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Turun yliopisto  
University of Turku

*Edited by Elisa Aro*

Baltic Rim Economies Expert Articles 2014

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# 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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## Foreword

The Pan-European Institute publishes Baltic Rim Economies review where the development of the Baltic Sea region is discussed by high level public and corporate decision makers, representatives of Academia, as well as several other experts.

The review celebrates its 10th anniversary since its first launch 2004. Since the first publication almost 2000 expert articles have been published. In 2014 a renewed design was introduced for the Baltic Rim Economies. Alongside the design, new features enabling faster browsing of the reviews were added. During the year 2014, 242 articles were published in six issues with the focus of various aspects of the development of the Baltic Sea region. Additionally, several of these issues handled a specific theme: a special issue on Belarus and Southwest Finland as well as a special issue on the future of the Arctic by guest editor Eini Laaksonen.

In the future, the Baltic Rim Economies aims at bringing out current issues and prospects for the Baltic Sea region. In order to keep our readers involved in the development of the BSR, all the issues are accessible on [www.utu.fi/pei](http://www.utu.fi/pei).

Finally, we would like to express our gratitude to all the distinguished writers for contributing to the Baltic Rim Economies review as well as to our partners for the successful co-operation in 2014: the City of Turku, the Baltic Development Forum, the John Nurminen Foundation, Finland's national Baltic Sea region think-tank Centrum Balticum, the Turku Chamber of Commerce and the Ministry for Foreign Affairs of Finland.

Turku, 20.8.2015

*Kari Liuhto*

*Editor-in-Chief*

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*Pan-European Institute*

*Elisa Aro*

*Technical Editor*

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ŠTEFAN FÜLE

# EU-Belarus – relations conditioned on respect for values and based on contacts with people

**B**elarus is an important neighbour of the European Union and its people are important to us. So is a vision of a modern European future for them. The EU is offering Belarus closer cooperation to advance towards this goal in the framework of our bilateral relations under the umbrella of the Eastern Partnership. This offer is however conditioned by commitment to European values. Overall, the development of EU-Belarus bilateral relations depends on how the Belarusian authorities progress towards respect for the principles of democracy, the rule of law and human rights. The EU remains willing to assist Belarus to meet its obligations in this regard. Our policy towards our neighbours is not only about contacts and engagement with authorities. It is also about reaching out to the people, engaging with civil society and citizens. In the case of Belarus, this is expressed in a number of initiatives and projects, including the European Dialogue for Modernisation with Belarusian society. A recent positive development with direct impact on people is the launching of negotiations on visa facilitation and readmission agreements this January. After two years of waiting, the Belarusian authorities finally announced last November, at the Eastern Partnership summit in Vilnius, their readiness to engage in these negotiations. There have also been some positive signs in Belarus' cooperation with the international community on some specific issues, namely in the discussion on moratorium for the death penalty (Belarus remains the only country in Europe that still applies capital punishment) and on higher education. But the expected results have not yet been achieved.

## European concerns

At the same time, against the background of the EU's serious concerns about the lack of progress on the human rights situation in Belarus, the Member States maintain restrictive measures against those responsible for serious violations of human rights, the repression of civil society and democratic opposition, or whose activities otherwise seriously undermine democracy or the rule of law in Belarus, and those who are benefiting from or supporting the regime.

The general repressive policies continued in 2013 through the intimidation of representatives of civil society, petty harassment, dismissing people from their jobs, not allowing certain citizens to travel abroad and fining activists or sentencing them from short to medium periods in jail. On numerous occasions the EU expressed its grave concern about the lack of respect for human rights, the rule of law and democratic principles in Belarus.

## Critical engagement

Due to the fact that there are political prisoners and insufficient respect for democratic values and fundamental rights in Belarus, the EU's policy towards Minsk is one of critical engagement. This includes political support for civil society and the opposition, human rights organisations, as well as for political prisoners and their relatives. It also means co-operation through the multilateral track of the Eastern Partnership and

technical dialogues on specific topics of common interest. The multilateral track of the Eastern Partnership has been extensively used to engage Belarus in closer cooperation with the EU. Belarus actively participated in the four thematic areas (democracy, good governance and stability, economic integration and convergence with EU policies, energy security, contacts between people) and also in most meetings and activities in the framework of the Eastern Partnership (such as Ministerial meetings or Informal sectoral dialogues).

## European assistance

EU assistance to Belarus has remained limited to supporting the needs of the population and democratisation. Given the complex political situation in the country, the bilateral allocations funded under the European Neighbourhood and Partnership Instrument (ENPI) aimed at supporting cooperation in sectors of mutual interest and those benefiting most directly the citizens (regional development, environment, energy efficiency, green economy, food safety, border management etc.), putting emphasis on civil society participation and at the same time maintaining contacts at technical level with the Belarusian administration, in particular at local level.

EU assistance is also being given to civil society, victims of repression, students and NGOs. We support communities, vulnerable groups and human rights defenders. Significant support is also given to students through different options such as the Open Europe scholarship scheme which allows Belarusian students to study at European Universities, the languages course scheme for young Belarusians and the EU funded European Humanities University.

## Potential of 2014

Belarus will be in world's spotlight this May when the World Ice Hockey Championship takes place in Minsk. Such events are usually a window for the country – a window to the outside world and also a window for the outside world to see the country: not only its stadiums but also how it treats its people and what respect it shows for human rights and modern European values. This presents an opportunity to work on improvements in areas where we have voiced our concerns so that we can realise the full potential of EU-Belarus relations. ■



**ŠTEFAN FÜLE**  
EU Commissioner for  
Enlargement and European  
Neighbourhood Policy

VLADIMIR MAKEI

# Belarus and Finland – forging a brighter future

Over the recent years, Belarus and Finland have advanced their political dialogue and bolstered trade and economic cooperation.

Contacts at the ministerial level, establishment and subsequent expansion of reciprocal diplomatic presence have increased economic ties between the two countries. Today Belarus hosts 25 enterprises with Finnish investment with the authorized capital of \$20.98 million and 5 representative offices of Finnish companies. Still, the existing potential has yet to be unleashed.

Sharing border with the European Union and being an active member of new powerful economic formations, such as the Customs Union and the Single Economic Space of Belarus, Russia and Kazakhstan, Belarus has practically become a “gateway” for foreign businesses. With the access to Belarus’s 10 million strong domestic market, foreign investors can now explore new opportunities within an ample Single Economic Space of the three states of 170 million people, with equal conditions for economic entities, free movement of goods, services, labor and capital.

Among the conditions created within the Single Economic Space to foster trade and investment are abolition of internal customs and transport control; duty-free import of technological equipment for investment projects; gradual harmonization of technical regulations, application of common sanitary and phytosanitary measures, etc.

Northern European states are rightly considered to be the source and engine of innovation on the continent and throughout the world. Despite the challenges facing international financial and economic systems, this region demonstrates positive growth rates.

Successful innovative development of Northern European countries has spurred the interest of Belarus seeking to expand bilateral relations, especially in trade and economy. Particular attention has been paid to Finland, the only country in the region that currently hosts a fully functioning Belarusian diplomatic mission.

Finnish authorities have consistently demonstrated their commitment to enhanced expert dialogue with their Belarusian counterparts and deeper involvement in the search for mutually beneficial ways to improve the EU-Belarus relations. Such an approach garners support from Finnish companies and their growing interest in the Belarusian market.

Trade could be another example of a developing pragmatic cooperation for the benefit of the people. Belarus-Finland trade has been on the rise since 2010. In 2012, bilateral turnover in goods has grown by 48.6 percent from 2011 to reach \$297.3 million, an all-time high. The same year, trade in services totaled \$17.6 million.

A stronger Belarus-Finland trade and economic interaction has contributed greatly to the implementation of bilateral projects. Special importance is attached to enhanced cooperation on mutually beneficial areas, such as energy, energy efficiency and biotechnology, forestry, biofuel, engineering, innovation, R&D.

Just one success story of Belarus-Finland cooperation is the acquisition by OLVI of a majority stake in Belarusian brewery LIDSKOE PIVO. Today LIDSKOE PIVO works at full capacity, holds a significant market share of beer (15%), kvass (67%) and juice (32%) in Belarus and exports its beverages to the Baltic States and Russia. In 2012, LIDSKOE PIVO was the most profitable OLVI’s subsidiary compared with its production lines in Latvia, Lithuania and Finland.

OLVI and other Finnish companies METSO-MW POWER, KESKO, INGMAN GROUP, TIETO, SCIENCESOFT operating in Belarus have brought about new opportunities and joint initiatives.

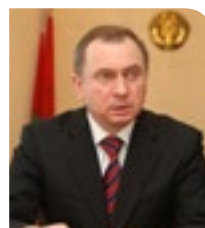
Traditional biennial forums attended by entrepreneurs from the two countries provide a good venue for establishing new direct contacts and enhancing the already existing beneficial links, for further promoting Belarus-Finland trade and economic relationship and for improving the whole atmosphere of bilateral cooperation.

The Fourth Finnish-Belarusian Economic Forum scheduled for April 8, 2014 in the ancient capital of Suomi – the city of Turku can become a significant inflection point for broader bilateral cooperation. The Forum could create a favorable environment for an active dialogue that might eventually evolve into concrete activities such as meetings,

thematic workshops, exhibitions and other forms of business interaction. The Forum will hopefully trigger intensified cooperation in hi-tech spheres and creation of new joint ventures and production lines.

The potential of Belarus-Finland relationship is still underutilized. There are good prospects and grounds for improved bilateral cooperation in the future. The opportunities are there, and they are not to be missed. ■

The potential of  
Belarus-Finland  
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**VLADIMIR MAKEI**  
Minister of Foreign Affairs  
The Republic of Belarus



FILIP KACZMAREK

# EU-Belarus relations

For the last few years EU-Belarus relations have been considered as difficult and are mainly based on technical dialogues and discussions. This complex situation is influenced by many factors, namely failure to conduct free and fair elections, to establish the rule of law and to introduce democratic reforms. All previous successive elections held in Belarus under the authoritarian rule of President Aleksander Lukashenko have failed, according to international observers, to meet basic international standards for democratic elections. Moreover, the last presidential elections in 2010 were marked by large-scale frauds and a violent crackdown on the opposition, civil society and the media, and as a result represented a negative turning point in the relations between Brussels and Minsk. Consequently, the European Union introduced a tailor-made policy towards Belarus, which it defines as "critical engagement", based on restrictive measures against the Belarusian regime, and on the strengthened engagement with civil society and the political opposition. This policy of critical engagement has been maintained further after the 2012 parliamentary elections which, again were found by the OSCE/ODIHR election observation mission to have violated basic democratic standards. Accordingly, the Council of the EU decided to extend restrictive measures for another 12 months, which includes travel bans and freezing assets for selected business entities. Furthermore, the Euronest Parliamentary Assembly was unable to recognise the Belarusian Parliament as a legitimate representative of its people.

Belarusian authorities have avoided all forms of an open dialogue. After repeated refusals by the authorities in Belarus to provide entrance visas to Members of the European Parliament, the EP delegation has been unable to travel to Belarus in recent years. The latest visit of the delegation to Belarus took place in November 2002. The most recent attempt to organise such a visit was initiated in June and in October 2013 and even after a positive first reaction from the Belarusian side, the visits were refused due to, what was called, the lack of an agreement regarding technicalities. However, the delegation maintains an active and regular dialogue with the representatives of Belarusian democratic opposition, and civil society organisations.

The EU has been repeatedly expressing concerns about the lack of respect for human rights and fundamental freedoms in Belarus. Belarus remains the only country in Europe that still uses the death penalty and refuses to impose a moratorium. Politically motivated persecutions of civil society and opposition organisations in Belarus are one of the main obstacles in a way to normalise its relations with the EU. In fact, The European Unions' policy, in this matter, is completely clear. The EU will unfreeze the relations, restart political dialogue with Minsk and gradually lift sanctions only when all political prisoners are unconditionally realised and pardoned. The recent European Parliament report on the EU policy towards Belarus by Justas Paleckis adopted on the 12th of September 2013, acknowledges this problem and calls on the Belarusian authorities for further actions in regard to an improvement in the situation of human rights. According

to the report, Minsk should 'lift all obstacles and restrictions to the exercise of freedom of associations, expression, movement, peaceful assembly and thought for pro-democracy opposition groups and civil society organizations, not to exclude those sentenced to death in 2013 and impose a moratorium on the death penalty with a view to its complete abolition'.<sup>1</sup>

Due to this political situation, Belarus has excluded itself from the EU's main regional framework which is covered by the European Neighborhood Policy and the chosen policy of self-isolation. Despite being a member of the Eastern Partnership since 2009, Belarus only participates in its multilateral track. To date, Minsk has not expressed any will to strengthen cooperation and an open dialogue with the EU, even though many opportunities have been offered. One of them is the European Dialogue on Modernisation with the Belarusian Society which was launched in March 2012 by the Commissioner for Enlargement and Neighbourhood Policy, Stefan Füle. This dialogue aims at exchanging views with representatives of the Belarusian civil society and political opposition on the necessary reforms for the modernisation of the country and on how relations with the EU should develop, including priorities for possible EU financial support. Four working groups are set to address the political dialogue, justice and home affairs, economic and social reforms, and trade and regulatory issues.

The EU is ready to discuss the reform programs set up in line with the aspirations of the Belarusian society. Therefore, the EU is waiting for the Belarusian government's response to whether or not it will accept the invitation to participate in the initiative. To this point, the Belarusian regime has proposed to alter the format of the Dialogue on Modernisation toward an interstate "Partnership for Modernisation". However, the change in Belarus will only be possible with the full participation of the civil society and the democratic opposition in national decision-making. One is sure that the Belarusian authorities' absence from this dialogue and fragmented opposition has thus far limited the initiative from reaching its full impact.

One of the incentives for Minsk to initiate a dialogue on democratic modernisation of Belarus might be opening negotiation on visa facilitation and a reduction of their costs for citizens. This measure, according to the aforementioned report, will not only be profitable for Belarusians, but also, may "facilitate and intensify people-to-people interaction and help to prevent the further isolation of Belarusian citizens". Nevertheless, much work is still to be done to improve the situation in Belarus and to enhance relations between the EU and Belarus. This success depends on the willingness of Aleksander Lukashenko to allow democratic changes in his country. We will be able to observe whether any changes will be applied during this year's local elections, as well as, in the Presidential elections scheduled for next year. ■



FILIP KACZMAREK

Chairman

EP Delegation for Relations with Belarus  
European Parliament

<sup>1</sup> EU policy towards Belarus (A7-0261/2013 - Rapporteur: Justas Vincas Paleckis), <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2013-0382&language=EN&ring=A7-2013-0261>

EVGENI KIRILOV

# The EU's Eastern Partnership and Belarus

The relationship of the EU with Belarus falls within the framework of the European Neighbourhood Policy, which covers neighbours of the Union in the South and the East. The Eastern Partnership component of this policy is the one within which the relations and cooperation between the EU and the country are shaped, the other countries covered by this programme being Armenia, Azerbaijan, Georgia, Moldova and Ukraine. Belarus is part of the Eastern Partnership since its launch in 2009. The country is second in terms of territory and population among the 6 Eastern Partnership countries, and shares more than 1 000 km of common border with the European Union. The relationship between the EU and Belarus has a large potential for deepening in numerous areas such as trans-border and economic cooperation. Developments in recent months still need to be interpreted and should show concrete signals of continuity and sustainability, before allowing us to give a positive assessment.

The Eastern Partnership policy has several dimensions, which deal with: democracy, good governance and stability; economic integration and convergence with EU standards; energy security; mobility and contacts between people. As a contribution to the this policy, and with a move responding to the desire to engage more, politically, with the Eastern Partners, the European Parliament proposed to its homologues and subsequently established together with them the – EURONEST Parliamentary Assembly. As the European Parliament does not recognize the legitimacy of the Belarusian Parliament, Belarusian MPs are, for the time being, not taking part in the Assembly's activities. Moreover, the Assembly has established a working group on Belarus to serve as a platform where Members discuss developments within the country, or between the country and the EU, together with representatives of the Belarusian civil society, the opposition and other organisations.

The cooperation of the EU with Belarus, as with all other Partners, needs to reflect the fundamental democratic values which are the roots of the Union, among which the respect of civil liberties and the protection of human rights should be mentioned. In this context, the potential engagement of Belarus in a political dialogue with the EU should go hand in hand with the release of jailed human rights defenders and political activists. According to NGO reports, the number of politically motivated arrests has been decreasing in the period 2011-2012, but, at the same time, some further restrictive legislative measures have been taken in Belarus. Improvements in the legislative environment are, and will be, pivotal for the EU side before any further political or trade cooperation. This implies that the ball is in Belarus' court as far as progress in bilateral relations is concerned, and it is up to Minsk to decide if they prefer them to be in progress or stagnation.

Within the Eastern Partnership, there are three main types of documents being discussed and negotiated with the partner countries. These are the visa-facilitation agreements, the readmission agreements for those persons residing without authorisation and the association agreements. At the Eastern Partnership Summit in Vilnius on 28-29 November 2013, Belarus announced its decision to accept the EU proposal to start visa facilitation and readmission talks. The

Belarusian Deputy Foreign Minister visited Brussels at the end of January 2014 in this context. This is a historic opportunity for both the Belarusian and the EU citizens, because the agreements would pave the way for easing citizens' mobility to a great extent. These visa facilitation agreements are targeted at various groups of citizens: young people, scientists, participants in cultural or study exchanges, members of families of Belarusian nationals residing in the EU, etc. The fact that Belarus has shown a new impetus for intensifying the bilateral relations with the EU should undoubtedly be considered as a positive element. The European Parliament firmly believes that smooth mobility of people is one of the pillars of EU cooperation with its neighbours but also an essential element to build up mutual trust and economic prosperity. We also believe that it is the ordinary citizens of our partner countries who are often deprived from access to the EU, if such agreements are not in power, and this is why we have been very supportive of starting and implementing visa facilitation agreements with all our neighbours. We most warmly look at this development and believe it will be a starting point for deepening cooperation on all levels.

The enhancement of the EU-Belarus contacts would strengthen relations and increase mutual trust both on political level and in the people-to-people contacts. The full use of the Eastern Partnership instrument will bring stability and prosperity on the European continent and will contribute strengthening the sense of shared future and responsibility. ■



EVGENI KIRILOV

Co-President  
Euronest Parliamentary Assembly

Member  
European Parliament since 2007 from  
the Group of the Progressive Alliance  
of Socialists and Democrats

Member  
EP Committees on Foreign Affairs,  
Security and Defence, Regional  
Development

Member  
EP Delegations for relations with the  
countries from the South Caucasus  
and with the Former Yugoslav  
Republic of Macedonia

Honourable Member  
Parliamentary Assembly of the Council  
of Europe



QIMIAO FAN

# Belarus needs bold and comprehensive reforms to achieve sustainable growth

**B**elarus faces unique challenges, but also opportunities to accelerate and deepen structural reforms to spur sustained growth. The economy did well until the 2008 global economic crisis unfolded. Between 2000 and 2008, Belarus grew at an impressive annual rate of around 8 percent. This high growth helped reduce poverty rapidly from 47 percent in 2000 to less than 5 percent in 2008. During that period, Belarus benefited from strong economic growth in its main trading partners, high global commodity prices, and access to underpriced energy imports from Russia.

The situation deteriorated sharply with the onset of the 2008/2009 economic crisis and has since shown only modest signs of recovery. Macroeconomic imbalances emerged, including a large and unsustainable current account deficit, rising external and public debt, and persistent inflationary and exchange rate pressures. In 2011, these imbalances spiraled out of control and resulted in a severe balance of payment crisis. While tighter macroeconomic policies by the authorities restored tentative stability during 2012 and 2013, macroeconomic risks remain substantial.

The macroeconomic difficulties of the past years are an expression of deeper structural challenges in the economy. Three developments stand out in this regard. First, Belarus has become more dependent on energy trade: minerals (including crude oil and natural gas at below world prices from Russia) accounted for 38 percent of total imports while mineral exports, mainly refined oil products, accounted for 36 percent of total exports in 2012. While energy trade has helped economic growth, it has also exposed Belarus to risks associated with volatility in commodity prices and outcome of the annual negotiation of import prices with Russia. Second, productivity growth in non-energy sectors has been stagnating. This is especially true for the large state-owned sector which accounts for more than half of Belarus' GDP and two thirds of employment. Detailed analysis carried out by the World Bank has shown that state-owned enterprises not only have lower productivity, but their productivity also increased at a slower pace than comparable private sector enterprises. Third, Belarus has suffered from a loss in competitiveness. Rapid growth in real wages has routinely outpaced growth in labor productivity, creating cost pressures and undermining competitiveness. These internal cost pressures were compounded by high inflation and appreciation of the real exchange rate.

Reigniting sustainable growth in Belarus will require bold and comprehensive reforms. First and foremost, sound macroeconomic management continues to be critical. The global outlook remains weak, especially for emerging markets. Recent global market jitters triggered by prospective tightening of monetary policy in the US are likely to raise the cost of and constrain access to external liquidity for emerging markets, including Belarus. Given its challenging external

position, Belarus' macroeconomic policies should aim to prevent further deterioration of its balance of payments. Exchange rate flexibility and tight fiscal and monetary policies, including containment of credit growth, are all essential to avoid a renewed bout of macroeconomic instability. Second, comprehensive structural reforms are needed to revive and sustain productivity-led growth. Remaining price distortions should be eliminated. Reduction of enterprise subsidies, restructuring and ultimately privatization would strengthen market incentives and competition and help allocate resources more efficiently in the economy. Closer integration into the global economy, including membership in the World Trade Organization and diversification of exports, especially of non-energy exports, would also make Belarusian economy more resilient to economic shocks. Finally, further improvement in the investment climate and better protection of private property rights would facilitate development of a more dynamic private sector. The Belarussian authorities are moving in this direction. The joint action plan by the Government and National Bank of Belarus adopted in October 2013 contains important reform measures, including monetary and credit policies, privatization, price deregulation, utility tariff reform and establishment of a competition framework.

These reforms are not easy, but necessary for Belarus to secure future growth and prosperity. While reforms can be gradual, they need to be comprehensive. Ultimately, they would need to reorient the role of the State from heavy direct intervention in the economy to that of creating an enabling environment for private sector-led growth. Belarus has many of the ingredients to develop into a dynamic high income economy: an excellent location in the center of Europe, a skilled and disciplined workforce and good infrastructure. Whether or not Belarus will reach its potential will depend on its ability to move forward on structural reforms. ■



QIMIAO FAN

Country Director for Belarus,  
Moldova and Ukraine  
The World Bank

MAIRA MORA

# EU-Belarus – necessary partnership

**E**conomic cooperation between Belarus and the EU has rich history and even greater potential. Regardless, I believe, transient political tensions, trade and investment cooperation has been steadily growing over past decades. The EU has always been pragmatic while building economic links with its Eastern neighbours, inevitably involving Belarus as key partner due to the country's geographic position, historical belonging to the European family and promising anticipations of full-fledged association. Belarus is European and has always been European. One look at the map is enough to understand why our cooperation is indeed needful.

Economic cooperation, which is generated and promoted much less by politicians, but by mutual interests of simple people and companies, is advancing despite frictions in the parallel political universe. Evidences to it are some impressive statistics. For instance, Belarus is world leader by number of Schengen visas per capita. This is, besides other, a striking indicator of our close economic and cultural ties.

Turning to some more traditional indicators, it is important to emphasize that the EU is one of the biggest investors in the Belarusian economy ensuring at periods up to half of all investment in the country. The EU is as well stable second largest trade partner of Belarus, challenging the 1st place with the Russian Federation. Main positions of the EU export are machines and equipment, being an important source of modernisation of the Belarusian economy. Traditionally Belarus exports mostly primary goods (mineral, chemical, base metal products), but the share of ICT services, logistics, engineering is growing.

At the same time it would be realistic to highlight challenges. Just as performance of Belarusian companies is often affected by developments on the EU market, including through consequences of financial crisis, Belarusian economy could largely benefit from the EU experience in transitioning to market economy, privatisation and liberalisation policies.

Knowing that, it would be legitimate to ask, what is the EU precisely doing to support market economy transition and intensify economic relations with Belarus? Besides traditional trade and investment promotion, a lot of efforts are concentrated to deliver EU technical expertise and advice where it is needed through cooperation programmes.

EU development aid in Belarus combines various assistance programmes from which Belarusian people and companies benefit. Strategically, support to private sector development and market economy has always been our priority in the country. To this end the EU advances numerous aid programmes on different levels – from

promotion of green economy to culture, which becomes increasingly important for the economy.

We support private sector development through Eastern Partnership regional programmes designed to bridge SMEs in the EU and in the Eastern neighbouring countries. Together with our partners from EBRD we provide technical assistance and consultancy to most active local enterprises helping them to adapt to demands of the free market economy. All these measures are complemented by promotion of public-private partnership initiatives. In this sense, knowing that the share of private sector in Belarus being limited to about 30% of country's GDP, it is increasingly important for the EU to promote the role of SMEs in the economy as main growth driver.

The EU also works a lot on the regulatory level, financing large quality support programmes. This should allow facilitating EU market access for Belarusian producers by adjusting local regulatory, technical and administrative requirements to the EU standards.

Regional and local economic development remains as well on top of the EU cooperation agenda for Belarus. We believe that local actors

must be involved to promote and achieve good governance, sustainable development and inclusive growth. In Belarus the EU promotes these principles through the programme "Support to regional and local development in Belarus" (RELOAD).

The idea behind these at first glance isolated facts and figures is simple. Belarus is a European nation. In this sense, cooperation between the EU and Belarus is indispensable. Its people, its economy and policies are integral part of the European landscape. While progress is needed on the political level, it is obvious that continuous intensification of contacts among people and companies already leads to significant mutual gains. Moreover, constant widening of economic relations and people-to-people contacts, that are expected to progress even more with the visa facilitation measures currently being discussed, is perfect vehicle for advancing inherent universal values of democracy. Inevitable further development of economic relations will bring us even closer, creating the basis for deeper integration. Taking into account rather modest actual level of exchanges, one can only imagine the potential. ■

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has always been European.  
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MAIRA MORA

Ambassador  
Head of Delegation  
Delegation of the European  
Union to Belarus

FRANCIS DELAEY

# Unleashing Belarus' potential

**W**ith street names like Lenin and Karl Max, it is easy to portray Belarus as the last soviet bulwark. Few outsiders realize that the country has in fact a small but thriving private sector. Minsk is home to swanky restaurants that would not look out of place in London or New York. Belarusian IT companies and manufacturers successfully compete across the globe, underscoring the tremendous potential of the country and its people.

The economy is, nevertheless, dominated by the state which accounts for 70% of GDP and employs two thirds of the labor force. Cheap energy from Russia, a favorable external environment and strong domestic demand (bolstered by an expansionary fiscal and monetary policy), enabled Belarus to accomplish impressive feats over the past decade: annual growth averaged 7.1%, absolute poverty declined from 30 to 4.6% and its ranking on the Human Development Index tops that of other CIS countries.

The self-induced balance of payment crisis of 2011 exposed the limits of this state-dominated model and its dependence on Russia. Wage increases and monetary loosening in the run-up to the 2010 presidential elections led to a rapid widening of the current account balance and a loss of central bank reserves. In May 2011, the central bank devalued the Belarusian ruble by 56% against the dollar. Simultaneously, the authorities introduced price, export and currency controls which disproportionately affected the private sector. Low levels of international reserves prevented the central bank from supporting the new exchange rate. In October 2011 the authorities conducted a further devaluation to unify the multiple exchange rates that had emerged. Inflation peaked at almost 110% year-on-year.

Support from Russia and the Russia-led EurAsEc Anti-Crisis Fund enabled the authorities to stabilize the economy towards the end of 2011. The devaluation briefly boosted exports in 2012 but the price advantage quickly eroded. External imbalances reemerged in 2013. The slowdown in Russia and the drop in potash prices following the break-up of the Belaruskali-Uralkali cartel caused a sharp decline in exports. Wage increases and directed lending fueled imports and inflation. By the end of the year central bank reserves had dropped to US\$6.6 billion, less than 2 months of imports. These developments combined with approximately US\$3.2 billion in external debt repayments in 2014 paint a precarious picture.

Russia has offered a US\$2 billion intergovernmental bail-out loan at a fixed interest rate of 4%. The central bank received the first tranche of US\$440 million on January 4, 2014. The extradition of Vladislav Baumgartner, the head of Uralkali who was detained in Minsk in August 2013, paves the way for a possible resurrection of the potash cartel. The authorities are also in discussions with Rosneft to increase its stake in Mozyr Oil Refinery, one of Belarus' most profitable companies. Likewise they are considering selling a stake in MZKT, the manufacturer of the long-wheelbase chassis used for

the transportation of Russian intercontinental ballistic missiles. These measures will provide some temporary respite at the price of ever growing dependence on Russia.

Belarus' reoccurring macroeconomic imbalances are caused by its state-driven model and exacerbated by the political business cycle. Despite the government's modernization agenda, productivity growth is stagnating in the state-owned sector. To maintain popular support especially in the run-up to important elections, the authorities try to stimulate the economy and raise domestic living standards by increasing real wages. This erodes the country's competitiveness, hampers exports while fuelling imports and puts pressure on the exchange rate. Reluctance to allow a gradual depreciation increases the risk of a brusque devaluation in the longer term. The recent 20% devaluation in Kazakhstan may create a domino effect in Russia and Belarus with which it forms a customs union.

To break this vicious circle, the authorities need to transform the economy. Presidential Directive No. 4 outlined an ambitious reform program to support private sector development. Following an initial wave of reforms in 2010 that led to an improvement in the World Bank's Doing Business rating, momentum was lost during the 2011 crisis. The authorities now need to resume and deepen structural reforms to reduce the role of the state in the economy. Among others they need to commercialize and privatize state enterprises, pursue WTO accession and streamline the legal and regulatory environment to support private sector development. These measures would unleash Belarus' undeniable potential and allow its hidden champions to emerge. ■

The views expressed in this article are those of the author and do not necessarily reflect views or policy of the EBRD.

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Head  
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ALEXANDER OSTROVSKY

# Eurasian integration – benefits for European businesses

The Customs Union and the Common Economic Space between Russia, Belarus and Kazakhstan represent two elements of probably the most ambitious regional project launched on the post-Soviet area since 1991.

Eurasian Development Bank (EDB) analysts have assessed that the Eurasian integration has certain economic prospects, and according to their estimates the macroeconomic impact of the integration within the framework of the Common Economic Space (CES) is likely to ensure an annual increase of Russia's GDP by USD 75 billion, Belarus - USD 14 billion and Kazakhstan – USD 13 billion (in 2010 prices) by 2030. Indeed, the economic impact will depend on whether all kinds of risks (economic, political, force majeure, etc.) are successfully minimized.

The Eurasian economic integration has reached a qualitatively new level over the past three years. The Custom Union has become operational since January 1, 2010. In 2011, the entire package of 17 basic CES treaties was ratified by the member states, and on January 1, 2012 the treaties came into force. The Eurasian Economic Commission—a supranational body that is in charge of all integration processes—started functioning as of February 1, 2012. Currently, the preparation of a systematic international treaty, targeting the creation of the Eurasian Economic Union by January 1, 2015, is underway.

Belarus agreed to the creation of the Union within the framework of the Customs Union and then the Common Economic Space for it considers the integration as an important factor of its dynamic socio-economic development. And its participation yields results: abolition of export duties on oil and import customs duties, natural gas prices linked to Russia's domestic price level, uniform customs tariff, unified customs regulation and customs procedures, unified trade regime with third countries, coordinated technical regulation policy, cancellation of internal border control, arrangement of conditions for growth in trade between the three countries.

The CES provides common economic infrastructure and regulation procedures, coordinated tax, monetary and customs policies, free movement of goods, capital, services and labour force, thereby inducing the volume of the member states' mutual trade turnover and the flow of transit traffic.

The three member states will conduct the coordinated macroeconomic policy based on unified principles and rules of competition, and shall apply common approaches to industry and agriculture support as well as to the public procurement.

From European producers' point of view, the CES is a huge consumer market. The success of the integration project aroused interest of such countries as Vietnam, New Zealand in the establishment of a free trade regime with the Customs Union. India, Israel and members of the European Free Trade Association also expressed their interest in assessing the potential merits of closer cooperation with the CES.

As an integration unit, the CES is open for the participation of other states and supranational formations that share the goals of the association and are ready to undertake the required commitments.

Finally, what are the benefits for European businesses? Belarus is becoming more investment-attractive and increasing its selling points in terms of trade prospects.

