, we were the first European airline to fly the new Airbus A350 XWB. The new A350 aircraft will also play a key role in Finnair's cargo strategy, providing up to 50% more cargo capacity by 2020. In total, we have ordered 19 A350 airplanes, making it the biggest investment in Finnair's 92-year history. The first four aircraft have been delivered to us in recent months and are currently in operation. We have received excellent feedback from our customers regarding the onboard flight experience and with another three A350 planes being delivered by the end of this year, we are confident that even more of our long-haul customers will be able to experience this new way of flying. The complete order of our A350 aircraft will be fulfilled by 2023, ensuring we have one of the most modern and efficient long-haul fleets in the industry.

The importance of viable air connections for national economies cannot be overstated and we are proud to be able to connect our home region to the great opportunities across the globe. As traffic to and from Asia grows, Finnair will also be increasing capacity in its European and Baltic region traffic because a significant part of the company's customers are transfer passengers. This should have a positive impact on tourism and economic development, but it will also open new doors for businesses in our region. ■



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MIKA ANTONEN

# Blending mandate for advanced biofuels

Expert article • 1969

**E**uropean Union has traditionally presented itself as the leader in social standards, innovation and developed ways of taking action on global issues. Energy and climate issues are no exception to this. EU has had strong stake at all major negotiations on sustainable development and has also been a frontrunner in implementing the needed actions. However, actions have stalled during recent years allowing countries and continents outside Europe passing by.

The COP21 in Paris showed that world leaders can still decide to work for brighter future. However, the current set of policies are inadequate and are not likely to deliver the required investments. If EU wants still to be seen as the leader in climate policies, now is the time to regain that leadership. All industries must play their role and therefore strong mandates are needed. There is no room for hesitation anymore.

## Make the most out of existing regulation

The amount of regulation in renewable energies and especially in road transport sector are plentiful. These are not perfect, but nothing is. The flawed regulation is widely used as a scapegoat for industry inaction.

The policy makers must correct the regulation that supports fossil energy over renewable energy. In fuels Diesel is incentivized over gasoline, and fossil fuels over biofuels. For example, advanced bioethanol is taxed almost twice over diesel in European tax regulation. How can we dream of decarbonizing transport under such scheme? Furthermore, the vehicle taxation and emission standards does not consider the benefits from renewable energies or biofuels. Therefore, the vehicle regulation must be corrected to benefit sustainable advanced biofuels.

The binding mandates are a necessity to create stable business and investment environment. By having technology neutral market conditions, competition in R&D for different technologies will emerge and new global solutions can be found.

## Blending mandate vs. tax exemptions

As there has not been strong overall implementation of Renewable Energy Directive, Member States have all created their own models to regulate biofuels. There are two good examples that have resulted in high levels of renewables in transport. In Finland 23.5 and Sweden 19.2 per cent levels were reached already in 2014. In Finland taxation was changed to meet the model from envisaged Energy Taxation Directive, and since 2011 Energy and CO<sub>2</sub> based fuel taxation has been in place. Also a strong biomandate was introduced, which supported investments into advanced biofuels production through a successful implementation of double counting. A long term (>10 years) blending mandate with penalty of non-compliance, has demonstrated to be a very powerful tool to ignite investments in domestic production capacities.

Sweden is another success story, with the high shares of biofuels and very fast. However, that market was created through tax exemptions. Tax exemption is a good tool to attract existing biofuels volumes

from other markets. However, it does not incentivize to invest in new domestic production capacity, due to short term nature of the taxation. Traders are constantly looking around to identify the following best paying market for their advanced biofuels.

## How can we move forward?

European Commission must act ambitiously with regulation. More investments into R&D and new biorefineries are needed. Bioeconomy can act as a boost for Europe by creating new know-how and jobs. The goal can only be achieved if the largest fossil energy companies are fully committed to participate in this work and put their resources in use.

The advanced biofuels are the only realistic measure to decarbonize transport within 2030 timeframe. The infrastructure is already in place for liquid fuels, therefore results can be delivered with reasonably low costs for society. Technologies are existing, but risks for investments are too high due to turbulent political atmosphere. A strong mandate for advanced biofuels, where target should gradually increase during 2020-2030 is needed. This will incentivize and increase the level of market driven R&D within fuel and energy suppliers. Investments in advanced biofuels production would be done in the EU Member State(s) in which they will fulfill the mandate most cost effectively.

For example, St1 is innovating with a technology that converts sawdust into advanced ethanol and numerous by-products that could be used in chemical industry. This and numerous other competing technologies developed throughout EU and globally, will bring the needed solutions if only they are allowed to enter the market. To reach that, binding and increasing mandate for advanced biofuels is imperative.

Availability and the sustainability of the used feedstock is the key prerequisite for the acceptance of such fuels. Report Wasted, Europe's untapped resource, an assessment of advanced biofuels from wastes and residues by ICCT is showing that technically up to 16% of energy need of the European road transport could be sustainably replaced by waste and residue based advanced biofuels. To enable the investments, the process led by EU Commission of setting new sustainability criteria for biomass in general needs to be concluded soonest possible.

The task ahead of us is not easy. That is the very reason why we have to act fast and to be very determined. The investments will be expensive and extensive, but the costs related to procrastination are far greater. We don't have time to waste. ■



**MIKA ANTONEN**  
Chairman of the Board  
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VYACHESLAV DEMIDKOV

# The world best experience of energy – to Belarus: the development of dialogue with Scandinavian countries and Finland

Expert article • 1970

**T**he modern, highly dynamic world requires a special attention to the dialogue in the energy sector and exchange of sophisticated technologies for energy generation. Energy saving and energy efficiency are among the key elements of stability of any country, especially those that have no significant energy resources.

This particular principle was the basis of priorities Energopro a group, founded in 1994, set itself the aim of development of partner relations with leading European manufacturers of power equipment.

Being more than 20 years on the Belarusian market and understanding clear of the Belarusian energy system needs of high-performance and reliable technologies, Energopro can declare confidently on high prospects in the Republic of Belarus of application of equipment produced in Scandinavia and Finland.

That is why, since its inception, Energopro has set its sights on establishing partnerships with companies such as Atlas Copco, Siemens Industrial Turbomachinery AB (Sweden), Danfoss, Aalborg Engineering, Siemens Flow Instruments (Denmark).

Of particular note is the development of energy dialogue with Finland.

The history of the Belarusian-Finnish success of the Energopro Group began in 2004, through the cooperation with the Finnish company Wartsila. Joint efforts allowed parties implement a number of projects for the construction of energy facilities within only 5 years.

Zhlobin CHP (city of Zhlobin) for RUE "Gomelenergo" based on the three engines of the total electrical capacity of 27 MW started its operation in January 2009. The second project involving the company Wartsila has become a cogeneration CHP based on two gas-piston engines of Wartsila with output power of 18 MW of electricity commissioned in May 2009 at Shklov newsprint mill. Speaking about the Wartsila technologies, it should also be noted the concept of intellectual production of electricity (Smart Power Generation) on the basis of gas-piston units.

One of the most successful results of Energopro's cooperation with Finnish companies in the field of bioenergy and the use of local fuels in Belarus is the project of Pruzhany CHP (thermal power - 13.7 MW, electric power - 3.7 MW, fuel - peat, wood chips). The Finnish technology of biomass burning from the company Wartsila Biopower (later MW Power) has been chosen for the project by the customer - RUE "Brestenergo".

The Memorandum of Understanding between State production enterprise for Energy "Belenergo" and the Finnish company «Valmet Power Oy», signed in October, 2014 will contribute to further development of cooperation in the field of generation of heat and electrical using local fuels.

Undoubtedly, such an agreement will contribute to the successful implementation of the projects planned for the near future. Among them are the reconstruction of Mozyr CHP with the transfer on the burning of peat, the reconstruction of HOB at Novopolotsk refinery "Naftan" with transfer to the burning of pet-coke and construction of boiler house for Housing and Communal service of the town of Mosty in Grodno region.

It should be noted that the prospects for cooperation with the Finnish energy sector is not limited to generation sources.

Among the most promising projects for joint implementation sees modernization of district heating systems in the big cities of Belarus, primarily in Minsk, by means of their efficient automation.

That is why during the XIX Belarusian Energy and Ecology Forum in 2014 the Memorandum of Understanding and Cooperation in the field of automation of district heating systems between "Belenergo" and the Finnish company «Metso Automation» is signed.

It should be noted that in the context of competition increasing in the Belarusian energy market, one of the most important conditions for the successful promotion of Finnish Technology is external financing. This is essential against the active penetration into Belarusian energy projects of Chinese companies coming with their cheap loans.

In this respect, Finnish banks and state insurance company Finnvera PLC, being more flexible while considering financial support for exports of energy equipment to Belarus, could play a key role in the promotion of advanced technology in our country.

It is important to emphasize once again that the realities of the modern Belarusian energy market require effective solutions not only in terms of the choice of sophisticated energy technologies, but also rational approaches to projects financing.

Projects that have been implemented with the participation of Energopro Group, an official partner in Belarus for Valmet Power Oy, Wartsila, KPA Unicon Oy, in fact, prove the effectiveness of such solutions. ■



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SUSANNA JUUSTI

# Modern marketing uses digitalization to demonstrate standout ROI

Expert article • 1971

**D**igitalization is continuing to create huge change in the world. It has made our lives easier in many ways and has put vast amounts of information at our fingertips. One look at the European Commission's Digital Economy and Society Index (DESI)<sup>1</sup> is enough to establish the connection between quality of life and digital prowess, with the Nordic countries leading the way.

## Inbound marketing enables data analysis

Digitalization has changed the business environment, how we work and the kinds of tools we use. In nearly three decades working in marketing and communications—and especially in the past few years—I have witnessed profound changes in how marketers do their jobs.

The modern marketer faces a new paradigm of inbound marketing programs that lure prospects in by using quality content as bait, rather than pushing out messages through traditional media. These programs are driven by digital channels, capture the prospect's attention several times (multiple touches), and are measured with sophisticated technologies. With inbound marketing, all prospect actions can be tracked. Data analysis is king.

Modern marketers face massive and accelerating change in their profession, much of which is opening new doors of opportunity in targeting, personalization and sales enablement. But this change also brings a demand for new skills and added resources.

## Game changer: using marketing technology to track ROI

Using technology to track marketing ROI is the most transformative factor marketers face today. Before the advent of actual, proven ROI measurement, the effectiveness of marketing on sales was always open to debate. Without the ability to measure the precise effect that marketing operations have on revenue—from first prospect contact through sales follow-up, cross-selling and repeat sales—trying to convince the C-suite of what they should invest in marketing is an impossible task. Now that we have established the precise link between euros spent and euros earned, the decision to invest in marketing is a financial one, rather than one based on conjecture and emotion.

There are important trends in marketing other than technology-based ROI tracking. These include social media marketing, the shift of power away from brands and towards customers and prospects, new capabilities in demand generation and lead nurturing, the emergence of mobile marketing and the fragmentation of the media. Importantly, every single one of these disruptive changes owes its existence to new technologies that were largely or completely non-existent just five years ago.

## Integration of Marketing and Sales

Marketing ROI is the most important measurement that modern marketers use, but it is significant that other key metrics are heavily sales

oriented. Conversion rates, revenue per customer, customer retention and other sales metrics form the backbone of the modern marketing strategy. This indicates an organizational shift away from functional silos and towards the integration of sales and marketing. Such integration requires not only the adoption of new, more effective digital marketing techniques, but also improved interdepartmental cooperation and the ability to drive changes in organizational structures and work processes.

The modern marketer is financially savvy. He knows what competencies enable the sales team to do its job, and how marketing can help drive conversions, sales and revenue. Modern marketers have in-depth knowledge of the sales process and CRM practices that have traditionally been the exclusive domain of sales managers.

What this knowledge does is help marketers to better serve sales efforts. Integration of CRM and marketing automation platforms gives marketing and sales teams real time data on sales pipeline development and value. That data can then be used to drive more targeted and personalized campaigns to support sales efforts and to improve marketing effectiveness.

## Embracing change, moving forward

In the changing marketing environment there are those who drive change, those who follow and those who desperately try to hang on to what has been successful in the past. All changes are made by brave, motivated and ambitious individuals who are willing to take risks and do things that have not been done before. Success will not come from those who play it safe and avoid mistakes, but from the missionaries who are able to look outside the box and drive change.

We Finns are by nature rational, left brain thinkers and our business success has relied heavily on engineers. The shift in marketing towards a more data oriented, scientific approach may prove to be a jackpot for us if we are able to stay on top of technological advances and use them to better leverage the resources that we have. Digital marketing evens out the playing field to a great extent—huge mass media ad campaigns are less likely than ever to guarantee the supremacy of the world's biggest companies. Digital marketing is the toolset that gives smaller players the ability to realize their potential of success in the global arena. ■

ID BBN is one of Europe's leading marketing automation experts whose clients include both Finnish and international market leaders and innovators.



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<sup>1</sup> For further reading: the European Commission's [Digital Economy and Society Index \(DESI\)](#)

KARLIS BUKOVSKIS

# A glimpse of today's history: technology, reactionary politics and Europeanization

Expert article • 1972

**T**he confusion and anxiety in today's European societies should not be blamed solely on the rapid deepening and widening of the EU since the end of the Cold War or the refugee crisis. An introduction to liberal democratic values in parallel with Europeanization in post-communist countries like Poland or Hungary, and the rapid politization of the European economic integration process in countries with the most sovereignist attitudes (the UK, France and the Netherlands), are phenomena in themselves. The current reactionary politics in the European Union and other places in the world are only manifestations of changes inspired by the technological expansion of the last three or four decades and the personal freedom it has provided. This has led to a gap between the "Connected" and the "Unconnected", manifesting in those embracing the new state of affairs in European and social politics and those who feel forgotten.

It is not the story of the confused and the liberated, but rather a process of technological adjustment that drives societal and economic alterations, and that consequently affect politics. Mobile communications, competitive airfares and the Internet itself have increased the connectivity and exchange of information between people from different parts of the world and different societies. Increased interaction leads to new ways of socialization, especially by those who are predisposed to technological prudence. Liberal social values, democracy and secularism are just a few of the principles that are gaining wider appeal. Moreover, people tend to acquire knowledge and familiarize themselves with other countries, regions, cultures and lifestyles, and thus become less afraid and prejudiced. Political leaders and states with limited resources are losing their traditional grip on the manufacturing of the political thought. Computers have not only changed the speed and ability to access information, but are also redefining political options and societal interactions. Information can no longer be cheaply adjusted or contained.

Modern political trends are seen as new, although they are far from being such. Similar experiences with political or religious conservatism and reactionism in politics that coincides with significant technological changes have been observed throughout history. The emergence of new ideas and lifestyles causes imminent precaution in more robust societies. The anchoring of new ideas creates a powerful reaction among the members of society that are least able to adapt. Politicians tend to appeal to these marginalized groups by appearing attractive to people with mixed feelings towards, in current situation, liberal values or Europeanization. These trends are now revealing themselves not only in increased support for right wing political forces in EU countries, but also in the process of preparation for the forthcoming US presidential elections, and in the rise of extremism in the Islamic world.

Reactionary attitudes and anti-liberal political predispositions are gaining momentum in various cultures, religious groups and organizations around the globe. Ideologies and systems of thought that are not capable of absorbing or adjusting to a more liberal worldview are turning conservative or ultra-conservative. For instance, countries that are robust with regards to societal modernization due to their size and internal complexity tend to counteract this effect by manufacturing the information space (as in Russia) or restricting connectivity (as in China). Both the traditional Islamic and the traditional Christian worlds have deeply conservative systems that tend to antagonize each other and new lifestyles in general. A clear challenge here is the different speeds with which the religions and the political systems they are tied to are capable of absorbing technological and societal change into their controlled domain. The reactionary politics of Islamic world, for example, are being manifested in Daesh in an extreme form.