The additional opportunities that open up to external parties and concerned businesses include:

1. The freedom of movement of both domestic goods and goods of third countries due to:
  - abolition of customs duties and unification of customs procedures;
  - uniform rules for technical regulation, veterinary and phytosanitary measures application (i.e. businesses and manufacturers do not have to "adjust" specifically to the requirements of each particular market);
  - reduction of all forms of internal border control (except for passport control at the Russian-Kazakh border).
2. Unified customs tariff and non-tariff regulation in trade with third countries protects the interests of domestic producers including JSVs and other forms of foreign capital enterprises.
3. Technological equipment, primary commodities and materials imported for investment projects shall be exempt from import duties (as long as such commodities and materials are not produced by the CU member states).
4. Goods imported from third countries as a contribution to the equity capital are subject to tariff exemption.
5. The CES is purported to create a level playing field for economic entities operating on the territories of the three countries to foster fair competition within the framework of the common market.

It is worth noting that external investors will be provided an unimpeded access to the common market of goods and services of the three member states accounting for approximately 170 mln consumers. The non-discrimination principle is enshrined in the CES legal framework. This applies especially to meeting the needs of the member states in primary commodities, including fuel and energy resources, in particular, its free (unobstructed) transportation.

All in all, why Belarus? The point is that the shortest transportation routes from Europe to the Asia-Pacific region transit across the country; the infrastructure of the Belarusian-Polish border area hosts significant overload and storage facilities ensuring the optimal supply patterns, while the expansion of the logistics network is underway. ■

ALEXANDER OSTROVSKY  
Ambassador of Belarus to Finland

SERGEY V. ABLAMEYKO

# Belarusian-Finnish cooperation in education and science – case of BSU

**B**elarusian State University belongs to a highly internationalized university community and traditionally puts a great attention to cooperation with foreign partners both at inter-university level and within international projects framework. A special attention is paid toward Nordic countries and in particular Finland due to the fact that in both Belarus and Finland higher education plays a significant role in society and the national innovation systems. In common with other countries with highly developed higher education sector, both countries develop enhancement-oriented quality assurance systems. With all that said one should believe that both BSU and Finnish universities would benefit either from bilateral cooperation or joint educational and research projects.

Much has been already done in this direction. As of the end of 2013 one can see results achieved as well as new fields to discover, new opportunities to unleash and new mechanisms of further cooperation to develop.

For today the major part of links between two countries has been established within EU Programmes and joint projects implemented within their framework.

Ample opportunities for exchange visits to University of Turku and Oulu University for BSU students, academics and staff are opened within three joint projects launched in 2011-2012 within Erasmus Mundus Action 2 Programme. Several successful joint researches were conducted within these projects.

Overall data on student exchanges with Finland demonstrates interest shown by BSU students for visiting Finnish HEIs. A good example of high interest BSU has toward studies in Finland is recent statistics of BMU-MID and MID projects grant completions: University of Turku is the most wanted university in the consortia.

Another major cooperation framework is the EU Tempus Programme. Currently the SUCSID project "Inter-universities Start-Up Centers for Students' Innovations Development and Promotion" is implemented opening up an opportunity for cooperation with Tampere University of Technology and, above all, sharing experience with its advice and support service for the entrepreneurship and innovations "Talli", as well as with Finnish network of association supporting start-up businesses "New Enterprise Agencies".

A promising cooperation mechanism with Finland is provided by the Finnish Centre for International Mobility CIMO. Thus, BASERCAN project (Baltic Sea Region Caucasus Network) which is coordinated by Aleksanteri Institute of the University of Helsinki enables a dozen of BSU staff members and students to pursue study visits to Helsinki.

As of October 2013 BSU has become a member of the Baltic Sea Region University Network (BSRUN). However BSU had already had some joint events within the network, as for example the international conference "University – Business Cooperation" held at BSU in October 2011.

Scientific and research activities are also given great attention in cooperation between two countries. One of the major tools for such cooperation is the EU's Seventh Framework Programme for Research. Several research visits to Finnish research institutions were conducted by Belarusian specialists and researchers, as well as a number of joint scientific projects were launched. Among them are the EU FP7 CACOMEL project and the EU FP7 NET4SOCIETY project connecting the University of Eastern Finland and BSU.

Belarus and Finland are also working together in the sphere of nuclear safety. In 2011 a number of specialists and young chemists had been trained in Finland at the Radiation and Nuclear Safety Authority bringing new links with Posiva Research Company, Energy Company Teollisuuden Voima Oyj.

BSU students and academic staff also participate in various international conferences, seminars and other activities hosted by Finnish HEIs during 2011-2013. Our young researchers and academics visited Jyväskylä University, Research Park of Turku, Aleksanteri Institute, Finnish Institute of International Relations, Institute of Russia and Eastern Europe, Department of Eastern Europe and Central Asia in the Ministry of Foreign Affairs, Åbo Akademi University and many others.

Such a long list of Finnish HEIs having links with BSU can be seen as one more proof of interest shown by both countries toward joint work and cooperation. Staying in the global world the education systems of both Belarus and Finland face similar challenges, develop close and interconnected fields of research and work in the same direction toward enhancing the quality of education. In this light, sharing best practices, enriching experience through joint work and enhancing student, academic and staff mobility between BSU and Finnish HEIs with no doubt contribute to development of both sides. ■



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# Belarus – developing economy

**D**uring 2001-08 Belarus experienced strong economic growth. GDP grew on average by 8.3 percent annually – higher growth than Europe or Central Asia experienced. Global economic crisis of 2008-09 hit Belarus through decrease in export demand (mostly in the CIS region and especially in Russia) dropping growth to 0.2 percent. Rapid but short-lived economic recovery in 2010 was fuelled by expansionary fiscal and monetary policy leading to high inflation. Belarusian rubel (BYR) lost nearly 70 percent of its value relative to US Dollar. In 2011 inflation of the currency was 109 percent. Tightening fiscal and monetary policy through 2012 lowered inflation and improvement in trade deficit eased pressure on current account. By continuing tight fiscal and monetary policy in 2013, Belarus has managed to restore macroeconomic stability.

## Energy efficiency an economic and political instrument

New favorable trade agreement with Russia in 2012 was an important instrument to improve energy trade balance and to boost Belarus's economy. Still over 90 percent of electricity is generated from natural gas of which most is imported from Russia making energy a powerful tool in politics for Russia. Energy efficiency is a major part of Belarus's 2020 plan including most of the renewable energy sources: wind power, biogas, solar energy, and hydropower. Most interesting projects are around hydropower and biogas. Belarus has a vast network of rivers in which small hydropower plants can be applied. The country also has large mock and forest resources, and a large agricultural industry from which biogas generation could benefit from. Also waste management is relative undeveloped and has open possibilities for more modern solutions.

## The customs union and free economic zones

Customs union between Belarus, Kazakhstan, and Russia (established in 2010 and activated in 2011) is seen to have a positive influence on the country's economic growth. According to logistics companies operating in the region, the customs union has been successful and transportations between the countries "is like operating inside one single country". Queues in the border stations are short, unlike occasionally on the border between Finland and Russia. The customs union with Belarus's quality metal workshop sector offers an interesting alternative for Finnish manufacturers in their Russian business. Further economic growth is also hoped to be gained through tax incentives. Free economic zones (FEZ), located in cities of Minsk, Gomel, Vitebsk, Grodno, Brest and Mogilev, aim to offer favorable conditions for business through preferential taxation. FEZ residents' tax incentives include 50 percent discount on VAT on import substitution goods, no real estate tax, no tax on purchasing vehicles and exempt from profit tax the first five years after which a 50 percent discount is applied. Other benefits include customs duty exemptions on listed raw materials. Addition to FEZs Belarus

## World class in information technology

Similar tax incentives, offered in FEZs, have proved to be successful in the IT sector. Today Belarus is seen as one of the most important IT-outsourcing countries in the world. Hi-Tech Park (HTP) continues to offer tax incentives for its member companies. The resident companies are exempt from all corporate taxes and customs duties. Unlike FEZs, HTP is a virtual park. As FEZs member companies have to locate within defined geographic area, HTP member companies can enjoy it's the legal conditions within whole territory of Belarus. A member status can be applied if a company deals with engineering and software development. Belarus's competitiveness in IT is not only based in tax incentives but also on skilful IT developers. Belarusian programmers have a chance to get trained at the training centers of IBM, Lotus, Microsoft, and other large IT companies. The country also has a large presence of small and midsize software companies that actively do business across country borders. Roughly 95 percent of all IT services are sold to companies outside Belarus, including Finland. Well-developed software industry is seen in the country as strong basis for hardware development. Belarusian government is currently hoping to attract interest of foreign companies and investors to the sector.

## Trade and economic relations to Finland

A mutual knowledge about business projects has been the reason for growing trade. Finnish export to Belarus was approximately EUR 110 million in 2012.

For many years Belarus has climbed up in rank in World Bank's "Doing Business" report. It currently holds position 58 out of 185 countries. The country has been noted among leading countries in IT-outsourcing and high technology services. ■



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ANTTI O.K. NIEMINEN

# Kiilto Oy – first steps in the adhesives business in Belarus

**K**iilto Oy has been active in the adhesive business in Belarus for almost five years. The idea of establishing a subsidiary in Belarus was originally conceived by the then sales manager of Kiilto-Klei Russia. He was born and grown in Belarus and wanted to move back from Moscow to his homeland. After carrying out a small market research, he succeeded in convincing the management of Kiilto Oy to establish a subsidiary in Minsk, the capital of Belarus. IOOO Kiilto-Klei was established on 25th of April, 2009.

From the outset, IOOO Kiilto-Klei has served industrial customers and construction companies in Belarus. Industrial companies include wood working manufacturers producing products such as furniture, parquet floors, windows and doors. Additionally, important customers are found within sandwich element manufacturers producing high quality components for the transportation industry. Business in the construction sector is limited mainly to the parquet floor assemblers.

Seen the business from here, some interesting observations can be made. In many industries in Belarus, the most modern Western technology does not exist yet. However, there are companies who have invested in modern machinery, but it is typical that the new production lines do not run effectively. In many cases the new equipment have been placed in the existing, old buildings and hence, production lay outs are ineffective. There is a great interest in the latest technology and I believe that the current problems will be solved in the near future, when companies start to make real profit.

In Belarus big companies are typically state owned companies, but there are small size private owned enterprises, too. For a foreign, unknown company it is easier to start the business with a local small-size company. Top directors from the buyer and seller would meet and open the doors to the customer's production and purchasing departments. In general, without their effort, it is hard for a new sales manager to enter into the business with the client. Big companies are often huge and the business is done mainly by agents, who know the customers and actually control the business. Without the help of these agents it is extremely difficult to start any kind of co-operation with big customers.

There are also major cultural differences in the Finnish and Belarusian way of doing business. For example, business corruption is common in Belarus. It is very similar to the corruption that can be found in Russia and other CIS countries. The tradition of corruption is so deep-rooted that it is hard to weed out in the near future. Western companies try to avoid corruption and often use local agents to conduct the business with a final customer.

Finding professional sales directors and managers can also be difficult. Typically, the most important incentive is bonus salary and it does not always motivate to build long lasting customer relations, but rather short term benefits. A high turnover of sale managers is a

burden, especially when selling products that require a good knowledge of production, materials and products' technical features. Commitment to the company that pays regular monthly salary is low.

Directors and top managers in Belarus often lack good, Western style management skills. This is also a cultural aspect and it is not always seen as a big problem within local organizations. Softer management style is often appreciated in talks, but in practice, harsher attitude is still needed and expected. Support from the directors or top managers to individual sales managers is non-existent or of low value. Company's financial records are typically not open to everyone, so, result based bonus systems are not used or at least, they are not recommended by the local directors.

Yes, there are clear differences in the way of making business in Finland and in Belarus. But this applies to business relations between any two countries, for example, between Finland and Sweden as well as between Belarus and Russia. Differences exist and it is a fact. The real art of making business is to overcome the difficulties between cultures and practices, and build a business relationship that satisfies both parties.

Personally, I warmly encourage Finnish companies to start business in Belarus. Minsk is an extremely beautiful and safe city

with many magnificent buildings. It is in many ways a far more modern city than any city in Finland and after the world championships in ice hockey, hopefully, more open, too. The countryside in Belarus is also beautiful and it resembles Finnish countryside with vast areas of forests and fields. Roads are good and traffic is smooth, which is totally different compared to the roads and traffic in Russia. People that I have met in Belarus are very friendly and they like to work with western companies, although English language is not that common. However, I believe it will change in the near future, when the new generation enters the business life. ■



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Kiilto Oy  
Finland

Personally, I warmly encourage Finnish companies to start business in Belarus.

TOPI PAANANEN &amp; ANDREI NAUMOVICH

# Peikko Group and Belarus

**P**eikko Group Corporation is a leading global supplier of concrete connections and composite structures. Peikko's innovative solutions make the customers' building process faster, easier and more reliable. Peikko has subsidiaries in 30 countries in Asia-Pacific, Europe, the Middle East, and North America, with manufacturing operations in 9 countries. Peikko is a family-owned and run company with over 1000 professionals and a net sales amounting to 125 M€ in 2013.

Peikko started to get interested in the Belarus market back in 2009. At that time there was already some in-direct sales to the market through Peikko's Lithuanian customers. Generally Peikko understood that the building programs initiated by the Belarus government will eventually lead to the modernization of country's Soviet style precasting industry. Based on the discussions with modern precast machinery manufacturers, Peikko understood that major investments will take place in a matter of years.

With regard to project flows from Lithuania, Belarus had declared that it allowed the use of Eurocodes when developing investment projects, not only the Soviet SNIP norms. This allowed Peikko's Lithuanian customers to develop projects in Belarus, also helped by the fact that the projects had exemption from customs payments and VAT. Therefore, it was technically already OK to use Peikko's products in these projects, and thus create a good reference base for the future business of Peikko.

After recovering from the recession, Peikko decided to establish an own sales team in Belarus in summer 2010. A legal entity Peikko BelRus FLLC was established in December 2010, with a local Managing Director recruited for the company at the same time. As always for Peikko, it takes time to train the personnel, visit customers and build such a trust among them that business can start. Belarus was not any exception to the rule, and the first orders were received only after 8 months of operation, in August 2011. The year 2011 faced also some difficulties from the total market performance point of view, e.g. the fact that the currency devalued more than 300% did not help the concept of importing products from outside Belarus. The products used on the Belarus market are mainly manufactured in Peikko's factories in Slovakia and Lithuania.

During the first operating year the market was investigated by hundreds of visits to structural designers, developers and precast factories. It was understood that there were no existing norms or design codes for Peikko's products, and therefore Peikko created official documents together with the government project institute NIPTIS, with the intention to guide the use of Peikko's products. There were almost 50 small seminars organized throughout the country where the NIPTIS recommendations were presented.

Relatively soon Peikko selected two product focus areas in Belarus: products related to industrial concrete flooring applications and products related to cast-in-situ punching reinforcement solutions. For the latter product area Peikko decided to also use Belarusian rebar material for manufacturing and selling Punching Shear Reinforcement (PSB) studs in Belarus. Both product areas were sold to private developers and constructors; companies which were eager to use new, efficient and proven solutions.

This above focus was relatively different compared to Peikko's normal focus in other countries. However, it was quite soon understood that the government owned precast element factories were lacking motivation for innovation, despite recent investments in some new machinery.

Peikko Belrus FLLC team was only one single person during 2011 and H1/2012. This time was more or less a time when Peikko was establishing itself on the market and finding its strategy for the future. Once the right path was found, a sales assistant/bookkeeper was hired in autumn 2012 and soon after a Sales Manager was recruited. With the decision to go into manufacturing in summer 2013, a Chief Engineer was recruited after undergoing an extensive training program at Peikko's Slovakian factory. During January-February 2014 several workers will be recruited to start the manufacturing activities.

Peikko's Belarus office is situated in Minsk. The new manufacturing operations will be located in rented premises 70 kilometers from Minsk in a small city of Stowbcy. Peikko intends to use the President Degree #6, which gives special tax and customer clearance conditions for new production companies in small city areas.

Peikko usually develops its business by step-by-step principle and this is also the case with the Belorussian operations. The manufacturing will start in January 2014 in small-scale with limited personnel and machinery only. However, Peikko's objective is to grow the business to some 5-8 M€ annual level in 2014-2016. The manufacturing operations are essential for Belorussian clients, but also products will be delivered also to Russia and Kazakhstan due to favorable customs union conditions. In Peikko's view the Belorussian cost structure will also remain favorable for the foreseeable future.

All in all, Peikko is in its starting phase in Belarus. Nevertheless, Peikko is very confident of the Belorussian market and Peikko's capabilities to grow its own operations. ■

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PAVEL LASCHENKO

# Business environment in Belarus today

**B**elarus is not the most well-known country in the world. Many people even think that Belarus is a part of Russia and not a separate sovereign state. However, those keen on science and history know that Belarus is the Radzivil princes' ancestral land and the native land of Zhores Alferov, Nobel Prize Winner in physics. Art connoisseurs certainly know such great artist as Mark Shagal, who also comes from Belarus. It should be recalled that BelAZ, the world's largest mining dump truck with a capacity of 450 tons, is assembled in Belarus. Moreover, most of the sport lovers definitely know the name of Darya Domracheva, three-time Olympic champion of Sochi.

The location of Belarus in the heart of the European continent has predetermined its being a transport and logistic hub. Belarus is an active proponent of various types of economic integration in the post-Soviet area: it joined the Customs Union with Russia and Kazakhstan in July of 2010, and later, in January 2012, it became a member of the Common Economic Space; soon (in 2015), it will join the Eurasian Economic Union. At the same time, relations with Europe are quite strained due to a number of reasons which in many cases are related to the "political issue" in Belarus and hence are not always clear and transparent either for a man in the street or for a businessman. To a certain extent, this gave rise to a situation when most of the direct foreign investments, M&A deals, as well as participation in privatization stem from Russia.

The facts show that Belarus has achieved the following at the macro-economic level:

- Political and social stability in the country in the last 20 years
- A fairly predictable economic policy pursued by both the Government and the National Bank
- All the six Belarusian regions' gradual, sustainable and uniform economic and infrastructural development
- One of the lowest unemployment rates in Europe and the CIS (less than 1%)
- A large labor market with a supply of a well-educated, relatively inexpensive and qualified workforce relating to production
- Ongoing reforms designed to alleviate the tax burden (personal income tax of 12% and profits tax of 18% for legal entities are one of the lowest in the world) and facilitate tax administration.

The weak points of doing business in Belarus are not always evident, but they are well-known to foreign companies which are already in business in Belarus.

According to the survey of foreign companies operating in Belarus, which was conducted by the Foreign Investment Advisory Council under the Council of Ministers of Belarus, there are three main factors which restrain direct foreign investments: (1) the language barrier due to the poor knowledge of foreign languages by the workforce, including mid-level managers; (2) acute shortage of senior executives with a "market-oriented" mentality and knowledge of finance and economic principles; (3) unpredictability of changes in legislation.

The small share of the private sector (less than 30% of the GDP), mainly the share of small and medium-sized enterprises, reveals another weakness of the investment climate in Belarus, i.e., the rather low level of the "entrepreneurial spirit" and the private initiatives in the business environment. One can also mention lack of autonomy in decision-making by most Belarusian officials, who prefer to make decisions through collegial and authoritative bodies, as one of the constraining factors for investor attraction.

The objective weak points of the current business climate in Belarus include the poor progress in corporate governance in general and, consequently, the inefficiency and non-transparency of state enterprises and corporate groups, which account for 80% of Belarusian economy. Moreover, the state took no steps to introduce mass privatization in the last 20 years despite the efforts of the IMF and the World Bank. Privatization in Belarus doesn't have system-based character and every deal requires the President's approval. The absence of a certain privatization and investment attraction strategy affects the Government's and the National Bank's capability to make commitments and deliver the respective messages to the world business community, which in general substantially restrains the attraction of investments.

Nevertheless, new business opportunities for investors, such as the growth of public-private partnership, should be mentioned. Now the state encourages, in every possible way greenfield to come to small and medium-sized towns in the area of IT, agriculture, pharmaceuticals, alternative energy, and energy saving by providing individual customs and tax privileges.

The obvious threats that the Belarusian economy has faced in recent years include the gradual loss of the traditional markets in Russia due to Russia's accession to the WTO in 2012. The "potassium" scandal in 2013 and the limited oil supplies from Russia contributed significantly to the export shortfall and led to a negative external trade balance (\$1.724 billion by the end of 2013), forcing the Government to increase foreign borrowings. That can be countered only by greater labor productivity, the modernization of a number of industries, and the growth of the export potential. Obviously, the state sector of Belarus cannot do that alone. ■



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# External economic potential of the Republic of Belarus – economic outlook

The Republic of Belarus has a small open economy, which due to the limited resource and capacity of the domestic market depends on the development of foreign economic relations. It occupies 0.15% of the world territory (207.6 km<sup>2</sup>) and ranks the 6th place among the CIS (after Russia, Kazakhstan, Ukraine, Uzbekistan, Turkmenistan) and the 13th among the European countries.

Thereby, foreign policy, formed in the country, is aimed at creating of favorable conditions for the expansion of reproduction and international exchange, regulation of economic relations with other countries. It is implemented in the form of an export-oriented and import-substituting economic model, which involves:

- development of export potential and increase in the volume of export on the basis of export-oriented industries;
- selection of the industries with the greatest import-substituting potential;
- involvement in the investment processes that allows to improve the competitiveness of goods and services;
- participation in the integration groups.

The Republic of Belarus obtains necessary foreign trade potential, which is influenced by the following factors: favorable economic and geographical position; diversified industrial complex; industries manufacturing competitive products in the domestic and foreign markets; availability of major oil and gas pipelines, the development of industrial infrastructure, high quality of human capital, low labor costs; effective system of personnel training, the development of scientific and technical potential; vast land resources, favorable climatic conditions for fodder, flax, potato, large reserves of renewable forest resources, fresh water (surface and underground), potassium salt, clay, cement and other raw materials for the construction materials industry; cultural and historical values, the attractiveness of natural landscapes.

Industry is the basis of foreign economic potential of Belarus. Significant export potential is concentrated in the petrochemical and chemical, timber, woodworking and pulp and paper industry, construction materials, light industry, and agro industrial complex. In recent years it has strengthened due to the export of services. In the structure of exports of services predominate transport services (67%), travel, computer and information services, communication services, construction services. However, the existing structure of exports of services indicates the development of labor-intensive services: transport, mainly trucking, construction and communications.

The development of foreign trade plays a key role in the country.

In 2013 the volume of foreign trade in goods was \$ 79.6 bn., export amounted to \$ 36.8 bn., and import reached \$42.8 bn. The world export share of the Republic of Belarus is 0.18 %.

The export products of Belarus are diversified and number more than 1000 items. Among the most significant exported goods it is possible to mark out the following: petroleum products, potash and nitrogen fertilizers, metal-rolls, tractors, trucks, agricultural equipment, buses, trolleybuses and trams, road-building equipment, technological and electrical equipment, refrigerators and freezers, micro-electronics and optical devices, chemical fibers and thread, yarns caprolactam, tires, wood and woodworks, furniture, clothes, shoes, dairy and meat products, and sugar.

The Government takes measures in order to diversify export geographically and structurally. Thus, along with the strengthening of the position of the Republic of Belarus in the CIS, Asia, America, Africa and Oceania country expands its Belarusian exports to new countries, which led to the development of new markets (Venezuela, Vietnam, India, South Korea, etc.); increases the volume and range of supplies and services in the developed markets of several countries; enlarges the list of goods, in the production of which Belarus has the greatest comparative advantage in the global market.

At the same time in the Republic of Belarus takes place a gradual transformation from a strategy of creating trade-intermediary networks to the formation of transnational product-investment model of economic relations, based on the activation of export of the Belarusian capital and aimed at expanding commodity distribution networks and deepening cooperative ties with foreign firms through the creation of branches of domestic enterprise, joint ventures (JVs), assembly plants, etc.

This creates opportunities for shift of national resources to manufacture of high-tech and science-consuming products; updating of international specialization of the country; creating of the prerequisites for securing of positions in the markets of these countries; penetration to new adjacent national and regional markets (Latin America – Venezuela, Brazil, Argentina, Bolivia and Cuba; in Asia-Pacific countries – China, India, Iran, Vietnam; in Africa – Nigeria in the west, Ethiopia in the east; the Gulf countries).

Diplomatic relations between the Republic of Belarus and the Republic of Finland were established in 1992. There is a development of such forms of cooperation as trade, investment cooperation in the fields of education, international cooperation, regional development programs by the Council of the Baltic Sea States.

Thus, Belarus is diversifying export. Over 60% of it is ferrous metal-rolls, furs, raw timber, ethylene polymers, outerwear, tex-

Industry  
is the basis of  
foreign economic  
potential  
of Belarus.

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tiles, cyclic hydrocarbons, trailers and semi-trailers, cement. However, the level of trade and economic cooperation between the Republic of Belarus and the Republic of Finland is not high enough.

The most promising directions of Belarusian-Finnish trade-economic and investment cooperation are following: advanced telecommunications technology, metallurgy, in particular, the polymeric coating metals; wood and paper industries. ■

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# BALTIC RIM ECONOMIES

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IRINA YEREMEYeva

# EU-Belarus relations – threats and political opportunities

**E**U-Belarus relations have suffered from stagnation for many years. The European Union has criticized Belarus for violations of electoral standards, human rights, for crackdowns, and some other issues. Because of this, the EU has been applying different kinds of restrictive measures toward Belarus.

The process of the ratification of the Partnership and Cooperation Agreement was suspended in 1997, and later, the EU banned access to its territory for all Belarusian senior state officials. Relations between Belarus and the EU started to improve in 2007 after Belarus had some issues dealing with Russia. From that moment on, the Belarusian government made a decision to broaden its relationship and develop economic cooperation with the EU. The European Commission, in turn, offered to Belarusian authorities to start the process of democratic transformation. One year later, Brussels suspended the visa sanctions previously imposed on Belarusian officials, and invited Belarus to join the Eastern Partnership. However, this cooperation didn't last long and didn't bring any significant results.

In 2010 there was a new phase of deterioration of bilateral cooperation when EU-Belarus relations were frozen in response to the political situation in the country: the violations of electoral standards in Belarus' presidential elections and the ensuing crackdown on civil society, political opposition and independent media. Moreover, it worsened in February 2012, when the EU expanded its sanctions against Belarus over its alleged human rights violations, after which Minsk ordered the Polish ambassador and EU envoy to leave the country. All EU member state ambassadors were temporarily withdrawn in response. The ties were further strained by an incident in July 2012 in which a Swedish light aircraft dropped hundreds of teddy bears bearing pro-democracy slogans over Belarus.

Currently, the European Union is committed to a policy of critical engagement towards Belarus, through:

- restrictive measures, targeted against those people who are responsible for the violations of electoral standards and human rights, as well as those who support the regime or drawing benefit from it
- sectoral dialogues and within the multilateral track of the Eastern Partnership initiative
- support to civil society and victims of repression
- an offer to start negotiations on visa facilitation and readmission agreements to the benefit of the public at large
- dialogues with Belarusian authorities on the reforms needed to modernize the country and on the potential for developing relations with the European Union (including possible European financial support).

This year, Belarus expressed a desire to improve its strained ties with the European Union. It's a good aspiration for Belarusian society to move towards the West and get mutual benefits from this cooperation. Indeed, the lack of legal, political and institutional links between the EU and Belarus limit interaction to issues of mutual interest (such as energy security or border control). Moreover, the EU countries are the greatest partners of the Belarus exports. At the same time, Belarus is an important transit corridor between the East and the West, providing about 30 percent of deliveries of Russian gas and almost 50 percent of deliveries of Russian oil to the EU countries. Belarus is an important transport artery through which automobile and trucks from more than 100 million tons of cargo annually follows. All this makes this cooperation very important, but there is a lot of work to do to make it fruitful.

For further bilateral relations' development, some steps need to

be taken by both sides. The EU needs to involve Belarusian officials in all kinds of dialogues, summits, roundtables, and other activities more productively, and in this case, there are more chances in the future to implement the reform proposals elaborated within meeting's framework. Belarus has never become a full participant of the Eastern Partnership initiative and, as a result, feels discriminated against the EU. Belarus can't participate in the bilateral dimension of the Eastern

Partnership, since the policy covers Belarus only partially. Belarus was excluded from the interparliamentary cooperation (Euronest) because of the non-recognition of the Belarusian parliament, though e.g. Azerbaijani MPs participated in the Euronest regardless of electoral problems in their country. Belarus wasn't represented at the highest political level at the Eastern Partnership summits, contrary to other partner countries.

In addition, further efforts should be made in negotiating a Schengen visa facilitation agreement with Belarus. Academic exchange and scholarship programs should also be expanded. Both measures would have the clear goal of expanding the circle of Belarusians with a personal or business interest in enjoying closer ties with the EU.

The upcoming privatization process of state assets can be seen as an opportunity for the EU, especially for European businesses. Europe could offer its technical assistance to the Belarusian government. Technical or expert cooperation in areas of mutual interest has been a relatively consistent feature of cross-border/regional cooperation. Projects supporting the preservation of the environment and sustainable development in Belarus, already with some ongoing cooperation, would be an excellent way to foster cooperation and knowledge transfer. Similarly, projects focusing on energy efficiency and renewable sources – also with relevant examples underway – should also be fostered as a way to introduce European advanced technol-

For further bilateral relations' development, some steps need to be taken by both sides.

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ogy, to limit Russia's leverage on the energy-dependent Belarus and, even as importantly, to generate business opportunities and quality jobs inside the European Union.

Belarus, in turn, needs to stop the harassment of civil society, the political opposition, and independent media for relationship improvement. The European Union's policy is absolutely clear. As soon as there are no political prisoners and they are acquitted (under Belarusian law, anyone who acts on behalf of an unregistered organization could face a two-year prison term), the European Union will be ready

to build up steady bilateral relations with Belarus and discuss the reform of the program and the support of the modernization of Belarus according to the Belarusian people's aspirations.

Belarus can still use the opportunity to get benefits from the European Union and give grounds to look at this country more positively. The Belarusian authorities just need to take the necessary steps and bring Belarus back to the heart of Europe, where it belongs. The more openness to political and economic reforms, the more engagement Belarusians will find from the European Union. ■

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# Securities market in Belarus – still undisclosed potential

In early 90s, banking systems of post-communist countries served as the only source of capital within each disturbed economy. Emerging stock exchanges were considered as powerful tool for capital accumulation during privatization and effective allocation of limited resources. To make it work, governments pursued remarkably different policies as a response to deep macroeconomic imbalances.

In Belarus, the stock exchange was registered in 1992. But in fact, it has gained meaningful development speed only in 2008, leaving sixteen previous years behind as symbol of uncertainty and lost opportunities.

As a result, by the end of 2012 total size of securities market in Belarus traded at stock exchange (consisting of stock market capitalization, issues of public debt securities, financial sector bonds, and corporate sector bonds) was only 17% of GDP, or 4 times less comparing to average of CEE/CIS countries.

The structure of securities market in Belarus has got diversified shape only in 2010, when both financial and corporate sector bonds outstanding increased from much below 1% of GDP to close to average regional values. In 2012 banking and corporate sector bonds outstanding were equal to 5.8% and 5.1% of GDP respectively.

The weakest parts of securities market of Belarus remain those of equity and public debt. Stock market capitalization in 2012 was 0.7% of GDP, while the same CEE/CIS average value was 28% of GDP. Even having been on its peak in 2010 (6.7% of GDP), stock market capitalization in Belarus was lower than in any of its neighbours'.

Public debt securities in Belarus until 2008 used to be the major part of securities market giving over 9/10th of its value. In 2012 it was as big as financial and corporate sector bonds markets (5.6% of GDP), but still few times less than regional average.

The size of securities market in Belarus is not competitive in the region and does not stimulate capital formation. Indicators of liquidity of Belarusian shares market are also not optimistic. The value of shares traded as percentage of GDP, in 2012 in Belarus was 0.3%, much lower than in Russia (36%) and Poland (14%), but comparable to Ukraine (0.7%) and Lithuania (0.4%). In terms of turnover ratio (value of stock traded as percentage of market capitalization), Belarus in 2012 ended up high with 21%, loosing to only Russia (88%), Hungary (55%), Poland (43%), and Czech Republic (27%). But that achievement is rather questionable as being possible mainly due to decrease of stock market capitalization in 2012.

Given the described parameters of Belarusian securities market, its role in investment allocation could hardly be significant. Indeed, excessive reliance on internal funds in Belarus is a sign of potentially inefficient financial intermediation. According to World Bank's Enterprise Survey 2013, proportion of investments financed internally is 78% in Belarus compared to 61% in Eastern Europe & Central Asia (EECA). The difference in share of investments financed by equity or stock sales is even more striking: 1.1% in Belarus compared to 8.7% in EECA.

The decennial trend of decreasing return from high investment in Belarus (on average 32% of GDP during last 10 years) signals for existing systemic imbalances induced among others by the underdevelopment of securities market. The inversed incremental capital output ratio (calculated by dividing the rate of GDP growth by the investment-to-GDP ratio) dropped from 0.45% in 2004 to 0.2% on average for subsequent years.

Knowing that securities markets support efficient allocation of capital, why in Belarus its contribution to investment financing is so modest? There is a number of structural reasons. Domination of state-owned banks as a main source of investment creates channels of uncompetitive privileged access to capital for SOEs and consecutive high cost of capital for private firms. "On-the-paper" privatization changes only legal form of SOEs, without creating new ownership and stimulating corporate governance. Remained soft budget constraints allow delaying of restructuring. The situation when more investment is needed to produce an extra unit of output is likely to continue in Belarus without introducing market principles of public programs approving. In addition, the policy of excess employment and administrative wage targeting contributes to distortion in functional distribution of incomes: the share of labour incomes in GDP is growing despite shrinking of markets.

All in one, it generates a kind of institutional trap as diminished return to investment depresses investors' demand for strong financial institutions and creates incentives to capital drain. So the risk of slowing of economy's diversification and increasing of existing imbalances becomes higher.

Therefore, the securities market development in Belarus is a major precondition of sustainable economic growth and should be in the spotlight of comprehensive structural reforms aimed to improve resource allocation. ■



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# Measuring risks of regional development – case of Belarus

The purpose of research carrying out is revealing risk factors specifying the threats of decreasing in level of social and economic development of Belarusian regions. The period of retrospective data analysis covers 6 years – from 2006 to 2011. Belarusian economy has suffered two crises during this period including recession of 2009 caused by the world crisis, and also currency crisis in 2011 when the Belarusian rouble was devaluated in 2,5 times. Challenges which the Republic of Belarus has been recently faced with include the consequences of the world crisis, the increase of commodity prices, problems of trade balance deficit and external debt growth.

The prospective trends of Belarusian economy development lead to changes of the regional structure of economy, resulting in expansion of new businesses based on processing of local resources, rendering services of logistics and tourism in the regions. On the other hand, less competitive regional companies with high material and energy consumption, based on obsolete technologies, will leave the market. Future prosperity of particular Belarusian regions is also dependent on the world commodity prices because a number of the largest companies specializing in oil refining, chemical industry, metallurgy, and forming the most part of Belarusian exports, are located in regions.

As a rule, any strategy of regional development based on estimation of conditions of regional economy and such conditions are usually measured in static, relying on actual information. We hold to dynamic approach to regional economy estimations, taking into account future possible changes of social and economic indexes of the region economy, including future risks of regional growth such as: fluctuations of leading economic development indicators, surplus or deficit of labor resources in the region, insufficient level development of transport, power and social infrastructure.

By administrative structure, the Republic of Belarus includes the capital city of Minsk and 6 areas (oblasts) with 5 oblast centers, 7 towns of oblast submission and 118 administrative districts. According to the previously provided researches, the differences in social and economic development among administrative districts in one oblast are always considerably bigger, than the difference between any oblasts. Therefore we explored cities, towns and administrative districts as regions in our research. The sum of enterprises' net profits and population incomes per capita has been chosen as a general indicator specifying the level of social and economic development within every region.

At first we estimated the level of regional social and economic development for riskless conditions using actual data, and then we realized risk assessment. We measured risk using standard deviation of chosen general indicator of regional social and economic development computed for every region in every year. Next we subtracted three standard deviations from the average general indicator for every region and found levels of regional social and economic development in conditions of high risk. As a result we have got two ratings of 131 Belarusian regions: one for riskless conditions, another – for high risk conditions.

Administrative districts, where the largest enterprises of oil refining, chemical industry, metallurgy, motor vehicle industry are located,

occupied the top lines of rating composed for riskless conditions. The cities as well as administrative districts with highly developed agriculture and services occupy the top lines of rating composed for high risk conditions. Regions where only several large industrial enterprises, especially related to rough sector, are located occupied the bottom lines of rating composed for high risk conditions.

Our finding is the following. Regions with highly diversified economy and balanced development of various industries and services, large and small businesses, are more resistant to risks. Conversely, regions where one or two largest enterprises are located are characterized by extremely high risk, even if these enterprises are successful but based on material and energy resources extraction and refining.

The following measures counteracting risks of regional development are offered:

- to promote founding small and medium-sized businesses in regions with a high risk level;
- to ensure labor mobility between towns and small districts based on inter-regional public transport;
- to create regional clusters located on several nearby administrative districts round the largest enterprises.

As a possible background for cluster creation we consider such phenomenon as a complementary character of regions. If economic indicators of several administrative districts located side-by-side change eventually in an opposite phase then such districts are considered as complementary. On the contrary, if economic indicators of neighboring districts change eventually one-way, unidirectional then such regions are not complementary. We have revealed a group of potentially complementary regions located round the city of Novopolotsk, in the north of Belarus. These regions are match for future cluster that assists in minimizing potential risks of regional development. ■



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# Belarusian-Finnish relations

**D**iplomatic relations between the Republic of Belarus and the Republic of Finland were established on February 26, 1992. In May of the same year, President Mauno Henrik Koivisto visited Belarus. The opening ceremony of the Embassy of the Republic of Belarus in the Republic of Finland was held on February 22, 2012 to commemorate in the 20th anniversary of establishing diplomatic relations. Currently, the bilateral cooperation is legislated by seven international treaties and a number of ministerial documents. Political dialogue is maintained by regular exchange of reciprocal visits between ministries and agencies, parliaments, business communities of the two countries.

Belarus and Finland are dedicated to balanced cooperation in international organizations, the most significant results are achieved in collaboration on the environmental issues. There is also bilateral interest in expanding contacts on security issues, in particular on border security and border control.

Today bilateral cooperation is represented by a number of commercial initiatives established within the last decade. Finland-Belarus Society (2002), Finland-Belarus Trade Association (2009), Finnish-Belarusian Chamber of Commerce, Finnish-Belarusian Joint Committee on International Road communication were established. The representative of the Belarusian Chamber of Commerce and Industry in Finland was appointed (2012). Finland-Belarus Business Forums are conducted (the Fourth is forthcoming on April 8, 2014). Currently direct flights are open between Minsk and Helsinki.

The cooperation between Belarus and Finland has been developing since the Soviet era. In the 1960s-1980s, Finland was one of the key trade partners importing from the Belarusian SSR tractors, trucks, machinery, glassworks, diesel, petrol, flax and hemp fibers, wood for the production of coal, cotton textile, musical instruments, cutlery sets. The Belarusian SSR imported garments and fabric, technological equipment. Nowadays Belarus exports oil, salt, furs, iron and non-alloy steel products, the imports ranges from lead and lead products to flour, starch, corn, and cereals, knitted fabric, the wood pulp and dyes. In January-November 2013 the bilateral trade amounted to 216.0 million U.S. dollars (28th place among the trade partners of the Republic of Belarus, 84.4% over the same period in 2012), exports decreased by 11.7% and amounted to 98.9 million dollars. Imports from Finland amounted to 117.0 million (81.3%). The foreign trade balance was negative - \$ 18.1 million. In January-September 2013 Finland invested in Belarus \$ 9.2 million (almost 100% - direct investment).

On the territory of Belarus there are 25 companies with Finnish capital (compared to only 12 in 2008). Among successful examples of such cooperation are: three projects for the construction of mini-thermal power plants implemented by Finnish company «MW Power Oy» in Skloŭ, Zhlobin, Pruzany; company «Olvi» acquired a majority share of «Lidskoe pivo» (Lida Beer); the construction of shopping malls «OMA» by Finnish concern «Kesko»; modernization of Gomel ice cream factory by Finnish company «Ingman Ice Cream». A representative office of glassworks «Neman» was opened in Helsinki in 2013. Energy sector, industry, engineering, construction and construction materials, tourism as well as the scope of hi-tech and startup are prospective areas for further cooperation.

In Belarus we keep the memory of the outstanding Finnish artist, sculpture and architect Alexander Ahola-Valo (Finnish - Aleksanteri Ahola, 1900 -1997), who received his artistic education in Vitebsk at Yehuda Pen art school where Marc Chagall and Kazimir Malevich were his teachers. Alexander Ahola-Valo entered the history of Belarusian culture (so called Belarusian renaissance period, 1919-1930s) as a creator of pavilion «Stories of Suffering Humanity» in Minsk (1930-1941), the artistic designer of many famous classical works of Belarusian literature of 1921-1930 and the author of engraving «Dazhinki» (1928).

The cultural cooperation was developing since the Soviet era. A number of works by Belarusian authors were translated into Finnish, Belarusian movies were demonstrated in Finland. Today both countries continue to seek humanitarian and cultural cooperation. Agreements are signed between the National Academies of Sciences of Belarus and Finland (1995), as well as between 6 universities of Belarus with 7 universities of Finland; a number of Belarusian-Finnish research projects are implemented. Every year Belarusian students of Swedish, Finnish and Norwegian languages celebrate holiday Mid-sommar. «Olvi» foundation provides scholarships to talented Belarusian students. Partnership relations between the cities Baranovichi and Heinola are established (1978). Art industry demonstrates another successful example of cultural connections between two countries. In 2012, Finnish-Russian-Belarusian movie «Role» and «I will not return» (Russia, Finland, Estonia, Belarus) were filmed. In 2013 Finnish director Dome Karukoski visited Museum of History of Belarusian Cinema, Helsinki documentary film festival DocPoint was presented during annual Belarusian cinema festival «Listapad», Finnish band «The Rasmus» performed in Minsk. ■

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# Eurasian integration as a defining factor in Belarusian foreign policy

The events in Ukraine and the winter Olympics in Sochi in Russia have occupied the news headlines in recent weeks. As usual Belarus has been left in the background. Many have noted, however, that the Belarusian president Lukashenko has played ice hockey with president Putin in Sochi prior to the Olympic games. That already shows, without deeper analysis, how important Russia is for Belarus. Russia is Belorussia's number one foreign policy priority.

From the Russia-Belarus relationship there emerge several paths that Belarus is following. The most important and noteworthy is the Eurasian integration process. There are several projects going on simultaneously. The Eurasian Customs Union (ECU) of Russia, Belarus and Kazakhstan has been working since 2010 and since 2012 the three countries have been a single economic space. The ECU has been widely portrayed as a Russian tool to reintegrate the post-Soviet countries. However from the Belarusian perspective the ECU project can also strengthen Belarusia's negotiating position vis a vis Russia. Russia is the "big brother" for Belarus. The two countries do have a complicated relationship but both seem to need each other. For Belarus a formal multilateral framework is a positive thing. It provides the country with more international weight and if Russia wants to get the benefits of multilateral cooperation, it has to now and then bend towards the basic principle of multilateralism – compromise.

The ECU was intended to be transformed into the Eurasian Union (EU) in 2015 along with new members such as Armenia and Kyrgyzstan. However the latest developments also relating to events in Ukraine suggest that first the ECU will become the Eurasian Economic Union (EEU), toning down the political aspects and emphasizing the economic. While the ECU process lacks a deeper political dimension the Union between Russia and Belarus covers for that. In December 2013 at the meeting of the Supreme State Council, with presidents Putin and Lukashenko present, 14 Union state documents were signed. The documents cover implementing a military technical cooperation program, enhancing cooperation against corruption, cooperation in ensuring international information security, a budget for 2014, joint events to celebrate the 70th anniversary of Victory in the Great Patriotic War in 2015 and a program of coordinated foreign policy efforts for 2014-2015. This was a significant event from the Belarusian point of view. Russia and Belarus have similar interests in Asia, Africa and South America. With a coordinated effort in foreign policy the global reach of both countries can increase. At the same time this provides both with room to play in cooperation with the EU and China. Russia and Belarus share similar views on China, namely that interest based cooperation is good but too close a dependency on China should be avoided.

The third important project in the Eurasian space is the Collective Security Treaty Organization (CSTO). This is first and foremost a security alliance and so the cooperation is military cooperation. The cooperation includes creation of the collective air force, special opera-

tions forces, and equipping the collective rapid deployment forces. The Belarusian role in aid for Tajikistan in protecting the Tajik-Afghan border is highly interesting, since this could even result in a Belarusian troop deployment. For Lukashenko to get real military action would boost his image on the domestic scene ahead of the presidential elections this year.

Often in Belarusian international politics there is a rapprochement with the EU and Europe. This seemed to be the case also this time. The Vilnius EaP summit at the end of 2013 opened up a possibility to form a negotiating agenda and talks about visa facilitation with the EU. Despite the positive signs, about 12-15% of the Belarusian population would like to move permanently to abroad given the chance, and most of those are well educated and the part of population with some wealth. This indicates that those people do not have much trust in their country's ability to change significantly. Real progress between Belarus and the EU requires some changes in Belarusian domestic politics. Furthermore if the Belarusian leadership continues to put first and foremost its foreign policy priority on the Eurasian integration processes, it will shadow bilateral progress between the EU and Belarus.

In the shadows of Russia supported by Eurasian integration it can be argued that Belarus punches a bit above its abilities and strength in the international arena, especially in Asia, Africa and South America. Belarusia's place should be in Europe, but the growing division between the EU members looking for cooperation based on norms, and the post-Soviet countries looking for areas of shared interests, will also make the Belarusian path towards the EU countries complicated. ■



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# The crisis of the Belarusian economic model

The essence of the *Belarusian economic model* – as referred to by the Belarusian economists employed in public institutions – lies in ensuring high rates of economic growth and maintaining a relatively high level of the labor force prosperity, with no major structural reforms of the economy – remnants of the state socialist era. The World Bank experts called it a *Belarusian paradox*.<sup>1</sup>

The pace of economic growth in Belarus has been impressive indeed, especially compared to that of the neighboring states, that chose to follow the path of radical market reforms and at the beginning of the process had to forget about the standard of living to ensure high competitiveness of their economies. The World Bank experts distinguish two stages of growth with different reasons behind them. During the first phase that lasted from 1996 to 2000, GDP grew by 77.4%, or by 6.6% annually<sup>2</sup>. At that time a special relationship between the Republic of Belarus and the Russian Federation played a crucial role. Belarus succeeded in maintaining a better industrial production capacity than its eastern neighbor. Customs border between the two countries was virtually abolished as a result of the so-called Treaty on the Union. Belarusian goods got significant price benefits in the Russian market. They were not of the best quality, but cost significantly less due to cheaper labor force in Belarus.

By the time Russian economic growth resumed after the 1998 default, the Belarusian industry had already taken a stable position in the Russian Federation. Economic growth in Belarus was also due to increasing the existing industrial capacities rather than creating new ones – thus, large investment was not required. Obtaining Russian economic preferences was followed by substantial Belarusian concessions in military and political spheres and even by Lukashenko's pledge to merge the two countries.

During the second stage of economic growth in Belarus in 2001–2009 some new factors contributed to maintaining positive economic dynamics. A radical improvement of the external economic situation played a crucial role in the economic growth<sup>3</sup>. The increase of the world oil prices has brought us direct benefits as a result of the expanded export of petroleum products to the EU, as well as indirect benefits – due to the acceleration of economic development in Russia and the increased demand on its market. Besides oil, prices rose for metal products and potash fertilizers, which make up the bulk of Belarusian export. The demand in the home market increased as a result of the state efforts in the payment sphere. One point was missing to make the economic growth permanent and stable: structural market reforms, including property privatization. Only these measures are able to ensure economic efficiency – without them, any head of state has to rely on market factors, which are present today and gone

tomorrow. Unfortunately, Alexander Lukashenko and his advisors have missed the right time to introduce such reforms in a favorable economic environment. This happened because economy became secondary to politics in Belarus. With president fearing to become unpopular and lose power, populism is not an extreme measure but a systemic phenomenon.

In 2009 the repercussions of the global financial crisis had an impact on the Belarusian economy. It consisted mainly in the reduction of cost and demand for certain Belarusian export commodities (petroleum products, ferrous metals, potash fertilizers, engineering products), dollar and euro fluctuations and the rise of prices for credit resources in the domestic market. In 2009 the national debt in Belarus doubled, having reached 7.9 billion dollars. With this measure the authorities tried to compensate for the negative trade balance and to provide the growth of GDP in 2010 – the year of the following presidential elections.

The unprecedented financial crisis came a year after the presidential election in 2011. It was provoked by the decision of the president to devalue the Belarusian ruble by 56%! This measure hit ordinary people, especially the most vulnerable groups of the population – retirees, for example (the most faithful Lukashenko's electorate). In 2011 the inflation rate in the country reached 209 % of that in 2010. The national currency rate fell by more than 2.5. In terms of the average salary Belarus was among the poorest countries in Europe.<sup>4</sup>

In 2012 the economic situation somewhat stabilized due to the influx of lending from Russia, after Lukashenko and Putin had signed an agreement on Belarus becoming part of the Customs Union with Russia and Kazakhstan, which in 2015 should become the Eurasian Economic Union – an economic, political and military alternative to the European Union. This agreement is extremely unprofitable for Belarus, as it breaks all the economic links with the EU – a much more powerful entity to the west of its borders.

However, all the actions of the Belarusian authorities do not guarantee that economic stagnation will come to a close. According to the 2013 results, there only was a minimum GDP growth – by 0.9%, while industrial production fell by 4.8%, exports of goods and services declined dramatically – by 16.9% and the rate of inflation remained high at 13.8%.<sup>5</sup>

The high imbalance of net exports is of particular concern as it can lead to yet another devaluation of the Belarusian ruble.

Thus, the *Belarusian economic model* has demonstrated its complete failure in the era of stagnation, which could drag on for years to come, if there is no change of the state power. ■

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<sup>1</sup> See: Economic Country Memorandum for Belarus. N.Y.: The World Bank, 2005, p. 25.

<sup>2</sup> Ibid.

<sup>3</sup> Belarusian GDP reached a record 10% of growth in 2005 and 2008. It didn't reach this figure in other years.

<sup>4</sup> Romanchuk R. Belarus: Economic Results 2011 <http://www.belaruspartisan.org/bp-forfe/?news=118021>

<sup>5</sup> See: National Statistics Committee data of the National Bank of the Republic of Belarus, December 2013.

DZMITRY KRUK

# Belarus – a chance to convert past mistakes into new advantages

**B**elarus is often treated as 'terra incognita' even among its neighbors. Indeed, the development path of the country is severely distinct from other CEE countries. In terms of long-term growth, majority of transition countries during the last decade fell back upon the growth of TFP (total factor productivity, i.e. technology and efficiency) being accompanied with reasonable growth of capital. Belarus, in turn, secured its growth almost entirely due to accumulation of capital, while productivity gains were extremely poor, especially in tradable sector. This path became possible due to high returns on capital given a number of benefits delivered by Russia (cheap gas and oil, preferential access to the Russian market). This easy path made Belarus one of the growth leaders in 2000-s in the CEE. However, this growth was accompanied by rapidly progressing external imbalances, as low productivity transformed into low competitiveness of tradable Belarusian goods.

By the end of the decade, enjoyment of easy solutions played a low-down trick with the country: it has mostly exhausted the potential of capital-based growth strategy, although the expectations and habits of high growth preserved. Furthermore, in late 2008 and 2009 Belarus found itself involved into global contagion, which contributed to poor output growth. That time the authorities actually ignored structural challenges and resorted to active expansionary policies. Hence, since 2010 a skewness towards short-term priorities explicitly visualized in government's policy. In other words, the government tried to struggle against structural problems by means of short-term tools. The repercussions followed in 2011: Belarus suffered large-scale currency crisis (the devaluation of national currency was roughly triple). The devaluation formed a 'grace-period' for Belarus, as the price competitiveness of its exports improved, which was a chance to recover a balance between long-term and short-term priorities. But previous mistakes of expansionary policy were repeated, and nowadays the country again finds itself facing a fragility of macroeconomic equilibrium with the background of lack of growth potential. However, today's situation is different from those in 2011 in some aspects.

First, the currency crisis has generated a huge wave of inflation expectations and radically reduced credibility to monetary policy (visualized in extremely high share of deposits nominated in foreign currency, which is fluctuating around 60%). Actually, monetary policy fell into a trap and its effectiveness is extremely low. A similar story is about fiscal policy, which has not much room for a maneuver.

Second, the currency crisis triggered long-lasting cyclical recession. The lack of room and low effectiveness of economic policy tools cannot provide enough stimuli to the economy to pass this stage till now.

Hence, at the first sight economic prospects for Belarus are really ugly: poor growth potential, cyclical recession, low effectiveness of economic policy, fragility of financial market, and progressing external imbalance. This perspective implies that macroeconomic adjustment is inevitable. External borrowing is the only solution that allows avoiding new macroeconomic adjustment until now. Recent trends at European emerging markets (capital outflows, weakening output growth and depreciations of exchange rates) sharpen the challenges.

Hence, most probably in near future the government will have to carry out such an adjustment. Otherwise, there are risks of automatic adjustment.

As strange as it might sound, from a broader perspective this new situation for Belarus presents a chance rather than a threat. Majority of CEE transition countries nowadays experience an impact of reduced growth potential (for them it is associated with the lack of capital) along with cyclical challenges. And in majority cases there is a trade-off between policies stimulating potential growth and those stimulating demand. As for Belarus, it has accumulated a stock of capital that would allow recovering its growth potential if the country can advance its productivity. However, the latter may be provided rather rapidly through institutional adjustments basing on the experience of the other CEE countries. In other words, the untapped potential of the past may generate growth even in a depressed CEE environment. And there is one more piece of good news. Such kind of policies simultaneously will enhance demand, while standard economic policies currently cannot do so. Hence, for Belarus there is little if any contradiction between short-term and long-term priorities. Moreover, the government shows some signs of readiness to such reforms. So, there is a chance for an ugly duckling to mature into a beautiful swan. ■

So, there is a  
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GALINA GAVRILKO

# Integration on the territory of the former Soviet Union – a search for an optimum model

The integration processes development on the territory of the former Soviet Union reflects the universal tendencies caused by economy development interests and other spheres of human activities, as well as the next round of globalization of political and economic processes in the modern world. The realization of essential geopolitical and economic interests of the countries-participants depends on the efficiency of co-operation of the states which use the opportunities of such formations as the CIS, EurAsEC, UBR.

Taking it into account, the Noncommercial Fund 'Heritage of Eurasia' has conducted the research 'The Perception of Integration Processes on the Territory of the Former Soviet Union by Experts and Leaders of Public Opinion', the main purpose of which was the identification of divergences and a common ground in different countries elite's views about the integration.

The experts' opinion concerning the integration development rates were different. There are two possible scenarios. The first one (which is supported by the majority of experts) — the "European" scenario of integration — assumes a gradual merger which will take about 50 years. The second scenario — "Integration breakthrough" — represents a "shock" option of integration within 5–10 years, directed on prevention "removing other centers of integration to peripheries within which their development will be organized in another way".

The expert community noted the following problems of integration: The absence of a clear integration idea of the states on the territory of the former Soviet Union. This problem is considered primary and defining by some experts. The absence of an accurate concept reduces integration processes participants' motivation for coordinated joint actions, induces to take the advantage of its position. It was offered to formulate the idea of integration either together, or on the basis of creation of "integration institute" as the decision.

Between the countries-participants of integration processes there were considerable distinctions in the level and rates of development, the lack of conceptual models of an effective integration. Lack of reasonable approaches to this problem and the existence of a number of alternative options of policy concerning the regions which are different in the development level (to wait when they join themselves, to exclude from the integration; to create helping programs, etc.) are noted. Attempts of an organizational solution within the lack of conceptual understanding are noted.

Insufficient understanding of the state interests by the political elite, the absence of a substantial state-formed idea (in this case, probably, only Kazakhstan can be seen as an exception). As a result there are no super subjective regulators, the actions of the states leaders in many respects are guided by political conjecture considerations. It makes a negotiation process instable: management change in one of the countries leads to the resumption of negotiations from scratch.

Discrepancy between existing organizational forms and a stage of integration process development. One of the most important organizational problems of integration is the inadequacy of a real process, a lack of a systematic vision of the events, timely estimates and feedback. The bureaucratic structure isn't capable to react to occurring changes adequately alone. More flexible organizational forms capable quickly to adapt for a very dynamic situation are necessary. Experts emphasized various aspects of this problem, important for the efficiency of the integration process.

Inconsistency of the integration process with directions and levels. As experts specify, the plurality of organizational forms, a selfish lobbyism, the lack of the effective mechanism of coordination of economic, political, social and resource factors complicate the integration process.

Insufficient organization of integration parties: business communities, expert community, institutes of civil society. Forces which can push the authorities to treat the integration process more seriously can be both business, and a civil society. However, they are still insufficiently organized. According to experts, associations of the businessmen representing their interests in interaction with the authorities (as exactly they, but not the authorities, are really interested in an effective integration) are necessary.

Concerning integration associations structure experts incline to the necessity to concentrate efforts on the creation of a real integration association of the states which are at a comparable level of economic development. Belarus, Kazakhstan, Russia and Ukraine belong to this group, there is a possibility of voluntary accession of other states. The experts note that it is reasonable for Russia to correct a way of realization of its integration aspirations, to treat more respectfully the status of the partner countries, to recognize really their equality as parties of the interstate right at distinctions in scales and economic potential.

According to the experts' opinion, the economic integration where the leading part is assigned to business community has to become the main direction of efforts of all parties of the integration process. ■

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# How the Finnish firms view the Belarus business environment?

**C**lose to 7,000 companies with foreign capital have been registered in Belarus by the beginning of 2013. Around 30-40 of these foreign firms have been founded by Finnish companies. The Finnish firms have invested nearly \$ 100 million in Belarus, and with this sum Finland stands as the sixteenth most active foreign investor in the country, representing approximately 1 % of the Belarus inward FDI stock. In October 2013, I interviewed a director of 10 Finnish firms operating in Belarus and asked their views on the Belarus business environment. The PEST analysis is used to describe their opinions on the Belarus business milieu. The main results can be summarised as follows:

## Political (P)

- Centralised rule and the authoritarian political system have created stability, but the leadership change may create major instability.
- The regulatory environment is clear but changes can be rapid and unpredictable.
- The administration works properly, though more slowly than in the developed West.
- Some deficiencies could be found in privatisation and public tenders.
- Finnish firms were generally pleased with the ownership rights.
- Finnish firms have not experienced immaterial property right violations in Belarus.
- The strategic benefits of the Customs Union are obvious, but on the operational level the Customs Union still needs further improvement.
- Political dispute between Belarus and Russia/the EU can create additional problems for the Finnish firms as well.
- The US blacklist on some Belarusian state-owned enterprises has created indirect problems for some of the Finnish firms.

## Economic (E)

- The Baltic States and Russia have offered a springboard for entering Belarus.
- The growth opportunities in Belarus are good, though the purchasing power of the middle class has deteriorated after the 2011 financial crisis.
- Belarus is a rather normal business environment, i.e. no major peculiarities related to competition, taxation, payment system, transportation and the legal system could be found.
- It is easy to find office space but a problem emerges with industrial premises.
- The Belarusian banks are seldom used as a source of finance.
- Repatriation of profits to Finland is not a problem, but prepayments abroad are not working well.
- Mandatory sales of a part of export revenues is a Belarusian peculiarity for the time being.
- Exchange rate risk of the Belarusian currency is obvious, and hence the hidden dollarisation of the economy has already begun.
- Subcontracting and outsourcing develop fast.

## Sociocultural (S)

- Recruitment of personnel is generally not a problem.
- Technological skills of local staff are good but managerial and internationalisation skills need considerable upgrading.
- Staff turnover is higher in Belarus than in the West, but it has not been a specific problem for Finnish firms.
- Salary differences are notable between white collar and blue collar workers.
- Trade unions do not present a problem, on the contrary, trade unions hinder progress more in Finland.
- Finland has a good national image and its goods are regarded as high-quality and its firms as reliable partners.
- Crime and corruption are not a specific problem.

## Technological (T)

- Technology transfer from Finland to Belarus works as the core of the technological base of the Belarus subsidiary.
- ICT systems are frequently imported from Finland, though the Belarusian and Russian ICT systems are also in use in Finnish firms.
- Technological breakthrough innovations in Belarus are rare.
- Belarus does not have an image of a high-tech country, which has prevented some Finnish firms from building R&D activities in the country.
- Customs fees of imported technology are not a problem.
- R&D cooperation with a Belarusian company gives an additional competitive advantage to a Finnish firm.

I would like to end this article by quoting a Finnish director, who stated about the Belarus business environment as follows: "We have been positively surprised." All the results of this survey will be presented at the IV Finland-Belarus Business Forum at the Turku School of Economics on 8.4.2014 (<http://www.utu.fi/en/units/tse/units/PEI/events/Pages/Belarus-Business-Forum.aspx>). The forum is free of charge for all the participants. ■

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SIIM KALLAS

# Rail Baltic – a vital transport link to connect East and West

One of the main aims of EU transport policy is to bring our peoples and economies closer together. We need transport to access a huge market: the unified trading space of Europe's 500 million consumers. But this vast area is not always well connected, especially between East and West.

Many people and businesses are losing out, particularly on the economic advantages offered by the single market. For countries on the edge of Europe, like Finland and the Baltic States, to have good transport links to Europe's heartland is a political and economic lifeline.

It is why Rail Baltic should be built as soon as possible, to link these countries with the rest of Europe. At the moment, however, it is one of Europe's six major missing cross-border links, as recently identified by the European Commission.

With the revised policy guidelines for the Trans-European Transport Network and the Connecting Europe Facility (CEF) funding instrument now in place, we can begin to transform today's patchwork of national parts into a smooth-running network.

These two new regulations represent the future of EU transport infrastructure, shifting the focus from individual projects to a core network of nine strategic integrated corridors.

Rail Baltic will form the northern section of the North Sea-Baltic corridor, adding a vital north-south link to complete the high-quality transport links around the Baltic Sea area that are already creating regional trade and economic growth following the financial crisis. It is not only the Baltic Sea region that will see more trade.

When it is built, this double-track higher-speed line will benefit much of Europe because the North Sea-Baltic Corridor will link to Europe's three largest ports: Rotterdam, Antwerp and Hamburg. By increasing connectivity, we also increase competitiveness, economic growth and attract investment.

The business case for Rail Baltic is solid, although EU funding will be required as well. That's where the CEF comes in: assuming a mature project pipeline for designing and building the new line, the EU can provide financial support of up to 85%, with loans from international financial institutions that will have to be secured to make up the balance.

In the most recent 2011 study on Rail Baltic, international consultants AECOM estimated the project's net present value at around €1.4 billion at 2010 prices in its cost-benefit analysis. It concluded that the project should be considered as viable and financially stable. Investing in such infrastructure projects has a positive effect on employment.

One recent U.S. study showed that infrastructure investment spending creates about 18,000 total jobs for every \$1 billion in new investment spending.

When examined in a wider geopolitical context, the business case is even stronger.

Take Finland, which - along with Poland - forms part of Rail Baltic's wider catchment area.

One of the shortest ways to move freight from Asia to Europe is across the Arctic Sea and then into Finland and the Baltic States.

While this isn't the usual shipping route taken through the Suez Canal, it now competes as an Asia-Europe freight route since melting ice caused by global warming allows the Arctic Passage to open up for more months of the year.

This potentially cuts journey times by two weeks, reducing shipping costs.

In the nearby Barents Region, Finland, Sweden, Norway and Russia are working together to develop an efficient transport system to increase access to Europe's richest region for natural resources.

This area has large deposits of minerals and precious metals, an abundance of forestry and fish products and a vast export potential for oil and gas resources.

Linking our own Trans-European Transport Network to the future Barents Euro Arctic Transport Area would be immensely beneficial for trade. In fact, with the Rail Baltic gateway ready to receive cargo via Finland and send it on into the heart of Europe, I can only see trade and economic advantages for Europe as a whole.

Finnish timber and paper products could be sent by rail to Central Europe; in the other direction, Rail Baltic could be a useful export route for Czech and Slovak cars and trucks.

The line will also ease the environmental impact on the region by taking heavy freight off roads. It will provide a viable alternative to shipping; today, some 90 % of Finland's exports and 70 % of its imports go by sea.

Rail Baltic is about far more than the indication in its name. It goes further into Europe; it links peoples, businesses, regions, towns and capitals together; it truly joins East and West.