Therefore, today's antagonism toward modernization, liberalization, globalization and Europeanization are examples whereby part of a population, lacking in personal or business contacts outside their national country or even region, is seeking to re-claim national sovereignty and/or conservative social values. Reactionary politics in societies that have embraced liberalism and diversity since at least the 1960s now turn against a widening or deepening of the European project. Meanwhile, reactionary politics in societies that began democratization less than 30 years ago oppose liberal social values and diversity, which are considered to be imposed upon them by EU institutions. Therefore, the much publicized East-West divide in the EU is more complex than a simple political juxtaposition of two geographical blocks. ■



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MARCO SIDDI

# The EU's Energy Union: reconciling climate goals with energy security?

Expert article • 1973

In February 2015, the European Commission unveiled its blueprint for an EU Energy Union, one of the most widely discussed projects of the first year in office of the Juncker Commission. The Commission's "Energy Union package" is a strategic document that is meant to pave the way for the creation of an integrated European energy market, where member states cooperate to strengthen their energy security, decarbonise their economy and reduce waste in energy consumption. The package outlines five broad and interrelated policy tasks: increasing energy security, solidarity and trust; creating a fully integrated European energy market; improving energy efficiency while contributing to the moderation of demand; decarbonising the economy; supporting research, innovation and competitiveness.

The Energy Union builds on the legislation previously adopted by the EU, such as the 2009 directives and regulations outlining common rules for the electricity and gas markets, which constitute the Third Energy Package. This legislation aimed at integrating and opening up national gas markets. Furthermore, the Energy Union should contribute to the implementation of the EU's climate agenda. In October 2014, EU leaders agreed to set new targets to reduce greenhouse gas emissions and enhance the production of energy from renewable sources. The new targets include a 40 percent binding reduction in greenhouse gas emissions (compared to 1990 levels), boosting the share of renewables to at least 27 percent of total energy consumption and increasing energy efficiency by 27 percent. These goals are to be achieved by 2030.

The Energy Union was largely a response to the complex scenario of EU energy security. The EU is heavily dependent on the import of energy from abroad. In 2013, the EU's primary production of energy was less than half of the Union's gross consumption. EU production has dropped by 15 percent since 2004, particularly due to the decrease in energy generation from declining domestic fossil fuel resources. Consequently, the EU's total import dependence increased from 46 percent to 53 percent between 2000 and 2013. According to Vice-President of the European Commission Maroš Šefčovič, the EU spends 3.2 percent of its gross domestic product on energy imports, namely over 1 billion Euros per day. There are two main options for the EU to face this challenge: diversify import routes, thereby reducing dependence on single suppliers, and increase domestic production of energy, notably from renewable sources.

The question of differentiating suppliers became particularly relevant with the beginning of the Ukraine crisis and the ensuing standoff between the EU and Russia. In the Baltic region, Estonia and Latvia are particularly vulnerable to potential disruptions in the supply of Russian gas. While Russian gas may remain cheaper than methane

from other regions, the Baltic States have an interest in developing alternative import routes that can be used in emergency situations. The opening of a new LNG terminal in Lithuania in December 2014 provided such an alternative. The energy security of Latvia and Estonia could be increased through interconnections with the Lithuanian pipeline system. Building additional LNG terminals on their territory would be costly and result in an oversupply of gas. When available, investments should rather be allocated to the renewable sector, which allows boosting domestic energy production while reducing pollution.

Making the EU's energy sector more climate-friendly is one of the key proclaimed objectives of the Energy Union. Nonetheless, it is unclear whether the EU will consistently follow up on this goal.

Making the EU's energy sector more climate-friendly is one of the key proclaimed objectives of the Energy Union. Nonetheless, it is unclear whether the EU will consistently follow up on this goal.

Many member states are heavily reliant on fossil fuels and remain reluctant to invest in renewable forms of energy. In the Baltic region, Poland advocates the exploitation of contentious and highly polluting fossil fuels, particularly shale gas and coal. Estonia relies on heavily polluting oil shale, which accounts for nearly 80 percent of its greenhouse gas emissions and is the largest driver of the high carbon intensity of its economy.

Both Poland and the Baltic States have underinvested in the green energy sector. Only one third of the EU funding allocated to them for climate action was used for clean energy infrastructure. Most subsidies for renewable energy sources are allocated to biomass, while CO<sub>2</sub> emissions considerations appear to be absent in transport planning and project selection. Hence, it seems that the countries on the Southern and Eastern shore of the Baltic have not seriously committed to the long-term decarbonisation goals advocated by the EU.

The picture is much brighter on the Northern and Western shore of the Baltic: Finland, Sweden, Denmark and Germany have consistently invested in renewable energy and expanded their energy production from renewable sources. The success of the Energy Union will depend primarily on the implementation of such policies in the other member states, as well as on investments in smart grids that allow maximising the production of electricity from renewable sources. ■



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SAM PERLO-FREEMAN

# Military expenditure in the Baltic region

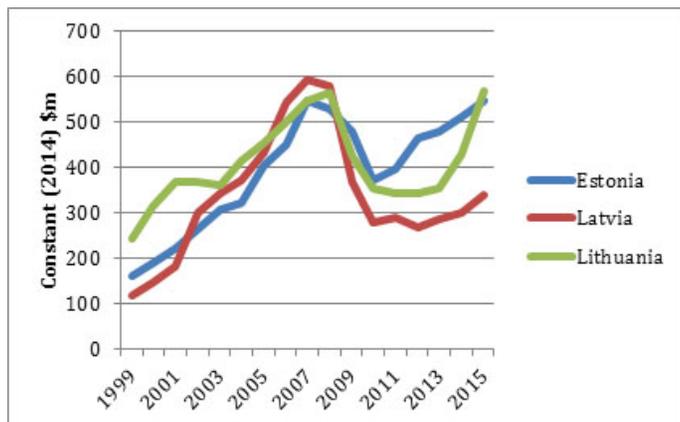
Expert article • 1974

The Baltic Sea region has recently seen increased levels of tension following Russia’s annexation of Crimea and intervention in eastern Ukraine. As a result, many countries in the region, most of whom had previously been cutting military spending, have now started to increase spending and adjust defence policies to reflect the heightened sense of threat.

### The Baltic States

In the run-up to joining NATO in 2004, Estonia, Latvia and Lithuania, they increased military spending rapidly as they sought to bring their equipment, training and organization in line with NATO standards. In the 5 years from 1999 to 2004, Estonia, Latvia and Lithuania increased military spending by 101%, 220% and 72% respectively, in real terms. These trends continued up to 2007 in Estonia and Latvia, and 2008 for Lithuania. (See figure 1).

Figure 1: Baltic States’ military expenditure, 1999-2015



The global financial and economic crisis had a particularly devastating effect on the Baltic states. As a result, they cut military spending heavily; by 32%, 55% and 39% respectively over the subsequent 3-5 years. Since then, however, and particularly in response to the Ukraine crisis, they have begun increasing spending again, so that Estonia and Lithuania have now regained their pre-crisis peaks, although Latvia is still well below. Lithuania increased military spending by 33% in real terms in 2015. Estonia now meets the NATO target of 2% of GDP for military spending.

Estonia and Latvia are particularly worried at the moment about the potential for Russian intervention due to their large Russian minorities—a large proportion of whom have not been granted citizenship. In the event of any future Russian intervention, the Baltic states would be heavily reliant on NATO, but they are keen to show that they are willing to make a meaningful contribution to their own defence, and thus are likely to continue increasing spending unless new severe economic conditions befall.

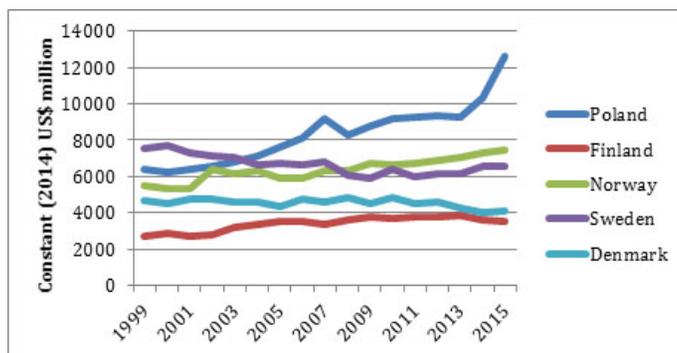
### The Nordic countries

Of the Nordic countries, Norway and Finland share a border with Russia, while Sweden and Denmark share the Baltic Sea with them. Norway and Denmark are both NATO members, while Finland and Sweden are developing ever-closer ties with the alliance.

Sweden’s military spending and defence policy in particular has been influenced by the increased tensions with Russia. Sweden’s long Baltic coastline, and the strategic location of the Swedish island of Gotland, make the country a key regional player. Moreover, Sweden has made a unilateral ‘solidarity declaration’ to support any fellow EU or Nordic country that comes under attack. A 2015 Parliamentary Defence Commission report, while not seeing a danger of a direct attack from Russia, warned that Sweden would not be able to stay out of any future conflict in the Baltic region. Incidents such as the discovery of a suspected Russian mini-submarine in the Stockholm Archipelago in autumn 2014 further heightened Swedish concerns.

Sweden’s military spending fell by 20% between 2000 and 2013, continuing the post-Cold War falls, with defence policy largely focused on participation in international missions. The Ukraine crisis sharply refocused attention on territorial defence, and led the Parliamentary Commission to recommend spending increases of around 13% in real terms over the coming 5 years or so. In fact, Swedish military spending started to increase already in 2014 (see figure 2). Planned purchases of Gripen combat aircraft and other weapons systems have increased, and the island of Gotland has been reinforced with troops and air defence systems. Sweden has also signed a ‘host nation’ agreement with NATO, which allows for the possibility of NATO forces using Swedish bases during a crisis.

Figure 2: Poland and Nordic states’ military expenditure, 1999-2015



Norway, unlike most Western European countries, did not significantly reduce military spending following the end of the Cold War, and has been steadily increased spending since the early 2000s, insulated from the global economic crisis by strong oil revenues. Norway’s

Expert article • 1974

military spending increased by 24% between 2006-15, and the trend has not noticeably changed as a result of the Ukraine crisis. Trends in Denmark and Finland have also not changed significantly.

#### Poland

Poland harbours historic fears of Russia and, like Norway, emerged relatively unscathed from the economic crisis, and continued to increase military spending throughout the crisis years. In 2013, before the Ukraine crisis broke, they announced a major military modernization and rearmament programme worth around \$40 billion up to 2022, but events in Ukraine led them to accelerate this. Their military spending increase of 22% in 2015 was the second highest in Europe, and they have now increased by 56% since 2006. Planned Polish

purchases include combat and transport aircraft, naval vessels and coastal defence systems for the Baltic, drones, air defence systems, the US Patriot missile defence system, several hundred tanks and armoured vehicles, and JASSM cruise missiles to arm their new fleet of F-16 combat aircraft. ■

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# BALTIC RIM ECONOMIES

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KENNETH ROSENQVIST

# The Finnish Border Guard's Air Patrol Squadron

Expert article • 1975

The Finnish Border Guard (FBG) is an internal security agency operating under the Ministry of the Interior. Main tasks include guarding land and sea borders, carrying out border checks, acting as the leading maritime search and rescue (SAR) authority, crime prevention, international co-operation and taking part in the military defence of Finland. The FBG's area of responsibility includes nearly 4000km of land and sea borders. 1340km of the total is Schengen and EU external border with Russia. The total amount of personnel is 2800. Finland is divided into four border guard and two coast guard districts, which operate in their own areas of responsibility. The Air Patrol Squadron operates in the whole country, supporting the border and coast guard districts with helicopter and airplane flights. Besides the Defence Forces, the Air Patrol Squadron is the only governmental aircraft operator in Finland. This entails supporting also many other authorities. Although the aircraft used are specially equipped for certain types of missions, their crews are used to working in varying conditions on very demanding missions. The motto of the FBG indicates quite well the way we think in the Air Patrol Squadron as well: Safety in all circumstances.

The Air Patrol Squadron operates 14 helicopters and 2 airplanes with 125 personnel in three bases. Yearly flight hours are around 4000 and the yearly budget approximately 20m€. At present, the fleet consists of:

- 3 AS332 Super Puma
- 2 AS332L1e/H215 Super Puma
- 5 A/AB 412
- 4 AW119 Ke Koala
- 2 Dornier DO-228

The Super Pumas and 412's are mainly used for SAR missions. The Koalas are used mainly for border control missions at the land borders. The Dornier airplanes are equipped for maritime surveillance. The Super Pumas are based in Helsinki and Turku. The Rovaniemi base, situated at the Arctic Circle, specializes in the 412 helicopters. The lighter Koalas are operated both from Helsinki and Rovaniemi. The Dorniers fly out of their base in Turku. The Air Patrol Squadron maintains a 24/7 readiness for SAR missions at all bases with one helicopter. During working hours a helicopter can be dispatched within 15 minutes from alert.

The heavier helicopter types are specially equipped for SAR. The equipment includes search radar, electro-optical and thermal sensors, night vision equipment, search lights, rescue hoists, aerial firefighting equipment and extensive first aid gear. Usually at least one cabin crew member is a certified paramedic. Because of the capability of the helicopters' equipment and crew, they are used extensively for other types of missions as well: medical evacuation, SAR over land, aerial firefighting, transport to remote areas, transport of special weapons and tactics (SWAT) teams and VIP transports.

The light Koala helicopters serve as excellent training platforms for young pilots to gather flying experience before moving on to the heavier types. That doesn't mean the tasks performed are easy: border control, aerial firefighting, SAR over land and transport flights, to

name a few. The Koala is a very powerful and efficient single engine helicopter able to perform many tasks as well as some twin engine helicopters.

The Dornier aircraft are extensively equipped for maritime patrol missions, but are capable of performing border control missions over land as well. Most of the flights are flown over the sea focusing on border, pollution and fishery control missions. The aircraft is also an excellent platform for SAR. In addition to fulfilling statutory obligations the Dorniers are used to support other authorities including police, customs, defence forces, environmental, meteorological, transport safety and agricultural authorities. A vital role played by the aircraft for the past decade has been taking part in Frontex coordinated joint operations in the Mediterranean aiming at counteracting illegal immigration to the EU. Typically the Dornier and its crew will spend 1-3 months per year based in Greece, Italy or Spain. So it can happen that on the same day, a Dornier can be patrolling at the Northern and Eastern rim of the EU while the other aircraft is patrolling the southernmost boundaries closer to Africa than Europe.

A key strategy of the FBG is cooperation, both nationally and internationally. In addition to sending aircraft to operations abroad, other personnel and technical equipment are assigned as well: patrol boats, offshore patrol vessels, border control and debriefing experts. In the EU and Frontex scope, joint training among the member states smoothens international cooperation and adds to national potential as well in the form of finding best practices and enhancing integrated border management in the EU. At the national level, cooperation between authorities has always been the way to go in Finland, which many countries envy because the boundaries between authorities' areas of responsibility are quite rigorous in several EU member states. In Finland, cooperation between authorities has actually been made statutory by law in certain fields.

The FBG is a versatile and flexible actor in the field of internal security in Finland and the EU. Despite being a relatively small agency and despite the harsh financial situation, vital resources and functions have been sustained and the most important ones improved. For the Air Patrol Squadron, procuring state of the art helicopters and equipment is an example of rational decision making, which makes it possible to fulfill the vital duties now and in the future. ■



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# ‘Hybrid war’, societal resilience and deterrence

Expert article • 1976

Russia’s contemporary way of war has been dubbed ‘hybrid war’ as it combines a broad range of tools in order to weaken and coerce target countries. Our strategic thought regarding how to respond to this doctrine stumbled upon the concept of resilience. The problem is that, in security and defence policy circles, resilience is not very thoroughly understood and risks becoming yet another empty buzzword.