We cannot afford to delay building this vital transport link that has so much promise for connecting Europe. ■



SIIM KALLAS

Vice-President of the European Commission in Charge of Transport  
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SIGMUNDUR DAVÍÐ GUNNLAUGSSON

# Together we stand stronger – the importance of regional co-operation

Iceland is a small island nation. In total we count just over 320.000 inhabitants in this land of fire and ice in the middle of the North Atlantic. We are proud of our history and culture and the last few decades of our young republic have been characterised by progress and prosperity, although we have surely gone through some challenging times and still the Icelandic nation is working its way – slowly but surely – out of enormous economic difficulties caused by the universal financial crisis in 2008.

However, no man is an island and certainly not in an era of globalisation and rapid technological developments. Iceland is a European nation and a member of a market counting over 500 million people through the Agreement on the European Economic Area. Our major trading partners are European and we have our closest cultural and political relations with European nations. Iceland also focuses on interacting with the countries of North America. Until 2006, U.S. military forces were based in Iceland and still today Iceland builds its defences on a bilateral defence agreement with the United States and on a founding membership of NATO. In addition, the relations with Canada are close and growing. Approximately 200.000 Canadians of Icelandic origin (or "Western-Icelanders" as we tend to call them) are living in Canada, descendants of Icelanders who moved to Canada in the 19th century in search of a better livelihood and new opportunities. Furthermore, global warming and the melting of the ice cap in the Arctic is changing geography and the Asian continent is not as far away as it used to be.

Hence, Iceland looks to the east, west and north in pursuing its interests and interacting with the world. Still, the Nordic countries stand closest to Iceland. This is evident in many ways. Nordic societies are based on the same values and our common cultural heritage is truly a binding force. The Nordic welfare model attracts widespread admiration and our societal infrastructures draw attention from different corners around the world.

Nordic co-operation is also very close and, this year, Iceland will be in a leading role as it holds the presidency of the Nordic Council of Ministers. Moreover, the Nordic countries are like-minded in the international arena and, as a group, can have a great impact whereas, together, some 26 million people live in the Nordic countries and their economies, combined, constitute the fifth-largest in Europe and among the ten largest in the world.

In addition, the Nordic co-operation has developed rapidly in recent years, for example in the field of security and defence. In 2011, the Nordic countries adopted a declaration, which is symbolic for solidarity - that the Nordic countries will stand together and assist each other if, for example, natural or man-made disasters occur. Also, earlier this year, new steps were taken in Nordic defence co-operation

when Finland and Sweden participated in training and air-surveillance in Iceland, alongside a NATO air-policing mission, which Norway spearheaded.

Nordic co-operation has also been fortunate enough to be flexible and dynamic in nature. Thus, our friends in the Baltic countries have become more involved and contribute to our co-operation - a very positive development that Iceland supports wholeheartedly. The Baltic countries have a special place in the hearts and minds of the Icelandic people and Iceland is very proud to have been the first to recognise the regained independence of the Baltic states in 1991. The relations between Iceland and the Baltic countries are also diverse and we often share emphases in international relations, for example within NATO.

Likewise, Iceland values the friendship with other countries in the Baltic Sea region. The Icelandic people will not forget the support the Polish nation showed us when most doors seemed to be closed in the storm of the financial crisis some five years ago. Also, a good number of Poles live in Iceland, who have adjusted well and contribute to the well-being of our society. Therefore, regional co-operation of various sorts has proved beneficial for Iceland and the importance of regional organisations should not be underestimated. Bodies such as the Council of the Baltic Sea States, the Barents Euro-Arctic Council, the Nordic Dimension and the Arctic Council, to name just a few that Iceland participates in, have proved a valuable instrument in fostering regional co-operation.

The Nordic countries and our cousins alongside the Baltic Sea have many things in common but our strength also lies in our distinctive features. Some of us are members of NATO while others are members of the European Union. And some of us sit on both sides of the table in Brussels. To some extent, our relations with our closest neighbours differ and we can, when successful, build bridges and contribute to compromises and creative solutions. In some cases we disagree, yes, but far more often we are in agreement.

I sometimes say that the Nordic countries are our closest family, but our extended family certainly includes the Baltic States. The extended family is always important to foster. There will always be times where we need each other and together we stand stronger. ■

The Nordic countries  
and our cousins  
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SIGMUNDUR DAVÍÐ  
GUNNLAUGSSON  
Prime Minister  
Iceland

JOACHIM ZELLER

# Giving up Russia?

Russia is the largest European State and the bridge from Europe to Asia. It is at the same time the biggest energy provider for the European Union. 80 percent of its natural gas and oil is being delivered to the EU. In our and the Russian neighbouring States, formerly part of the Soviet Union, Moscow still has a significant influence. Therefore, the efforts made by the European Union to achieve a deepened relationship in the framework of a strategic partnership are indispensable. Due to the events in Ukraine and the de facto annexation of the Crimea, serious disruptions of the bilateral relations established over years have occurred.

But for the foreseeable ice age, Russia does not have sole responsibility. The West has also contributed to the fatal destruction of trust. With the unilateral attempt to bind Ukraine, it has ignored Russian interests, being those legitimate or not. The EU has not understood that for Russia, Ukraine will never be just another country. It has underestimated the atmosphere in the pro-Russian eastern part of the country as well as Kremlin's willingness to re-assert its sphere of influence in the post-Soviet space and its military commitment to achieve it. By now, the EU has to question itself, whether it has been the adequate strategy to negotiate unilaterally with Ukraine, without including Russia on an equivalent basis. Anticipating its interests and embedding it prudently in the framework of the Eastern Partnership might have been the wiser approach. The "Either-Or"-strategy, to which Ukraine was exposed - not only by the EU but rather Moscow - could not succeed since the country is historically divided. From a Russian perspective, the Majdan Revolution was a successful attempt by the EU to establish a pro-western regime in Ukraine. Without Ukraine, Putin's dream of a Eurasian Empire would become obsolete. And his nightmare would be the spread of a similar democratic protest movement to the Russian people. About Ukraine's historical affiliation, all kind of theories have been raised. Some say, it would belong to the Russian culture, others claim Ukraine being a Central European State. Both are truths and this makes things so complicated. For a long time, even the EU was not willing to give a definitive answer. What was really at stake, European leaders did not understand until hundreds of thousands waved the European flag on Majdan. Unexpectedly, the EU got drawn into a conflict, forcing it to a clarity and unity which it does not have in foreign policies. A fact, Putin is well aware of. However, demonising him is no (common) policy, but just an alibi for not having one, as Henry Kissinger rightly said.

Until recently it seemed inconceivable that people would risk their lives to lead their country into the EU. Brussels has raised expectations in the Ukraine which cannot be turned back. Of course the West could not ignore an invasion contrary to international law. But it would be naïve to believe that a solution could be reached without the involvement of Russia. Isolating it would put a dangerous pressure on Russia at a point where its borders are already fragile and its internal problems overwhelming. Russia suffers from terrorism, separatism and a lacking progress in the modernisation of the econo-

my. It owes its relative wealth to the unilateral focus on raw materials and export of arms. If Russia wants to give prosperity to its people, this will only be possible with the outlined partnership for modernisation. At the same time, Moscow has to understand that the desire of Ukrainian people to draw closer to EU standards and ban corruption is an irreversible reality. Putin has created a precedent in Crimea in an unacceptable way, a fact not less an irreversible reality. In the future, a modus vivendi must be found for this geopolitical reality. An escalation would lead to a devastating East-West confrontation and impede for decades any chance to bring Russia and the EU together in an international cooperative system. Of course, EU negotiations of a new agreement with Russia will be suspended for the time being, and sanctions were inevitable. Time will show how effective they may be and who will most suffer from them. But sanctions are no strategy, nor substitute for a diplomatic engagement. We must ensure that our channels of communication and cooperation are left open. Even if a sound cooperation with Putin seems not feasible at the moment, we have to think our relations in a long term. On a long term, neither the West nor Russia can exist without the other and cope with the imperative challenges we are facing. Iran's nuclear programme, the middle-east conflict, the war in Syria, the territorial disruptions in the Pacific, which of these problems should be solved without Moscow? By now, the EU will have to learn to live with Putin. Facing this fact, it would already help to stop thinking in black and white as in former times, with the anachronistic allegory of the good West and the bad East. In the context of a functioning Common Security and Defence Policy, the EU has to clarify how it intends to deal with Russia in a continued partnership. If Member States keep maintaining unilaterally their interests and relationships to Russia, and the EU is supposed to deal with the troublesome leftovers such as Human Rights and rule of law, this partnership is doomed to fail. ■

JOACHIM ZELLER

Member

European Parliament



KRISTIINA OJULAND

# EU-Russia relations – on the verge of breaking

**E**U relations with Russia have always been special due to this country's indisputable strategic importance for the European security construct, its strong economic ties with the European countries and centuries of common history. This relationship has not been easy, though, and seems to have gotten to its darkest times in the recent months.

As many common interests there are to share between the EU and Russia, so there are a lot of issues on which both sides hold a totally different approach. This concerns, primarily, the Eastern Partnership and Ukraine, which president Putin considers Russia's "near abroad" and a traditional zone of Russian influence. The efforts of the EU to bring these countries closer to itself by supporting democratic reforms and offering the chance to access the European markets through free trade agreements are, unfortunately, seen as a direct challenge in Kremlin. It is a regretful misinterpretation of the true nature of the European intentions, the final goal of which is a safe and prosperous neighbourhood, consisting of countries with stable democracies, responsible governments and predictable foreign policies. The Eastern Partnership was never thought as – and surely is not – a zero-sum game of "taking away" whole countries away from Russian control. In fact, it is these countries' sovereign choice to move towards greater EU integration.

The experience of Estonia clearly shows that the European integration is, currently, the best available model of political and economic development. The changes we had to do in our governmental and legal systems, industry, agriculture and virtually all sectors of social life were not easy, but the end results were incredibly rewarding. Today Estonia is a successful country, its expertise in information technologies is recognized not only the EU, but also worldwide and it is moving forward along with other European nations. This is why it is my strong conviction that the European integration is the most gratifying and also natural direction of development for our neighbours.

The fact that political thinking in Moscow is different has already caused lives in Ukraine, deprived it of Crimea and is likely to provoke more unrest, military confrontation and disorder.

Many might feel the EU is helpless in front of the fast pace of developments and cannot pressure Russia because of the bilateral ties and economic interests. It is true that the EU is Russia's largest trading partner by far, with 45% of all Russian external trade, and Russia is the EU's third most-important trading partner, after the US

and China. It is clear that economic sanctions or embargo on Russian gas, oil or goods in general will impact unfavourably European economies. It is also true that security on our common continent and beyond can only be achieved if Russia and the EU cooperate closely.

**It is also true that security on our common continent and beyond can only be achieved if Russia and the EU cooperate closely.**

In this light, the recent acts of aggression against Ukraine only come as a proof to the fact that the EU should have been much more insistent on following its own values and principles in relations with Russia: to underline the inadmissibility of human rights' violations that have been taking place in Russia for many years now; to punish the officials guilty of human rights' breaches (and for that matter, of Sergey Magnitsky's unlawful detention and eventual death) with visa bans and assets freezing; to support more, with deeds and not words, civil society organizations in Russia.

The continuous fall into autocracy in Russia resulted in the current crisis. Had it been a truly democratic country, the Russian government would have taken into account the considerations of international law and, most importantly, the needs and hopes of its own people. Today, instead, the EU must realize its past mistakes in policies towards Russia and think of a new approach that would discard the former asymmetrical relationship, where only one side strives to be constructive and the other is pursuing its own national interests. ■

**KRISTIINA OJULAND**  
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CARL SCHLYTER

# Time to focus on human growth instead of economic growth

**L**atvia has a credit problem - the solution, growth. Finland escaped the Eurozone crisis rather well but recently a problem has arisen, no growth - the solution, return to growth. Sweden is not a Euro country but has high unemployment - the solution, growth. Estonia deregulated capital had fantastic growth but 500% housing price hikes in 7 years takes its toll, bubble burst and recession followed. The solution - more growth.

Whatever the question, the answer is growth. The problem is that infinite growth on a finite planet is difficult for anyone but an economist to grasp. As an engineer I immediately see the problem of resource scarcity. Not to worry answers the economist, we will decouple the economy and achieve green-growth. As a house-owner I am worried that deregulation will lead to a housing-market collapse. Not to worry, if economy slows we will just reduce interest-rates and make ECB increase capital, is the economist answer. Who can resist buying a million Euro house when the loans are almost free?

But when more and more of the economy is based on loans, will not a constantly larger share of our income go to the rich who owns the banks? Will not more and more of the efficiency gains made at any company go to the owners and banks when they become heavily indebted? Not to worry answers the economist, money will trickle down to you to. Well, that is hardly of any comfort if it at the same time floods upwards creating growing social tensions.

The current growth model based on extreme liberalisation of capital creates bubbles and bursts, increased resource use and growing social tensions. It is utterly strange that almost all political parties still advocate it as the dominant solution to all problems.

Let us study how realistic and good we (SWE,EE,LT,LV,FI) are when it comes to "green growth". All Baltic Sea countries but Sweden are among the bottom half in the EU when it comes to generating €/kg used. All but Lithuania are among the ten worst in domestic material use/capita. Sweden, Finland and Estonia are among the top five (worst!) in generating non-mineral waste/capita. Estonia and Finland are among top five (worst!) when it comes to generating hazardous waste/capita.

While we all need to focus more on renewable energy and energy efficiency, it is clear that will not be enough. As long as we use all efficiency gains to generate increased income we will not be able to reach the combined goal of social cohesion and reduced resource use. In the event of actually reaching high level of resource material efficiency, we will still run the risk of a rebound effect, making us constantly buy more and more stuff. Even the myth that the post-industrial service society will solve our environmental dilemma have been dis-proven. (That would have to be subject of an article in its own)

Instead of combating unemployment by growth, we should use efficiency gains to reduce working-time. Then we do not need growth and that would also reduce the need for constantly increase in loans and that would in turn also stabilise housing and financial markets. If we become more efficient all of us can go home earlier. Proceeds would therefore also be distributed more fairly, all of us benefit equally of coming home an hour earlier when we are more efficient, not only the rich. Some will always have unregulated working-time though.

We might need some reduced taxes for people with low incomes, so they have a chance to catch up and we can increase capital gains taxes in order to finance it, and additionally make real investments more attractive rather than pure speculation.

In western European countries people are not happier during the last decades despite becoming richer. We see a decoupling of the happiness from wealth already at rather low income for a country. Beyond around 1100€/month it is more about relative economic power, rather than the absolute benefit of being able to eat, dress, transport and live.

It is time to focus on making humans grow as cultural beings and social subjects, rather than just making the economy grow. Going home earlier gives us more time for children, friends, culture, sport, activism and relaxing. That could reduce stress on both us and our planet. Because if our efficiency-gains are used for reduced working-time rather than growth, we can use resource-efficiency gains as absolute reduction in material use rather than just compensating for growth.

Studies have shown that work-time reduction does not for society as a whole have any negative or positive impact on emissions/€ earned, i.e. we will not start flying more and drive more because we have more free time, it is compensated by others having the time to bicycle to work or buying less.

Sweden, Denmark and Finland would be perfectly placed to start reducing working-time. There are many poor countries that are in desperate need of raw-materials and growth, where it actually matters. Where growth means being able to afford clothes, food and a bike, where growth actually satisfies absolute needs. ■



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HENRIK NORMANN

# NIB – supporting sustainable growth in the Baltic Sea region

The Nordic Investment Bank (NIB) is an international financial institution in the Baltic Sea Region, with eight member countries; Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. NIB provides long-term complementary financing, based on sound banking principles, to projects that strengthen the competitiveness and enhance the environment. The main part of the financing is targeted on the member countries of the bank as well as on the neighbouring area. Annual commitments in support of investments in the region are on the level of EUR 1.5 - 2 billion. NIB is working mainly in four sectors that contribute to the fulfilment of its environmental and competitiveness mandate: Environment, Energy; Transport, logistics and communications; and Innovation.

Much analysis has been done on the factors that distinguish successful regions from unsuccessful ones. Good governance, efficient administration, a supportive business climate etc. are, as experience shows, determining criteria. Furthermore, there is a need for high-quality infrastructure. This requires substantial investments. At the same time, public sector finances are increasingly tight in many countries. And the new regulatory framework for banks (Basel III) will make it more difficult for the financial sector to provide long-term capital. This creates a need for innovative financial solutions. Different models will be needed, involving international and national financial institutions as well as public authorities. Well-structured public-private partnerships can provide an effective mechanism for mobilizing private sector competence and funding capacity. Effective use of budgetary resources is another area in which partnering with international financial institutions can be useful due to the financial assessment and safeguard procedures they apply.

In the quest for green (or blue) growth we have to ask what the key drivers are for eco-innovation. On the one hand an enabling environment is needed. On the other hand the most effective economic agent, price, has to be set right. And it is essential to keep in mind that policy makers cannot pick winners! Their role should be confined to ensuring a playing field, which fosters innovation and rewards effective solutions. If there is no fertile ground for new business, it will fail, regardless of state intervention. Green growth has to be founded on genuine competitive advantages.

The eco-technology sector is composed of a few relatively large companies and a huge amount of SMEs. The latter can frequently provide innovative solutions but they face the same problem as all SMEs, capital constraints. Technological brilliance is no guarantee for commercial success. One constraint for SMEs is the lack of references. This is aggravated by the limited size of the national markets. If the Baltic Sea Region could agree on common standards, a broader home-market would be created, giving companies from the region a stronger platform for reaching out internationally.

NIB provides financing to small and medium sized enterprises in cooperation with local financial institutions acting as intermediaries. In addition the Bank supports the demand side by financing projects that use modern technology.

Environmental issues are largely of a regional or global nature. As frequently stated, pollution recognizes no political borders. In order to efficiently address such cross-border issues, regional and global cooperation is a must. The Baltic Sea Region has fostered some notable initiatives in this respect and NIB is actively involved in several of these.

NIB for example supports the work of HELCOM to implement the Baltic Sea Action Plan (BSAP). The aim of the plan is to restore the good ecological status of the Baltic marine environment. NIB has set aside EUR 500 million in a special Baltic Sea Environment Financing Facility (BASE) to provide loans for this purpose. Some EUR 330 million have so far been allocated under the facility.

In the energy sector security of supply and environmental sustainability are key challenges in the Baltic Sea Region. The investment needs are large in the coming decades. Enhanced integration of regional energy transmission in electricity and gas is a necessity and substantial long-term investments are needed in interconnectors and distribution systems. NIB is participating in a number of priority projects in this field as well as in renewable energy systems.

Energy investments frequently have long lead periods between decision and generation and the capital amounts large. Uncoordinated activity will cause suboptimal investments. What is needed is a predictable investment climate, including permitting and support schemes. And again, pricing has to be sound in order to support investments and encourage energy saving.

In the transport field volumes will continue to grow. This requires not only improvements of infrastructure. Environmental sustainability of transport solutions has to be ensured, and this requires more effective and intelligent transport systems, including better inter-modality. In addition the right choice of energy bearers and improved energy efficiency is essential.

And we must not forget that we are part of a competitive world. Good internal solutions for logistics and transport are important for competitiveness but we also need to ensure that transport flows to and from the region are effective. The efficiency of transport corridors is determined by the bottlenecks. A concerted effort to remove barriers is needed.

The Baltic Sea Region has many competitive advantages. What is needed is to harness these as instruments for joint regional action! NIB plays its part in providing financial means for this purpose. ■

**HENRIK NORMANN**  
President and CEO  
Nordic Investment Bank

ARI KORHONEN

# A crucial time for Europe

**E**urope has yet to recover from the economic downturn that began in 2008. The economy is currently growing, but at a modest pace. Interest rates are expected to remain low for a significant period of time, and a rapid solution for unemployment is not in sight.

Even though the burst of the United States housing bubble has been perceived as the catalyst for the worldwide economic downturn, the actual reasons for the financial difficulties in Europe are more diverse than this.

In the 2000s, due to the phenomenon of globalisation, production was generated in the joint market area, the labour costs of which were tens of times cheaper than in Europe. We enhanced this development ourselves, by investing in the prerequisites for transport and storage, in order to enable the transport of these consumer goods into Europe in a way that was as inexpensive and fast as possible.

## From supporting the economy to savings

The solution for the enduring economic downturn could be the stabilising of the markets in the long term. This can be thought of as a slow press of a 'reset' button, which will result in the narrowing of differences within the joint market area and the start of new growth. An increase in the number of consumers with purchasing power is also expected once the middle class currently forming in China and India reaches the market in full force.

The other option is that the economic situation is resolved through a major crisis: the worst case scenario would be war.

Because each of us have the opportunity to impact our future, it is worthwhile to consider the measures that we ourselves can take in order to minimise the negative impacts of the current financial situation.

Only a moment ago the entire western world invested heavily in means to support the economy. Now, with the new focus on cuts in public expenditure and tax increases, the situation is rapidly reaching the opposite extreme. We may predict that one of the routes opted for was wrong. Either the efforts to revive the economy were terminated too soon, or the cuts were initiated too late.

## Does public economy endanger growth?

At the moment, the state of public economy is a concern that is shared by all European countries. In Finland, the cuts and tax increases are in their early stages. In the near future, difficulties are expected to mount particularly as concerns the finances of Finnish municipalities, as central government transfers to local government constitute the most significant item of expenditure for the Finnish government.

From the perspective of municipalities, cuts in central government transfers to local government will mean a reduction in public investment, but they can also lead to the deterioration of the services provided by welfare society. For a number of years now, Finland has been able to take pride in its achievements in the PISA surveys, the best school-system in the world and top-level experts in almost any field. If Finland now opts to implement savings in the wrong places, the recovery may take decades.

## Confidence in the future must be restored

Finland and Europe as a whole should turn from pessimism to the building of goal-oriented future visions. Education is the most important of future investments. Our activities are already highly international and networked, and will become even more so in the future. The best experts are invited to create luxury, while others must produce in bulk: this applies to shipbuilding, information technology as well as environmental technology.

Good language skills are necessary for success at the global level. Many European countries should increase their investment in language studies by young people. A good knowledge of English is important, but a strong demand for individuals proficient in Russian is also expected in the not-so distant future. We should not forget that this country of great natural riches is our neighbour and already a highly potential source of partnerships in the field of economic cooperation.

While, at least in the short term, it may not be likely that Finland will produce a 'new Nokia', we possess plenty of strengths that provide the foundation for future success. Finnish expertise remains top-level in several sectors. In Finnish schools, children learn languages and, to an increasing extent, to network via the Internet with individuals and operators in various parts of the world. They possess good basic knowledge in science and history. A wider and better knowledge of Russian should be the goal in Finland, too.

Finland is also a very safe country. Finland can offer a potential location for a number of companies, as well as guaranteed profit for investors. For example in the Turku region, existing business parks for companies offering new jobs to begin, transfer or expand their operations to can be found in Turku, Raisio, Lieto, Kaarina and many other towns. The region also offers skilled workforce and high-level research and education.

A critical time is upon us. We must be courageous and invest in the future: children, young people, expertise and investments. The downturn can be beaten, and success in this will mean an increase in well-being on the global level. ■



ARI KORHONEN

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ANITA LEHIKONEN

# Strong internationalization safeguards quality of higher education

The international operating environment of the higher education institutions is changing rapidly. Demographic changes, international competition for talent, globalizing labor market and changes in knowledge production effect on higher education institutions worldwide. With globalization, the world is developing into an increasingly comprehensive system. Rapid increase of higher education crossing national borders, integration of the higher education systems and increased variety in the forms of higher education are among the great changes that we have experienced in the field of higher education globally. Internationality has become crucial to all business activities as well as to the field of education.

The benefits of internationalism in higher education can be examined from the perspectives of students, teachers, researchers, higher education institutions, as well of the individual countries. Mental and financial resources of a single country are always limited. It is obvious that a significant part of the knowledge and information needed is produced internationally. Global challenges require global solutions and global problem solving require international cooperation. Students need an education that allows them network internationally and to find employment in an international setting. As mentioned above there are several reasons why internationalization of the higher education is needed and why quality enhancement in research and education require international contacts and receptivity. It can be stated that international cooperation is the best way to improve the quality of the higher education.

No wonder that internationalization has long been among the key aims of the Finnish science and higher education policy as well as at the core of higher education institutions' own strategies. Promoting high quality mobility of students, early stage researchers, teachers and other staff in higher education has also been a central objective of the Pan European Bologna Process from the very beginning.

Finnish higher education institutions have become more international. Almost one half of Finnish publications in 2008–2010 were produced in cooperation with foreign research organizations. The number of foreign degree students at the higher education institutions has gone up. The universities have been more active in recruiting researchers from abroad. Regardless of this positive development, the drive to internationalize remains weaker and the networks less robust in Finland than in other advanced science countries. The level of both domestic and international mobility of scientists remains low in various stages of a researcher's career. While a great interest is shown towards the Finnish education system, our higher education institutions are not sufficiently well known internationally.

Higher education has been one of the fastest-growing sectors in the world. A higher education degree today also is the most common cross-border education product. The majority of the value of global trade in educational services comprises sales of higher education leading to a degree. The growth in the volume of higher education and international mobility of students has followed the trends in world trade. Where there is increased wellbeing, there is more demand for education and student mobility. According to OECD and UNESCO figures, some 4.1 million higher education students studied in education leading to a degree outside their own countries in 2011.

In the 2000s, our high-quality education system has become a key part of the Finnish identity and Finland's positive image abroad. However, we have failed to fully exploit these strengths and our competitive potential. The interest shown towards Finland is a great opportunity. It will open up new possibilities for cooperation and networking, which are a must for improving the quality of education and research. Finnish companies and educational organizations have an opportunity of turning educational expertise into significant business. Quality management and verified and proven quality play a key role in developing education exports. However, it is important to realize that education export business is not a must for everybody. There are other areas of internationalization in which educational institutions can invest. Education exports must be a clear strategic choice that supports the institution's other goals.

In the near future higher education institutions might increasingly move towards international alliances. Alliances would bring many benefits for education exports: for example, they would enable a global presence in the market, efficient resource use and a sharing of risks, in addition to boosting quality and value added provided for the customer. It must be made possible for Finnish higher education institutions to take part in such alliances – also in form of joint international degree programs. This kind of development will benefit Finnish society at large. ■



ANITA LEHIKONEN

Permanent Secretary  
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ILPO KOKKILA

# Paving the way for more business with Russia

In the first months of 2014 the poor economic performance in the EU and Russia and the situation in Ukraine have discouraged deepening economic cooperation with Russia. This is unfortunate for the business, which sees great potential in cross-border trade and investment. Politics should not jeopardise business, which plays a key role in providing welfare for the people on both sides of the border.

In many respects Russia is the most significant country for Finnish companies. In 2013 it was number one measured by trade turnover, by value of imports, by number of foreign tourists visiting Finland and by the value of transit transportation. It has become one of the major destinations for foreign direct investment from Finland and investments from Russia to Finland have been on rise as well.

In exports Russia was one of the three biggest countries alongside with Sweden and Germany. In addition to exports from Finland to Russia Finnish companies increasingly supply their products to the Russian market from their manufacturing facilities located in third countries and from their subsidiaries established in Russia.

Though the business as a whole has developed positively, it could be better. Finland's slice of the untapped EU-Russia business potential is huge. For Finland having over 1,300 km common EU border with Russia this potential is a great opportunity. The low economic growth in the EU and Russia should encourage both parties to actively strengthen the prerequisites for mutually profitable business.

## Faster economic integration

Russia's membership in the WTO is of great importance, as it made Russia part of the global market operating under WTO rules and regulations. Russia has made some interpretations of its WTO commitments, which have hurt foreign companies, but the big picture is positive. Russia's accession to the OECD will also be of great value for business as it brings Russia into the framework of the OECD standards.

Russia's membership in the global market economy structures should, however, be only a milestone in deepening EU-Russia economic integration. The long-awaited move is the conclusion of the negotiations on the New EU-Russia Agreement in order to replace the partially outdated EU-Russia Partnership and Cooperation Agreement. Actually this "should have taken place yesterday", like the Russian expression so well describes the will of the European and Russian business communities.

The New Agreement should not be the end of the process. Leading EU and Russian business organisations (BUSINESSEUROPE and the Russian Union of Industrialists and Entrepreneurs RSP) prepared already in 2008 joint proposals for a new EU-Russia Trade and Investment Agreement, which covers practically all aspects of a comprehensive free trade agreement. To a great regret for the business communities, the launch of the negotiations on an EU-Russia free trade agreement seems today more distant than in 2008.

All industries and especially tourism would greatly benefit from transition to visa-free travel between the EU and Russia. Discussion on this issue has suffered from common misunderstandings related to its consequences. Visa-free travel does not mean that Russia be-

comes a Schengen country nor that border control including checking of passports would be abolished.

## Infrastructure to support cross-border business

Finnish companies enjoy the benefits of the favorable geographical location, similar rail track gauge, long experience and good reputation in business with Russia. All this and the stability of the Finnish business environment have made Finland also a gateway to Russia for third country companies.

In order to benefit from the geographical location Finland and Russia continuously invest in infrastructure to meet the requirements of the future growth of freight and passenger transport by road, rail, sea and air. Projects like the Northern Growth Corridor Oslo-Stockholm-Turku-Helsinki-Kotka-St. Petersburg are important not only for Finnish business and tourism, but they serve as an important link for EU-Russia business and tourism as well.

Introduction of the Allegro express train between Helsinki and St. Petersburg is an excellent example of how investment in modernization of the track and trains can multiply number of passengers in a few years. The cut of time and the supply of modern onboard services designed for business travelers and tourists have beaten all expectations. Similar effect is expected for travelers by car, when the last missing parts of the motorway connection between Helsinki and St. Petersburg will be finalized. Equally important is to increase the capacity of border-crossing for freight and passengers to avoid recurrence of long queues, which were too common just a few years ago.

Ultimately it all comes down to ensuring competitiveness of the companies on both sides of the border. Only that can enable our companies to thrive, increase economic welfare and make all the rest possible. ■



ILPO KOKKILA

Chairman of the Board  
Confederation of Finnish Industries EK  
Finland



ALEXANDER Y. PANYCHEV

# High speed rail lines as a factor of development of science, innovative technologies and education

Russian Federation is located on the junction of large-scale and intensively developing geo-economical areas - European, Pacific, South-Asian and North-American. This fact creates the possibility of its positioning as a transit area. However, the existing transit potential of Russia is used not enough: the transit transportations volume amounts less than half of possible. One of the main solutions for this problem is the development of High-speed transport. The projects and principles mentioned in this article will certainly involve the economics and logistics of North-West Region of Russia and Baltic Countries that are forming the transit junction for transcontinental cargo transportations in Asia-Russia-EU direction.

The decisions taken by the Russian Government and declared by the President V. Putin with respect to three major investment projects in the transport field (the high-speed rail line Moscow – Kazan; the central ring motorway; Trans-Siberian and Baykal-Amur mainline railways), definitely, involve the participation of industry-specific higher education institutions.

The projects to overcome the existing bottlenecks and infrastructure limitations are long overdue, and the construction of a high-speed rail line is a revolutionary step in the railway network development and also the first attempt in Russia's recent history to provide a long-term solution. The Transport Strategy of the Russian Federation up to 2030 provides for the construction of over four thousand kilometers of high-speed rail lines to connect Russia's large cities. The high-speed rail line Moscow – Kazan is to be not only a pilot section of the route connecting the Central district, the Volga Region and the Ural economic district with a total length of 770 km, it will also be noted for unique solutions and implemented technologies, having no counterparts anywhere in the world.

The construction of high-speed rail lines is a large national project that will boost the country's social and economic development and it involves not only the creation of innovative technologies and their adaptation to Russian conditions, and the construction of unique technology centers, but also the development of new knowledge and services intended for a fundamentally new passenger type.

The construction of high-speed rail lines will:

- unclog the existing transport infrastructure, enhance the capacity of railways that will be cleared from passenger trains and will be capable of serving more cargo and suburban trains;
- enhance the territorial cohesion and integrity in Russia, as well as mobility of the population;
- stimulate economic activity and development of labor migration;
- reduce the load on air and road transport;
- enable to streamline the cargo flows as well as flows of investments in the infrastructure development;
- enhance the mobility of human capital assets.

Effect of the construction of high-speed railways:

- engagement of construction and production companies;
- development of the machine building complex;
- reduced environmental emissions;
- creating jobs;
- increase in the population income;
- reduction of prices for real estate in large cities along the railway;
- development of small- and mid-size business;
- localization of knowledge and innovative technologies;
- recovery of human resources and training of scientific and engineering staff;
- development of the education and science.

The high-speed railway project is to stimulate:

- the development and implementation of new educational programs;
- increase in the quality of education;
- increase in the educational services' share of export;
- the implementation of new approaches to, and technologies of, passenger traffic management to recover the rail transport share in the total volume of passenger traffic and to occupy an efficient transport niche;
- the creation of international scientific and educational centers;
- increase in the competitiveness of human capital assets.

One of the most important issues to be addressed during the implementation of the Russia's first project for construction of a high-speed railway is staff training and advanced training.

The development of high-speed rail transport in Russia is comparable to the electrification of railways or diesel traction introduction during 1930-50s in its effect on the industry.

And such approach has been typical of the transport industry since its origin. And the system of transport education established in 1809, almost simultaneously with the industry itself, is serving the interests of the state, providing human resources and scientific support for the solution of federal-level tasks related to the development of transport infrastructure, as well as efficiency, safety and environmental friendliness of the transportation process.

The basic principle of education in the field of transport used to consist in that along with in-depth theoretical knowledge, the students also received first-hand information on advanced areas of the transport industry development, which formed the basis of the so called "quality of education".

It may be claimed now that despite the obvious losses resulted from the years of educational "reforms", not only the diversified network of institutions has been preserved but also fundamental values of the industry-specific education.

It is however still unclear, what is principal ordering party for training the specialists in high-speed railways. For in the project VSM 2 Moscow-Yekaterinburg alone the total demand for specialists of various education levels is about 8,500 people.

The construction and reliable operation of highly-efficient, technically safe and environmental friendly equipment requires the availability of specialists who have received in-depth education in designing, construction and contemporary production technologies based on fundamental training and taking due account of the international experience.

And it means years of education, which includes the necessity of training the instructors, organization of work placement and apprenticeship abroad, because many of the high-speed railway facilities are not yet available in Russia.

Consolidating the efforts of all of the interested parties (JSC Russian Railways, JSC High-Speed Rail Lines, Scientific & Research Institutes, and Government authorities) is the only way of prompt implementation of the unique program for staff training, which will enable to address new challenges related to the high-speed railway project.

To this end, it is necessary to:

1. Secure the demand for the training of employees, specialists in different areas. Define the ordering party (parties), target figures related to the nomenclature of future jobs.
2. Develop professional standards in which JSC Russian Railways is to play a leading part.

The implementation of such standards can be based on the existing experience and must involve advanced training, retraining and work placement for the academic teaching staff.

After such documents have been developed, it will be possible to proceed with the selection of training paths (routes).

3. Define sources of financing, training programs and procedures for selection of the principal contractor and its partners.

It is the only way to make the high-speed railway project, along with the universities, a driver of the development of regions, industries, economy, society and the state. For if today we cope with the task of localization of not only technologies but also knowledge, then we will have secured the stable leadership of Russia as a high-speed power. ■

**ALEXANDER Y. PANYCHEV**

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# BALTIC RIM ECONOMIES

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MIKA JOUKIO

# Metsä Tissue seeking for strong growth in Poland

**M**etsä Tissue, part of Metsä Group, is one of the biggest players in the European tissue market. With its 11 mills in six countries, Metsä Tissue operates close to its customers and offers them the full assortment of Lambi, Serla, Mola and Tento consumer branded products as well as Katrin products and solutions for professional use. Also SAGA baking and cooking papers are being produced for home and professional kitchens.

In 1997, Metsä Tissue took a strong foothold in the Polish tissue market by acquiring the first local operator and starting to extend operations. Poland, the sixth largest economy in Europe with nearly 40 million inhabitants, a developing economy and a retail market that is currently being restructured, is a strategically important market for Metsä Tissue, whose vision is to be the best partner for growth.

## Global trends and economic growth increase tissue consumption

The forest industry is often seen as a sunset business, but for Metsä Tissue the opposite is true. Global trends, such as urbanisation, ageing population and a rising interest in personal hygiene and wellbeing are increasing the demand for our products.

Global tissue consumption is increasing. Between 1994 and 2013 it has doubled from 15 to over 30 million tonnes per year. In European countries, the annual consumption today ranges from 2 to 18 kg per person.

Tissue consumption strongly relates to higher level societal indicators: Gross Domestic Product (GDP) and the life expectancy in years. The use of tissue is part of societal and economic wellbeing, improved life quality and hygiene conditions.

In countries with a lower GDP, tissue consumption is mainly toilet tissue. In line with a rising GDP, hygienic household towels are replacing traditional cotton towels in kitchens, while in developed economies, a wider assortment of tissue products, including handkerchiefs, facial tissues and napkins, is being used.

Poland is a middle-stage, developing tissue market with the current annual consumption of nearly 8 kg per person. In 2013, the market grew by nearly 5 per cent. The growth potential is significant both in consumer and away-from-home categories, while the Western and Northern European markets are more mature with higher volumes.

## Developing economy and restructuring retail market

The economic growth in Poland during the last decades has accelerated the restructuring of the retail market. Today, the top five players capture around 25 per cent of the grocery retail markets in Poland - some two decades ago the market was still fragmented with mainly private, local stores. The direction is clear: the focus on retail is turning towards supermarket chains and discounters that are opening up channels to reach larger groups of customers more effectively.

At the same time, these factors are tightening cost, price and quality competition. New players are challenging established operators with the latest technology and tough price competition in order to penetrate and position themselves in the developing markets.

To ensure competitiveness, tissue as a light-weight commodity, needs to be produced close to customers and delivered efficiently to the end-users. In Poland, Metsä Tissue focuses on operating in close collaboration with the growing retailers with adequately large volumes. We support our customers' growth by providing them with attractive offerings, while operating in a cost-efficient manner from sourcing to supply.

Mola, one of the most well-known consumer brands in Poland, is one of our strengths on the market. A strong brand attracts existing and new consumers to try out novelties and adapt to new ways of using tissue. A decade ago, the Mola brand assortment mainly consisted of toilet and household tissue; today, it encompasses the whole assortment including facial tissues and handkerchiefs.

Consumers' tissue preferences are local. While the Nordic countries appreciate whiteness, softness and share an interest in sustainability with the Western European markets, Central Eastern European markets prefer pastel and bright colours, fragrances and patterns.

For Metsä Tissue, sustainability is a key competence. In Poland, Metsä Tissue enhances sustainability proactively and expects interest in it to grow during the coming years.

## The modern tissue mill in southern Poland serves domestic and near-by markets

The large investment programme to renew Metsä Tissue's mill in Krapkowice in southern Poland was finalized in 2013. The two new, highly energy-efficient tissue paper machines as well as the new converting lines and modern logistics facilities make it the most modern tissue paper mill in Europe. Having both the EU Flower and the Nordic Swan ecolabels on its products demonstrate its environmentally sound performance.

Due to its favourable location, the Krapkowice mill can serve both the Polish as well as the German tissue market. ■



**MIKA JOUKIO**  
CEO  
Metsä Tissue  
Finland

MIKKO SÖDERLUND

# Finnish real estate investment vehicles in St. Petersburg

**T**he scope of this article is limited to investments made with the help of an investment vehicle, e.g. a fund or having a strategy of long-term ownership. Direct sales of flats to end-users and main contracting are excluded.

The first Finnish real estate funds aiming at investing in Russia were created in 2006 and 2007. It takes up to two years from the initial idea before the fund is ready and functioning after all the investor negotiations and creating the legal scheme. Therefore, we can assume that the first ideas and plans appeared in 2004 – 2005.

That was the time of rapid and stable growth in Russia. The financial crisis of 1998 was already well forgotten. The image of Russia as an investment target had improved significantly. Even conservative and cautious pension funds were ready to invest into real estate in Russia, not directly but through investments vehicles denominated in euro and governed by the Finnish law and managed by a Finnish fund manager.

In summer 2006 Evli Bank's EPI (Evli Property Investments) and Catella Property (later Amplion Asset Management) launched the EPI Russia I Fund with pension funds Varma and KEVA as anchor investors. The Fund acquired three properties (two office buildings and a logistics centre) in the St. Petersburg area with the total investment value of approximately 250 million €.

Evli Bank planned to launch the EPI Russia II Fund in 2008 which was not executed. In 2011 Amplion exited the EPI Russia I Fund and Evli Bank took over. Later the same year EPI and Danish BPT were merged. The Fund still holds the three properties which have been on sale but no deals have been made.

Sponda opened its office in St. Petersburg in early 2007 and in Moscow the next year. In the end of 2007 it already owned as direct investments three office buildings, one logistics centre and two land areas in Russia. During the next years Sponda made more acquisitions and also divestments. In the end of 2013 the value of Sponda's portfolio in Russia was 247.8 million € consisting of eight properties and having the focus in Moscow. In 2013 Sponda made a portfolio investment worth appr. 50 million € into Russia Invest Fund initiated by SRV Group. The same year Sponda announced exiting Russia with direct investments during the next 3 – 5 years.

In 2007 Iccapital formed the Iccapital Saint Petersburg Residential Fund I worth 45 million € with pension funds Varma, Etera and Suomi as the investors. Later the same year the Fund acquired from a local construction company 276 flats which were ready and constructed in 2009. The flats were then rented out to the local market. In 2011 there was a scandal in the press according to which some of the flats were used for prostitution. Soon after that the Fund decided to sell the flats and exit the investment.

In 2008 a second rental flat operator and investor, Sato, entered the St. Petersburg market. In the end of 2013 they launched their 9th property bringing the total amount of apartments to 237. Currently they have three more properties under construction with 219 more flats in the pipeline. They have more than 150 million € of committed investments in St. Petersburg.

The global financial crisis created a slight pause in the appearance of new real estate funds focusing on Russia. In the autumn of 2011 SRV Group, Sponda, pension funds Ilmarinen and Etera, and Onvest created a fund named Russia Invest. The total equity commitment from all investors is 95.5 million € enabling the Fund to invest up till 300 million € by using additional bank financing. The Fund made its first investment decision in the summer of 2013 when buying a 55% stake in SRV Group's shopping mall project in St. Petersburg. The construction of the property started in the autumn of the same year and will be completed in the spring 2016.

The biggest challenge to foreign funds in Russia is currency fluctuations. The investments are made in euros but the income from properties is partly or fully in roubles. The market saw the weakening of the rouble after 2008 and now again in early 2013.

Even denominating the lease agreements in euros eventually does not secure the investor's currency position. The tenants mainly live in the rouble economy and in the end calculate their costs in roubles. There always can be found a competing property close by which has lease rates in roubles.

Real estate investments require long-term vision and strategy. In the Russian volatile economy crises come every 5 – 10 years depending on external and internal factors. The drop is as sudden and fast as is the upward movement. ■

The author has lived and worked in St. Petersburg, Russia, permanently already for 20 years since 1994.



**MIKKO SÖDERLUND**  
Managing Director  
SRV St. Petersburg

ALEKSEI NOVITSKY

# GEK Insights – Natural Gas Outlook 2014

## Price correction is on the horizon

**P**Regional dynamics continue to hold sway with variations in terms of how gas is priced; the economic correlation between supply and demand for gas is already reflected in domestic prices at US regional hubs and the futures market. In Europe, an increasing amount of gas sold is priced as gas on gas while traditional oil-linked LTC protocols has fallen to 50 percent owing to weak demand, inflexibility of take or pay contractual obligations and the possibility of LNG volumes for European gas suppliers. Pricing in Asian markets is still trending towards oil indexation, mostly as a security of supply premium for major consumers in a high demand, tight supply market.

## Finances determine project engineering

Investment in infrastructure is central to bringing new reserves of gas online which in turn facilitates an upswing in demand and further market penetration. The majority of investment will be centered in the upstream for new greenfield projects and to replace volumes lost due to decline in existing reserves. This having been said, it is far from certain that such capital outlay will be fulfilled. Structural uncertainties including shifts in operational areas like pricing mechanisms, contract terms, and production costs or macro issues including economic recession, regulatory and legislative policies threaten the financing necessary to develop large upstream and transportation projects.

## Creating new market demand

In N. America, gas production is expected to increase exponentially with US production totaling 840bcm by 2035. While US domestic demand is expected to increase, the volumes to be produced will provide and ample basis for LNG exports to global markets.

In Europe, Norway's upstream portfolio is anticipated to sustain production at current levels, but will lack the capacity to overcome declines in N. Sea and Dutch brownfields. European unconventional production will be modest at best owing to regulatory structures, environmental concerns and the geological nature of the plays themselves.

In the Asian-Pacific, levels of Australian production will depend ultimately on upcoming projects' cost structure, deployment of less costly technological solutions and competition from US suppliers. China's unconventional production development bears watching.

Russia's production augmented with new supplies under development from Yamal and E. Siberia will hinge on demand from its pipeline customers in Europe along with Gazprom's ability to gain market share in China and other major Asian markets. However, overall production costs, logistical complexity, regulatory inertia, and reliance on LTC pricing for its supplies will dilute greatly any price advantage Russian producers will have versus emerging competitors in strategic markets.

## Winning the battle for hearts and minds

While global gas consumption continues to grow apace, there are marked variations by region with European markets facing a particularly difficult future. Such regional disparities are spurred on by inter-fuel competition and specific economic & policy conditions.

N. America has abundant supplies of cheap gas, gaining market share at the expense of coal in the power markets with an eye towards further penetration in the industrial (petrochemicals) and transportation (long haul on-land and maritime fleets). In Asia, gas consumption continues to grow owing to on-going nuclear shutdown in Japan and gas' growing exposure in the Chinese energy market, now the third largest globally. By contrast, European consumption has declined by 2% in 2012, much of the contraction attributed to the sluggish economy along with growing supplies of renewables and cheap coal (aided by depressed CO2 prices).

The power sector is seen as the sector offering the most potential for demand growth for gas in North America, while in Europe the picture is more downcast, with demand only expected to recovery slowly to 2010 levels in 2025. Demand is currently constrained in industrial and transportation sectors globally. However, with the introduction of increased volumes of LNG available on the world market, feed stock replacement is expected in the petrochemicals industry, long haul land transportation and the maritime sectors owing to gas' anticipated price advantages and environmental credentials over relevant alternatives petrol & diesel, HFO, LPG, and coal.

## Change of Management Style

Finally, energy customers are becoming increasingly result orientated. Hence a sustained "single-minded focus" on historical core business activities will sacrifice market share and limit future competitiveness. Instead, emphasizing natural market advantages and diversifying business activities to suit are crucial to securing future revenue and growth. ■

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ALEXANDER STARCHENKO

# Distributed generation in Russia – menace or opportunity?

Over the last 5 years summary value of distributed generation equipment imported to Russia has grown more than fourfold - from USD 150 to almost 700 million. So shows analysis of customs data performed by the Energy Center of Skolkovo business school and the Energy Consumers Association.

Spiking growth of distributed generation is, on one hand, industry's logical answer to increasing inefficiency of the unified energy system, ever more expensive and impractical. On the other, it reflects a tendency towards more effective use of associated and secondary energy resources (associated petroleum gas, coal methane, blast-furnace and converter gas) at industrial facilities. It is true that utilizing associated or secondary resources is only tangentially related to distributed generation. Generating facilities in this case are built not so much to provide energy as to improve energy efficiency and environmental standards of core operation.

To government regulators distributed generation is a menace to the unified energy system rather than an opportunity. In the Minister of Energy's report on the energy sector's performance in 2013 and mid-term objectives growth of distributed (local) generation is called one of the main problems of the industry, along with cross-subsidies and payment defaults. The regulators want to set up barriers against it and so continue putting on the market authoritarian devices: limit on installed capacity for the retail market at 25 MW, licensing for stand-alone plants outside the wholesale market, restricted access to gas and power grids, fuel maximums. Like Myanmar women's necks that won't hold up on their own because of so many rings on them, the Russian market is out of shape.

Meanwhile, in developed countries regulators support distributed generation, because, working with national unified systems, it can improve overall stability and add flexibility in responding to consumption peaks. For instance, in Germany energy producers with installed capacity of up to 100 MW are considered local generators, and they don't have to go through complicated registration just to sell energy on the wholesale market.

Setting up barriers to local generation with one hand, Russian regulators with the other throw in more reasons to switch to local generation and leave the unified system. Last year they introduced a capacity delivery agreement to support renewable energy sources with RUB 82 billion of piggybacked costs to the market by 2018. They also decided to give a "provisional" status to practically all stations that had failed competitive capacity outtake. As a result, consumers this year will pay some RUB 25 billion in costs of ineffective generation. In the beginning of 2014 they drafted a resolution to require payment for reserved maximum capacity. If it is approved, the industry may have to pay at least 20% more for energy delivery.

All this considered, we think the crossroads for distributed generation is one-two years away. Within that time it will become clear whether stand-alone, insular generation will continue to grow while the unified system might collapse, or we reach a new technical model for the energy system, where large and small stations work for synergy.

The government needn't implement any complicated measures to avoid the scenario where the unified system falls apart. All it needs to do is to establish parameters for technical connections, rules for technical functioning of local generating plants to work alongside the unified system. Everything else - intellectual management and so on - the market will take care of. No special subsidies or preferences from the top are required - investors bring money to these projects without CDAs.

But, considering that the government is writing greater investments for the unified system, possible new CDAs into the draft of the Russian Energy Strategy 2035, it looks like distributed generation will have more incentives to develop - to the worst possible detriment of the unified system. ■

ALEXANDER STARCHENKO

Chairman  
Supervisory Board  
Non-commercial partnership Energy  
Consumers Association  
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ELISA MARKULA

# Paulig – promoting the role of coffee in the Baltic Sea region

In the Baltic Sea region, coffee culture varies a great deal between countries. Coffee has a long history of ups and downs; for example, in Finland it has been banned and rationed. It seems to have made coffee even more desirable for Finns, who are the biggest coffee consumers in the world per capita with yearly consumption of 12 kilograms of green coffee. This is over three times more than in the two other Baltic rim countries, Estonia and Lithuania. Latvians drink less than 3 kilograms of coffee a year and Russians consumer 1.6 kilograms per capita. More and more consumers around the Baltic Sea area are enjoying coffee, even though Russians were relatively slow to catch onto this trend. Due to the difficulty of getting good coffee in the Soviet era and also due to the strong tea culture, the trend was slow.

## Paulig was among the first foreign companies in independent Estonia

Paulig was the first foreign company to make an investment in Estonia immediately after national independence, and Paulig's coffee and flavourings plant was opened in Saue in the middle of 1993. Paulig had a sales office in Estonia before World War II but the office was "temporarily" closed for 50 years. During the last 20 years, Paulig has been creating a coffee culture in the Baltic countries by selling high-quality coffee for retail and horeca customers. Educating baristas and training coffee shops to prepare high-quality natural coffee have been important for the development of the coffee culture. Today, Paulig is the market leader for coffee in Estonia and Lithuania and second in Latvia. We aim to grow further and strengthen our position on these markets also as a full-service provider, supplying not only quality coffee but also coffee machines, service and maintenance, and other coffee supplies to offices and horeca customers.

## Russia offers the biggest opportunity for further growth

Paulig has operated in Russia over 20 years, first via distributors, then through its own company as an importer, and since 2011 as a local producer. Paulig's roastery is in Tver, and coffee is sold in Russia as well as Ukraine, Belarus, Kazakhstan, Moldova and Azerbaijan.

The coffee market is growing rapidly in Russia, almost 5% a year. Especially natural coffee will be the driver for further growth of the Russian coffee market, and Paulig is concentrating on this segment. Due to gentrification in Russia, coffee is seen as a modern, present-day product and it is used for its good taste and stimulating effect. Cafés and high-quality natural coffee also fit well in today's urban lifestyle, and for consumers, it is a way to emphasise their personal image. Hence, the market is growing and will continue to grow, and this fact is the basis of Paulig's strategy in Russia.

One of our strengths is our local coffee roastery as Paulig wants to be near its customers and consumers. Investment in Russia was also justified by savings on logistics and custom duties. The factory was built in Tver due to its central location, favourable atmosphere to investment, and reasonable land prices. Finding an educated labour

force was expected to be easy and this proved to be true. Today, the Tver roastery is a modern production plant with international food safety and quality certification like ISO 22 000, as well as McDonald's Food Safety and Quality and Supplier Workplace Accountability certificates, which are highly recognised within food industry.

## Diverse consumption habits and consumer needs

Busy lifestyles lead consumers to solutions that are fast and easy, such as capsule coffee machines or ready-to-drink and take-away coffee products. New flavours and brands are sought also within coffee and the ability to try new brewing methods is increasing. Coffee is like wine, with different flavour variations and nuances.

Understanding consumers' habits and expectations is the key to developing the coffee culture. Paulig listens to consumers in all its markets through market research and consumer dialogue. In Finland, coffee belongs to all occasions, daily routines as well as celebrations. Each day, coffee has a big role and its stimulating effect is also important. In this respect, Estonia is quite similar to Finland. In Latvia and Lithuania, the coffee culture is more like in Central Europe. In Russia, coffee drinking habits are still evolving; coffee is seen as a luxury and many emotional needs can be connected to coffee. Consequently, it could be said that in Finland coffee is more like bread and in Russia like chocolate. ■

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PEKKA HEIKONEN

# Baltic welding companies to reach competitiveness through automation

**W**elding companies and steel fabrication workshops at Baltic region meet severe competition in the market when it comes to pricing. The only way to survive and develop the production in Europe, Baltic region and in Russia is to operate with a latest-technology welding and production automation to reach competitiveness against low cost countries.

To get the most of the factory's productivity, Pemamek has developed welding automation systems further by using hi-tech vision-based welding automation. Company Pemamek has designed and developed a range of moduled automation systems with extra features to bring steel fabrication more competitiveness and productivity.

Each PEMA welding station is designed and built to boost the competitiveness of customers' steel production. Not only the production volumes increases, but also the quality improves, when production line deliveries are tailored and tuned to meet all requirements of a specific company. The tailored delivery consists of the entire process from project definition to all the way from basic design to commissioning.

PEMA's close co-operation with different industries and partners all over the world has enabled the development of products and their delivery reliability to reach world-class levels.

## Unique deliveries

One of PEMAMEK's unique deliveries to Baltic region was to Estonian AS E-Profil. E-Profil manufactures anchor handling winch and crane components for the offshore industry. The company decided to automate its manual welding process and switch to submerged arc welding. In future, the work will be done by a PEMA 5 x 5 MD special welding column & boom equipped with a set of Lincoln Electric PowerWave AC/ DC 1000 A SD submerged arc welding equipment, and four PEMA APS 3500 Skymaster positioners.

Another remarkable PEMA delivery was a greenfield project to Estanc in Tallinn, Estonia. The company had decided to invest on modern equipment to compete on the market in Nordic countries and offshore industry. After the completion of the factory project, the productivity of the company increased by 30 % compared to previous production. Estanc's mission is to provide customers with professional solutions for storage and distribution systems of industrial liquids and gases. Their core business is serial or project-oriented manufacturing of process and pressure vessels and fuel storage tanks. Materials used are carbon and stainless steel and special steels for pressure equipment.

Pemamek has also added with modern production equipment many companies in Russia, Poland, Finland, Sweden and Norway, just to mention countries around Baltic Sea.

## PEMA Vision System for robotized welding

The **VRP-V Vision Robot Welding System** is a patented method and can be used in the welding of sub-assembly ship sections or e.g. stiffeners of large flat panels. The conventional off-line programming of robots is replaced in the system by a vision system that identifies the required work piece using a high-resolution digital camera.

The **welding robot system** is a track-mounted travelling welding gantry. The horizontal motion track of both the welding robot and the high-resolution camera are mounted on the gantry's horizontal beam. The system's control panel is also mounted on the gantry. The system is programmed with the aid of a Machine Vision system designed by Pemamek. The operation of the equipment is automatic, but manual operation can also be selected using the robot's remote control.

## Remarkable increase in productivity

The first robot gantry of its kind has been operational since summer 2002 operational nowadays at STX Finland Shipyard and the results have been substantial: During the first years in operation the robot has welded with an arc time ratio over 80 % and with an utility ratio close to 100 %, both figures, which are extremely good for welding robot installation. The equipment has been also operational in an unmanned work shift. Additionally, STX Finland shipyard has since purchased several different Vision-Based welding systems from Pemamek.

Pemamek is the world leading company in designing and manufacturing production and welding automation solutions and work piece handling equipment on the brand name "PEMA". This year Pemamek was granted an award of "Company of the year in welding automation" by American business research company Frost & Sullivan. Pemamek uses and produces hi-tech: utilising the best available robot and automation technology. PEMA systems and comprehensive customer support services are specifically engineered for the heavy engineering, mobile machinery, civil construction, shipbuilding and offshore, industrial boiler, wind energy, and process and nuclear industries. Now, PEMA products and services are used in more than 50 countries around the world. Main business areas are Russia and CIS, Americas, Central Europe, and China. ■

More information can be obtained from [www.pemamek.com](http://www.pemamek.com)



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PEKKA MATTILA

# Building a Nordic hub for leadership and organizational development

**T**here may be room for a Nordic champion in leadership and organizational development. At least, Aalto University Executive Education is striving to test this hypothesis. The company has moved forward decisively since 2011, despite the gloomy economy in all the main markets.

## Finding the recipe for becoming global

Aalto University Executive Education (Aalto EE) has a long history in offering executive education programs and related advisory services. Its main target groups are senior and middle managers in large private and public organizations, as well as future leadership talents.

The company taps into the unique strengths of its parent university: entrepreneurship and venturing, innovation management, design management and technology-enabled management innovations. Over the last few years, the multidisciplinary Aalto setting has been a powerful lever for Aalto EE's growth and expansion.

Aalto EE has been present in the Asian market for 19 years. In fact, it has more Executive MBA alumni in Asia than in Europe or its native Finland. In addition to Finland and Singapore, Aalto EE operates in the Baltics, China Indonesia, Poland, Russia, Sweden, South Korea and Taiwan. Operations in Iran will be launched by autumn 2014. Already, Aalto EE is one of the most international leadership development organizations affiliated to a university in the world. The headquarters in Helsinki coordinates operations in Europe and South Korea, and the permanent office in Singapore serves as a hub for the Asia Pacific region.

Aalto EE's size provides economies of scale, especially in developing and managing the Executive MBA (Master of Business Administration) programs. Both the students and the faculty are encouraged to make the most of the exchange opportunities. In regard to organization-specific customized programs, the strong international presence helps to better serve increasingly global corporations. Due to the coverage, solutions can be delivered globally depending on the partners' needs. For many large corporations, building a uniform leadership culture is a contemporary challenge.

When pursuing international growth, Aalto EE seldom launches a green field operation but prefers partnering with a prominent local institution, ideally the leading multidisciplinary university. The partnerships vary across markets; some of them are mere service agreements, whereas others are true joint ventures where both profit and risk are shared.

## The appeal of the Nordic Way

Most of the globally renowned executive education institutions are located in the US, UK, France or Switzerland. Aalto EE is a rare Nordic example. The continuing success of the Finnish education system in the international comparisons has made the northern approach globally appealing. Not surprisingly, Aalto EE promotes equal opportunities, e.g. by paying attention to a balanced gender distribution in its programs.

As a member of the Aalto University community, Aalto EE enjoys the 'Triple Crown' of accreditations (AACSB, AMBA and EQUIS), the three most respected business school accreditations, awarded to only 0.4% of the world's business schools.

The diverse international network with organizations such as Unicon, (the International University Consortium for Executive Education), EFMD (the European Foundation for Management Development) and PIM (Program in International Management) helps Aalto EE to keep up to date on the latest phenomena and trends. Aalto University School of Business is also a member of CEMS (the Global Alliance in Management Education), a network linking the leading European universities and major corporations.

## Understanding the shifting market

Aalto EE aims for continuous profitable growth and strives to become a most preferred partner in executive education and organizational development for the major international companies in Northern Europe and East and South East Asia.

Since 2009, the executive education market has become increasingly turbulent, and some of the struggling industry players have initiated a race to the bottom through unsustainable price competition. Nonetheless, there is an increasing demand for agile and holistic solutions where the traditional boundary between training and consulting becomes blurred. Furthermore, an increasing number of programs have tangible objectives and pre-set key performance indicators. Today, customers expect higher levels of flexibility and adaptation as their conditions may change to an extent where the original program design becomes obsolete.

Despite the gloomy market, Aalto EE's turnover has increased from EUR 8.8 million (2010) to EUR 13 million (2013). While investing in renewing its infrastructure, the company has been able to post strong positive annual profits. In 2013, Aalto EE's financial footprint and overall impact within the Aalto University community accounted for approximately EUR 1.7 million.

Aalto University's own professors and researchers deliver almost 50 per cent of the training and facilitation. A wide international network of visiting faculty covers the remainder. The combined resourcing model helps to mitigate faculty bottlenecks and recruit the best match for the programs' and customers' needs.

## From leadership to communityship

Professor Henry Mintzberg – one of the globally most esteemed strategy scholars – has advocated for a better and wider definition of leadership development. He prefers the term "communityship" instead of mere leadership, as it entails wider engagement of the organization. The more knowledge-intensive the organization, the more involvement is often needed.

Nurturing only individual talents may indeed be a relatively slow way to drive change. Instead of parachuting in individual executives, a growing number of organizations are interested in fully customized executive development programs with engaging project assignments and echo teams.

To better meet stakeholders' expectations, Aalto University merged its commercial continuing education activities in March 2014. Despite the merger, the three brands will remain separate and strongly focused while benefiting from their close relationship. Aalto EE – which is also the juridical platform for all the operations – will continue to cater for senior and middle management; Aalto PRO will focus on professionals, specialists and managers; while Aalto ENT – a whole new brand for entrepreneurship development – will introduce a range of new solutions for ambitious and growth-driven entrepreneurial ventures and family firms. By the end of 2014, Aalto EE will employ around 120 people and have total annual net sales of around EUR 20 million.

In the future, there will be a growing need for an even more holistic approach to organizational development. Even if the Executive MBA and MBA programs and open enrollment programs retain their appeal, which seems likely, there will be an increased demand for organization-wide development programs. Performance and outcomes will also be tracked more systematically both in quantitative and in qualitative terms. Impact and experience – these factors will make the industry winners of the future. ■

#### PEKKA MATTILA

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## BALTIC RIM ECONOMIES

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IGOR KOGUT

# Political prospects of Ukraine in the context of “Revolution of Dignity”

**A**dmittedly, it is quite difficult to speak about political prospects of the country that has gone through a three-month confrontation between peaceful citizens and corrupted autocratic regime when foreign troops invade the country using force to convince the country to define its future. Nor it is easy to envisage the prospects of the country that has historically served as an arena for clash of civilizations. Its nation is still being politically shaped, and the nature of state institutions is rather superficial. However, I am ready to share my thoughts about the chance that Ukrainians got after death of hundreds of protesters fed up with the corrupted and kleptocratic regime.

Today Ukraine has received one more chance to build a state which would serve the society. We have repeatedly noted the emergence of the elements of civil society but deep roots of Soviet political culture kept overcoming the social energy. I am referring to the events in autumn of 2004 known as the Orange Revolution when people managed to stand behind their choice (at the elections of the President) but failed to defend it in terms of control and participation. Current situation is different yet it is probably too early to claim that we have overcome the crisis of political culture. Citizens are increasingly more aware of the importance of openness and accountability of the authorities, but endowing this societal function institutionally and intellectually is still problematic.

The new government is conducting a series of steps that bring authorities closer to citizens, abolishing benefits and privileges. For now, it is difficult to assess the balance between populism and conscious will in these actions. Apparently, such steps are caused by the difficult economic and financial state of Ukraine. In the new government there are many people who do not have practical administrative experience, but today it is rather an advantage than a drawback. The main challenges that the new government faces concern checks and balances system at the level of the Constitution, reforms of political institutions, establishment of the new paradigm of political communication, namely effective civic involvement into public policy making.

The constitutional dimension of political processes lies first and foremost in a well-defined division of power between branches and institutions of power. It concerns balance of power and its distribution between the representative and executive power, independence of judiciary, power decentralization, and implementation of local self-government principles. In this regard, the trend towards strengthening the representative power, transition to parliamentary-presidential system of governance is important. But at this point some challenges arise. Firstly, in the political discourse there is no perceivable attention to democracy as a principle of political organization both at the legal level and in political debates. Secondly, another big challenge is the quality of political parties that would have to play a prominent role in representative democracy. Political parties are mostly leader-based organizations without traditions of transparent funding and democ-

racy within. In this context there is a clear need for careful selection of a system of parliamentary elections, which would stir up the debate and democracy in the party, and legislation regulating political finance. Electoral system with open regional lists is discussed as an option in Ukraine. The law on the Partial State Party Financing, which could leave corruption and oligarchic funding behind, has not been enforced keeping the nature of political party funding unclear.