Resilience can be defined as a set of adaptive capacities and attributes of a system which allow it absorbing the impact of various stressors while still maintaining its functioning. States are extremely complex political, economic, social, organizational and infrastructural systems which are always at risk of failure or persistent long-term dysfunction if they come under pressure of chronic or acute stressors such as terrorist attacks, economic crises or sanctions, military aggression, cyberattacks or propaganda onslaughts. ‘Hybrid war’ doctrine aims to bring a variety of such stressors to bear upon a target state. Therefore, broad-based societal resilience is of crucial importance in withstanding coercion.

In the context of state and society, resilience can be seen as having several interconnected dimensions:

- *Economic capital*, or resource volume and diversity, the equity of resource distribution, the fairness of risk and vulnerability to stressors. In this set, economic growth, employment opportunities and accessibility of services are very important ingredients.
- *Social capital*, or levels of social support in times of need, the sense of community, formal and informal ties linking members of society and their sense of attachment to a place. Citizen empowerment and participation as well as civic leadership are considered to be especially important in this regard.
- *Human capital*, or society’s knowledge, problem-solving skills and abilities for collaborative action. This resource depends on critical reflection skills, a willingness to contribute, an ability to solve conflicts in groups and to reach consensus, opportunities for getting involved in collective decision-making.
- *Information and communication*, which includes trusted sources of accurate information, effective transmission mechanisms and collective narratives. Media plays an extremely important role: Inaccurate, exaggerated and sensationalist stories may establish narratives not conducive to societal resilience and prompt inadequate political reactions to stressors.

Societal resilience is an ingredient of deterrence by denial, which is about persuading the enemy not to attack by convincing him that achievement of his objectives would not be possible or would be too costly. Countering terrorism is a case in point: Resilient societies are difficult to coerce into submission by means of violent acts, because they not only withstand the shocks but also retain confidence in their

ability to do so in the future. Since ‘hybrid war’ approach entails identifying, deepening and exploiting various vulnerabilities of a targeted society, broad-based resilience equals the absence of such vulnerabilities and thus closing off the avenues which can be fruitfully exploited by an adversary.

High level of society’s competence in critical thinking and understanding the nature of such ‘hybrid war’ tools as propaganda, political destabilisation or military intimidation – in conjunction with society’s trust in the integrity of the political system, political leadership and government’s communication – negate the advantages of those tools. A strong sense of belonging to a community, citizen empowerment and economic equity as well as of the available mutual support reduces the potential for dividing and polarizing the society and for turning various societal groups against one another and against the nation’s institutions. High level of voluntarism and citizen participation, when harvested by national security and defence organisations, strengthens those organisations. Measures aimed at disrupting economic activities fail to achieve the long-term desired effect when encountering high level of economic development, flexibility, diversification and effective economic governance.

The challenge is to demonstrate that vulnerabilities are truly absent and that a particular society is very resilient in all respects. Deterrence ‘lies in the eye of the beholder’ – an adversary must be sufficiently convinced that its target society is too resilient to succumb to a ‘hybrid war’ approach. This is difficult to achieve, given that each adversary is driven by own logic and calculations and may assess target’s resilience inaccurately. Some adversaries may never cease trying to spot vulnerabilities and testing a targeted society. In this case, societal resilience becomes a process in action and, in the end, the strategy of defence, not only of deterrence. ■

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PÅHL RUIN

# Information war in Lithuania

Expert article • 1977

The Russian information war is being fought all over the world. The televised news service Russia Today (RT) is expanding quickly, now with broadcasts in Russian, English, Arabic, Spanish, German and French. The Russian state has invested heavily in RT, as well as in the news wire network Sputnik which appears in even more languages.

The news content is not the kind of propaganda that the Soviet authorities used to spread; it does not have the aim to tell the world how great Russia is. The purpose is not to convince the audience of an alternative truth, but to arouse suspicions that the prevailing truth may not be true after all, setting off rumors and speculation. It can be news stories about the war in Eastern Ukraine, the bombings in Syria or descriptions of Soviet history - no matter the subject, the news reports always lead to people saying that they don't believe in anyone anymore, that "both sides are lying".

This new type of Russian propaganda uses a major weakness in Western media: the desire to always search for and hear the other side of the story, even when there is no other side. This leads to Western media helping the Russian state to spread lies, while claiming that they only want to hear both sides.

In the countries that used to be controlled by Russia, like the Baltic states, the naivety in responding to the propaganda is limited - they have been exposed to it for a longer period of time. In the case of Lithuania, which I describe closer here, people are used to hear lies of the common Soviet history. For example: Russian media claims that Lithuanians were shooting Lithuanians by the TV tower in Vilnius on January 13th 1991. Very few ethnic Lithuanians take such claims seriously, but among citizens with Russian or Polish roots there are more people believing the claims - or at least questioning what is true and what is not.

Countries with Russian minorities are most vulnerable to Russian propaganda. Since Estonia and Latvia have larger Russian minorities than Lithuania, they have addressed these challenges earlier. However, even these countries were slow in reacting to the threat. It was not until after the Russian attack on Ukraine 2014 that Latvian public service introduced news shows in the Russian language, "something we had neglected to do for 20 years", as one editor recently told me in Riga.

The Lithuanian national broadcaster has also launched news in Russian, but not yet on the scale of Estonia and Latvia. However, all three countries are fighting an uphill battle: it is often overlooked when criticising today's Russia, but Russian soft power still has a strong hold in countries that used to belong to the Russian sphere. Russian artists, TV shows and films are very popular among Russian speakers who in Lithuania constitute around ten percent of the population (primarily ethnic Russians and Poles). But it's not only about them: I often meet ethnic Lithuanians - deeply critical of the Russian regime - who talk with warmth about Russian popular culture.

This explains why more than 15 percent of the Lithuanian population - exceeding 400 000 people - watch Russian TV channels. Once hooked, they are also engulfed by the Moscow controlled news shows. Apart from trying to lure these viewers over to Russian language news produced in Lithuania, the state has also at several occasions temporarily closed down Moscow controlled channels, arguing that some of their programs have constituted threats to national security. Both the grounds for doing this, and the effects of the measures, have been questioned. The government has also strengthened the media law, making it easier to fine senders for damaging content.

Lately however, more forward looking measures have surfaced, focusing on the recipients of the news instead of the senders. Projects have been launched by several ministries, often in cooperation with foreign partners and academic institutions, where school children are taught the difference between news and views and how false information can be tracked down. One such project, primarily financed by the Nordic Council of Ministers, is targeting Russian and Polish language schools in the Vilnius region. These children are growing up watching Russian propaganda news. If they learn to tell the difference between facts and lies, much will be gained.

There are also projects focusing on Lithuanian journalists - in some cases financed by Germany and United States - helping them improve their abilities to analyse news stories and find hidden propaganda. These kinds of skills should also be developed among journalists in countries with longer democratic traditions; the need for this is evident, given the many examples of Russian propaganda stories finding their way into Western media.

There is no end in sight for the information war. Therefore it is important - in Lithuania as well as in the rest of the world - that we better prepare ourselves against it. ■



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PIRET PERNIK

# Cyber security concerns bear the intensifying of Nordic-Baltic cooperation

Expert article • 1978

After the Ukraine crisis in 2014, disagreements concerning how we perceive national security threats have diminished in seven countries (Norway, Denmark, Sweden, Finland, Estonia, Latvia, and Lithuania), and a common perception of Russia both as a non-military and military threat has emerged. These tensions in the physical security environment have naturally been carried over into cyberspace.

Cyberspace is not limited by national jurisdictions nor territorial borders. As an internal security issue that national governments are responsible for, it permeates all socio-economic spheres. Cyber effects are considered enablers for traditional combat domains land, air, sea and space. In many countries the cybersphere is increasingly recognised also as an operational domain on its own. In any case, cyberattacks and information warfare have become part of modern hybrid and military conflicts (e.g. Estonia 2007, Georgia 2008, Ukraine 2014), and militaries are developing standalone cyber forces and commands, or integrating cyber defence and offence units into traditional military services.

Currently, state-sponsored actors who seek state secrets, sensitive personal and financial data, and intellectual property pose the greatest risk to governments and industries in the Nordic-Baltic region. It is axiomatic that hostile state and non-state actors can attempt to direct cyber attacks to destabilize and undermine society. If geopolitical tensions escalate, there is an increased risk of destructive attacks aimed at damaging or destroying key infrastructure. These threatening actors may try to deny, deceive, disrupt, degrade and destroy critical systems and infrastructure in the victim country. Hence high-end cyber threats constitute a national security priority for all technologically advanced countries.

Cyber security firms and news media frequently report the use of cyber methods and tools (e.g. defacement, denial-of-service, cyber espionage) and information operations against Nordic and Baltic countries. For example, amid the political tensions between Sweden and Russia, Swedish government websites and major media outlets were forced offline by distributed denial-of-service attacks in March 2016, allegedly by Russian actors. Russian cyber espionage groups APT29 and APT28 have targeted Western governments and security organizations (including the Nordic military) with the objective of stealing political and military intelligence. The cyber security firm Kaspersky has ascertained that it was the Russian cyber espionage group Turla (aka Snake/Uroburos) who conducted a 4-year cyber espionage campaign against the Finnish Ministry of Foreign Affairs. What is even more troublesome is that Russian military intelligence units in Kaliningrad allegedly employed electronic warfare to jam Swedish air traffic communication channels, and they were able to disable civilian air traffic control systems resulting in flight cancellations.

The private sector has similarly been a target of state-sponsored actors who seek industrial intelligence, in particular in the electricity and defence sectors. Cyber security firms report that Swedish industrial control systems and Norwegian oil companies have been infected

by supposedly Russian malwares. Moreover, security experts believe that sophisticated state actors systematically conduct targeted cyber reconnaissance for later cyber sabotage. National networks and systems are being systematically monitored by foreign security services to discover vulnerabilities that in case of crisis can be exploited to deliver destructive attacks. Cyber reconnaissance, not regulated by international law, thus constitutes a national security threat for the victim country.

A disruptive attack against a critical civilian infrastructure is the greatest concern for all states. Cyber attacks against Ukrainian power grids in December 2015, which left a quarter of a million people without electricity, were a wake up call for utilities around the world. National cyber emergency response teams and information analysis centres examined this carefully and proposed a number of improved security measures to alleviate such attacks in the future.

Last but not least, terrorist and extremist groups such as Daesh/ISIS intend to obtain offensive cyber capabilities. The blossoming Crime-as-Service and Hackers-for-Hire markets means that individuals who have no technical knowledge can easily access highly advanced cyber attack skills and tools. States outsource campaigns to avoid taking responsibility for the attacks and since criminals and state sponsored groups share the same tools, techniques and methodologies, it is hard to differentiate between them – an attack that at first sight seems profit-driven, may have been carried out in the interests of a hostile state.

Nordic and Baltic countries are highly digitalized societies. The expanding cyber threat landscape necessitates that Nordic and Baltic governments invest more in cyber resilience. As these countries are interdependent in many key sectors (financial, transport, energy), a cyber incident in one of them is likely to impair vital services and infrastructure in neighbouring countries. Since 2014, a common military and non-military threat perception across seven countries has promoted increased defence collaboration through the Nordic Defence Cooperation (NORDEFECO). In this context, closer regional cooperation, including information and intelligence sharing as well as joint training and exercises, is urgently needed in order to prevent and mitigate politically and ideologically motivated cyber attacks. ■



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# The Russian economy: a difficult year behind and further adjustments ahead

Expert article • 1979

Over the past 15 years, Russia has made significant achievements in improving the living standard of its population. Economic growth was accompanied by a corresponding drop in poverty rates and a reduction in income inequality. Using the US\$5/day poverty line, poverty declined from 35 percent in 2001 to less than 7 percent in 2014. However, since 2014, these important achievements have been reversed, the number of poor increased by 2.6 million in 2015 alone. For the economy, 2015 was the main adjustment year to the oil price shock and the sanctions regime. Russia's economy went through a deep recession, and real GDP contracted by 3.7 percent. The estimated gross domestic income drop of about 10 percent sapped consumer demand and discouraged investment. The decline in oil prices exerted downward pressure on the ruble, also pushing the inflation rate into double digits. Rising inflation eroded real wages, pensions and other transfers, contributing to an estimated 9.6 percent decline in household consumption. International sanctions limited access to global financial markets, restricting capital inflows and damaging investor confidence. High capital costs and plummeting consumer demand provided firms with little incentive to invest in expanding production, and gross capital formation dropped by 18.7 percent.

The government's policy response has facilitated the economy's adjustment. The central bank's flexible exchange rate regime improved the exchange rate alignment which supported the economic transition. In 2015, the average nominal exchange rate depreciated by 37 percent to the US dollar. Helped by the free float, the fiscal impact of the adjustment was less severe than for other oil-exporters, yet the government needed to declare a fiscal consolidation plan. While federal spending decreased in real terms, the federal fiscal deficit reached 2.4 percent. This was financed by the Reserve Fund which halved by the end of 2015 to US\$46 billion. A RUB2.4 billion anti-crisis plan helped mitigate the consolidation impact and supported financial sector stability.

Falling oil prices have exposed the weaknesses in Russia's current growth model, but the depreciation of the ruble has also created an opportunity to enhance the competitiveness of its non-resource economy. The combined effects of sanctions and low oil prices have brought renewed attention to Russia's longstanding policy discussion on export diversification. However, leveraging new opportunities to develop a broader and more sophisticated export mix will require a substantial increase in private investment. The current price advantage generated by the depreciation may not be sufficient to attract investors, especially foreign investors, unless it is accompanied by deep and sustained improvements in Russia's investment climate.

The economy faces strong headwinds from an uncertain global recovery, and the conditions that pushed Russia's economy into recession show slow signs of abating.

The economy faces strong headwinds from an uncertain global recovery, and the conditions that pushed Russia's economy into recession show slow signs of abating. The World Bank's current base-line scenario anticipates another year of negative growth of 1.9 percent in 2016. In 2017, GDP growth is projected to return to a positive, albeit modest, growth rate of 1.1 percent. Oil prices are projected to average just US\$37 per barrel in 2016, before rebounding to around US\$50 per barrel in 2017 and beyond. As the Russian economy gradually adapts to an adverse external environment, the focus of its economic adjustment is now shifting to fiscal and financial sector restructuring challenges. Maintaining fiscal discipline will require bold choices during the 2017 budget-planning process, as the authorities strive to determine the structure of the new medium-term fiscal framework. A massive bank recapitalization temporarily stabilized the financial sector, but managing systemic vulnerabilities will require constant vigilance.

Russia's longer-term growth path will depend on the strength of its structural reforms. Measures to bolster investor confidence could greatly enhance Russia's long-term growth prospects. Administrative barriers to doing business, high transportation and logistics costs, and the perception of an uneven playing field discourage investment. Recognizing the importance of structural constraints, the government's new anti-crisis plan does not focus only on emergency measures, but also includes a number of medium-term initiatives intended to spur investment. The swift implementation of these measures would clearly signal the Russian government's commitment to improving the investment climate. Without rapid and sustained investment in new industries, Russia may miss the opportunity afforded by its current price advantage, and achieving sufficient productivity growth to accelerate the country's long-term economic trajectory will prove extremely challenging unless structural constraints to investment can be effectively addressed. ■

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# Putin's foreign policy and Russia's long-term interests

Expert article • 1980

Under Putin's direction, Moscow has made several forceful foreign policy moves. In 2008, Moscow fought a brief war with Georgia in which it definitively wrested Abkhazia and South Ossetia away from Tbilisi and recognized them as independent states. In 2014, Moscow forcefully snatched Crimea away from Ukraine and later that year began supporting secessionists in eastern Ukraine. In 2015, Russia intervened militarily in Syria to prop up the Assad regime there when it appeared to be close to collapse. And for many years, Russian military aircraft have been flying very near to or even inside the airspace of several countries in Europe as well as Japan and Turkey without permission from or consultation with these governments. In November 2015, the shooting down of a Russian aircraft doing this led to the dramatic deterioration of Russian-Turkish relations.