The issue of the new quality of civil society, targeted at control and monitoring of the actions of politicians, holds a special place on the political agenda in Ukraine. During three months of confrontation with Yanukovich's regime the request for accountable, uncorrupted authorities, fair justice, and law enforcement bodies that are held responsible to citizens has been crystalized. There are also high expectations of anticorruption bureau and commission that are responsible for lustration in the justice system and law enforcement bodies. One of the main reasons of protests was inability of ordinary citizens to obtain guarantees of a fair and impartial trial. The protest was provoked by permissiveness and impunity of people close to the regime as well as corrupted judiciary.

Administrative reform, implementation of transparent and inclusive procedures of policy making, improvement of the quality of civil service, and continuation of the European integration course are of high importance for political agenda of Ukraine.

Therefore we can single out two dimensions of political prospects for Ukraine. In short-term perspective, these are democratic and fair elections of the President of Ukraine (May 25, 2014), conduct of the constitutional reform, and adoption of the amendments to the Constitution of Ukraine that would take account of balance of responsibilities between different institutions, decentralization, pivotal reforms of justice system and public prosecution bodies, and finally conduct of the early parliamentary election (Verkhovna Rada of Ukraine) according to the new electoral law right after adopting amendments to the Constitution. In the long-term perspective, it concerns modernization of the country based on European values and legislative pillars. However, the occupation of the territory of Ukraine by the neighboring state, Russian Federation, which apparently is not willing to accept revolutionary democratic changes, distancing of Ukraine from the Russian influence zone and approximating to the friendly open zone of cooperation with the EU and NATO, can hinder the realization of these prospects. ■

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# Ukraine after Euromaidan – country on the path of reforms in the conditions of deep economic and political crisis

In the end of 2013 a deep political crisis started Ukraine. The events of Euromaidan led to defection of former president Viktor Yanukovich and his top Government officials who were presumably involved in various corruption schemes or ordering of brutal use of police force against demonstrators. The constitutional majority of votes in parliament voted for a new coalition, new government and return of previous version of constitution limiting the authority of president. It was presumed that Ukraine's economy will not be able to stand such large scale crisis. But the victory of Euromaidan protest and following Russian invasion and annexation of Crimea mobilized political parties in parliament for intensive work on reforms needed to revitalize Ukraine's economy. It remains to be seen how long the coalition in the parliament will be able to stay united and work effectively. Major challenges for the new Government headed by Prime Minister Arseniy Yatsenyuk also include tackling with consequences of Russia's annexation of Crimea and threat of military intervention, reforms of the system of local self-governance, preparation for the presidential election on May 25, 2014.

The activity of foreign investors in Ukraine is rather modest, largest part if western investment coming to Ukraine are indeed return investment by Ukrainian companies though the offshore companies. The negative factors that have impact on investment activity in Ukraine are: political instability, complicated legislation and high taxation rates for corporations (in particular, large contributions to social security funds, VAT refund constraints), corruption in government, police and justice system, extensive grey economy. In the end of 2013 many Ukrainians expected that signing the Association and Free Trade Agreements with the EU would eventually help to resolve the most important problems: corruption, weak economy, ineffectiveness of governance. For the past two decades the credibility of Ukraine in fulfilling agreements with International financial organizations has been exceptionally low. Ukraine got a new chance on the 20th of March, 2014 when Ukraine signed the political part of Association agreement with the EU. Signing only political part of agreement with the EU derives from the past negative experience: Ukraine has to demonstrate that it is capable of tackling the problems of corruption.

Reform of energy market is probably the most painful both for population and for the political parties. Energy prices for population are highly subsidized.

The EU and International Monetary Fund have agreed on a set of requirement for financial assistance to Ukraine. The EU's key requirements for signing Association Agreement include political reforms, free elections, and rule of law. The IMF in its documents outlines them more specifically: reduction of governmental spending, increasing independence of judiciary, reform of financial regulation, liberalization of currency rate, liberalization of energy market (particularly, increasing of consumer prices for natural gas and electricity, reforming the electricity market), reform of social assistance programs.

The reduction of government spending is likely to coincide with reformation of regional governance. At present the old style regional state administrations function as centers of regional level decision making alongside with the institutes of local self-governance. The increasing of the role of local self-governance has been a long awaited goal. In the current situation it may also serve for channeling some separatist moods in east Ukrainian regions. There is a long list of other important measures, including increasing transparency in government tenders, decreasing unnecessary spending on staff, cutting certain subsidies and benefits for particular groups of population. At the same time Government plans to increase taxes for companies and individuals.

Reform of energy market is probably the most painful both for population and for the political parties. Energy prices for population are highly subsidized. At present household consumers pay four time less than actual price of natural gas. Similarly households pay only 23% of electricity's actual cost. The difference is covered by the state creating a huge extra spending for Ukraine's budget. As a rule Government had problems with covering the price difference, the state owned nuclear energy producer Energoatom was hit particularly hard when state failed to cover the cost supplied electricity. As a result the company couldn't invest in modernization of production and is eventually balancing on the edge of bankruptcy.

The implementation of these reforms leads to certain serious risks. Firstly, reform of regional self-governance system may facilitate local political competition, strengthening of local politicians and thereby creating new challenges for the established political elites in Kiev. The reforms on energy sector and reduction of subsidies will



bring significant savings to the state budget, but it will also cause public discontent with raising prices for electricity, natural gas and heating. This may lead to new mass protests in the regions, Russia may use this discontent and try to influence local politics through Russian minded radical movements. Secondly, the Association Agreement contains chapter that covers security cooperation between the EU and Ukraine – this cooperation may seriously undermine the positions of Ukraine's defense industries. These industries employ almost a 100 000 workers mostly in Eastern Ukraine. Cooling down in the relations between Ukraine and Russia leads to serious threat to Russia's national security. Ukrainian defense industries are important and sometimes irreplaceable suppliers of parts and equipment for Russian army. Thirdly, the improvement in the relations between Kiev and Brussels may eventually lead to easing visa regime with Schengen zone and tightening migration procedures on Ukraine-Russia border. There are about three million Ukrainians working in Russia and three million in the EU countries, labor migrants are potentially most

vulnerable to changes in border crossing procedures. Fourthly, the Free Trade agreement carries a range of risks of Ukrainian producers and retailers. The regime of special preferences for Ukrainian exports to the EU will last from May to November 2014. After that also Ukrainian market will become more open for western products. ■

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# BALTIC RIM ECONOMIES

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# EU military crisis management – the need for common funding

Since 2003, the European Union (EU) has deployed six military crisis management operations in the framework of its Common Security and Defence Policy (CSDP). However, the deployment processes of these operations have often been slow and cumbersome; most CSDP military operations have taken more than six months to get on the ground.

This article focuses on one particular factor that contributes to the slowness of the EU's military deployment process, i.e. the lack of common funding. It will start by explaining how CSDP military operations are currently funded before moving on to provide policy recommendations on how to reform the existing funding system in a way that would foster rapid reaction.

## Existing Funding System

At the moment, Article 41, § 2 of the Treaty on European Union (TEU) prohibits using the EU budget to cover 'expenditure arising from operations having military or defence implications'. As a result, CSDP military operations are funded primarily according to the principle of 'costs lie where they fall', which means that each state participating in such operation is responsible for covering the expenses arising from its own contingent.

The only exception to this rule is a small amount of pre-determined 'common costs', which EU officials 'guesstimate' to be around 5-10% of an operation's total cost. The current list of common costs includes implementing and running the HQ, infrastructure and medical services for forces as a whole, satellite imagery, possible reimbursements to/from other organisations etc.

These costs are funded through the Athena mechanism, which is a financial instrument outside the EU budget created in 2004. It is managed by the Council General Secretariat and funded with EU Member States' annual contributions, the sizes of which are determined using a Gross National Income (GNI) index. Thus, Germany provides approximately 21.5% of Athena's funds while Finland provides approximately 1.5%.

The problem with the existing funding system is that common costs are minimal compared to what each Member State participating in a CSDP military operation has to pay for its own contingent. Since CSDP military operations are often deployed to areas where most Member States do not have direct interests at stake, they tend to be reluctant to participate in them with large and expensive contingents. Due to this reluctance, the EU's force generation process is often excruciatingly slow, as the case of EUFOR RCA has again shown in early 2014.

## Increasing Common Funding

In order to increase states' willingness to contribute to CSDP operations, the EU has started to call for increased common funding in the area of security and defence. In October 2013, CFSP High Representative Catherine Ashton noted that the Member States' 'willingness to address the issue of an increase of common funding areas of

application and enhanced Member State support for CSDP missions and operations' should be discussed. Furthermore, the December 2013 European Council concluded that the financial aspects of CSDP operations 'should be rapidly examined, including in the context of the Athena mechanism review, with a view to improving the system of their financing'.

There are two options for increasing common funding for CSDP military operations. Firstly, EU Member States could renegotiate the TEU in a way that they could be financed directly from the Union's budget. As one official from the EU Military Staff put it, 'if we in Europe have community money for infrastructure, agriculture et cetera, why cannot we have community money for military and defence?'

However, this is unlikely to happen anytime in the near future because there is currently very little appetite in EU capitals to open the political Pandora's box that is treaty renegotiations. Furthermore, funding CSDP military operations from the EU budget would grant the European Parliament (EP) a say over military CSDP, which is something that most EU Member States are not ready to accept.

Secondly, EU Member States could expand the list of the common costs that are funded through the Athena mechanism. Since Athena is not part of the EU budget, expanding the list of common costs would not require a treaty change and would keep the EP at a distance from military CSDP. It would also be a practical solution because Athena's administrative structures have already proven their effectiveness in the previous operations that the mechanism has funded.

However, the trick is to get all 28 Member States to agree to an expanded list of Athena-funded common costs. This will not be easy because wealthy countries that do not normally contribute large contingents to CSDP military operations, such as Germany and the UK, are likely to resist such an expansion because they would have to cover most of the increased bill. However, if they want to promote the EU as a relevant actor in international crisis management, they have to accept the necessity and desirability of increasing common funding. ■



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# Border security as a field of practice between Finland and Russia

Today the Finnish Border Guard has two important domains of international cooperation: cooperation with Russia and cooperation in the European Union. These two domains of action are both very important, although they have different histories. They are not, however, isolated. Quite on the contrary - they are dependent on one another. Finland's eastern land border is the longest land border there is between EU and Russia and it is important to the EU as well. Russia has land borders with five EU member states: Finland, Estonia, Latvia, Lithuania and Poland. The EU-Russia land border has not been static over the last two decades, but it was gradually extended as a result of EU enlargement. From 1995 to 2004 Russia's only EU neighbor was Finland. And only since 1st of May 2004 the border has got its present size and shape.

The Finnish Border Guard has a long history of successful interagency cooperation with the Russian and Soviet border service. Finnish border authorities have a lot of experiences of cooperation with the Russian colleagues and these experiences are important also at the EU level. Border security has emerged as a top priority for the EU. The gradual abolition of internal border controls has made the EU vulnerable to cross-border security threats. In response, the border security problems are managed by the EU and the EU border security agency Frontex not just at the actual border, but also inside the member states, in cooperation with the neighboring states and in third countries. These developments challenge the traditional ideas of territoriality and borders. Border security agenda is two-fold in both domains: to maintain the high level of security, while enabling smooth and fast border crossings.

Role of borders have hardly been discussed in the recent security studies. In his recent book "EU-Russian Border Security" Sergei Golunov introduces a concept "borderization" of a security issue, by which he means construing such an issue as having its solution in border protection measures. This means that the problem is construed twice: first, as a security issue, and then as something that should be solved within the framework of border policy.

At the end of the Cold War, it was even argued that borders have lost their importance. Claims of the death of states and state sovereignty, however, were premature. The role of borders has changed, but borders have not vanished. Globalization has challenged the state borders, which has been reflected in the increase of interdependence. States are increasingly dependent on each other. At the same time global security problems are becoming more dependent on each other, forming a complex of security problems.

The Finnish-Russian border forms a regional security complex. Security concerns do not travel well over distances and threats are therefore most likely to occur in the region. The security of each actor in a region interacts with the security of the other actors. There is often intense security interdependence within a region, but not between regions, which is what defines a region and what makes regional security an interesting area of study.

Much research on EU-Russian border security conceptualizes it as an exclusion line that keeps Russia outside of EU cooperation. This is because research and practice do not meet in border security research. The perspective of practitioners, who ultimately determine border security policies, is not taken into account by researchers focusing on EU-Russian border security issues. When we focus on the actual practices of cooperation between the Finnish and Russian border authorities, the EU-Russian border is not just exclusive but also inclusive. It is a bridge of cooperation where the border authorities learn to cope with old and new border security issues, tackle them together, and where they learn to understand each other.

Opening up the practices of cross border interagency cooperation is particularly important because even those few studies that shed light on EU-Russian border security policy do not explicitly focus on border security field, but they look at the foreign policy and defense issues. This is in part, because it is very difficult for researchers to get access to relevant sources in cross border interagency cooperation. At the Finnish-Russian border a certain regional border security complex has emerged over the years. Social learning has taken place and intended and unintended consequences of cooperation have also spread. The regional border security complex has binded Finland and Russia together by positive experiences of handling the issues in cooperation. In order to maintain fast and smooth border crossings, cross-border, interagency cooperation of the border authorities must continue and evolve. As Finland's border security policy cannot be separated from its EU context, it also opens a gateway of border security co-operation to the EU level. ■

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# From IT security to cyber security – bits destroying our physical world

Attacks on IT systems are a daily nuisance. We hear about denial of service attacks, leaked user accounts, passwords and credit card numbers, and how different organizations spy on each other, on companies and citizens of the world. These are not surprising news, ICT evolves and it is being used for various purposes, both legal and illegal. Yet, a much more serious and lethal crisis is just around the corner, we are just waiting for the first major events to really happen.

Our modern society is totally dependent on ICT. All our digital systems and services are becoming intertwined and connected to the Internet. Power grids are becoming intelligent, smart, and water delivery is digitally controlled with various remote access functions. Our road and air traffic is controlled with digital systems and communication networks. The production of goods, even power, is automated and handled with digital systems.

One only needs to use an Internet search engine for a few minutes to find tens, if not even hundreds, of reports of industrial control systems (ICS) that have serious security flaws and security holes built on purpose to ease their daily maintenance. We can easily find in the Internet also various exploits to use against those systems, to take them down from anywhere and at any time. Some of these vulnerabilities are simple enough that a schoolboy can hack the system and cause it to fail.

The scientific community had a good reminder of the scale of this problem when an MSc. thesis from the University of Cambridge used the Shodan search engine to find thousands of vulnerable industrial control systems in the world. This work was since then continued by many groups, including Project Shine, which has so far found 1 million industrial control systems on the Internet.

At the Aalto University, we tried to find out the scale and significance of the problem using Shodan at a national level. We found thousands of industrial control systems in Finland. Many of the targets had, for example, no secure login installed or the administrator password openly available. Some of the found systems were easily identified as misconfigured or otherwise vulnerable. But we could not go very deep in our study due to the fear of breaking the Finnish law and becoming criminals ourselves. Thus, we can relatively easily find targets but can not fully say which of these systems should be openly available and which should not; it would be safe to assume that most of the systems must not be there for the whole Internet community to connect to.

There seems to be the same naïve thinking in the industrial control systems community as the Internet community had about 20-25 years ago: who would want to harm us? Back in the early days of the Internet, people and users knew each other and the concept of security was somewhat of an afterthought; it isn't anymore.

In the industrial control community, system vendors and their customers have neglected to take the security of their environments seriously; many have been on the right track, but so many are still lost or simply exercising the classic wishful thinking.

However, the kind of systems we see connected openly to the Internet even in Finland is frightening: power plants, water delivery, hospitals, jails, railway track control systems, gas stations, grocery stores, building automation, and so forth. The vast majority of these systems will only harm a small group of people, e.g., in one office building, but there are systems that if taken down will cause casualties either directly or in due time.

In addition to the networked targets, we have industrial and automation systems that are not connected to the Internet. A direct connection is not, however, mandatory, as was evident with the Stuxnet strike on the Iranian nuclear program; the break-in happened with a USB stick.

In our modern globally connected digital society, we do not have the option to simply hope for the best. We have to find all these vulnerable systems today, make an assessment of their use, and start fixing the problems. We have not yet seen a crisis caused by an attack on a major civilian infrastructure, but it is only a matter of time, when the first incident will be reported. Hopefully, governments and the industry at large have enough evidence to start acting now, before we see the first catastrophic event. A further challenge is that in the digital world new weapons and exploits are manufactured at the speed of light. ■

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# Danger remains from World War II in our shared waters

Following large-scale use of chemical weapons in World War I, extensive preparations were made to further develop chemical warfare and increase its capacity. Even though they were never used on the European battlefield, large amounts of chemical weapons containing such agents as mustard gas, Clark I and II, and Adamsite remained after the end of the war. In order to dispose of them, dumping at sea was considered the most appropriate solution at the time.

British and US military administrations dumped a share of munitions outside of Baltic area. The Soviet Union dumped at least 50,000 tonnes of chemical munitions containing an estimated 15,000 tonnes of chemical warfare agents in the Baltic Sea, primarily in the Bornholm Basin. Other official dumping sites were the Little Belt area and the Gotland Deep. In addition, dumping took place en route from Wolgast, Germany, where vast amounts of chemical munitions were stored.

The possibility that chemical munitions or their solidified contents can be washed ashore is small but real. Furthermore, pressure to exploit Baltic Sea resources is growing, with powerful new technologies enabling activities in more remote areas, including the deep-sea regions where dumpsites are located. Construction projects such as the installation of wind farms, cables or pipes, as well as other sea-bottom activities such as trawler fishing are increasingly claiming space within contaminated areas. Fishermen may be especially at risk since they can come into direct contact with dangerous toxins. Furthermore, in the event of a mechanical disturbance, a large-scale leakage could pose a serious biohazard.

In this context and under the leadership of the Institute of Oceanology of the Polish Academy of Sciences (IOPAN), 11 government and research institutions from Poland, Germany, Sweden, Finland and Lithuania launched the CHEMSEA project in 2011. With Funding from the EU Baltic Sea Region Programme 2007-2013, the recently completed initiative sought to close knowledge gaps by mapping and characterizing the dumping sites, developing guidelines in order to reduce potential threats to the environment and fishermen and preparing a region-wide contingency plan.

Surveys performed in the Gotland Deep recorded almost 40,000 objects, of which roughly 17,000 were later classified as probable munitions and 33 wrecks, which could potentially contain chemical weapons. Taking into account the visual confirmation of more than 250 of those targets, it appears that 50% of such objects may actually be regarded as chemical munitions. Furthermore, project investigators found indications of chemical weapons dumping worth following up on at the unofficial dumping sites of Slupsk Furrow and the Gdansk Deep.

Using biomarkers, CHEMSEA investigators also conducted studies on cod health at chemical weapons dumpsites and noted some stress responses in organ, tissue, cellular and subcellular levels. Researchers also deployed cages with mussels and recorded higher stress responses in mussels deployed closer to the dumped chemical weapons sites and closer to the sea bottom.

At these dumping sites, researchers also found the derivatives of various chemical weapons agents in the sediments: sulphur mustard, Adamsite, Clark I and Clark II, triphenylarsine, Lewisite I and Lewisite II. Nearly a third of the samples the researchers collected and analyzed contained at least one trace of chemical weapons

agents. At the Gdansk Deep area, concerned as a potential dumping site, half of the samples analysed were confirmed for pollution.

CHEMSEA has confirmed the hypothesis of munitions being thrown overboard while en route to designated dumping sites, which means the risk of contact with hazardous agents extends beyond the limits of official dumping sites. During the last ten years, there have been 44 reported incidents of chemical munitions catches around the region. Fishermen and other groups working at sea should be firstly aware of the risk existence and secondly ready to take precautionary actions to minimize the threat. The possibility also exists, as examples over the last decades have shown, that chemical weapons agents can reach the coastlines in the form of munitions pieces washed ashore. In light of this, CHEMSEA developed an Awareness Training Program, which can be carried out around the region and highly encourages national authorities to implement it as mandatory for selected target groups.

Although national procedures for dealing with incidents involving chemical munitions are well established in most countries around the region, no transboundary response plans exist and responsibilities are divided between different entities, depending on the country in question. In order to minimize these discrepancies, CHEMSEA developed a unified model contingency plan, which it encourages national authorities to implement in the context of crisis management procedures.

What the findings of the project reveal is that chemical munitions dumpsites, although not representing an immediate danger, will continue to be a problem for the Baltic Sea. On one hand, they represent scattered point sources of pollution of unknown magnitude and difficult to control. On the other hand, they are a major economic impairment, making the Baltic Sea a less safe and potentially more costly area for investment. From an environmental point of view they present a risk for marine biota through chronic exposure. Further investigations concerning the magnitude of leakage, the rate of corrosion, the transport of contaminants and possible technical solutions to recover the most dangerous pieces of chemical munitions are needed. ■

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# Baltic Transport Outlook 2030

**T**he Baltic Sea Region (BSR) is facing increasing trade until 2030, both within, to and from the region. This development demands appropriate infrastructure and an efficient transport system. Bottlenecks must be eliminated in order to facilitate the internal market mechanisms, improve the territorial cohesion and improve the competitiveness of the region.

The Baltic Transport Outlook 2030 estimated of the future transport flows in the region and identified potential bottlenecks in the regions transport system until 2030. BTO2030 revealed bottlenecks and gave recommendations on how to solve them.

The BSR covers an area of around 2.5 million square kilometres with a population of some 94 million people. The region includes Norway, Sweden, Finland, Estonia, Latvia, Lithuania, Poland, Denmark, parts of Russia and parts of Germany.

The Transport flows increase significantly between 2010 and 2030. The most significant increase in international passenger transport is a 100 percent rise in rail passenger transport. This is compared to an increase in private car transport by 20 percent and an increase of air passengers by around 80 percent. In freight transport an increase 140 percent in container traffic is anticipated. Non-container maritime freight is expected to increase at a lower rate and maritime oil transport is expected to decline.

In maritime transport, the total cargo throughput of the ports in the region is estimated to increase by 228 million tonnes or by 30 percent, an average annual growth rate is of 1.3 percent. Inland waterways are estimated to increase by 27 percent by 2030.

In land transport, the number of vehicle-kilometres by trucks crossing country borders in the region is estimated to increase by 73 percent, an annual growth of 3 percent. The rail freight transport is estimated to increase by 43 percent or 145 million tonne kilometres, a growth of 1.9 percent per year.

The bottlenecks are different in character. From an infrastructure point of view border crossings with roads are simple, while for railway there are large interoperability problems, due to different gauges, electricity supply and signalling. The most cost-efficient way to resolve bottlenecks are investments in road, port and airport infrastructure – both hard and soft. Railway infrastructure is much more costly, but for environmental reasons, railways are expected to provide the backbone for intermodal transport in the long-term.

Maritime transport links countries across the Baltic Sea. Demand for seaborne freight transport is strongly growing and requires major port investments, in particular for intermodal transshipment facilities (containers etc.) and investments for efficient hinterland rail connections.

At the administrative level, accessibility is limited by border controls with inefficient customs procedures, especially in relation to non-EU and non-Schengen countries.

The prioritised BTO2030 recommendations are: A. Establish a process of joint infrastructure planning of the Strategic Network. B. Develop a transport model that takes into account the specificities of the BSR. C. Improve efficiency of cross-border movements of cargo on the external EU-borders. D. Establish a "BTO Forum" for increased cooperation.

The key issues in relation to infrastructure are: 1. Develop and promote the Strategic Network. 2. Enhance railway links in the Strategic Network by implementing the ETCS. 3. Implement Via Baltica and Rail Baltica projects. 4. Promote Baltic Motorways of the Sea and Short Sea Shipping. 5. Bridge maritime channels by fixed links and connecting hinterland infrastructure. 6. Promote the relevant sections of the BSR Strategic. 7. Develop terminal capacity together with sufficient hinterland network.

The key issues in relation to policy are: 1. Integrate the Green Corridor concept in the Strategic Network. 2. Promote road safety measures. 3. Implement the Single European Sky initiative in all BSR countries. 4. Accelerate technology shift towards cleaner vehicles. 5. Liberalise cabotage and introduce EMS. 6. Promote the development of landbridge railway connections to Asia. 7. Ensure air transport services to low population-density areas. 8. Establish initiatives for soft measures for more efficient use of the infrastructure.

The target groups for the BTO2030 recommendations are: National long term infrastructure planners in the region; National, regional and local politicians; Governments and governmental agencies; Public and private stakeholders in the transport sector; Transport networks in the region. ■

BTO2030 was initiated by the Swedish government and funded by the EU TEN-T and the countries in the BSR. The study was conducted in 2010 and 2011. BTO2030 is a strategic priority within the Baltic Sea Strategy, adopted by the European Council in 2009. Read more on [www.baltictransportoutlook.eu](http://www.baltictransportoutlook.eu).



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# The lost and found for Latvia – 10 years of European Union membership

**M**ay 1st of 2004 was a long-awaited date for Latvia, when it along with seven other current member states became part of the European Union (EU). The EU promised to bring security, economic prosperity, cultural sustainability and increased political importance for the small, renewed Baltic state. The “promises” produced either by the Latvian or EU politicians created expectations among the Latvian officials and society that have driven the country’s participation in EU decision making, both domestically and in external policy, during the last 10 years.

Latvia had been expected to prove itself to be a trustworthy partner in the EU. Being one of the “new”, “post-communist” member states, and being among the poorest EU member states, made it necessary for the country to learn EU politics and demonstrate itself twice as much. The 10 years of aggregating respect, and thus self-awareness, naturally came with lost idealism concerning the constitution and the functioning of the EU that can easily be seen in the public’s attitudes towards the EU. The acquisition of the image of a responsible partner was very much tied to the logic of re-integration into the Western world and Euro-Atlantic structures. Latvian diplomats and statesmen saw the deepening of the country’s EU ties as a crucial element in their policies. Political support for the Constitutional Treaty, the Treaty of Lisbon, as well as joining the Schengen area and the Eurozone, went almost unchallenged among the domestic political elites. The adaptation period, together with the clear and targeted pursuit of increased political and economic interdependence with the EU, resulted in Latvia becoming one of the 16 most institutionally integrated core-EU countries in less than 10 years of membership.

Latvian membership in the EU has been a time of rapid economic growth and steep falls. Latvia has found economic gains in structural funds and increased foreign investments. Throughout the “Baltic Tiger” years of rapid but unsustainable economic growth, through the years of deep economic recession and harsh but necessary austerity measures, during the current years of economic recovery and the return to dynamic growth in individual and state revenues, Latvia had access to growth-facilitating Structural Funds, the Cohesion Fund, and agricultural subsidies, which exceeded the country’s payments into the EU budget multiple times over. The increased foreign direct investments and increasing number of EU and world enterprises doing business in Latvia, and the export of services and goods in the EU and under the EU trademark, have provided previously inaccessible opportunities for many Latvian businesses in diverse industries. Travel, employment and educational opportunities for the Latvians made the EU a project worth preserving in the eyes of the local population, socializing at least two generations into a fuller understanding of Western values. Those have also been imported back into Latvian society and politics during the last half a decade.

At the same time, all the positive aspects have not helped the small country to prevent significant population loss through workforce emigration and low birth rates, almost permanent trade deficits, as well as occasional questioning of the country’s military safety and in-depth debates on the Latvian perspectives on the future of the EU.

The struggle against economic marginalization in the EU, the prevention of the down-sides of a liberalized common market, and worries of institutional under-representation are still very much alive in the Latvian population and among public officials and politicians. Materialistic and short term problems continue distressing society and politicians. Foreign policy and sectoral policies are still reactionary and responsive rather than pro-active. This is a result of the tendency to deal with immediate problems, including those raised by new EU legislation and unfinished structural reforms in a number of sectors.

Latvia has experienced a rather turbulent first decade of EU membership. It has found a righteous place in the world – residing among countries sharing the same liberal democratic values, honoring human rights and globally sustainable political and economic activity. It has lost its economic freedom, but acquired economic security. It has attained a cultural sanctuary within the EU. Now the task for the next 10 years of EU membership is to continue political integration not only on an elite level, but throughout the population of the Republic of Latvia. A more self-aware foreign policy and debates on the future of the EU from the point of view of Latvia are a necessity for the next decade of Latvia’s EU membership. It is essential to avoid an elitization or even privatization of the matters concerning the functioning and institutional shape of the EU in order to grow the public’s awareness and self-identification with the European Union for both economic and security reasons. ■

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# Geopolitics of a minority – Latvian Russian-speakers in the shadow of Crimea

**W**hen a big nuclear state gets involved in large-scale military actions in order to „protect” its compatriots in a neighbouring country, one’s eye inadvertently turns to other potential objects of such „humanitarian” interventions. The case in point is, of course, the Russian Federation, which used the protection of the Russian-speakers as a pretext for sending its troops to the Ukrainian territory of Crimea. What role the protection of compatriots plays in the Russian geopolitical strategy, is a very contested question. Nevertheless, post-Soviet countries with substantial Russian-speaking minorities have good reasons to worry about their security – especially, taking into account the increasing unpredictability and anti-Western stance of the Russian foreign policy.

Among the post-Soviet countries, the largest proportion of the Russian-speakers lives in Latvia – a Baltic country with 2 millions of population, and a proud member of NATO and the EU. Around a third of the Latvian population are Russian-speakers, majority of whom are Soviet-era immigrants. Russia has frequently expressed its concerns about the current situation, pointing at Latvian citizenship and language policies as being discriminatory towards the Russian-speakers. Therefore it would be reasonable to compare the situation of Russian-speakers in Latvia and Ukraine.

At the first glance, the similarities might seem quite striking. Just as their Ukrainian counterparts, Latvian Russian-speakers have not been fully integrated in the new, post-Soviet state structure. A significant proportion of Russian-speakers, especially the oldest generation, have strong nostalgia for the Soviet-era, its imperial grandeur and authoritarian welfare policies. This longing is reinforced by the media outlets of the Russian Federation (mainly television), often used for propaganda purposes and popular among the Russian-speakers of Latvia. The overlapping of linguistic and geopolitical identities is much stronger in Latvia than it is in Ukraine. Surveys show that most Russian-speakers feel a strong attachment to Russia and a significantly weaker identification with Latvia than ethnic Latvians. Russian-speakers also exhibit a high degree of political institutionalization. Most of them vote for the party „Harmony Centre”, which has consolidated the Russian electorate around a leftist, mildly pro-Russia program.

However, there are also differences. Firstly, unlike in Ukraine, in Latvia the settlement of ethnic groups doesn’t have clear regional disproportions. Although Latgale, the Southern-Eastern part of Latvia is pre-dominantly Russian-speaking, the majority of Latvian Russian-speakers are living in large cities, like Rīga, Jelgava, and Liepāja. For this reason, even if one admits the possibility of violent protests, some form of a territorial separatism is scarcely an option. The Latvian state, despite its many deficiencies, is also much stronger in terms of fighting corruption, judicial independence, and democratic institutions than the Ukrainian state of the Yanukovich era. There are also no significant income differences between Latvians and Russians, and the average wage in Latvia is higher than in the Russian Federation.

Assuming that the pro-Russia sentiments in Ukraine have been at least partly promoted by income inequalities both in the country and between the countries, in Latvia the economic factor plays no similar role.

These considerations show that the comparison of Russian-speakers in Ukraine and Latvia is limited – as all comparisons are. This doesn’t mean, however, that no negative developments are possible – esp., with increasing tensions between Russia and the West. First of all, the recent developments in Ukraine have strengthened the position of the Latvian „hawks”. These are defenders of the hard line against the local Russians, including the immediate closing of the Russian-language schools, establishment of „language militias” to monitor the use of the state language, etc. This, in turn, can help the local Russian radicals, who with the familiar „anti-fascist” slogans might call for the involvement of the Russian Federation. Such developments are unlikely, since the number of radical activists is quite small on both sides, and Latvian NATO membership is still a powerful factor discouraging possible Russian military involvement. However, in 2014 Latvia is approaching two elections (the European in May and the parliamentary in October), and many Latvian politicians on both sides of the ethnic divide are eager to exploit the sensitive topics of language, history, and geopolitics for electoral gains. Such strategies seemed rather innocent in more peaceful times. But now, with the growth of Russian geopolitical assertiveness, a divisive approach to politics is becoming increasingly problematic.

Mainly due to the Ukrainian events, there is an increasing awareness that the security of Latvian state and society depends on the integration in European and Euroatlantic structures. However, this integration presupposes not only military cooperation and common economic regulations. It also means the acceptance of the certain values of European political culture – respect for minority rights, capacity for dialogue and self-restraint in all segments of the political spectrum. ■

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# A positive force majeure of culture in Rīga 2014

If you have been to Latvia before, you know that culture is part of the everyday life. Virtually everyone in Latvia sings in a choir, is part of a dance group; people of all ages and all over the country love going to the theatre, attending concerts, going to the opera, or visiting art galleries; singing and dancing are part of our holiday traditions. Culture is at the heart of our national identity, it is what kept the idea of an independent Latvia alive during many decades of occupation; and the annual cultural events calendar becomes fuller and more diverse year by year.

It is because of the central role which culture plays on a day to day basis that Rīga is especially proud to bare the title of European Capital of Culture this year, thus elevating the already central role of culture in Latvia to an even higher level, and having the incredible opportunity of sharing it with the rest of Europe, and hopefully beyond.

The Rīga 2014 programme was officially unveiled in the middle of January, with over 15 000 people taking part in some of the key events throughout the day despite temperatures of -15°C.

Throughout this year, culture will step out of its traditional confines and literally spill out on to the streets of Rīga so that each resident and visitor of Rīga, whether they consider themselves connoisseurs of culture or not, will feel that Rīga really is the European Capital of Culture. Starting from the courtyards of the Soviet built sleeper suburbs, through to the creative quarters established on the outskirts of the centre by artists, as well theatres, galleries, art and cultural centres of Rīga, the opera, the new library building, and even places such as abandoned buildings, parks, streets, courtyards, and the central market will become venues of cultural happenings. It will be everywhere, and for everyone, shattering the concept of the exclusivity of culture.

We like to say that there are 58 neighbourhoods of Rīga, and the capital of culture year will inject a dose of cultural vigour into all of them. The overarching theme of next year (and also the name of the programme), the central aim, is for culture to be a positive Force Majeure - an extraordinary energy with the power to transform a city, a perception, a life.

Over 200 events can be found on the Rīga 2014 calendar (excluding the smaller scale local level events), all arranged in six thematic chapters: Freedom Street, Amber Vein, Road Map, Thirst for the Ocean, Survival Kit and Riga Carnival. Events range from conceptual to entertaining, festivals to operas, performance to circus, traditional to contemporary, with ample opportunity for participation.

Highlights include the opening of the KGB house, which will feature tours of this notorious building, and numerous exhibitions. In the summer months, incredible summer solstice celebrations are planned at the end of June, and the World Choir games come to Rīga in July. In the fall the annual Survival Kit art festival will hit the streets of Rīga. Two new operas have been composed for the occasion – Mikhail and Mikhail play Chess, and Valentīna. Theatre will be evident throughout the year with multiple instalments of forte. forte festival, and, of course, music too will be central, with festivals of Jazz, contemporary and classical music, as well as concert series Born in Rīga featuring world renown classical musicians born in Rīga.

For a break from the bustle of the city you can also visit Rīga's partner city Sigulda – the birthplace of all of Latvia's Olympic heroes, a mere 50 km away from the capital, offers a programme of its own. Sigulda Thrills! features events taking advantage of the city's incredible landscape, Olympic medal producing luge and bobsled track and other winter joys, stunning medieval castle ruins and breath-taking nature.

The Rīga and Sigulda programme in the cultural spotlight of Europe this year is truly diverse, with something for everyone. Come visit in 2014, we're sure that the programme has something for you too! ■

For a full programme and more details please visit [www.riga2014.org](http://www.riga2014.org)

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# Finnish-Russian innovation cooperation – growing on

**F**innish and Russian innovation actors are increasing their cooperation, especially in the startup sector.

Russia's innovation ecosystem has made a remarkable progress in the last few years. According to the recent review "Russian and global venture markets in 2007–13", the record-breaking volume of deals has put Russian venture market to the second place in Europe and as fifth largest in the world. In the same time, venture investments in Russia start to show early signs of maturity: while exits are relatively few, the most developed market segments, such as IT, rely very little on public funding. Supernovas of Yandex and Mail.ru listed at Nasdaq and LSE, have become familiar to a foreign investor's ear, justifying local market as risky, yet exciting. This would not have been possible without government-induced infrastructure and funds.

Russia's evolution in terms of innovation, startup and VC market was not left without a notice from Finnish public organizations, investors and private entrepreneurs. Finnish innovation ecosystem actors made their first steps on Russian ground already in 2009, with FinNode (former global network of Finland's innovation centers) and Startup Sauna (publicly funded startup accelerator, placed in Aalto university) being the pioneers. Now we can witness the role of Finland as Russia's innovation partner being solid and growing.

## Team Finland brings together Finnish actors

At the core of Finland's cooperation model lies Team Finland concept, which brings together key actors in promoting the brand and interests of Finland abroad. What comes to innovation partnership, Tekes – the Finnish Funding Agency for Innovation, serves as Team Finland outpost in Russia and an access point for Russian companies and research organisations, willing to contact Finnish R&D&I ecosystem.

Tekes puts high priority on regular foresight of major global and local technology, innovation and market trends in a process called Future Watch. The knowledge obtained is then available to all interested Finnish companies, seeking background materials for planning future strategies. Team Finland Future Watch network covers USA, China, India and Russia. Tekes welcomes local experts and "think tanks" to participate in foresight activities and exploring new foresight techniques to evaluate disruptive trends relevant for Russia.

A good example was a project in municipal solid waste management in Russian megacities. In this study a classical desk study was combined with interactive expert brainstorming in Moscow and St. Petersburg to produce a map of future, reflecting collective views on the problem development. Tekes is looking forward to continue this successful experience with involvement of its Russian partners, such as Skolkovo and RVC, actively using foresight tools to formulate their strategy.

## FASIE and Skolkovo the main Russian partners

Beginning from 2011, Tekes runs collaborative funding program with Russian FASIE fund, supporting joint R&D&I projects of Finnish and Russian SMEs. Aiming to accelerate cooperation between Finnish and Russian innovative companies, Tekes has announced its partnership agreement with Skolkovo Foundation in 2013. Skolkovo is Russia's flagship initiative in funding and supporting domestic startup and venture capitalists community. The partners contemplate the program will provide substantial financial and networking opportunities for Finnish companies and Skolkovo residents to venture into joint development of innovative products and applications.

Team Finland also supports domestic VC community in developing Finland-based business of hi-tech innovative companies originating from Russia. Vigo accelerator program, launched by the Finnish Ministry of Employment and Economy in 2009, has proven to be very successful in utilization of mixed public and private funding to accelerate growth of internationally-focused hi-tech startups. In addition to 10 existing accelerators, Vigo announced the launch of a brand new Russia-focused accelerator Helsinki Ventures at the end of 2013.

## Slush and Startup Village conferences driving active cooperation

Finland is no more a "terra incognita" for Skolkovo, who's over 1000 residents represent crème de la crop of Russian startup community. Internationally acclaimed Finnish concepts of Startup Sauna accelerator and Slush startup conference have attracted close attention of Russia's major innovation ecosystem actors – Russian Venture Company and Skolkovo. Both are now regular participant to Slush in Helsinki, occupying some of the largest areas for their delegations at the show. Result of Slush, Russian venture capitalists began to develop their taste for Finnish startups: recent investment into a Turku-based mobile analytics startup Walkbase would be a nice example of that. In Russia, on the other hand, these successful Finnish concepts were taken as example to create Startup Village – the country's major startup conference. Hi-tech companies from Finland are now becoming regular participant to the Village, accompanied by Tekes and other Team Finland partners, as one of the objects secured in the agreement with Skolkovo.

After all, it is not accidentally that in 2013 Finland was nominated a partner country for the 2nd Open Innovation Forum – Russia's major discussion platform, dedicated to emerging technologies and furthering innovation prospects and collaboration worldwide. The forum, which typically hosts an international mix of entrepreneurial superstars, high-profile governmental authorities and young innovators, this time was attended by a large Finnish delegation led by the Prime Minister Jyrki Katainen. Team Finland in cooperation with RVC,

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has brought to the table the topic of *Demand and user-driven innovation policy*. This new and more pragmatic innovation policy model pioneered, among others, by Finland, is of particular interest in Russia.

In conclusion, we may summarize that Finnish-Russian cooperation in innovations paves its way in right direction and with visible pace. In an opinion shared by Finnish economists, economy growth with innovations is not a matter of hunting flashes of wit, but systematic target-oriented work, based to continuous learning. Both Russia and Finland seem to share the same principles of support for innovative companies, and, more than that, exchange ideas and benchmark best practices from all over the world. ■

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# Finnish technology startups and traditional manufacturing industry

**W**hat's all the fuzz about?

Word on the street says that big corporations are letting people go, SMEs are hiring. The key to our future success lies within the SME sector, they say. Some even say it's not enough to be a growth company anymore, now you've got to be a gazelle company, faster in growth and faster in generating revenue as well as creating new jobs.

Structural change is hammering the Finnish economy. It has been doing it for a while now. Our competitiveness is falling due to high manufacturing costs but also, and perhaps even mainly, because the products we're producing aren't hot in the global marketplace. They use to be, but they're not anymore.

Service industry in Finland seems to be overrepresented, products and services are targeted to our relatively small home market and we lack direct export actions taken by SMEs. The wage bargaining mechanism is not the most flexible one, we need to extend the lifelong working periods, the municipal sector reform is still unsolved, and we haven't been able to open up the competition for the private companies in public sector. And so on... The list of challenges, maybe even problems, is long but not yet overwhelming. Can our startups really solve the problem?

## From Nokia to Supercell

Nokia gave Finns their justification to be proud of Finnish businesses and Finnish products in what comes to international markets. I mean, there have been others before, during and after the Nokia era, but let's face it, Nokia mobile phones made us proud to be Finns in the business sense.

Nowadays, we're desperate to find whatever positive news of Finnish companies doing well in the global marketplace. Having said that, for some reason companies such as Kone, Neste Oil, UPM-Kymmene, Stora Enso, and Metso, just to mention a few, are not quite doing the trick for us. It is traditional manufacturing business and we all kind of feel it's important, but still it doesn't quite give us the same vibes as the tech startups do. This, in my opinion, is not a healthy way to go.

Nokia was a blessing for us, especially during the times Finland was going through when Nokia's phone business started to fly, but it also made us a bit picky. We do want to succeed, but it has to be in businesses suitable for our new way of thinking. No more traditional manufacturing, now it has to be something to do with electronic products and services or future technologies. Am I right? I believe we got hooked to the feeling of being the forerunner.

Our latest superstar industry – online gaming – got its new hero in mid-October 2013: Supercell's owners sold 51% of their shares to Japanese investors. The deal was widely considered as positive news. They now had wider wings behind their back to create more value and even more future success. And now the Asian market became more open for Supercell than ever before. This attitude is very interesting if you take a look at what the public opinion is when talking about companies such as Rautaruukki and their merger with the Swedes.

Now we're rapidly gaining that Nokia era confidence back again with Supercell and Rovio, and the whole gaming industry. This way of thinking, by the way, is unfortunately widening the gap between generations here in Finland.

## Role models

However, these success stories are most welcome for us, and people who've been working hard to make it happen easily deserve all the compliments they've been given. It is also worth mentioning that an investment as big as 1.5 billion dollars has a great reflection effect to the society, local business life and startup companies in general. It is very important for the younger generation to have role models such as these in business. I'm happy to say that nowadays many business school graduates want to become startup entrepreneurs after graduating, when a decade ago they wanted to work for any of the multinational corporations. This has of course its pros and cons, but I'd say it is a very positive thing nevertheless.

## What should we do next?

I believe we're now facing somewhat a turning point which will change the game permanently. On the same time, I'm hoping that we'd still be able to respect and support the so called traditional manufacturing industry which has been providing and will provide a big part of our wellbeing in the future as well. Structural change doesn't happen in a heartbeat. We have to have patience to do both, grow our startups and take care of and evolve the traditional businesses.

Perhaps the solution lies somewhere between as it often does: perhaps the big corporations and startups, gazelle companies and the gaming industry have something in common? I'm sure there are things to learn for both of them: startups are excellent in creating lean organizations, utilizing digital tools and they're agile, bigger corporations have heaps of experience, loads of knowledge and resources. And maybe, after a couple of years of separation, they can now find things to do together. ■



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# Soft infrastructure for the innovative companies

Quality of service companies in a particular local innovation market has traditionally been considered as an indicator of the level of maturity. There are not so many organizations in Russia that work in the field of provision of services to technology business; and, which is equally important, most of them are only “packaging” innovative projects to attract investment. Unfortunately, the level of quality of support makes us say: the word “package” in this situation becomes clearly negative.

Many “packers” help start-ups attract resources from investors at various stages: from pre-seed funds and business angels to venture capitalists of later stages. Consultants teach heads of start-up companies to communicate with investment fund managers, to prepare appealing presentations, draw charts for them and build financial models: but they are not engaged in the development of competencies of innovative business founders themselves. We have to admit that by using this approach, “packaging” companies only make a “wrapper” for start-ups, without paying attention to filling them. I am talking about teaching how to work with reports, teaching proper communication with an institutional investor, giving knowledge of marketing for innovative products and the culture of the technology business. Due to the fact that the psychology of heads of start-ups remains unchanged, it turns out that for the whole time of search for investors, entrepreneurs are called to play a role of company executives with a good attitude to corporate governance requirements and wishes of external investors. When the need to “wear a mask” passes, i.e. money is received; the investor realizes that in fact a team which he supported is not going to build their relations on the basis of the signed investment agreement. It always results in conflict: the team does not give the investor access to the agreed points of operational management, does not notify it about the most important events in the development of the project. Unfortunately, in most such cases conflict is unavoidable. This discredits the idea of the potential of investments in venture capital projects; which in turn results in non-core assets being afraid to enter the venture industry, decreases the activity of business angels and institutional investors. Ultimately, the private sector becomes uptight about promising technology start-ups.

I am sure that for Russia in this situation the most appropriate solution would be to rely on the support of incubation programs at education and research institutions: they can become centers of concentration of breakthrough technology start-ups created by teams of talented scientists. In contrast to “packaging” companies whose main income is success fee and the attraction of investment is the only and ultimate goal, incubation centers initially build start-ups with right “genetics”, filling them with the up-to-date processes of corporate governance, technological and organizational development, supporting them before and after the first rounds of investment. The result of this work is the fact that the founders of technology companies will subsequently carefully observe all the rules of working with a professional venture investor. And the ability to work in a team with an experienced investor, using its experience and contacts in the market, is one of the key competitive advantages for a start-up.

It should be understood that such objects of the innovation infrastructure may become profitable organizations only after 5-7 years of operation; this means that it is hard to develop them with the support of private initiatives. Therefore, the government, represented by development institutions, is actively investing in the creation of business incubators, technology parks, technology transfer centers and engineering companies. Infracund of RVC is actively supports incubation programs; our portfolio comprises several such projects, and even more are being discussed.

Of course, the Russian market has a sufficient number of bona fide consulting companies that provide their quality services, often in complex: for example, by providing legal support for a venture capital transaction or by helping to prepare a business plan. In this part of the infrastructure of the Russian venture market, another problem arises: these companies incur a deficit in financially reliable customers, as the majority of start-ups is not ready or does not have an opportunity to spend available resources for the purchase of such services. To solve this problem, government development institutions, in my opinion, should increase the number of available financial instruments to support innovative projects at the earliest stages. For example, targeted grants or investment at the pre-seed stage would be beneficial (USD 10,000 to 30,000) aimed specifically to the invitation of an experienced consultant. System support of projects ready to work with consultants will lead to the fact that at some point, when the number of start-up projects reaches a critical mass, the financially reliable demand for high-quality consulting services will be increased significantly. Automatically supply will be increased; quality players will come to the market. Then, we can talk about the formation of a stable and professional market for such services. ■

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ALEXANDER GALITSKY

# Public-private partnerships – fostering innovations in Russia

Public-private partnerships are considered to be one of the most effective forms of launching innovative processes in the world. In Russia, at this stage of development of venture capital market, instruments as part of this format of cooperation are just emerging and being tested. Development institutions (RUSNANO, RVC, Skolkovo) trigger mechanisms of collective investment (in partnership with private venture capital firms, as well as business angels) in innovative projects.

Today we can say with confidence that these tools are based on the proper principles of supporting innovative industry and start-ups working in it. It is evident that the government itself should not finance individual companies; its main task is to encourage the development of the market. The main issue for a private partner is how to make a quality choice between innovative companies: on the one hand, to secure the highest rate of return on investment, and on the other - to reduce the risk of failure. Thus, a private player is aimed at the highest quality expertise for each project, the government – at financial aid for the entire venture capital industry and macroeconomic indicators. And a public-private partnership is based on such separation of duties: the government provides the investor with a “shoulder” for investment (this is especially important to address the problem of underinvestment at the pre-seed and seed stages) in exchange for its competence in due diligence, selection of the most high-quality start-ups and support of these companies to grow them into real business. It is in this form that the idea of collaboration of the government and private companies has already been operating in Russia, but we must understand that this format of interaction will always be inseparably linked with the role of the government in the innovation market as a whole and in the incremental promotion of the market.

From a certain generalized point of view, the government serves to improve the lives of its citizens both in the short-term and long-term perspective: by managing the country's resources and budget revenues, including those from taxpayers. In this sense, we as Russian citizens must understand that funding of the construction of the Skolkovo innovation city or the support of breakthrough research in the field of private space represent a “loan” from our present and future pensions and our monthly income. But at the same time, such projects as carrying out fundamental and applied research, the transfer of the country from a natural resource economy to an innovation economy, are able to ensure the prosperity of the country in the long-term perspective – and that is why the government supports new technologies that will revolutionize the national economy in 5-10 years. In fact, by playing “long-term” the government thinks of the higher level of income for our children and grandchildren, while private business or market leaders, concerned about their current well-being, would not pay enough attention to innovation and new technologies. Therefore, the initiative of the government in the area of qualitative transformation of the economic potential of the country – application of scientific achievements – is critical. In some industries, such as new materials and energy-efficient technologies, the government should be a pioneer in the financial support of innovation to set an example for private business. Ultimately, private initiative must prevail over the governmental one, both at the level of investments, and the number of transactions.

However, the problem is that when taking a strategic decision about the future, the government may make mistakes. Misplaced priorities, sub-optimal funding scheme or irresponsible choice of private contractors and partners may lead to a meaningless waste of resources. Thus, people who lead such initiatives bear great responsibility. After all, private business will “believe” in support of innovation in any field only if it feels that the government is confident in this course. In my opinion, to achieve this, the government must, first, more quickly form the necessary legislation base for the formation of new high-tech industries, form a consumer market of innovative products and promote the growth of business initiative, including at the expense of intellectual migration, and second, be consistent and tolerant in the steps taken.

In the development of government support of innovation, Russia relies on proven Western practices, which is evidenced by the emergence of the development institutes, special economic zones, technology parks and incubators... However, when adopting such model to the Russian innovation industry, and in particular to venture capital market, the government still makes at least two fundamental mistakes. First, it expects quick results and gets “nervous” which makes it unable to act systemically. Hence a “passion” of Russian officials for individual instruments, both in the field of building the innovation ecosystem and in the field of creating programs for a public-private partnership. Second, the Russian government still fails to timely legally respond to changes in the dynamic high-technology market. For example, when people willing to invest their money in promising start-ups appeared in Russia, the government should have introduced for business angels or early investors tax reliefs on their investment income. There are a lot of such examples, and all they prevent the establishment of the “working” environment for investors, entrepreneurs and innovators. For example, another fine point: reporting requirements for companies that received funds under a public-private partnership in the form of grants or investments. Often, clearly defined expenses, which a start-up that received a grant can make, prevent a company from being mobile and changing the strategy of development depending on changes in its competitive environment or needs of its customers. However, the lack of control over the use of funds may result in fraud on the part of start-ups. One of the tasks of the government is to find a balance between “freedom” and “leash” for businesses that get support. ■



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ALEXANDER KHASIN

# MedStart – helping biomedical start-ups succeed

Recently, much effort has been put into supporting biomedical start-ups in Russia. The governmental efforts have resulted in emergence of entrepreneurial activity in such a complex area like biotechnology. Five or six years ago, the most of research and development work remained behind the walls of universities and research institutes and their promotion was the task of scientists, the majority of whom were 40-50 years old. Today, there are many young people in Russia, who are willing to launch innovative start-ups, based either on their own developments, or on developments of their colleagues, acquaintances, etc. The influx of young people in this area is a crucial factor for the successful development of the sector. In this respect, there was a very significant positive shift.

However, the main problem of biomedical start-ups remains the lack of awareness among their top management of the real market needs, and the lack of access to decision makers and policy makers in the Russian health care industry, and most importantly in the health care industry of Western countries, where the main market for such developments is concentrated.

Russian health care industry is now focused on updating and creating advanced real assets, constructing and equipping modern hospitals and medical facilities, and in the next 5 years it is unlikely to pay attention to introducing national developments and promoting their generation. In many ways it is justified, as the governmental priorities are associated with provision of high quality medical services to the population. However, we have to understand that, in five or ten years, when the current need for a certain number of modern equipped hospitals is met, we shall have to deal with specific diseases that require introduction of new technologies, development of which must be started now. At the same time, the Ministry of Health has not yet proposed a strategy for development of the Russian health care system in terms of disease control, health services payment systems, etc. Moreover, Russian developers have no idea of such a strategy, while it is the key to the beginning of any new development.

It is even harder for Russian developers to reach representatives of Western health care systems, insurance companies, hospitals, and physicians.

Thus, one of the most significant causes for holding back the development of the Russian biomedical start-ups is their lack of understanding of the existing market needs. They develop products that they like themselves, regardless of whether these products are in demand in the health care industry.

However, it's not all there is to it. The fact is that the Russian biotech start-ups also lack the knowledge about the mechanisms of presenting their developments in the market, as the health care market is a very complex structure. It involves insurance companies that cover the cost of health services provided to patients within the approved standards of health care, regulators (the largest of which is FDA), as well as corporations and distributors that are primarily focused on profits. Finally, the role of physicians should be taken into account as well, as in provision of health care to their patients they use technologies and solutions the effectiveness of which is known to them by their own experience or by the experience of their senior colleagues. We should also take into account the position of opinion-leaders who

are popularizing a particular treatment method or a particular product. Thus, there are a great number of influence agent groups in the health care market. Any start-up presenting its product in the market has to find a special approach to each of them. In other words, a leader of the health care start-up has to understand, who will pay for the product developed by the team, and who decides on its admission to the market. There are also many intricacies associated with the packaging of the product and cost of the drug, device or service. In fact, only a start-up whose founders have long been present in the health care market and are aware of all its pitfalls will be able to choose the right business model. There are very few such people among Russian startups. As a rule, innovative businesses are started by young people who are not necessarily physicians (but programmers, engineers or chemists, for example). Therefore, it is vital for them to be able to get the industry expertise and ties in both local and foreign markets. This can be done only by making contact with decision-makers in the health care market, but it is extremely difficult for a start-up seeking for answers to its questions to reach them on alone.

The association of health care startups MedStart strives to solve this problem. Addressing market experts not on behalf of a start-up, but on behalf of the association, the heads of innovative companies improve their chances of success. And this gives start-ups an opportunity not only to define the scope of application of their technologies, but also to formulate technical specifications for their product that will be able to meet the criteria of health systems in the specific markets. At early stages, this information is likely to be the most important for start-ups, and even more important than their financial resources themselves. After all, business leaders must clearly understand what kind of return they can expect from each attempted step, otherwise their money will be wasted.

Today, MedStart operates as a communication platform for the exchange of experience and contacts between companies, developers, and entrepreneurs in the field of high-tech medical technology. Following the two conferences held last year that have gathered more than a hundred representatives from start-ups, we have understood that Russian businessmen are willing to share their failures, and give specific advice to their colleagues.

In the coming years MedStart is going to build a partnership with one of the development institutions or business incubators to be able to take more efficient steps to develop the market of biomedical start-ups. A community of foundations and business angels ready to support biotech companies will be formed around MedStart. We are also going to involve public organizations and large distribution networks in cooperation. ■



Photo by Finam FM

**ALEXANDER KHASIN**  
Co-founder  
MedStart  
Russia



ALEXEY KOSTROV

# Moscow Seed Fund – increasing start-up investments in the region

In recent years, the Russian government is focused on innovations. Its efforts are most evident in Moscow, a city especially “difficult” for innovative companies because of expensive offices, long distances and high labour costs.

The Moscow Seed Fund started an investment loan program for start-ups in the middle of 2012. Such mechanisms have already proved their effectiveness in Europe and the USA; therefore we have decided to apply the foreign experience to the Russian innovation system.

The Fund provides cheap loans to innovative seed and pre-seed projects supported by private investors having passed a competition. The main objective of this initiative is to support existing and to create new start-up investors in Moscow.

From the very start we wanted our program to be, first, maximally easy for the market participants (the requirements for the participation in the program should be transparent) and, second, fast implemented (quick decision making is important). I should say that we have managed to stick to these principles.

As mentioned before, the investors are selected by the Fund through a competitive process. We have held 2 competitions already. The investors working with us include well-known business angels and venture funds focused on start-up projects. Today there are 20 investors (8 individuals and 12 funds, 2 of which are well-known).

An accredited investor presents us projects (a private player's investment limit is RUB 20-30 million), which we might co-invest up to 200% of the amount already invested. The investor and the Fund own corresponding ownership interests in the project, proportional to their investments. The Moscow Seed Fund provides a loan at 1.5% of the refinance rate. After the loan is repaid, we transfer our ownership to the company's team. Other possible scenario: the loan could be repaid by a private investor, so that our ownership interest passes to such investor. The repayment period is three years: first two years are free from any repayments, but during the third year (provided that the start-up is mature enough) the repayments should be regular.

The average value of companies we invest in under the Fund's program is RUB 30 million. We clearly understand that we are at risk of a situation when the value of our ownership interest might be nil. In other words, if a project fails, the Fund suffers losses. But the “educational” aspect is more important to us – the loan program forces businessmen to be more disciplined; the directors of start-ups clearly understand that the investment loan is not a donation but a legal deal (we sign a loan agreement and a collateral agreement with start-ups). Additionally, we demand quarterly reports from the companies in order to observe how they spend our investments.

We already considered 34 applications from partner investors and approved 22 of them. The selected projects will receive investments in the total amount of RUB 136 million (the investors' funds will be about RUB 50 million). 17 projects have already received loan tranches for the total amount of over RUB 79 million. The average shareholding

of investors in a project is about 20%, and that of the Moscow Seed Fund is over 23%. And our shareholding is pledged, as we have no participatory interest in the investment targets and no control over them. We deliberately decided that our shareholding should not be more than 50% to increase the motivation of start-up teams.

At the current stage, we consciously shift the program focus from directors of start-ups to investment partners, because we want new start-up investors to enter the market.

I am convinced we will not stop at what has been accomplished and will broaden the range of interaction mechanisms with both funds and start-ups, including, among others, the acceleration loan programs as a platform for private partners; on our part, we are ready to provide winning start-ups with additional financing (in exchange for a share up to 5%, like accelerators do today). We are actually interested in such mechanisms - thus we are open to offers from the market stakeholders. ■



ALEXEY KOSTROV

Executive Director  
Moscow Seed Fund  
Russia



ANASTASIA TYURINA

# Sustainable development of Russian technology parks – next step in the way

Only for the last two years, over 100 new business incubators and technology parks were opened in Russia: urban, regional, at universities and even colleges. But now, when these objects exist, it is time to deal with a range of services, customers, to understand how to make business models effective.

According to the survey of managers of 45 existing technology parks conducted by the National Research University Higher School of Economics (HSE) as part of the program for the development of competencies of infrastructural innovation employees implemented in cooperation with RVC, one of the problems is the lack of space occupancy. The main reason is the lack of the required number of innovative enterprises seeking to become residents of the parks. The thing is that in the "chain of innovation lift" a technology park is designed to help companies that are actively expanding sales markets, enhancing their production by providing appropriate business consulting services, expanding a network of business contacts, organizing exhibitions. However, the situation is that the vast majority of start-ups at best is developing and testing prototypes and is not ready to enter competitive markets. The universities, at which more than half of the parks are established, also do not represent "providers" for innovative business companies.

Another important problem that has been mentioned by all government organizations of the infrastructure is excessive bureaucracy of their activities: inability to obtain additional income, non-market wages of experts, and delays in preparing accounts. To be more effective and more flexible in the organization of consulting services, incubators and technology parks have to become "normal" business entities: in order to get in them, start-ups should undergo a natural selection. We believe that the basic condition for the development of infrastructure is to ensure the stability of a business model of an incubator: it is necessary to exclude the dependence on a single source of income - budget (municipal, regional), to learn how to pay for current operations at the expense of lease the cost of which will be proportional to the real benefits for resident companies. Obviously, the quality of the consulting services is directly dependent on the professionalism of its employees.

Understanding these problems, the Higher School of Economics holds regular workshops for employees of business incubators

and technology parks. For the fourth year in a row the key event of the program has been the Summer School HSE{SUN}, sponsored by RVC. The main benefit of the participation in the School is the promotion of the best practices of counseling entrepreneurs, and productive networking for those who want to learn how to professionally manage the work with residents. This year, the School was attended by 50 people, including the representatives of the innovation infrastructure which participated in the event as speakers. Interestingly, the School was attended by representatives of 25 Russian regions, as well as their colleagues from Ukraine, Kazakhstan, Finland and Italy.

For the years of its work, HSE{SUN} has become a platform for the exchange of experience among business incubators, educational centers and other organizations. During several days, the participants receive practical tips on working with small businesses from the most respected experts and super-busy business consultants, which it is almost impossible to gather throughout the year as part of Moscow events. Traditionally HSE{SUN} is a visiting school held in the Moscow Region, where people (including venture capital investors or representatives of Development Institutions) come for a few days to get rest from the normal rhythm of life and devote themselves to communication with colleagues from regions, discussion of the mechanisms of development of the business environment which contributes to the development of new busi-

nesses. Thus, we achieve "full immersion" not only for students, but also for speakers. Many of the participants call our project "business rest": they come to recreation houses which we rent for HSE{SUN} together with their families (including children). All this creates a special "home" atmosphere of the summer school, which is the most effective for the establishment of professional contacts in the business environment. The eventful informal program, active recreation and friendly communication also contribute to our goals.

It should be noted that the format of the summer and winter country "schools" both abroad and in Russia is extremely popular. Unfortunately, not so many events for technology parks' experts are held in Russian regions, and for our regional colleagues HSE{SUN} is a desirable event where they are able to get the integrated data on best management and counseling practices in one place. Moreover, our task is to involve colleagues in the discussion of their current operational problems, to encourage them to not hesitate to ask questions, to dispute and talk about themselves. After each block of "lectures"

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(40 minutes on the average), students may ask an expert questions. Almost all dinner time or evening walk time may be devoted to that. The program of HSE{SUN} is very intensive: 10-12 hours of active work every day; thanks to the fact that theory and practice are combined in a 50/50 ratio, time passes very quickly.

So, the school program is designed in such a way as to give participants a chance to share their own problems and to find the most effective solutions. Coaching sessions are devoted to training participants in the *technology of building a business* of an infrastructure organization. Today it is clear that Russian technology parks and incubators need sustainable business models; they need to learn how to become a real business. Thus, we tell our students how to earn money by providing consulting services, how to select residents, how to organize the effective work of a management team. We also study the mechanisms of working with government agencies, the technology of introducing mentoring support for start-ups, new forms of educational and business events.

I think that step by step we will generate systemic view of representatives of incubators and technology parks in respect of the innovation economy and will make them think about the role of each element of the innovation ecosystem in the development of the Russian economy as a whole. We truly believe that by combining efforts and expertise, we can more effectively develop successful companies in the field of innovation that will be competitive on the global market as well. ■

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ANDREW VVEDENSKIY

# Innovation infrastructure as the key element of sustainable venture ecosystem in Russia

Infrastructure is part of supportive environment forming the background for the national innovation ecosystem. By now, the country's innovation infrastructure has already taken shape, but it faces some "distortions" that are inevitable at the very first stage of the innovation economy development where Russia is now.