The West is understandably concerned that Putin will undertake further such moves in other states neighboring Russia (or even some that do not). There is special concern that Putin may turn his attention toward the Baltic states of Estonia, Latvia, and Lithuania. All of these border Russia and have sizeable ethnic Russian populations inside their territory—a combination also present in Georgia and Ukraine, where Putin has previously intervened. The fact that these three states are also members of NATO raises the prospect of Russian action against them leading to a wider conflict.

So far, Putin's response to rising Western fears about his intentions has not been to assuage them through reassuring statements and actions, but to reinforce them through intimidating ones instead. Putin apparently calculates that projecting an intimidating image of Russia is more beneficial to Moscow than projecting a reassuring image. But is this really in Russia's long-term interests?

Russia, after all, is a country experiencing several severe problems, many of which appear likely to get worse over time. These problems include: the failure so far to develop and modernize the non-petroleum sector of the Russian economy, the failure to control (much less eliminate) the pervasive corruption practiced by Russian officialdom which inhibits foreign and domestic investment in Russia, the persistence of low petroleum prices (which is the main source of Russian government revenue), the continued decline of the size of the ethnic Russian population at the same time that Russia's Muslim population is rising, the growing restiveness of the Russian Muslim population (which is often treated badly both by the Russian government and Russian society), and the inability of the regime to completely suppress democratic opposition by segments of the Russian population.

Forceful action in Georgia, Ukraine, Syria, and perhaps elsewhere may well serve to whip up nationalism and hence distract the Russian population from the nation's economic and social ills. Indeed, Moscow may be able to persuade much of the Russian public that Western economic sanctions in response to Russian actions in Ukraine, and not Putin, are the cause of their problems. On the other hand, neither Moscow's gaining control over Abkhazia, South Ossetia, Crimea, and eastern Ukraine nor Moscow's success in preventing the Assad regime from collapsing in Syria does anything to develop Russia's non-oil economy, eliminate corruption, raise oil prices, reverse adverse demographic trends, or improve conditions for Russia's Muslims. Nor will additional military adventures do so. And while these might be popular with the Russian public so long as they appear successful and inexpensive, they could become unpopular if they appear unsuccessful and expensive. The more such adventures Putin engages in, the greater the risk that this could occur.

Why, then, would Putin engage in intimidating behavior if it does not resolve Russia's ongoing internal problems and may even make them worse? One possibility is that Putin actually recognizes that Russian power is in decline, and so he has decided that he should grab what he can for Russia while he can. But whether this is actually Putin's logic or not, by acting forcefully to gain influence now when Russia is relatively stronger than it will probably be in future when all the problems Russia is facing are highly likely to be worse (since Putin is not acting to ameliorate them), Putin is effectively condemning his successor either to expend increasingly scarce resources to hold on to extended positions or to let go of them. Either course of action could serve to undermine the Kremlin at a time when it will be facing growing internal problems.

It would be far better not just for Russia's neighbors and the West in general, but for Russia itself if Putin reversed course and pursued a reassuring foreign policy. Moscow would then be in a better position to enlist Western help in dealing with its mounting internal problems. Putin, though, appears not just unwilling, but unable to realize this. ■



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# Threats to stability in Putin's Russia

Expert article • 1981

In the 1990s, it was Russia's instability that worried its neighbors. There was a real fear that Communists or Nationalists might come to power, and break with Boris Yeltsin's policy of partnership with the West.

Now it is not Russia's weakness that is the problem, but its strength. Vladimir Putin has established a firm grip on power, and he is likely to win yet another term as president. This means he will be in the Kremlin until 2022 (by which time he will still only be 70 years old).

Putin's strong grip on power means that we do not need to worry about who will be running Russia in a few years' time. But this has been replaced by uncertainty over what Putin intends to do with his power. The invasion of Georgia in 2008, followed by the annexation of Crimea and the launch of a not-so-covert war in East Ukraine in 2014, represent a radical departure from the prevailing rules of the game in European diplomacy.

Putin demonstrated that he was willing to use force to alter borders and destabilize governments in neighboring countries – leading to the obvious question of “who is next?”

Putin's dominant position in Russia's political system stands on five legs.

First, he tapped into Russia's long-standing authoritarian traditions, creating a “power vertical” in which political competition is marginalized and loyalty to the boss is the operating principle. Second, he uses crony capitalism and pervasive corruption to unify the elite, who understand that if they cross Putin they may lose their wealth and even their freedom. Third, his assertive foreign policy enjoys massive public support. His approval rating jumped by 20 points, from 65% to 85%, after the annexation of Crimea. His Syrian gambit also seems to have paid off, a tactical success in stark contrast to US indecision. Fourth, he defeated the Chechen insurgency and suppressed Islamic terrorism. Fifth, his sound economic management (aided by rising oil prices in the 2000s) enabled a tripling of living standards between 2000 and 2012.

The first three legs are holding firm, but the last two are showing signs of strain.

Living standards have fallen over the past two years, due to the collapse in world oil prices, exacerbated by Western sanctions. Putin cannot be sure that the post-Crimea patriotic surge will hold up in the face of prolonged economic decline. There are some signs from survey evidence that the Russian public's willingness to trade off living standards for the prestige of living in a “great power” is starting to wane. Levada Center polls show that when people talk of Russia as a great power, they have in mind a prosperous and growing economy.

Most economists are pessimistic about the Russian economy's growth prospects. The slowdown of growth in China has led to a decline in global commodity prices – particularly oil and gas, which account for 70% of Russian exports and 45% of government revenues. The European Union – Russia's largest trading partner – is also experiencing sluggish growth, so the demand for Russian exports will remain flat.

Putin is all too well aware that it was economic stagnation which forced Mikhail Gorbachev to open up the Soviet system to political competition – with disastrous results. Putin was careful to try to shield

ordinary Russians from the impact of the 2008 financial crisis, but if the economic stagnation continues the Russian state may be forced to cut back its policies aimed at ensuring full employment (through subsidies to loss-making enterprises) and pension and social welfare programs. The state has \$500 billion in reserves, but these could be spent down in 2-3 years if the oil price stays below \$50 a barrel.

However, Putin is unlikely to repeat Gorbachev's mistake of providing his opponents with institutional bases from which to launch opposition to his rule.

Gorbachev faced political challenges from three fronts.

First, there were hardliner critics within the Communist Party who opposed his reforms and ultimately launched a coup to overthrow him. As a KGB veteran, Putin is unlikely to allow that to happen, and he has been careful to boost the budget and prestige of the Russian military.

Second, Gorbachev allowed a free press and semi-free elections, which gave rivals such as Boris Yeltsin a platform from which to build public support and eventually strip Gorbachev of his powers. Again, Putin has learned the lesson of Soviet history, and keeps a tight watch over the mass media and the electoral system. The liberal opposition is disillusioned and in disarray, while Putin's team has been careful to coopt or dismantle Russian nationalist movements.

Third, the Soviet Union's federal structure enabled nationalists to come to power in the Baltic and Caucasus Republics, who undermined the stability of the Soviet economy and disrupted Gorbachev's reform plans by introducing their own agendas. The Russian Federation, like the Soviet Union, includes autonomous ethnic republics, such as Tatarstan and Chechnya, but from his first year in office Putin has sought to curb their autonomy. The main challenge to Russia's stability comes from the restive Moslem republics of the North Caucasus, whose leaders profess loyalty to Moscow, but whose populations live in poverty and whose youth are tempted by radical Islam. (Some 2-3,000 Russian citizens, mainly from this region, are thought to have joined ISIS.) The situation in Chechnya remains particularly problematic. Ramzan Kadyrov rules the republic with an iron hand, and his opponents have been killed on the streets of Moscow and even foreign capitals.

Despite these challenges, the Russian state has recovered from the chaos of the 1990s, and should have no problem dealing with the social unrest engendered by a stagnant economy, or the revival of Islamist terrorism in the North Caucasus. People who are keen to see regime change in Moscow may be in for a long wait. ■



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# Position of commercial media in Russia

Expert article • 1982

The Russian media environment is influenced by global tendencies like the rise of digital media and changes in media use, and by more specifically Russian developments in media markets and media policy and regulation. As many researchers have stated, the Russian media model can be divided into two main formats: commercial capital and capital owned or manipulated by the state. At the beginning of the 2000s, it seemed that the position of privately owned media and media as business strengthened compared with the position of government-owned or subsidized media. At that time, the country was among the most rapidly growing advertising markets in the world. It seems that the equilibrium has after the years of marketization track in the beginning of the 2000s shifted towards the stronger position of the state-controlled side of the dichotomous model. There are both market and political factors influencing this development.

The political factor includes media policy and regulation. Media regulation is based on the 1991 Mass Media Law. Once introduced, the law was regarded one of the most liberal press laws in the world. At the same time, several other laws restrict media freedom, among them the anti-terrorism legislation and regulation on children's information security. According to some estimates, the volume and restrictiveness of media legislation in Russia has increased in 2010s. Policy interventions introduced uncertainty into the commercial media's operational environment because of several rapid, unexpected changes. Among these are the law on advertising on cable TV channels in 2015 and the law on foreign ownership that came into force in 2016. The first one bans advertising for those cable channels that do not show at least 75 % domestic productions. According to the second one, the foreign ownership share of media companies is limited to no more than 20 % of total shares. In response to this law, some foreign owners started to reduce their share in Russian companies in 2015. Withdrawals can have also had economic motivations, as in the case of Finnish Sanoma, which, during recent years, diminished its shares in Russian media companies.

When it comes to market factors, especially the traditional print media industry has suffered from the downturn in economics, mainly due to shrinking figures in advertising. In 2015, according to the figures of Russian association of communication agencies (AKAR), the advertising in media in overall fall by 10 %, compared with 2014, while the fall in newspaper advertising was as high as 29 % and in TV, 14 %. Thus, while remaining the central media platform, also TV suffers from the loss of advertising revenues. Internet was the only media sector with the growth of advertisement in 2015 (+ 15 %).

The newspaper market, which, in recent decades, has become more diverse in terms of the number of outlets, is under pressure also due to digital transition and changing media use. The reading of paid, traditional papers has fallen the most radically while free newspapers such as Metro have strengthened their readership numbers. Newspapers are still relatively important sources of local and regional information even as their role at the national level has diminished. The rise of digital media represents a mixed picture, in part because of growing political pressures and because the Internet has proved to be a challenging environment for finding new sustainable business models.

Based on the market and political development, the operational environment has become more challenging for small, independent commercial media and for foreign-owned media, while large media holdings continue to grow, partly through mergers and acquisitions. Part of the media business is owned by the so-called oligarchs or business tycoons, who may have other business and political interests besides the media.

It seems that the development in Russian media is towards increased manoeuvring by the state or stakeholders near to it. Based on expert opinions and recent research reports, the latest developments in the media market and media regulation seem to lean towards the continuation of ownership concentration on the hands of wealthy Russian owners while the number of non-instrumental commercial publishers, especially foreign investors, is diminishing. However, much depends on how the government and other political actors, including influential oligarchs, decide to move forward and how the economic situation affects the media market in the long term.

In this media environment, online media has both the potential to become a stronger arena for public discussion or to become more restricted. In economic terms, however, this media sector has the best prospects regarding advertising income at least in the short term. ■

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# Nationalism in Russia and its reflections in the Baltic Sea region

Expert article • 1983

**T**he annexation of Crimea and the war in Eastern Ukraine have shown that Russia does not hesitate to put imperialist echoes of its foreign policies into practice. It is thus not a surprise that the Ukraine crisis has had serious repercussions in the Baltic Sea region. As it appears, Russia sees the United States via NATO as an existential threat to its national interests. These interests have roots in the imperial thinking of the great power - from the Imperial Russia through the Soviet Union up to its current post-imperial syndrome - from which Russia has anything but recovered.

Many observers in the West view that Russia's aggression is based on a gradual though systematic restoration of the great power. According to this interpretation we saw the war in Georgia in 2008, in Ukraine in 2014, and the next awaits somewhere in the territory of the former Soviet Union. This development began with Vladimir Putin's rise into power, who abandoned Russia's democratic reforms and shifted the nation's course into an aggressive neo-imperialism.

An alternative interpretation, pointed out for instance by Richard Sakwa, sees that Russia was left out from the sense of victory over communism in Europe in 1991 when the Soviet Union ended. Despite the disappearance of communism was the victory for Russia as well, the West did not understand that for Russia the disappearance of the Soviet Union was not only the disappearance of a political ideology. The lost of the Soviet Union began to appear as the lost international and geopolitical might of the Soviet era in the socio-economic and political turmoil of the 1990s. Consequently, following Sakwa, the West constantly rejected Russia's alternative visions of a greater Europe and finally in 2014, the development erupted in Ukraine, in the core territories of Russia's imperial identity and imagination.

When one examines how Russia's post-imperial syndrome has been treated in its domestic politics, it is difficult to see that the Kremlin's intervention in Ukraine would be a calculated plan in restoring the lost empire. In a similar vein, it is too simplifying to see Russia's post-Soviet development as an irrevocable culmination towards imperial revisionism in its relations with the West. Imperial revisionism along with other variations of the Russian nationalism has existed in Russia long before Putin and the current crisis.

The very process of USSR's dissolution demonstrated that Russia's domestic political frontline was not going to be drawn between the left and right, but between Western oriented reformers and anti-Western conservatives. It was the conservatives – ranging from hardline Stalinists to anti-communist and religious monarchists – who found the minimal common denominator in anti-Western nationalism. The bloody conflict over the new constitution between Yeltsin's reformers and conservatives in 1993 was the landmark for the Kremlin's further need to take into account nationalist and anti-Western currents in its policies. The chaos of the 1990s strengthened various oppositional nationalist ideas and, in order to stabilize the situation, the Kremlin's major doctrine has been to promote the idea of 'patriotic centrism'. This was initiated by Yeltsin in 1996 but whose actual implementation was left for his successor, Vladimir Putin.

Putin's political and economic success with high oil prices consolidated his mandate during the first decade of the 21<sup>st</sup> century. In terms of the population's distaste of any political ideology, Putin's focus on patriotism as a new state 'ideology' appeared to be a success story. For the majority Russians emphatic patriotism has not been at variance with the main achievement after the turbulent 1990s; the stable life in an improving consumer society. At the same time, the official state patriotism managed to tame the oppositional nationalism of the Yeltsin era.

Large-scale protests in 2011-12 and the gradual decline of Putin's popular support up to the late 2013 proved that the period of the Kremlin's patriotic consensus was over. It was not only liberals who opposed the regime, but also many nationalists and conservative forces demonstrated a growing frustration. On the one hand, the regime had become too stagnant and non-Western, on the other hand it was too pro-Western and constantly neglected Russia's national interests. The annexation of Crimea proved which side the Kremlin chose in looking for recovery for its declining domestic support. Regarding Putin's popular support after the annexation, this choice appeared to be successful.

In terms of Russia's domestic development after the Soviet Union, the aggressive anti-Westernism and the military tension in the Baltic Sea region is a result of the Kremlin's political ambiguity. The result of that when an ideologically weak authoritarian regime instrumentalizes various ideas for its political survival. In the case of post-Soviet Russia this idea has been a diverse nationalism. Now, as it seems, the Kremlin has tied itself into a political course whose domestic legitimacy requires an active and aggressive anti-Western politics. ■

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# International business in Russia, 2014-2016: stress-test for sales and investments

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**S**tress-testing became a continuous and quite routine procedure for businesses and governments worldwide in the last decades. Countries and regions almost simultaneously experience cyclical and hand-made crises, financial and commodity bubbles; demonstrate fraud, corruption and crime, as well as narrow-minded thinking, greed and readiness to repeat the same mistakes again and again. "This is not a crisis anymore, this is a normality"- said one CEO working in international business for 25 years.

Russia is not being singled out in comparison with the rest of the world, but it has its particularities. The country demonstrated them in 1998, 2008-09s, and in 2014-16s. As a rule the main features (one can see nowadays, too) are: 1) the fall of oil/gas export price is the biggest problem and risk (lower than \$ 27 in worst scenarios for 2016); 2) capital flight to safe "harbors" and tax "heavens" makes crash of FX market; 3) consumers traditionally react on the currency instability (normally 20-40% and even more decrease) by running from rubles into hard currencies (Euros and dollars) or into consumer goods (mostly expensive, before prices in roubles goes dramatically up), and then demonstrate restrained behavior for 2-2,5 years making B2C companies' profits lower, but no so grim; 4) B2B sales goes seriously down as strongly dependant on imported goods or components/compounds; 5) the banking system provides expensive loans for the local businesses making economic growth illusive. The whole system looks slipping for 3-4 years until the oil/gas prices recovering.

In 2014-16s Russia had even more grounds for extreme. Always "unpredictable" fall of oil/gas' export prices looked really dramatic (more than three times). GDP depending on export had declined by -3,85% in 2015 and could decline by -1.5% - 2.0% in 2016. Sanctions induced for political reasons in 2014 (even in some way "manageable") had painfully wounded few strategic sectors: energy (primarily, oil and gas), defense and finance. While international energy companies were down-sizing their activities worldwide in tune with squeezing demand for their products (and only partly by sanctions), some leading IT companies which were quite successful in Russia and planned further expansion found out that many of their products and services assumed as "double used" and appeared under sanctions in context with military sector. In fact the limitations in IT sector make perspectives of the Russian modernization and innovation questionable. The financial sanctions had a shocking effect in terms of confidence and predictability of banking system. The rate of ruble reached early unknown bottom in December 2015 (near 100 ruble for Euro) and in January 2016 (near 90).

Most companies who made their budgets for 2014-2016 on the rates 60-65 rouble/euro were unable to find the right balance under extreme fluctuations and tried to compensate for the devaluation, inflation and excise duties through price rises. At least at the moment the markets and currency seem to find a new equilibrium around 75-76 rouble/euro as a result of some recovering in oil prices. After averaging 15.5% in 2015 and ending the year at 12.9%, inflation then fell to 9.8% at end of January 2016. Expected inflation in 2016 is at average 9.8% with some decline at year-end. In 2016 near 50% of companies plan to increase prices by 1-10% and another 22% forecast increases of 10-20%, over 20% plan not to raise prices.

The ruble trend will dictate very accurate price increases in 2016 with monitoring of competitors and "price-volume" maneuvering. Many international companies manage to *grow sales in cheaper rubles*. By estimates, over 25% of companies in B2B had +5-10% in 2015 (36% plan to have it in 2016), and over 30% companies in B2C had 10-20+% in 2015 (39% plan to reach it in 2016). Heavy concentration of international business in B2C sector always makes it less vulnerable. However predictably, figures in Euros/US dollars hardly rich one-digit numbers for B2C, and tend to be in minus zone for B2B.

In addition to these problems sanctions force claims for *localization*, *price regulation* (say, in reimbursed pharmaceuticals) and *export-orientation*. Generally companies follow the new rules. Near 35% of companies are planning new investment in Russia in 2016, mainly in food and other B2C sectors. "Localize or die!" More than 30% already use Russia as an export base and another 25% are considering the option. Over 60% of companies believe they will manage to survive in another tough 2016 and provide slight rally in 2017.

Most companies see little change in attitude of the Russian government to western business. And almost all do not notice any change from the side of the citizens despite growing disappointments and weakening beliefs of Russians in "absolute goodness" of globalization.

Adaptability, flexibility, ego-centered focus on survival and growth is inherent in the nature of business. It gives a ground to face problems of the Russian economy, as well as challenges of getting more complicated global environment. The easy ways are not expected. ■



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# The impact of EU sanctions and the Russian counter sanctions to the economies in Baltic Sea area

Expert article • 1985

**T**he economies in EU, especially the member states around the Baltic Sea, and Russia are interlinked in very significant level. It has been estimated that in 2013 over 800 000 jobs around the Baltic Sea were linked to Russian exports. In Estonia and Lithuania the percentage share of Russian exports was over 3% of domestic employment, but also in Finland the percentage share was over 1% and even in Germany 0.9%.

The EU has been Russia's economic partner of choice. About half of Russian export is going to EU and nearly 50% of the import is coming from EU. Russia's biggest single export partner among EU countries has been the Netherlands and the leading import partner Germany.

In 2013 Russia's export to the EU member state around the Baltic Sea was around 87 billion Euros and Russia's import from those countries was about 63 billion Euros.

In response to Russia's illegal annexation of Crimea and its subsequent military invention in eastern Ukraine, EU imposed sets of economic sanctions on Russia. Measures targeting sectoral co-operation and exchange with Russia are:

- Embargo on the import and export of arms and related material from/to Russia
- Prohibition on exports of dual use goods and technology for military use in Russia or to Russian military end-users, including all items in the EU list of dual use goods
- Exports of certain energy-related equipment and technology to Russia are subject to prior authorization by competent authorities of Member States. Export licenses will be denied if products are destined for oil exploration and production in waters deeper than 150 meters or in the offshore area north of the Arctic Circle
- EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by five major state-owned Russian banks, three major Russian energy companies and three major Russian defense companies

As a countermeasure to EU actions Russia decreed a ban on agricultural products and foodstuffs from EU.

The EU sanctions and the Russian counter sanctions haven't been the only influential factor to trade between Russia and its neighbors during the last 18 month. In August 2014 the price of crude oil was 105 USD/ barrel. A year later it was less than 50 USD/ barrel and by the end of 2015 it was below 40 USD/ barrel. Two thirds of Russia's export is oil, oil products and gas. From August 2014 to the end of 2015 Russia has lost more than 25% of its export incomes because of the dramatic drop in oil price.

Most of the changes in Trade between Russia and other countries can be explained by the drop in gas and oil prices, but how much the trade has really decreased because of the sanctions and counter sanctions is unclear.

The easiest action to evaluate is the ban on agricultural products and foodstuffs from EU, which Russia decreed in August 2014. During August 2013 - July 2014 the export value of agricultural products and foodstuffs from Baltic Sea countries to Russia was 5.85 billion Euros. In the same timeframe a year later the export value of equal products from same countries was 3.07 billion Euros. Proportionally the biggest losers have been Denmark and Finland, which both have lost more than two thirds of the value of their export of agricultural products to Russia. From the national economy point of view the hit has been hardest in Lithuania and Estonia - in Lithuania nearly 4% of GNP.

Of sanctions imposed by EU the most adverse effect to the Russian Economy have the sectorial sanctions to the finance sector, which in fact have frozen five largest banks and companies like state oil giant Rosneft out of the capital markets and raised borrowing costs for others. Support from government and a cushion of current account-surpluses have been enough to keep Russian companies current on payments, but difficulties to get financing coerce Russian companies to postpone their investments.

Rests of sanctions imposed by EU have limited effect to the Russian economy. The total annual value of arms trade between EU and Russia has been only 3.5 billion Euros. Investments to oil exploration and production of deep waters and offshore north of the Arctic Circle are frozen because of the low price of oil. Prohibitions on export of dual use goods and technology for military use in Russia might have effect on single companies but not on the national economies.

The export value to Russia of the 8 EU member states around the Baltic Sea was in 2013 nearly 63 billion Euros. Final statistics concerning 2015 are still missing, but we can evaluate from various sources that export value in 2015 was less than 40 billion Euros, even as low as 35 billion Euros - a huge amount of export income out of the economies of 8 countries and also nearly 300 000 jobs under threat. Main part of the drop can be explained by the change in oil price, but something between 4 and 6 billion Euros can be allocated to sanctions and counter sanctions.

Even more harmful is the indirect effect of sanctions. For many companies exporting to Russia the sanctions have been a new phenomenon difficult to understand. When things go difficult the activity level goes down. In international trading activity is a key success factor. Without activity deals aren't closed and contracts signed. Even though the sanctions and counter sanctions are some day canceled it will take time before the old contacts and connections are re-established. ■



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# Russia's ever-evolving drug problem

Expert article • 1986

**W**hen we talk about the problem of drug use in Russia, we are referring to a fairly recent problem. Apocryphally, there was no sex in the Soviet Union. But there was also very little in way of drugs or rock'n'roll, too.

According to a 1971 United Nations Office on Drugs and Crime (UNODC) [report](#), drug addiction was “not a serious problem in the Soviet Union.” In the climate of full employment, economic stability and harsh punishments for drug use, possession and trafficking, the report found not a single case of heroin addiction in a decade.

But as the Soviet police state gave way to democratic chaos of the 1990s, geopolitics came into play. Having Afghanistan—which produces over 90% of the world's heroin—on the doorstep, along with porous borders with states like Tajikistan, Kyrgyzstan and Kazakhstan forming the “northern route” of the Afghan opium trade soon made Russia one of the world's largest heroin consumers, with the UN putting it in [first place](#) in absolute numbers in its 2010 report.

Speaking in March 2015, Viktor Ivanov—head of the Federal Drugs Control Agency (FSKN)—announced that 90,000 people aged 15-34 die of drug overdose in Russia annually—down from 140,000 in 2003. Ivanov [estimated](#) there are over 7 million drug users nationwide, with around 1.5 million of them heroin addicts.

According to [The Lancet](#) medical journal, Russia has the highest rate of injecting drug users (IDUs) in the world, at 1.8 million, with UNODC [putting](#) the number at over 2% of the population. Among these, some 90% are also infected with hepatitis C. At 24.6% of HIV prevalence, together with Ukraine it currently [accounts](#) for a third of global IDUs living with the disease. Earlier this year, Russia officially diagnosed its [millionth](#) HIV patient.

In the 2000s, the “zombie drug”—flesh-eating [krokodil](#)—cooked from codeine pills with the addition of substances like lighter fluid and phosphorus, became popular despite a life expectancy of just a few years among addicts. Significantly cheaper than heroin and easy to make, some [65 million](#) doses were allegedly confiscated in 2011.

After the ban on non-prescription sale of codeine in 2012 saw a decline in [krokodil](#) production, “[spice](#)”—a type of synthetic cannabis also known as “bath salts”—came to take its place. Cheap and readily available, synthetic drug use [doubled](#) in the past year, prompting anti-drug campaigner and Yekaterinburg mayor Yevgeny Roizman to tell [The Guardian](#) that heroin was yesterday's problem in Russia.

When a mass poisoning caused by spice killed 40 people, with a further 2,000 requiring medical assistance in 2015, it prompted stricter controls over classification of illegal substances to be introduced. But, [according](#) to Anna Sarang, the head of the [Andrey Rylkov Foundation for Health and Social Justice](#), this only exacerbates the situation by launching an arms race between legislators and chemists, who turn to restructuring banned compounds into potentially more dangerous, but still-legal ones.

Given the state of affairs, then-President Dmitry Medvedev classed drug addiction as a threat to national security in 2009, followed by a 2010 directive from President Vladimir Putin to create a nationwide drug rehabilitation program.

A 2007 Human Rights Watch [report](#) concluded that Russia was violating its international obligations by withholding essential treatment, leaving addicts with no support system. Eight years on, the situation has hardly changed: There are currently just four government-funded rehabilitation centres across the country, with total capacity of 200 spaces. Officially, there are about 500 independent rehabs, with no control mechanisms or proper licensing.

Aside from stories of patient abuse and gross negligence cases, many of them adopt methods such as the Alcoholics Anonymous (AA) 12-step programme or faith-based healing. While these methods might prove effective with alcohol dependency, they are not enough to effectively tackle the power of heroin addiction, on a scale as massive and pervasive as Russia's.

Opioid substitution therapy (OST)—currently in use in 80 countries worldwide—is still unavailable in Russia, with synthetic drugs such as methadone and buprenorphine remaining banned. Despite evidence that OST brings a 54% reduction in HIV infection, the head of FSKN has previously stated that there are indications that methadone increases death rates and that medical success associated with methadone is a “myth.” In a separate [interview](#), Ivanov suggested that the likelihood of someone progressing from cannabis to heroin use is 50% to 60%, or, in short, “one step away.”

On the positive side, there are motions to decrease sentences on drug possession, which has seen some 400,000 people [jailed](#) in the past five years for private use. In May 2014, a new law made it possible for judges to prescribe rehabilitation to known drug users, and over 20,000 such decisions have already been carried out.

As the problem to find rehabilitation programs for these mandatory patients persists, the situation is further complicated by the fact that the FSKN is currently tasked with both prosecution and rehabilitation. These are—more often than not—conflicting missions, especially in an agency that is, according to its director, “small and compact.”

To combat its multifaceted drug epidemic, Russia needs to drastically overhaul its attitude to rehabilitation and begin to implement science-based solutions. Instead, conservative entrenchment and disregard for medical research among both the public and the government make it difficult to see how Russia will move past associating drug use with criminality while continuing to implement destructive policies towards drug users. ■



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# Tourism development in border regions of Northwest Russia

Expert article • 1987

**B**y now tourism has become one of the world's largest industries and one of its fastest growing economic sectors. Many countries consider tourism as a main instrument for regional development which can stimulate new economic activities.

The development of tourism and recreational activities now appears as one of the perspective directions for the regional development of the border regions of Northwest Russia. Unique resources, the presence of protected territories (for example 5.4% of the territory of the Republic of Karelia is protected) are basic components of tourism development. Nowadays tourism development is considered as a factor for conservation and reproduction of the natural, historical and cultural potential of regions. Choosing tourism as a priority guideline for the socio-economic development of these regions and including it in the main strategic documents has been a new step in the development of the tourism business.

The study of the tourism development in the regions from 2000 to 2014 revealed an upward trend of the key parameters of the tourism and recreation activity, suggesting it is turning into an efficient and dynamically developing business sector. In 2015, the increase of the tourist flow to the Kaliningrad region amounted for 25% of regional revenue, to the Pskov region it was 15%. Importantly, the growing volumes of inbound tourism create additional jobs in related spheres of the region's economy, such as transport, catering, entertainments, and gift manufacture. The region thus gets a multiplier effect that promotes the socio-economic development of the region. Additional employment opportunities are created also for rural residents as they get more and more involved in providing tourist services and thus gain extra income for the family from catering, guiding, gear rent, selling souvenirs and foods to tourists, organizing artisan workshops and entertainments based on local historical and cultural traditions, and so on.

According to statistical data, from 2009 to 2014 the increase of the tourism and excursion services increased on average by 2.7 times (the most was in the Pskov region by 4.8 times and the least was in the Republic of Karelia by 1.35 times). The volume of hotel services in the border regions of the Northwest Russia has increased on average by 1.5 times.

Owing to growing extra-budgetary investments in tourism infrastructure in the regions, substantial funds are drawn into the regions. Most of the tourist infrastructure-building projects are large investment projects for the contracting of modern accommodation facilities in towns and municipalities of the regions. During 2000-2014 the amount of hotels increased by 2 times (the majority in the Leningrad region was by 3.4 times and least in the Murmansk region by 1.5 times) or more than 270 hotels were built up there. This does not take into consideration the construction of other buildings for accommodation.

Tourism development in the regions is characterised by uneven distribution of tourist traffic inside the regions. Quite naturally, the greatest load is on the 'brand' tourist destinations. On the other hand tourist fluctuations in the regions are now being reoriented towards more attractive destinations, and demand for unique high-quality tourist products is growing. For the first time the number of visitors to

the marble mine park, Ruskeala (172 thousand people) exceeded the number of visitors of the Kizhi - open-air museum of wooden architecture in 2015.

Another trend of tourism development in the border regions of Northwest Russia is high seasonality, meaning that tourist organizations are mostly active during the summer season (from May to September) and a short interval around the New Year and Christmas.

Over the past decade, location at the border has driven the development of various tourism-oriented projects funded by the European Union. Projects designed to conserve and restore cultural, historical and natural heritage, as well as projects meant to promote regions in the domestic and international tourist market are of special importance. For example, these projects helped to establish a network of protected areas along the Karelian border, covering altogether around 1/3 of a million ha (over 80% of them on the Russian side). This 'ecological framework' will secure the natural biotic diversity and the system of valuable recreational areas (with the possibility for tourism development).

The development of cross-border tourism ("nostalgic" tourism, shopping tourism) as a specific characteristic of border regions is one of the tourism development areas in border regions of Northwest Russia. Considering the tourist flow structure to the regions regarding citizenship it can be revealed that the development of international tourism in some border regions are mostly dependent on tourists coming from the neighbouring state. During 2008-2014 the share of tourists from Finland to the Republic of Karelia made up more than 98%, from Germany to the Kaliningrad district is 48-83%.

Taking the topicality and future tourism development in the border regions of Northwest Russia into consideration, the following measures for strengthening its role in the socio-economic development of each region, can be offered:

- development of transport, tourism and recreation infrastructure meeting the needs of tourists;
- promotion of the border regions tourist products in the international and Russian tourism market;
- projects designed to conserve and restore cultural, historical and natural heritage (preservation of wooden architectural monuments, restoring the original architecture of historical settlements, re-establishment of the historical cultural environment; establishment and development of ethno-cultural centers, organization of folklore festivals and events);
- others. ■



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# Mechanism of local border traffic on Polish-Russian border

Expert article • 1988

The local border traffic (LBT) mechanism on the Polish-Russian border is the result of a series of decisions made both at the EU and intergovernmental (Polish and Russian) level. The mechanism and its specific conditions emerge from agreement on local border traffic between Polish and Russian government signed on December 2011. The agreement was a culmination of a multi-year process associated with the development of relationships between the European Union and the Russian Federation in the visa dialogue and cross-border cooperation. The agreement was a step forward and natural consequence of the developing relations between Russia and the EU as well as one of very few examples of fruitful cooperation between Poland and Russia observed in recent years.

The agreement and results of LBT mechanism should be considered in two contexts:

- Political context – over the past 20 years the Kaliningrad region was one of the key issues in the relationships between the European Union and Russian Federation, especially in the process of enlargement of the European Union to the east in 2004;
- Legal context — the agreement and the LBT mechanism are legal steps improving the efficiency of the EU external borders. The Polish-Russian agreement on LBT is the result of a number of legislative decisions made at the institutional and legislative levels.

The agreement was signed by R. Sikorski and S. Lavrov in Moscow on 14 December 2011. According to representatives of both parts, it became a 'milestone' in the relations between the two countries and peoples, and in the future it will contribute to more active cooperation between the Kaliningrad region and the European Union. The agreement came into force on 27 July 2012. In accordance with the agreement, residents of the border areas of both countries can repeatedly cross the Polish-Russian border on the basis of a special travel document. In Poland, the visa waiver programme covered some areas of the Pomeranian voivodeship as well as northern part of the Warmia and Mazury voivodeship.

The border area includes the Kaliningrad region as well as territories adjoining the border on the Polish side, most of which are within the 50-kilometer border zone, in accordance with previous agreements of the European Commission and the Council of the European Union. The document permitting repeated crossing the Polish-Russian border is a special permit issued to inhabitants of the border zone and giving the right to multiple entries, exits and stay in the border area. New rules for local border traffic also cover third-country nationals living in the Kaliningrad region and the Polish border area. First travel documents entitling them to cross the border without a visa were issued in August 2012.

The agreement on LBT between Poland and Russia and Poland is in force for more than three years. It makes it possible to estimate its impact on different areas of economic and social cooperation between Polish and Russian subjects located in borderlands. Over the

past five years, the traffic on Polish-Russian border has been significantly increasing. The introduction of LBT mechanism contributed to this process especially in comparison to period after the EU enlargement in 2004. In 2010 more than 1,4 mln people crossed the Polish-Russian border, whereas in 2012 it was about 4 mln people. In 2014 this indicator reached 6,5 mln people. The number of people crossing the border also increased in 2015 despite a significant deterioration of Polish-Russian political and trade relations.

The relatively short term of operation of the agreement shows that the local border traffic at the Polish-Russian border creates a number of tangible advantages for the residents of the border area, strengthening social, cultural, tourist and economic contacts. It should be noted that the LBT mechanism facilitates the development of tourism in the northern part of Poland and the Kaliningrad region. It also contributes to the economic development of the Kaliningrad region and become a laboratory of change in the visa procedure for citizens of the Russian Federation. At the same time, according to experts, the liberalisation of the visa procedures does not lead to a significant increase in economic exchange between Poland and Russia in general, as no measures to facilitate the transportation of goods across the Polish-Russian border were introduced. The present passport control procedure is also maintained at the Polish-Russian border crossings. The economic environment for European Union companies in the Kaliningrad region has not changed, which is a significant obstacle to the development of economic relations with the region. The LBT agreement has become one of the most important developments in the relations between the EU and Russia in recent years. The agreement was also one of the main highlights of the Polish Presidency in the Council of the EU in the second half of 2011. Factors affecting the development of multilateral relations with the Kaliningrad region are described in most documents related to the objectives of the Polish Presidency. Some substantial commitments and decisions were taken to activate cooperation with the Kaliningrad region and deepen the political dialogue with Russia. However, a number of important issues in relations between the European Union and Russian Federation should be taken into account. Not only the end of the dialogue between the European and Russian leaders as a result of the political and social unrest in Ukraine but also previously suspended consultations on a new partnership and cooperation agreement can be an indication of cooling relations between the European Union and Russia. Under these conditions, the local border traffic agreement is indeed a success. Conclusion of a new agreement on partnership and cooperation (which – in the current situation – cannot be expected in the near future) can provide a real basis for further development of the EU-Russia cooperation. ■

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# What happened to the Russian economy after 2012?

Expert article • 1989

The Russian economy resumed its growth after the 2008-09 global financial crisis. However, starting from 2012, it experienced a slowdown of economic activity. Most of Russian and some foreign observers described it as a stagnation attributing the slowdown to a harder political climate that arose after the winter of discontent in Moscow in 2011-12. State pressure on private business was put forward as one of the critical factors that caused the stagnation. To remember, this happened before the Ukrainian geopolitical crisis, Western sanctions and a sharp decline in oil price appeared in 2014, which finally resulted into a recession in 2015. Thus, the 2014-16 economic troubles were preceded by the 2012-14 slowdown. This fact requires its explanation.

The argument about the state pressure on business as a part of poor investment climate cannot help us to understand the slowdown paradox since neither of those phenomena are new for Russia. Since the beginning of economic transition in the early 1990s, its institutional environment has been suffering from strong deficiencies such as informal dealings between state bureaucracy and business. In the 2000s, the Russian state started its comeback as an important player in economy; renationalization of assets in the most profiting sectors such as energy and banking took place. More importantly, the country was affected by a wave of illegal corporate raiding, or "reiderstvo", as it is labelled in Russian. Representatives of the state law enforcement agencies and judiciary were a part of informal networks that planned and carried out quasi-legal hostile takeovers of enterprises. This was nothing less than systemic abuse of private property rights tolerated and in many cases organised by state officials for personal enrichment. Yet the economy grew before 2008, creating a sense of what now is conventionally viewed as ungrounded optimism about future prospects for economic development in Russia.

An explanation of Russia's economic decline after 2011 may be found in particular monetary policy pursued by the Central Bank of Russia (CBR). Few Russian economists have ever taken up this issue, with a notable exception of Evgeny Gavrilov, the chief economist of the Russian investment bank Sberbank CIB. Starting from autumn 2011, the CBR increased its money supply to the Russian banking sector, from a practically zero level in summer 2011 to 4 trillion rouble in January 2014. These injections culminated with almost 8 trillion in December 2014, when the panic in the currency market was as greatest. To compare, the CBR emergency money supply achieved only 3,1 trillion at its maximum during the 2008-09 global financial crisis. The main ambition was to stimulate economic growth by decreasing costs of borrowing for the real sector. However, an expansion of credit activity never happened. Provided state liquidity was not commensurate with amount of Russian enterprises that would meet requirements of creditworthiness and could repay loans. Instead of increasing lending, Russian banks channelled liquidity into currency market to speculate against the rouble. The CBR

appeared as the main receiver of this liquidity which was sterilized through the CBR currency interventions targeted for support of the rouble exchange rate. The results were an immediate slowdown of economic growth since autumn 2012, except for the Russian financial sector as the main recipient of the CBR liquidity, and increased pressure on the rouble. The 2014 external shocks posed a new challenge for Russian economy increasing volatility of the rouble exchange rate and contributing to a dramatic depreciation of the Russian currency in December 2014. Russian banks had liquidity to speculate against the rouble at the same time as other market participants expected a fall of the rouble in parallel with declining oil price. A dramatic increase of the CBR key policy rate in December 2014 was also closely related to the CBR's failure to manage liquidity flows that the regulator itself provided for the banking system.

The CBR attempted to imitate a 'quantitative easing' (QE) policy previously implemented by central banks of Japan, the US and the UK. However, the regulator did not take into account that the Russian financial system was different compared to countries with developed financial markets. First, the size of the Russian state and corporate bond markets remained relatively low, which meant that the financial markets lacked sufficient refinancing mechanisms. Thus, the bulk of the CBR liquidity provided to banks was secured by so called 'non-marketable assets' of questionable quality. Second, the Russian rouble is not a reserve currency used by other states and external actors. Third, quantitative easing itself is a controversial policy attempted by economies with key policy rates close to zero. None of these QE criteria was met by the Russian financial system in 2012-16.

Instability in the Russian currency market that followed the dramatic rouble depreciation in December 2014, with ups and downs of the rouble exchange rate during 2015 and early 2016, is also interrelated to the CBR monetary policy. The banks continued to re-channel the CBR-provided liquidity into the currency market. The exchange rate instability contributed to macroeconomic uncertainty that made Russian enterprises unwilling to invest into expansion of productive capacities. Since the end of 2015, the CBR decreased considerably its liquidity provision into the banking system, which gives more hope for a slow economic recovery in Russia in coming years. ■



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MARK-OLIVER TEUBER

# Trade patterns and economic structure in the Baltic Sea region

Expert article • 1990

In recent years, the process of political and economic integration in the European Union (EU) seemed to have come to a standstill. However, there are regions in Europe that are interconnected either by historical ties, such as the Hanseatic League, or spatial proximity, and therefore exhibiting a strong potential for further integration in the future. One of them is the Baltic Sea region<sup>1</sup>, where all countries are part of the EU. In fact, the Baltic Sea region is one of Europe's most flourishing economic areas: The GDP per capita is above the EU average and the unemployment rate is well below average. These facts hint at the region's great importance for the whole European economy.

European and interregional integration as well as the economic success are considerably driven by the intensive trade relations within the region: High shares of exports and imports in the Baltic Sea countries come from intra-regional trade. For example, 14% of Germany's intra-EU imports in 2015 came from the Baltic rim, mostly from Poland (8%). The smaller Baltic Sea countries, like Estonia (70%), Latvia (69%) or Finland and Lithuania (both 60%) are even more dependent on imports of goods from Baltic Sea trading partners. The other Baltic Sea countries feature relatively high import shares for intra-regional trade as well. But the Baltic rim is not only important for imports but also as a sales market. So, the Baltic countries (Estonia 82%, Latvia 75%, Lithuania 70%) as well as Denmark and Finland (58% and 56%) transact the predominant share of their intra-EU exports within the Baltic Sea region.

While, on the one hand, the Baltic Sea countries' most important trade goods differ from one country to another, there are, on the other hand, also important transnational similarities. In all countries, processed industrial goods followed by capital goods, except transport equipment were the most important goods of intra-regional trade in 2015. Behind, there are further country-specific trade specialisations: Denmark, as well as Lithuania, trades processed food and beverages mainly for household consumption. Estonia's, Finland's and Sweden's further specialisation is trading capital goods, parts and accessories. Latvia is specialised in ex- and importing processed fuels and lubricants, while Germany and Poland trade important shares of transport equipment and parts and accessories thereof to its Baltic Sea neighbours.

Regarding trade connections and growth potential, the economic sectoral structure plays a crucial role in defining the trading patterns of a country or a transboundary region by hinting at its comparative advantage in international trade. In comparison to the EU, the region has a considerable above-average gross value added share of agri-

cultural activities as well as of transportation and health services. On the other hand, especially accommodation and food service activities are strongly underrepresented. However, there are considerable regional differences in economic specialisations. Particularly the ruralized Polish voivodeships Podlaskie and Warmia-Masuria as well as the German federal state Mecklenburg-Western Pomerania exhibit a marked specialisation in agriculture while other regions, such as the German city-state of Hamburg as well as the Baltic countries Latvia and Lithuania, feature a high importance of the transportation and logistics sector. Furthermore, health services play a crucial role especially in Denmark, Finland and Sweden.

These stylised facts show that the knowledge-based structural change, i.e. the increasing importance of research intensive industrial sectors or sectors with an above-average share of highly qualified staff, has not yet reached every part of the Baltic Sea region. Further need for expansion of knowledge-based industries and services especially persists in the eastern Baltic Sea regions. To manage the knowledge-based structural change is an important requirement for increasing a region's future perspectives because economic growth will come more and more from knowledge-intensive industries and services. In addition, the demographic change will lead to a declining population accompanied by a decreasing labour force, particularly in rural areas. In order to counteract this development, the regions have to increase their attractiveness for immigrants. A knowledge-based economic structure attracts more companies, which in turn draws more people, and so on. In this manner, the regions can contribute to a slowdown of the demographic change which is an important prerequisite for further development and ongoing innovation power. ■



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<sup>1</sup> The Baltic Sea region is defined as the EU countries Denmark, Estonia, Finland, Latvia, Lithuania and Sweden as well as the German federal states of Hamburg, Mecklenburg-Western Pomerania and Schleswig-Holstein and also the Podlaskie, Pomeranian, Warmian-Masurian and West Pomeranian voivodeships of Poland.

YOJI KOYAMA

# Euro and the Baltic States

Expert article • 1991

The sea has never separated people from those living in the opposite shore. The sea has helped the comings and goings of people, the transportation of goods and the introduction of various culture since ancient times. In the Far East, however, there was an invisible long wall across the Sea of Japan, and people's contacts between the both sides of the sea were not so frequent during the period of the Cold War. The end of the Cold War activated exchanges between the Russian Far East and Japan including people's coming and going, the transportation of goods, etc. About 25 years ago among the people who desired the development of the Japan Sea rim economic area someone compared the Sea of Japan to the Baltic Sea, mentioning a nostalgic name of the Hanseatic League.

There were presumably similar situations around the Baltic Sea. The Baltic States, which became independent from the Soviet Union in September 1991, expressed their aspiration of return to Europe and finally they were admitted to the European Union in 2004. In January 2011 Estonia adopted the euro, followed by Latvia (2014) and Lithuania (2015). It seems that these countries willingly entered the Eurozone by placing more emphasis on a complete withdrawal from the economic area of Russia rather than the loss of monetary autonomy by their entry into the Economic and Monetary Union.

Historically the Baltic States have had strong links with Nordic countries and in recent years they have been remarkable especially in the financial area. At about the creation (1999) of the euro, combined with financial liberalization and global financialization, the competition among European banks intensified, causing active acquisition of banks in Central and Eastern Europe (CEE) by West European and Nordic major banking groups. Thus began cross-border capital flow on a Pan-European scale including emerging markets in CEE. Interest rates decreased also in new EU member states, which joined the EU in 2004, already before the official adoption of the euro. Nordic banks advanced to the Baltics. They adopted aggressive business strategies to gain market share and set nominal interest rates and other loan conditions at levels quite similar to those in their home markets. In addition to FDI inflow, which started in the 1990s, bank loans to enterprises and households became very active in the Baltics, resulting in bubbles in the mid-2000s. Hit hard by the 2008 global financial crisis, however, all of the Baltics recorded a 2-digit negative GDP growth in 2009. In most of CEE foreign-owned banks accounted for more than 90% of total asset in the banking sector, although the share was about 70% in Latvia. At that time the financial supervisory system in the EU had defects, namely it had the principle of home country's

supervision and there was no coordinated supervision at the EU level. Authorities in host countries could not control subsidiaries of foreign banks effectively, incurring bubbles and busts. However, parent banks managed to support their subsidiaries and thus the banking system in Estonia and Lithuania. In Latvia, Parex Bank, an indigenous bank which rapidly grew by collecting deposits from non-resident, had no

parent bank behind it, and therefore could not find a way out of the financial crisis and collapsed by a bank run in autumn 2008.

The Baltics have been often mentioned as successful examples of a V-shape recovery by people's desperate efforts for their escape from the financial crisis. However, this point is problematic when we consider substantial decrease in the population after the crisis. The population decreased from 2008 through 2014 by only 0.1% in Estonia whereas it decreased in Latvia and Lithuania by 12.0% and 12.7% respectively. As the

natural decrease in population was not so large, the substantial decrease in population in the latter two countries can be ascribed mostly to emigration. Taking into account such a huge sacrifice, I wonder whether we are allowed to be simply pleased with an increase in per capita GDP in a country. The principle of people's free mobility is of course important. But it would be more important for people to stay in their own country, live safely, develop their culture and furthermore enhance its attractiveness enough to attract foreigners.

Although having become independent from the Soviet Union, adjacent Russia and CIS countries remain important trading partners. In Latvia a considerable amount of non-resident deposit – about 80% supposedly derive from Russia and CIS – is remarkable. Russia is also important as an energy supplier. The Baltics have important sea ports and huge hinterlands. In addition to Russia, if they have successful connection with the Trans-Siberian railway their ports would play an important part in physical distribution with East Asian countries including China. ■



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It seems that these countries willingly entered the Eurozone by placing more emphasis on a complete withdrawal from the economic area of Russia rather than the loss of monetary autonomy by their entry into the Economic and Monetary Union.

JEAN-PAUL LARÇON

# China's "Belt and Road" initiative and the Baltic Sea region

Expert article • 1992

The "One Belt One Road" (OBOR) initiative, announced for the first time by Chinese President Xi Jinping in 2013 during his visit to Kazakhstan, promotes the simultaneous development of the maritime and inland trade roads linking China, Europe and Africa: "the 21st Century Maritime Silk Road" and the inland railroad "Silk Road Economic Belt". China's ambition has three major objectives: eliminating trade and investment barriers, large international joint projects, and cooperation in the conventional and renewable energy sector. It implies huge investments in infrastructure projects such as roads, railways, sea ports, airports, logistics hubs, pipelines, as well as telecom networks.

This long term strategy has a clear set of priorities, and a specific process of resource allocation: in 2014 China created new major financial institutions to support its projects such as the Silk Road Infrastructure Fund and the Asian Infrastructure Investment Bank (AIIB).

The OBOR initiative is key for China-Europe trade and opens new challenges and opportunities for companies operating along the way. The initiative is especially important for the Baltic Sea region, which is one of the major gateways to Europe from China and is directly affected by the two wings of the OBOR initiative: the "Maritime Silk Road" and the inland railroad "Silk Road Economic Belt".

## China's "Maritime Silk Road"

The Maritime Silk Road has a direct influence on the development of port infrastructure, hinterland connections, the maritime industry, and regional development. The investments of Cosco (China Ocean Shipping Company) in the Piraeus port of Athens from 2009 to 2015 are contributing to the development of trade between China and Central Europe, saving between four to ten days than using alternative ports such as Hamburg, Rotterdam and Antwerp.

Baltic Sea ports are currently investing so as to participate in these new trade opportunities: Saint Petersburg which is building a new marine transshipment complex; Scandinavian ports such as Gothenburg, HaminaKotka and Helsinki; German ports; Polish ports of Gdańsk and Gdynia, as well as Klaipeda and Riga in the Baltic States. China's initiative is thus accelerating the competition between European countries, regions and ports, as well as creating new opportunities for specialization, alliances and joint ventures.

## China's "Silk Road Economic Belt"

The "Silk Road Economic Belt" which connects Western China to Moscow and Minsk through Kazakhstan is a new opportunity for regions of the Baltic Sea offering good railroad and port facilities closely connected to the international transport corridor Berlin – Warsaw – Minsk – Moscow – Nizhny Novgorod.

Another priority on the Russian side is the construction of the high-speed rail between Moscow and Kazan. In 2015, China announced that it was ready to invest 10.7 billion USD in the project, and that China Railways will participate with Russian Railways in the design, supply and production of railway equipment, and construction.

Belarus is already participating in the OBOR operations with the development of the China-Belarus Industrial Park "Great Stone". The industrial park is located in Mink, near the international airport, railroads, and Moscow-Berlin motorway, with easy access to the Baltic port of Klaipeda. It is a strategically unique logistics hub connecting the Eurasian Economic Union, the European Union and the new Silk Road Economic Belt.

The Yuxinou rail route way, stretching 11,000 kilometers, runs from Chongqing to Duisburg via Kazakhstan, Russia, Belarus and Poland, in 14 days - a much shorter journey than the maritime way. This rail operates a "one-stop declaration, inspection and release" system all along the route. Kazakhstan railways is investing massively in infrastructure and new Alstom locomotives to make the journey even faster (10 days).

## Opportunities for the Baltic Sea Region

China's Belt and Road initiative is a source of competitive advantage for Northern Europe ports and maritime activities, construction, railways and logistics companies, industry and services, as well as an incentive to find new ways to attract Chinese investment into the region and promote exports to China.

It is also an opportunity for the region's high tech sector. Finnish company Cinia Group, which in 2016 completed the high performance C-Lion submarine data cable connection between Finland and Germany, has announced that it will work with Chinese telecom giant Huawei at connecting the European data hubs to Asia. This is a prime example of the new Silk Road entrepreneurial spirit. ■



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OSSII WESTILÄ

# Aboa Mare Maritime Academy and Training Center: Arctic Waypoint Finland

Expert article • 1993

**A**boa Mare Maritime Academy and Training Centre (Aboa Mare) lives amidst the greatest changes within its 200 years long history. All activities are encompassed by digitalization, developing simulators, creating learning environments in simulators and other pedagogical tools for visualizing tacit knowledge.

Climate change has resulted in consecutive ice-free winters and thus created a greater need for simulations enabling practising manoeuvring in ice. Another result of warmer winters is more frequent navigation in arctic waters. A training need has emerged, and Aboa Mare has developed tailor-made programs together with shipping companies, propulsion- and power plant manufacturers, offshore companies and authorities to meet this need. The programs aim to secure safe and successful operation in ice conditions. The training is realized through simulations.

Beginning in 2015 a consortium has been developing the DNV CLASS A-certified Aker Arctic Ice Simulator platform for demanding ice modelling, training and research. Members of the consortium are Aker Arctic, Image Soft, Simulco, Arctia Shipping, Ice Advisors, Aalto University, Tampere University of Technology, Finnish Transport Agency, Novia UAS and Aboa Mare. The consortium has a long and exceptionally wide theoretical and practical experience of operations in ice; keeping the Finnish ports open for navigation in winter conditions is the world's greatest annual ice management operation. The icebreaking skills acquired in the countries surrounding the northern Baltic Sea, can be fully applied in ice-operations in the Northern Sea Route.

Simulators are important teaching aids for ice operations. Simulators conceptualize the interaction between ice and hull of the vessel; they form a realistic image of the surroundings on authentic radars and produce information for e-Navigation. Simulators can couple up icebreakers and assisted vessels and enable proceeding in a convoy. The characteristics of the ice field, its movements as well as the communication during an icebreaker operation, are part of the simulation. The emission of environmentally harmful substances during manoeuvring is registered and can be collated for further calculations.

Aboa Mare and the Finnish Coast Guard Academy cooperate in responding to the challenges in the safety training for the Baltic Sea area. The *National Risk Assessment 2015*, published by the Ministry of the Interior, says "The probability of a major accident at sea is fairly low but it is entirely possible. [...] hard winters in northern Baltic increase the probability of a serious maritime accident."

The two aforementioned academies also offer shipping companies and national authorities courses and simulator training to assure swift and efficient SAR-operations in all seasons. Such courses are SOCS (Supreme On-Scene Commander), Oil-spill recovery and management and SAR- and OSC-courses. In 2017-2019, during the Finnish presidency of the Arctic Coast Guard Forum, Aboa Mare and

the Finnish Coast Guard Academy will conduct common simulation-exercises in Arctic areas for all the forum's member states. The shipmasters, pilots and ice-advisors participate in the familiarization of the channel, the present ice-conditions and the vessel under pilotage while at the same time navigating challenging ice-covered waters. It is possible to begin the simulations and the training already when the vessels, icebreakers, fairways or ports are under construction. If there are intentions to establish a VTS for a specific area, an IALA-accredited operator training is possible also before the VTS begins its work. EMSA has earlier commissioned Aboa Mare to train operators for VTS-areas established in EU-adjacent waters.

The Finnish Coast Guard Academy and Aboa Mare together are members of the European Coast Guard Functions (ECGF) Training Network. Both academies work in the Auriga Center in Turku, Finland. Also the headquarters of the West Finland Coast Guard District, the MRCC and VTS – stations for Finland's west coast are located in Auriga. The establishing of Maritime Auriga, a cluster of maritime actors, has enabled closer cooperation and faster information exchange. Maritime Auriga has a common interest in training and maintaining a high level of skills and knowledge. Simulators offer an excellent learning environment for that. The learning environment has been developed together with representatives from relevant organisations to be as realistic as possible.

Other examples of cooperation between private and governmental organisations such as the SAR, OSC and *Surveillance* trainings arranged for Frontex show how well this type of training fits in a common learning environment. The development in digitalisation has made it possible to keep data exchange during simulations protected to the extent that is required by law or necessity. Also here digitalisation has created new possibilities: a SAR/OSC simulation with simulators from several centres connected with each other was held in March 2016. Organisations from Norway, Sweden, and Finland participated. A total of 13 vessel units participated. The participants on the vessel-bridges in the different countries could see each other visually, on the AIS-system, the ECDIS and as targets on the radar. The radio communication between the vessels was realized over the Internet.

Aboa Mare with its around 1500 training participants annually is expanding, digitally! ■

OSSII WESTILÄ

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# The Baltic Sea: from a clear subarctic pearl to a murky backwater – and back?

Expert article • 1994

The Baltic Sea today is a result of development process at the end of ice age, reaching its present form 8000 years ago. Connection to the World Ocean is through shallow, long and narrow straits, restricting the water flow. Drainage basin of the Baltic Sea is large, receiving a significant amount of precipitation. All this fresh water eventually flows out through the shallow and narrow straits, making it even more difficult for heavier, saltier seawater to enter the Baltic Sea. As a consequence of this unbalanced water exchange, the Baltic Sea is strongly stratified, consisting of saline deep water, and fresher surface layer. The Baltic Sea is subarctic and strongly seasonal, resulting in additional thermal stratification during summer and winter months. The top layer circulates during spring and fall, but saltier water in the bottom layer is renewed only through irregular saltwater inflows. Subsequently the water circulation is very poor, which is the underlying reason of the severe environmental problems that the Baltic Sea now faces.

Today the Baltic Sea is surrounded by 9 nations, with 85 million people living in the drainage basin, 15 million within 10 km of the coastline. There are cities as well as smaller urban and non-urban residence, developed industry, and efficient agriculture. This has created significant nutrient loading from the land, and subsequent eutrophication of the Baltic Sea. The effect of such eutrophication, experienced also in other seas around the world, has been made all the worse by the naturally poor water exchange properties of the Baltic Sea. Like a person who suffers from chronic pulmonary obstruction and heart problems, also started eating unhealthily and smoking and drinking heavily. As late as 1950es and 60es, scientist suggested that the Baltic Sea should be fertilized to make it produce more fish. Maybe not intentionally, but that is exactly what we did. And more fish we got, although not the kind we wanted, while economically important fish stocks declined and even collapsed. And there's more: problems with algal blooms, resulting in significant decline of recreational value of the sea.

Early on, these problems were perceived both by marine scientists, as well as general public. In 1974 a convention for protecting the environment of the Baltic Sea, known as HELCOM was established, bringing the Baltic Nations to the same table to discuss and combat these problems. A lot has been achieved through the work in HELCOM and later EU environmental directives, including an environmental monitoring program of the Baltic Sea involving all the Baltic Nations, and the recent Baltic Sea Action Plan, with a goal of restoring the good ecological status of the marine environment by 2021. Since 1970es, the concern of the environmental status of the Baltic Sea started to appear increasingly frequently in agendas and speeches of decision makers, both political and economical. And yet, after all the speeches, communiqués, statements and such, not much

happened. Concurrently with slow process of actions to remedy the environmental status, funds and resources for environmental monitoring and research of the Baltic Sea have declined stealthily in all surrounding countries.

A sudden boost changed things in early years of 21<sup>st</sup> Century, when other people than just citizens concerned about environmental status of the Baltic Sea, or scientists working on the subject became annoyed by this slow progress. First the Nurminen Foundation, with their Baltic Sea projects, and subsequently the Baltic Sea Action Group, and among others most recently Ålandsbanken applied principles of business approach, people with influence and connections, and combined those with hardcore scientific facts to create projects that would have effective and direct impact where and when it counts. These projects include the phosphorus removal of St. Petersburg sewage cleaning facilities, Baltic Sea Summit meetings, and many more. In addition to direct and effective measures to remedy the environmental status of the sea, they also managed to create sufficient political pressure to boost the political and business decision makers in their work.

The nature is resilient, and can overcome from most serious damage we cause, if only given that chance. Today, having worked for over 3 decades in different fields of Baltic Sea research and monitoring, I'm convinced that finally we are moving somewhere. There are clear signs of improvement in the environmental status of the Baltic Sea, more and better ways of combatting the problems are being applied, and the eutrophication and entry of harmful substances no longer increases. By no means are we, or the Baltic Sea in the clear yet, but we have been able to see that even big things can be changed, and that correct measures applied correctly can change things, even in reasonable time frame. So, the Baltic Sea has all the chances of again becoming the Clear Subarctic Pearl, if we just keep up the good work we have started. ■



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HAIK THOMAS PORADA

# Economic, political and cultural contacts have constituted the Baltic region for centuries

Expert article • 1995

**T**he Baltic region is shaped by a long shared history, the traces of which have been preserved even on a local level.

Peter Wörster, the Head of the Document Collection of the Herder Institute in Marburg, retired at the end of February 2016 after working for decades to preserve the historical sources for the Baltic region. However, it is not only in the Baltic states that his work is highly regarded. This article is dedicated to him.

On the Baltic south coast, 50 km south of Stralsund on the river Trebel, the old boundary river between Pomerania and Mecklenburg, is the feudal village of Nehringen. It is a unique place in many respects, on which the history of the Baltic region has left its mark since the Middle Ages. From the time of the Wars of the Rügen Succession in the first half of the 14th century, on an artificially created hilltop in the marshy lowlands, close to the river, a brick motte has been preserved, one of the best maintained fortifications for low nobility in this region. Above it, you can see the late medieval church of Saint Andreas. The Buggenhagen family was a leader since the colonisation during the late medieval period, both with regard to their feudal tenure and their political influence, and this position of influence extended beyond Nehringen. Following the shift of the Principality of Rügen to the Duchy of Pomerania and the Pomeranian partitions in the years 1368 to 1372, the family covered the Marshal's Office in the Principality of Rügen and in the partitioned Duchy of Barth. Even before the last representative of this branch of the family died childless in 1652, the Swedish crown, which had taken power in Pomerania since 1630, had issued entitlements for Swedish officials on its extensive estate.

In this way, Nehringen was awarded to Casper Otto of Sperling in 1647, who came from old Mecklenburg nobility, but had already transferred to Swedish office early on. Six decades later during the Nordic War, Baron Otto Wilhelm Löwen, and in 1708 Hans Isaac Rüdardhielm, the governor of the Swedish fortress Wismar, were eventually enfeoffed with Nehringen. Following his early death in 1711, the feud over the Nehringen estates was transferred from King Karl XII of Sweden in his Turkish exile in Bender to Johann August Meijerfeldt Senior. For the next 90 years, the history of Nehringen was now linked with representatives from this family.

After the end of the Nordic War, Johann August Meijerfeldt, Swedish baron since 1705 and Count since 1714, returned to his old rights. He was born in 1674 in Oberpahlen (Pöłtsamaa) in Livonia, where his father Andreas Meyer had already been acting as the Chief Inspector of Count Wolmar Wrangel's property for twelve years, who was a half-brother of the Swedish General Governor in Pomerania, Count Carl Gustav Wrangel. In that year, Andreas Meyer was elevated to Swedish nobility under the name Meijerfeldt. Johann August Meijerfeldt pursued a typical career for that time in the Swedish military, in which he rose to the rank of general lieutenant and commander of the

stronghold of Stettin. In 1711, he was named Vice Governor by Karl XII, and two years later General Governor of Swedish Pomerania and a member of the Imperial Council.

During the Prussian occupation of the south and the Danish occupation of north-western Pomerania between 1715 and 1721, he lost not only the Nehringen estates but also his position in the Swedish-Pomeranian capital city of Stettin. Instead, he led the admiralty in 1716/17 and even held the office of President of the Kingdoms Chancellery in Stockholm in 1720. From 1721, Meijerfeldt returned as general governor to head up the business of the Swedish-Pomeranian government, now established in Stralsund. In the years to follow, he developed extensive construction projects, on the one hand for his Nehringen estates and on the other for the Meijerfeldt palace constructed by Cornelius Loos between 1726 and 1730 in the Badenstraße in Stralsund, his official government seat.

Johann August Meijerfeldt Senior, one of the most influential Swedish politicians in the first half of the 18th century, died in 1749 on his Sövde estate in Schonen. His son Johann August Meijerfeldt Junior was born in 1725 in Stralsund. He died in 1800 in Klara near Stockholm. After studying in Uppsala he also pursued a military career, which led him into Swedish and Austrian service and for a time, French imprisonment. During the Seven Year War, he fought against the Prussians, under the Swedish flag in his Pomeranian homeland.

In the Swedish-Russian war, he ultimately obtained a significance that would make his name renowned in the history of the Eastern Baltic region. As a commander of the Swedish army in Finland, since 1788 he was decisively involved in driving back the Russians, for which he would be awarded his rank of field marshal two years later. Since none of his sons survived him, in 1800 the Nehringen estates reverted to the Swedish crown, which Baron Carl Dietrich Schoultz of Ascheraden (Aizkraukle) thereby enfeoffed.

His family dates back to Hermann Schultz, referred to as Schultheiß, who, coming from Bohemian nobility, had fled to Sweden with his son in 1589, entered the service of King Johann III, with whom he came to Livonia, became commander of the Koknese fortress, and fell in the battle at Kerkholm in 1605. Hermann's grandson, Martin Schultz, lord of the estates at Aizkraukle and Römershoff in Livonia, was introduced in 1675 under the name of Schoultz of Ascheraden to the House of Nobility at Stockholm. He made himself a name as an infantry general from 1679 and as governor of Narwa and Kexholm on the border with Russia. The family played a prominent role in the subsequent generations of Livonian history, but also in Russian and Swedish history. They retained the Nehringen estates until 1857, before they were inherited by the family of Keffenbrinck, who in turn were followed by the family of Pachelbel-Gehag.

Expert article • 1995

Just as with Schultz, the Pachelbels also had their roots in Bohemia. Nehringen remained under the ownership of the Pachelbel family until 1945. If the medieval motte and the barochial estate complex with the adjacent thatched village in timber construction, and the folding bridge over the Trebel are attractions for tourists from near and far today, the undisputed highlight of a visit to this village is the close inspection of the features of the church of Saint Andreas – one of the most remarkable times of the Baroque period in north-east Germany. While the altar originates from the time of the last Buggenhagen and represents a valuable piece of work from the late Renaissance, the other pieces belong to the Baroque period and were donated for the most part by Meijerfeldt. The epitaphs bearing coats of arms for representatives of the Houses of Pfuel, Keffenbrinck and Kielmannsegg are a reminder of the other families associated with the patronage of the Nehringen church in the preceding four centuries.

For me personally, Nehringen is a place in which one can encounter Baltic, Finnish and Swedish history on the southern Baltic coast, but above all where one can get a feeling for the architectural influence that shaped large parts of the Baltic region since the 16th century in the time of the feudal system, and whose supporters remained closely connected to one another across vast distances. ■



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# BALTIC RIM ECONOMIES

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TED WALLIN

# Do I have the right to someone else's madness?

Expert article • 1996

The city of Parainen is part of the archipelago of Turku in the most beautiful part of southwestern Finland. There is no doubt about it in my opinion! Despite its small city centre, Parainen has 18 000 inhabitants spread across a vast area consisting of a few thousand islands, some of which are not even inhabited. To get to some islands you will need a boat. However, most people go by car and use ferries to reach their destination on the main islands. Who would not want to experience one of the most beautiful places in the world?

Tourism is of great importance in the archipelago during summer-time. How can we prolong the summer season and raise people's interest in tourism also in winter? How does a tourist think? Are these random globetrotters people that will automatically find your facilities and willingly open their bottomless kitty of spending? First, accommodation, delicious food and something to drink. Shopping, sights and services will provide the feeling of a safe environment and a successful vacation. For the local entrepreneurs doing their best to offer tourists all this, the struggle is never-ending. Either you have too many tourists, which could create problems, or you have too few to find the resources to provide the services needed. Most certainly this is a team sport. Someone needs to be in charge and set the goals, whereas the team needs a spirit to achieve it.

From the first friendly smile to the happy sound of the cash register having dinner, nothing is granted. In summer, there is a natural increase in the number of tourists and local entrepreneurs are most pleased to benefit from this. Thus, nobody complains in the summer months but with winter comes a long period of silence. To be successful at providing something in the darkness between October and April you need light. Artificial light and something that makes a difference and will attract tourists. Marketing is a key factor and we at ArtBank decided to do something out of the ordinary, something not very typical of Finnish culture, we dared to look beyond the restrictions of modesty. Since then the aim of our project has been to become one of the fastest growing attractions in the minds of potential visitors!

For me, it started as a burning interest in art, which opened up new horizons of cultural experiences on all levels. Surrealism and Salvador Dali became my obsession in search of different ways to understand the complexity of our existence. The culmination point of collecting surreal art by Dali for almost 30 years, was when we in 2014 opened ArtBank, the only permanent Salvador Dali exhibition in Scandinavia. You really have to be a true fanatic to visit us in Parainen, hidden from the public in the archipelago.

Our first thought was to distract the normal senses, based on the idea of making everything a bit different, of creating something out of the ordinary. When entering our exhibition, visitors from far and wide are greeted by a big ant sculpture, "Moving Out", made of stainless steel by the artist Stefan Lindfors. The idea of the ant follows the

visitor through the whole exhibition, culminating in our "surreal trap" where we stimulate our subconscious to imagine ants all around our facilities. The same goes for a couple of dead flies strategically placed to raise the question, why? Secondly, the exhibition is built like the surreal home of Dali, filled with colourful and gilded objects and furniture. It is always interesting to see how other people live.

Our expectations of succeeding in this project were largely underrated, reality has shown that if you believe in your dreams strongly enough, they can come true. After a guided tour of the exhibition, one of the most frequently asked questions is "Why is your exhibition in Parainen?" This is our way of proving to our fellow entrepreneurs that it is possible to fight the windmills, like Don Quijote. With an increasing number of visitors, we have managed to give hope to other service providers.

ArtBank is of course not the solution to the challenges of tourism in our municipality, but it shows a need for cooperation between different service providers to be able to reach out to those who have found their way to our beautiful town. As part of the team of entrepreneurs, our strengths can be used to serve and help others and this could in turn bounce back as new innovative ideas. It is a fact that we have a rugged shopping street and some houses so frightening that they cannot even be used as sets for scary movies. Recently, however, with the support of our municipality and fellow entrepreneurs, the project of building a new business and residential house influenced by Gaudi and Guggenheim has been launched. Hopefully, this project will be the start of a new era and also a source of inspiration for other entrepreneurs wanting to profit economically from a joint effort to attract new visitors to our town.

To crystallize surrealism, we can ask ourselves the question; why? Do I think I am Salvador Dali? Yes, of course. Even if we do not think about our ordinary daily routines, we all have an urge to express our feelings and seek experiences in our daily lives. The conclusion is, surrealism is life as we know it.....or is it? ■



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# Foreign investment inflow to Russia practically stopped in 2015

Expert article • 1997

**T**he total amount of foreign direct investment (FDI) in Russia has multiplied by 70 fold during the past 20 years. As a result of such skyrocketing growth, Russia's inward FDI stock reached nearly USD 380 billion at the end of 2014. Such development looks like a success story, at first glance.

However, clouds gather on the Russian sky, when we take into account that Russia's outward FDI stock exceeded the inward FDI stock by over USD 50 billion, at the end of 2014 (FDI stock = total accumulated amount of FDI). In other words, Russian enterprises have invested abroad more than foreign firms have into Russia. Not an extremely encouraging indicator for a foreign businessman planning to invest in Russia (see Table).

When we analyse FDI inflows to Russia and FDI outflows from Russia, we should not forget that a great part of the Russian capital leaving Russia, returns back home. As evidence of such a massive capital round-trip, six island states, namely, the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Cyprus and Jersey, represent around 40% of both the Russian outward FDI stock and the Russian inward FDI stock. As a consequence of such a capital boomerang, it can be estimated that roughly half of the "foreign" direct investment in Russia, is Russian by origin, and thus, Russia's real inward FDI stock is closer to USD 200 billion rather than USD 380 billion, as indicated by the United Nations Conference on Trade and Development (UNCTAD).

Statistics from the Central Bank of Russia reveal that the annual FDI inflow to Russia has dramatically dropped during the past few years and that the inflow essentially stopped, last year. The annual

FDI inflow was, on average, USD 50 billion in 2007-2012, approximately USD 70 billion in 2013, USD 20 billion in 2014, but only USD 1 billion during January-September 2015. When we study the impact of the shrinking FDI inflow, we should remember that the size of the Russian economy has been around USD 1,300-2,300 billion during the past 10 years (Bank of Finland BOFIT), i.e. Russia's economy is not highly dependent on an FDI inflow. On the other hand, the declining FDI inflow is a thermometer of foreign businessmen's confidence on the future development of the Russian market. Moreover, we should not underestimate the role of advanced Western technology and managerial know-how in the future transformation of the Russian economy. In other words, Russia needs advanced Western technology and know-how, more than money, to improve its competitiveness and make Russia's future generations wealthier.

China will not compensate the inflow of Western capital and technology, at least in the near or not too distant future. The official share of China, including Hong Kong, in Russia's inward FDI stock was less than 1%, in the middle of 2015. Even if China's true share is several times higher due to Chinese indirect investments to Russia and China's share has grown a bit during the Western sanctions, Russia's dependence on Western capital and technology will continue for many years to come.

Recently, the Western media has reported on divestment decisions of foreign companies. For example, the Finnish media houses, Sanoma and German Axel Springer, decided to exit the Russian market, when the Russian Government passed a law restricting the ownership of foreign firms in the Russian media outlets.

Table. Development of Russia's inward and outward foreign direct investment stocks

	1995	2000	2005	2010	2011	2012	2013	2014
Russia's Inward FDI Stock (USD million)*	5,465	32,204	132,491	423,150	457,474	508,890	575,658	378,543
Russia's Outward FDI Stock (USD million)*	3,015	20,141	120,417	433,655	362,101	413,159	501,202	431,865
Balance (Inward-Outward FDI Stock; USD million)	+2,450	+12,063	+12,074	-10,505	+95,373	+95,731	+74,456	-53,322
Share of Six Island States in Russia's Inward FDI Stock (percent) **	No data	No data	No data	No data	57.90	57.58	50.71	42.90
Share of Six Island States in Russia's Outward FDI Stock (percent) **	No data	No data	No data	57.08	51.83	52.48	54.11	42.34

The six island states included in the table are the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Cyprus and Jersey.

Source: UNCTAD World Investment Report\*, Central Bank of Russia\*\*.

Expert article • 1997

Unsatisfactory financial performance and a gloomy market outlook were probably the underlying reasons, why the Estonian garment retailer, Baltika; the Finnish retail store, Stockmann and the pharmaceutical firm, Oriola-KD; the French BNP Paribas SA; the German Deutsche Bank (investment banking) and reinsurer Munich Re; and US oil company Conoco; General Motors (Opel and Chevrolet brands) and Franklin Templeton Investments have decided to quit the Russian market. The exit of the Turkish Credit Europe Bank and the technology giant, Vestel, could be linked with the Russo-Turkish political conflict. On the other hand, sanctions have forced some foreign foodstuff companies to increase investments in the Russian market, in order to maintain their market position and avoid the negative impact of the devastating Ruble devaluation on the foodstuff exports from the West to Russia.

To conclude, Western sanctions on Russia and the Russian counter-sanctions have not caused a major panic among those foreign firms already operating in Russia. However, the sanctions have indisputably shaken the trust of newcomers in regard to investing in Russia and Russian entrepreneurs from returning their capital back to Russia. This distrust can clearly be seen in the annual FDI inflows dropping from USD 70 billion in 2013 to USD 1 billion in 2015.

Finding a sustainable resolution to the Ukrainian crisis, including the status of Crimea, is needed to restore the trust between the West and Russia. The upcoming presidential change in the USA and the approaching presidential elections in Russia in 2018, give a unique opportunity to end this vicious circle. Therefore, I encourage the leaders to seize the day and follow the wisdom of Theodore Roosevelt, who has stated as follows: *"in any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing."* ■

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**BRE**  
REVIEW



# BALTIC RIM ECONOMIES

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sustainable growth  
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