The key elements of the Russian infrastructure are the following:

1. University infrastructure (business incubators and business accelerators)
2. Technology parks and industrial parks (industry, university, and municipal ones)
3. Clusters (industrial and territorial ones)

Unfortunately, the quality of management in the key elements of infrastructure (technology parks, business incubators, etc.) leaves much to be desired. Management teams lack knowledge, skills, and resources necessary to build an effective operations and attract investment (venture capital or direct ones, or these from business angels). There are virtually no technology entrepreneurship training programs, so today's lack of qualified personnel combining technological skills with the skills of business administration and sales of innovative products is one of the key problems of innovative companies. In addition, many technology companies have difficulties in understanding current trends of the target markets. This often results in choosing a wrong technology or product development strategy, and reduces their attractiveness to investors. Russian mentality makes things worse - we do not learn from the mistakes made, and we give entrepreneurs no right to make mistakes. However, we must understand that, unfortunately, no innovation can be created and introduced error-free.

Another problem is the lack of funding by private organizations of all the elements of the innovation development infrastructure. There either no mechanisms to launch self-financing programs and initiatives or they lack systemic structure and approach. Predominantly public financing of infrastructure is not sufficient to run and operate such processes - it just gives an initial push. This reduces the efficiency of the budget funds use.

RVC actively engages in development and improvement of the existing innovation infrastructure in joint effort with other governmental development institutions, as well as federal and regional authorities. One of the main tasks is the radical increase in efficiency of the existing innovative infrastructure - special economic zones, technology transfer centres, business incubators, technology parks, etc. Any infrastructure company must clearly understand what tools it can apply to improve the efficiency of its business. To reach this, we need to share knowledge and experience with the infrastructure managers and replicate successful practices of our colleagues who have already achieved the desired results.

The most effective elements of the innovation infrastructure in Russia, at the present stage of its development, are naturally existing regional competence centres - clusters. It is them that are fully integrated into the market. We plan to continue to provide financial, administrative, and infrastructural support to both the formation of new clusters, and promotion of products of Russian clusters in the national and global markets. With the use of public-private partnership mechanisms, a large number of service companies for innovative businesses has been created - both cross-industry (eg, services for protection of intellectual property rights) and industry-oriented ones (eg, service companies engaged in pre-clinical testing of medicinal products). This is also an example of in-demand governmental initiatives in the field of building the infrastructure.

Russian technology parks, in contrast, have trouble finding interesting residents, skilled managerial staff, and effective monetization models. There are few examples of successful private technology parks. Their experience is poorly studied and is very little shared. Nonobvious prospects of investments in technology parks lead to the fact that such investments do not generate any interest among private businesses. That is why there is practically no private investment in this area, and as a result, technology parks are hardly developed. It is the development institutions - both national and regional ones - acting as governmental tools involving cooperation in private business and broadcasting the priorities of the government that should be the initiator of addressing the problems of improvement of the effectiveness of certain elements of the innovation ecosystem.

An innovative economy is basically not possible without an innovative government. It is also important to note that, in addition to the regulatory function itself, the government plays several important roles in the economy. First, it is a supplier of various public services for both individuals and legal entities, and the quality and speed of their supply determine many socio-economic parameters - from the mood of individuals to the business environment. This is the area where it has long been necessary to apply organizational, administrative, and technological innovation. Second, the government is the largest "consumer" of goods and services, given the impressive size of the public sector in the Russian economy. This means that the process of governmental procurement, at least in part driven by innovative products and services, will create a significant demand for the products of high-tech companies.

To create a comfortable environment for the development of innovative projects, the government is developing a number of programs. The state programs that have the greatest impact on achieving the goals of the innovation strategy are the following: "Economic Development and Innovation Economy", "Development of Technology Science", "Education", "Information Society (2011-2020)", as well as a number of other governmental programs for development of the

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industry and high-tech economy sectors. As of March 30, 2013, the following governmental programs have already been approved: "Information Society (2011-2020)", "Development of Nuclear Industry", "Governmental Program for Development of Agriculture and Regulation of Markets of Agricultural Products, Raw Materials, and Food", "Development of Education", "Development of Science and Technology", "Development of Pharmaceutical and Medical Industry", "Development of Electronic and Radioelectronic Industry", "Development of Health Care", "Development of Shipbuilding Industry", "Development of Aviation Industry", "Development of Industry and Improvement of its Competitiveness", "Environmental Conservation", "Russia's Space Activities", "Economic Development and Innovation Economy."

The government should not be complacent in supporting Russian innovation infrastructure. It is obvious that mistakes are inevitable, but one should draw conclusions about the validity of the processes and assign corrective measures only after any specific, measurable, and analysable results are achieved.

It is clear that the key to the success of the governmental support to the innovation ecosystem elements should be the well-coordinated work of development institutes. Today, participants of innovative processes (developers, entrepreneurs, and investors) are often lost in the intricacies of requirements and regulations of various development institutes. The development institutes should be a multifunctional tool of governmental support that is implemented as a variety of tools for specific cases. ■



**ANDREW VVEDENSKIY**

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ARTOUR BAGANOV

# Surviving the “Valley of Death” – start-up acceleration programs

In recent years there seems to have been an exponential rise in the number of accelerator programs offered for aspiring entrepreneurs. This increase and the amount of money being invested in them is a positive sign as new startups are an important driver of economic growth. Certainly no accelerator provides a guarantee to success, no accelerator can save a bad idea or a bad entrepreneur; but the best accelerators can make good ideas better, making beginner entrepreneurs more confident and smarter. An accelerator is about adding value more than anything else.

Even though there has been an explosive growth in business accelerator and incubator space, for Russia this is still a relatively new concept.

The Russian venture capital market can be compared to a building, whose shape should ideally look like a pyramid. This means that if we want to see a superstar tech company at B round we've got to have 10 thousand startups at seed stage.

This is clearly a challenge. A typical first VC round starts with investment of \$1-3M meaning that the company must be mature, or at least having survived the death valley already. In Russia we can literally count such companies on one hand. Generally out of a thousand startups only a couple will survive the valley of death. In Russia specifically there are very few guides who can navigate entrepreneurs through this valley – the funds do not have the capabilities and the time to do so as their business model is just not build for this. Thus incubators and accelerators provide great value not only for startups but for the whole ecosystem with the role to create sustainable pipeline for VC funds.

One of the challenges here is mentality of many Russian accelerators, which is that of an investment fund and not a service company. While accelerators and incubators are not investors, they are in fact in services business! They do not think in terms of who will be the next round investor, but simply select the startups they like. As a result we see situations where there appear seven Russian clones of Square at the same time, as happened last year. Accelerators thought this was a great concept, great product and even the implementation was quite decent, they should go for it! But when the time came to raise venture capital it turned out that every active fund had their own version of Square in their portfolio already.

What I mean here is that the value chain is broken – there is no sustainable link between angel/seed stage and venture stage.

The VC funds will not go to the seed stage as investment risks are extremely high. But they do need a healthy pipeline. This is a challenge every investor is trying to address today. In the West the death valley is survived with the help of accelerators or sometimes angels. In Russia we do have elements of an ecosystem but the coverage is insufficient and the links between them are very loose.

At Global TechInnovations we launched a model aimed at bridging this gap – GTI Labs accelerator that was focused on filling pipeline needs of different venture capital funds. It resulted in having better odds both for the startup and the fund. In our program 50% of the graduates raised first round from partner VC, which is a very good success rate.

Strange as it may sound California is facing similar challenges, i.e. weakening dealflow but for different reasons. Some of the main reasons are emerging super-angels, frictionless/viral information exchange, some inertia among VC firms, and distrust to VC in general. Thanks to social media it is now easier than ever to monitor the startup market and to snatch the good ones before they reach classic VCs. Quite often it is done by super angels – self-made tech entrepreneurs who speak the same language as entrepreneurs, attend the same events, drink the same beer, and listen to the same bands. And they have quite similar financial capabilities as VC firms. Guess, what is the tech entrepreneur's first choice for an investor? On top of that there are other services, such as AngelList, that boost the chances to raise venture capital by reaching out to the whole ecosystem. It is not a secret any more in California that the VC model is broken.

For Russia this is actually good news – our venture capital market is not that far behind in terms of facing the same challenges. To address them in both cases we need smart accelerators that do not operate in isolation from VCs but rather hand-in-hand with the investors of the following rounds.

We believe accelerators will continue to thrive and the overall trend is rather positive.

The biggest challenge now is to find a sustainable financial model for an accelerator. The major players on the Russian market, that have been in this industry from the very beginning, have made quite a few experiments with the first success and failure stories and we all look forward to seeing how it all evolves. What we need now is the strategy – the “what” to do next, and the “how” will come. ■



**ARTOUR BAGANOV**  
CEO  
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DENIS SOSNOVTSEV

# Towards a smarter planet

IBM engages with a new generation of entrepreneurs to meet the challenges relevant in any country worldwide. These challenges include transportation, power sector, healthcare, environment, and welfare which directly affect the life quality and level. This IBM project is called Global Entrepreneur and includes many initiatives aimed at startups across the globe. We bring together collective knowledge and expertise of world-class mentors for intense workshops, networking and sharing professional data. Our hope is to help young entrepreneurs to bring their groundbreaking technologies to market faster and succeed globally.

IBM expressed its intent to work with innovative hi-tech startups in Russia at the 2012 Open Innovations Forum. At this Forum, IBM declared its Global Entrepreneur program to be launched in Russia together with RVC. The program will grant startups and new projects free access to IBM's software and hardware and expert advice.

Why did IBM select RVC as its partner to launch Global Entrepreneur program? This proves to be our most logical step. By the time when the program was launched in 2012, RVC had been long and successfully involved in building Russia's innovative ecosystem. IBM decided to join the existing market mechanisms rather than reinvent "its own wheel."

Partnership with RVC enabled IBM to bring in the most ambitious teams and make the most of its exposure to the Russian innovative community.

It took us several months to process applications from startup teams at the company's website (several hundred project descriptions were received). Five IBM Global Entrepreneur finalists were qualified to participate in the 2013 IBM SmartCamp session held in June to bring together the most advanced IT companies, which had come to the attention of IBM during the Russian stage of Global Entrepreneur. On the Day of Mentor session, 25 industry experts, including IBM CEOs, members of American and Russian venture funds, legal experts, successful entrepreneurs, academics and IBM's business partners, discussed the projects selected for the Russian finals. Expert teams of five members each reviewed the strengths and weaknesses of each of five finalists to assess the technology underlying the project, help startups to "polish" their business models and advise on the best policies to land customers. The next day, the participants held an open project contest, round-tables and panel discussions addressing growth prospects of Russian entrepreneurship and development of tools to enhance quality of Russian startups. SniproTEK, a limited liability company from Nizhny Novgorod, was named the winner of the contest. Their solution for the oil and gas industry will represent Russia at the IBM SmartCamp regional final in Istanbul in late October.

I believe that the "backstage" work of experts proved to be the core underlying element of IBM SmartCamp. We enjoyed much positive feedback from the startups which were happy to get mentors' advice, including top venture funds, industry experts and IBM team. Most entrepreneurs agreed that IBM SmartCamp sessions proved to be intense and insightful.

IBM views its work with the strongest teams (like the teams which emerged as IBM SmartCamp finalists) and support to early-stage startups as the core element of the IBM Smarter Planet concept. IBM is seeking to offer innovations for business leaders who favor new breakthrough solutions over standard tools. IBM has a global aim of encouraging a paradigm shift by using analytical capacities of today's computers to yield benefit in real economy and forecast events rather than taking the dust.

We referred to this idea to select the projects for the IBM SmartCamp session. Our attention was focused on companies actively engaged in developing a software-based product or service for enterprise customers and viewing innovation as an opportunity for forward-thinking and preferring to anticipate rather than react.

One element to build a Smarter Planet is Smarter Analytics which enables businesses to make efficient decisions and automate most routine processes. Information and communications technologies generate big data even today; and we are looking for new options to use such data. We need systems capable to expose consistent patterns based on the existing statistics which places major emphasis on data source structuring. This allows us to run analytics without which companies may drown today. IBM is independently moving along this vector by making annual investments in R&D. Anyway, we feel happy, if IBM projects complement solutions of the most advanced teams whose progress in any given industry has proved to outstrip our own.

Sinesis, one of five contest finalists, is focused on developing video analysis software for industrial use. This development was presented last spring in Skolkovo Startup Village and got positive feedback from experts for its capability to track any process in the company, whether car service employees' performance or monitoring movements of retail outlet buyers. Sinesis works on algorithms to process video information for practical industrial application. Sinesis services may further become the basis for analytics underlying employee training, efficient display of goods in shopping centers and many other uses.

IBM has been working in the digital video surveillance sector and offering solutions for industrial safety, therefore, we took interest in the product proposed by Sinesis. Let me emphasize that we value no so much compatibility of any startup's products with IBM products (for example, Sinesis uses no IBM's video cameras – we manufacture no video cameras – as our underlying hardware platforms and software mostly use open codes) as future vision affinity between a startup and IBM. This may be a good basis for cooperation between such startup and IBM to bring their solutions to market.

This is just an example of how innovative project support may boost IBM's ability to enhance the growth rate of its own technologies. Not only does IBM SmartCamp encourage startups in promoting their developments, it is also a great chance for them to become exposed to the global community. In the context of general innovative growth in Russia, IBM's support as a market player mostly focused on B2B customers gives some kind of "weight" to Russian startups which frequently focus on developing "entertainment" services for mass market.

Alexey Anikin, IBM strategy leader in Russia, shares his observations as IBM SmartCamp expert:

"We have set up a brand-new Internet shop, business management system, a social network and updated 1C, SAP and Oracle." Anyone who happened to come across a startup had heard dozens of similar statements. Do they have any inherent good idea? Or a business plan? Or any meaningful strategy to tap the international market? I believe the answer to these questions is only evident in most cases. Being part to the startup selection process as a strategy leader, I became aware of a disease prevailing among startups, i.e. too technical and programmatic approach to work. The product is everything; and its marketing strategy or competition policy makes no matter.

This was the main reason why we have selected only five companies of hundreds applications, although these companies enjoyed the maximum attention. Totally, 25 Russian and international experts (in teams of five experts and in several one-hour rounds) helped to think over company's growth strategy, its prospective cooperation with IBM units and other companies, adjust business plans and discussed investments and legal matters vital for international market exposure.

As a participant, I would like to emphasize an atmosphere of trust and goodwill at the event. IBM SmartCamp Mentor Day was held as an open and friendly discussion, rather than "mentoring" lessons or an opinionated lecture on the perfect way to set up a business model. Hopefully, such upcoming IBM SmartCamp contests in CIS and Russia in 2014 will be no less interesting. I urge startups to participate in our contest!". ■



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DMITRY CHIKHACHEV

# Developing Russian venture industry

Speaking about the specifics of innovation development in Russia, one should bear in mind that market economy in our country is in its early twenties, while the first "civilized" transactions were concluded ten years ago, and the venture history is no more than five years. The first venture capital investors appeared in Russia in the mid-2000s - Finam, Russia Partners, and Mint Capital. Intel Capital, Draper Fisher Jurvetson, and Baring Vostok Capital Partners also came to Russia. At the stage of building the market, there were dozens of companies attracting venture capital investment during annually. The portfolio of the first active venture capital funds included the companies that are now known worldwide - Yandex, ABBYY, and Kaspersky Lab.

This was followed by the stage of rapid growth - the number of venture capital transactions increased more than fivefold annually. In 2009, the official statistics on the venture capital market has registered eight contracts, in 2010 there were more than 50, and in 2011 there were about 150 contracts. Following last year, numbers of start-ups that have received venture financing reached 500 with the total volume of transactions reaching the level of 1 billion U.S. dollars. I am sure that the pace of development of the Russian venture industry will not decline, and in the coming years we may "catch up" with many European markets, Israel, and even the United States.

Runa Capital Fund was launched in Russian market in early 2010. There was virtually no competition between Russian innovative start-ups at that time (I'm talking mainly about IT-projects, as the scope of our interests is software, Internet services, and mobile applications). We felt extreme shortage of venture capital at the seed stage - start-ups had to "grow" to the stage of the first sales to bring attention of venture funds.

In 2009-2010, the government has seriously gone into development of the "seed" investment market. There appeared organizations giving grants to start-ups. The Fund for Assistance to Small Innovative Enterprises became active, in particular. The concept of Skolkovo Innovation City and the Skolkovo Fund has been formulated (the main goal of these projects was promotion of technological entrepreneurship), and the venture capital funds established by RVC began supporting start-ups. The result was the first success stories. Mass media started to write about companies that have attracted 1.2 million U.S. dollars at the start-up and early growth stages. These companies were spoken about at start-up conferences as well. Russian youth began to think that they can make money not only gambling on stock exchange or having achieved a high position in a bank, but also by developing their own technology businesses.

Gradually, there appeared a "fashion" for innovation in Russia. A few years ago, following the slander of the Soviet past, the Russian society treated entrepreneurs as speculators. People did not see an entrepreneur as a positive image of a person who changes the world to the better. Today, many college graduates see themselves not only as government officials, lawyers, or financiers, but also as heads of their own start-ups. It was properly structured communication between the government and society that helped young people to change their attitude towards entrepreneurship and to see it as a form of personal fulfilment.

In many ways, the emergence of positive features in the image of a businessman is due to appearance of the Russian IT-industry heroes - Arkadiy Volozh, Sergey Belousov, Evgeny Kaspersky, and David Yan became the embodiment of the new economy entrepreneurs able to earn millions of dollars by bringing their own developments to market. The news about big IPO of Yandex contributed to the popularity of these names, when the first 17 employees have earned several million dollars in one day. Then young people understood that one can be successful in the technology business not just by creating a start-up, but also by joining it in the early months and years of development and having received stock options (this is the main form of compensation of start-up employees' work). Thus, the high-profile success stories have attracted active youth into the venture capital industry.

At the same time, money flowed into the venture market, and now we see the very rapid growth in venture capital investments in high-tech industries. But the number of start-ups in the Russian IT-market does not meet their quality due to overabundance of money in the seed market. This is largely due to the emergence of non-core players in the market - investors supporting lower level projects due to the lack of the appropriate level of expertise. This gives unreasonable expectations to start-ups in the market. In fact, to raise money at an early stage, a start-up may not even have a prototype - all you need is to be able to draw a nice "picture" of the future prospects of your product. Of course, this method of persuasion will not work with the investors that have been long present in the venture market, but beginners are often willing to invest in such start-ups. Russia remains a country of talented programmers and the best Russian projects are not inferior to the best foreign start-ups. But if we look at the situation as a whole, an average Russian project will not meet the level of the global requirements for a start-up.

I am sure that soon the grain will be separated from the chaff. "So-so" start-ups that have appeared in large numbers in Russia will give people the necessary business experience. And those who are building innovative business today will launch the next start-up after its completion (perhaps quite successful one) and will become serial businessmen. The main task now is to keep young people in the mood to be entrepreneurs and do not let them give up after the first (and quite probable) failure. ■



**DMITRY CHIKHACHEV**  
Managing Partner  
Runa Capital  
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ELENA KASIMOVA

# Biotech funds – achieving the maximum results

80% of the Russian pharmaceutical market is a generic market; and it grows annually by over 15%. I wouldn't consider the fact that Russian pharmaceutical companies are not focused on original drugs as a negative thing, it is a viable business strategy. Not very active emergence of innovative products correspond to the current stage of the market development: it is mainly represented by pharmaceutical corporations (leading players are Pharmstandard, R-Pharm, Veropharm) which focus on "Over the Counter" drugs, common generic drugs and brand generics. Leaders of the Russian pharmaceutical market get a substantial share of income from the resale of original medicines under agreements for distribution or license agreements in Russia.

However, over the last few years new companies that are engaged in the development of unique products have been founded in Russia. Such companies are supported by venture capital funds specializing in pharmaceuticals and biotechnology: our fund Bioprocess Capital Ventures, venture capital fund Maxwell Biotech and RVC Biofund, all with the assistance of institutes for development. For a long time, both areas have existed in the Russian pharmaceutical market "in parallel with each other": big players did not want to deal with innovations. Indeed, it is really difficult due to high costs of biotech projects. One million USD (as in the market of Internet start-ups at early stages) is not enough here to quickly evaluate a technology and a business model. An investor willing to invest in a medicine has to spend a lot of money on the initial investment in a project, but it gets the final idea of the prospects for development only at the stage of clinical trial. New pharmaceuticals undergo a long development cycle: 7-8 years and 5-10 millions of dollars are spent only to complete all molecule tests; and it takes about 10 years and tens of millions of dollars to bring a product to the global market (of course, due to such difficulties, innovations in the pharmaceutical industry are only created with a view to bringing them to a global market), to repeat tests abroad with the help of foreign R&D centers and clinics. In this case, investor's risks are quite high. No wonder that for a long time, only venture capital funds supported by government would engage in such a complicated business in Russia.

Yet gradually, two trends in the Russian pharmaceutical market are beginning to intercross: private biotech funds are being founded. Key players, in particular, Pharmstandard and R-Pharm, announced the creation of their own venture capital units. The fact that large Russian companies have declared their readiness to reinvest profit in the production of new pharmaceuticals clearly is a positive trend.

And yet, as a venture capital fund we feel that Russia still lacks high-quality projects in the field of biotechnology. Russian teams of scientists do not understand the process of commercialization of innovations; this is largely due to Soviet past and difficulties in the development of Russian fundamental science in the last 20 years. We must be honest with ourselves: young Russia has only taken care of preservation of the accumulated scientific knowledge and has not paid due attention to the development of new breakthrough ideas. Only in the last few years, we have engaged in restoring what we lost; and, of course, such an innovative scenario which lasted for two decades,

have had a negative impact on the condition of the Russian pharmaceutical industry and science in general. The achievements of the Soviet medicine are currently being used in full: they either form the basis for products produced in European or U.S. laboratories, or are used by Russian pharmaceutical companies. To this extent, Russian biotech funds, that are willing to invest in "long-term" pharmaceutical projects, find it difficult to select companies for their portfolios. Among companies that we support, just one project created by Russian scientists is promoting a revolutionary concept. We are now conducting negotiations with two more Russian teams. The remaining projects are being developed either by Russian scientists who immigrated to Europe or USA 10-20 years ago, or by completely foreign start-ups that we brought to Russia. Our portfolio comprises 9 companies, 2 - chemical, 1 - telecommunication, 6 - pharmaceutical (4 of which are based on the IP of foreign experts). Thus, we as a biotech fund have to use both Russian and foreign innovative ecosystem: so and in no other way can we achieve the maximum results.

In my opinion, the efforts made by institutes for development in the field of innovation, of course, have been successful. Over the past 5-7 years, an entire innovation industry was created. However, without increase in support for fundamental and institutional science (the two main sources of scientific research for business) government support may not be enough. I think Russia should use such examples as MIT, and pass on the best practices that have already been formed in the leading universities such as MSU or MIPT. A more accessible system of grants for young scientists could prevent the brain drain and promote the growth of interest of those who now think of leaving Russia in conducting fundamental researches in our country. ■



ELENA KASIMOVA

Business Development Director  
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EVGENY KUZNETSOV

# Innovation ecosystem in Russia – entering the global competition

**E**stablishment of a national innovation ecosystem is traditionally interpreted as a result of measures carried out mainly by the government. As a derivative of the volume of public investment in the development of comfortable living conditions for “young” companies, of the volume of changes in the legislation, of the scale of promoting the ideology of business in society. However, a universal model of formation of the environment for innovation does not exist. This means that Russia’s transition to a new stage of economic development means not only taking into account the world achievements, but also close attention to the historical specifics of the country and specific features of its economy.

Russia is a country with a huge research potential in the field of both fundamental and applied research. Indeed, Russia is one of the countries by which forces humanity committed technological breakthroughs; scientific and technical achievements of Russian scientists have become the basis for products and technologies used today throughout the world. A large volume of accumulated scientific knowledge is a huge advantage for Russia, which today participates in the international innovation race. Former Academic Towns, which began their work in 1950-60s, still remain the centers of concentration of talented scientists and high tech industries; Russian universities and research institutes still have a huge stock of intellectual property - and many scientific discoveries are applied today. This is a huge resource, which, if efficiently used, may help Russia create new competitive businesses in different sectors of economy.

However, most countries, that created an innovation economy in conditions of catch-up modernization, faced the opposite situation: they had a deficit of scientific developments, even though the process of creating technology companies was already well-functioning. In the end it turned out that most of the mechanisms established to promote innovation through world experience aimed at forming tools for business, ready to use technological knowledge, regardless of their source. In fact, the national innovation economy could be built on the developments received from non-residents. In Russia, such innovative scenario is impossible. In our country, the government’s efforts in terms of stimulating innovation development have been for a long time aimed at creating and maintaining the system of production of scientific achievements. It cost Russia huge amounts of financial and human resources. The government did not simply have the strength to develop market-based mechanisms of work with scientific discoveries. This for many years has been the problem of the Russian Innovation industry. Businessmen and officials still think of the term “innovation” as of a designation of “commercialization of developments”. In reality, “innovation” is not only “implementation” of something new, it is a mechanism for identifying the needs of the market and finding a way to meet them by using either existing or specially conducted scientific research. Such paradigm of the innovation economy is not yet clear in Russia.

Deficiency of tools for the development of business model of the Russian innovation economy has put domestic institutions for the development in need of active support of small and medium-sized companies, representing the most efficient structures in terms of creating an innovative product and bringing it to the customer. In recent years, the result of such efforts has become noticeable: in 2012, Dow

Jones VentureSource Report recognized Russia as the fastest growing venture capital market in Europe, which made us fourth in terms of investment (the total amount of venture capital investment in the Russian market over the past year was USD 910.6 million). Bloomberg assigns to Russia the 14th place in the rating of the 50 most innovative countries in the world.

Accelerating the development of the Russian venture capital market opens up the possibility of active cooperation with international partners. Today, we can say that Russia has already developed an innovative ecosystem that corresponds to the world standard of its structure. Private and public structures for support of innovation at all stages of their development are functioning: from grants and micro-finance for pre-seed and seed stages to the system of crediting large corporate projects. The existence of such an “innovation lift” allows Russia to invite foreign colleagues (both investors and representatives of infrastructure and public sector organizations) to work with the Russian innovative companies at all stages of their development. Together representatives of the Russian venture capital market and foreign partners will, for example, use the achievements of Russian science of the past and create innovative products for the global market on their basis.

At this stage, Russia has a lot of tools based on the principle of public-private partnership. In particular, the principle of co-operation of the government and business is embodied in the mechanisms of co-investment in technology start-ups. If in the past it was hard for foreign investors to work in Russia (they had to deal with a completely incomprehensible logic of innovation process), now our country provides for the opportunity to work according to international standards. Thus, the Russian innovation market opens up the possibility to use a huge scientific potential through clear “rules of the game”. Russian investors are willing to co-invest with Western partners through subsidiaries of RVC JSC - industry funds to support innovation; Russian institutes for development are willing to help technology corporations look for early-stage projects with prospects of purchasing them: for this purpose contests for innovative projects are held (for example, contest “Business of Innovative Technologies” and contests of the Foundation for Assistance to Small Innovative Enterprises), and regional clusters are being developed. Even today, in the Skolkovo innovation center, R & D centers operate which were launched with the participation of transnational corporations; international players work with mature projects through funds of “RUSNANO”. Today in Russia, there is a full range of practical tools that have proven successful in the world innovation practice, and Russia is committed to collaboration with international players of the innovation market. ■



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GULNARA BIKKULOVA

# Business of Innovative Technologies (BIT) – the largest innovation contest in Russia

The largest Russian Innovation Contest - BIT (Business of Innovative Technologies) - is celebrating its tenth anniversary. The competition is based on the principles long adopted by its American partners - MIT \$ 100K and Mass-Challenge. Just like them, BIT is not a contest of ideas or business plans, but it is a competition of technological teams. BIT first presented itself at the MIPT platform in 2003. Since 2005, Intel has been a partner of BIT (winners of the contest were given the opportunity to represent Russia at the IBTEC). Later on, it started cooperation with Plug & Play Technopark and BlackBox business incubator, as well as with the Finnish incubator FinNode.

The purpose of the BIT contest is to promote innovation throughout Russia and bring promising companies to the national and global markets. BIT participants are selected at several levels - first at the regional one (15 regional BIT competitions), where semi-finalists are selected, and then at the federal one in the final competition in Moscow. Over the past 2 years, BIT finalists have attracted 25,000,000 U.S. dollars in form of investments and grants. RVC is a strategic partner of the BIT since 2010.

The innovation infrastructure in Russia has been actively developing recently. However, while the number of venture capital funds, business angels, incubators, and technology parks in the country is growing rapidly, the number of high-quality start-ups is increasing at approximately the same rate and is not sufficient to meet the needs of Russian investors in high-quality projects. One of the most effective tools for creating new projects are competitions organized by universities, technology parks, etc., that is why RVC as a development institute is actively supporting many of them (about 1 competition in 2012).

Each competition has its own business cycle. As a rule, collection of applications begins in spring, and the results are summarized in autumn. BIT was an exception from this rule as the winners are already known by the end of June. This gap in competitive cycles has automatically made BIT a source of projects for other competitions. This is facilitated by the regional BIT model, when search and preparation of projects is done by representatives in the regions that are active participants in the regional ecosystems. As a result, we see the same teams taking part in most of the final competitions of technological projects. It turned out that those 10-15 start-ups that reached the final of BIT were brushing up their communication skills further from competition to competition learning to present their developments and communicate with investors. At the same time they often had very little time to improve their projects, which caused a corresponding reaction on the part of investors who lost their confidence in competitions as a tool for finding projects.

Earlier this year, we have analysed our activities in supporting competitions to find the way to make them more efficient and improve the quality of the end projects. We have formulated several major challenges:

1. Competition of contests
2. Number of projects suitable for investment
3. Monitoring competition finalists

In order to address these problems, we launched a pilot project based on BIT Competition in collaboration with the Moscow Innovation Development Centre and Digital October Centre. The new structure of the competition is as follows:

## 1. Single competition platform

- This year, BIT projects were collected not only in the regions, but also through askcap.ru, accumulating investment applications for funds. Thus, it was possible to significantly expand industrial diversification of projects and collect more than 1,500 applications, which is an absolute record for the 10-year history of the competition.
- Partners were given access to the project base. In particular, the opportunity to select projects to fit their own interests was taken by Intel, IBM, Kaspersky Lab, OMZ, and IcomInvest, which made it possible for them to optimize their spending on search and examination of projects.

## 2. GenerationS (Generation Start-up) Educational and Acceleration Program

- As part of the program, 70 teams of finalists will have an online course on technology entrepreneurship and will spend two weeks in Moscow in October, and will adjust their projects to the level of interest to investors together with experienced experts and mentors. This will increase the number of investment-suitable projects, which should have a positive impact on the investment prospects of the finalists in general.

## 3. GenerationS Community

- The final contest of the competition will take place in the framework of the forum "Open Innovation" on November 1, and this day will become for the finalists the beginning of a new life in the status of a member of the top Russian start-up community - GenerationS. This community makes us able to track the fate of the finalists, support them with the resources they need to develop, and form the Russian start-up community together. For community members, it is an opportunity to socialize, access investors, mentors, conferences, exhibitions, internships, and programs from our international partners. ■



GULNARA BIKKULOVA

Director  
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IGOR ROZHDESVENSKIY

# Business incubators and technoparks – connecting the elements of the innovative ecosystem

In recent years, the positive dynamics of development of the innovation infrastructure in Russia is evident. For example, from 2010 to 2012 the volume of venture capital investments in technology start-ups has grown 50-fold from USD 20 million to USD 1 billion, with the share of “government” funds in the form of funds of Russian Venture Company has decreased from 50% to 5%. This is demonstrated not only by the emergence of new instruments to support small businesses (government does a lot in this regard), but also by the market participants’ understanding of the basics of building the system of technological business in Russia. In particular, Russian and international experience in the development of technology companies through the mechanisms of business incubation has been studied and systematized. If in the past heads of infrastructure organizations and directors of innovative companies “intuitively” felt the concept of such tool to support innovation, today it’s safe to say that the model of technology park or an incubator, which came from the West, has been adapted to Russia.

The task of the government in the innovative market is to be a “guide” for start-up companies. We have to understand that there are a lot of obstacles from the stage of creating the concept of an invention to the market launch of a technology, and such obstacles may only be overcome by intermediary companies, services of which form a network that we call “ecosystem of innovation”.

Why are such “guiding” companies so important for the formation of innovative economy? Because an innovative start-up walks along a much more “bumpy” road than a regular small business.

In fact, a start-up developing a new product may not be compared with a company operating on the basis of a clear business model and able to assess its scope in a year or few years. To open a “classic” small business, one can borrow money from relatives and friends (the famous “three F” scheme) promising to repay a debt in six months, and do not worry - because the company will soon begin to bring profits. The purpose of such business is to pass an operational zero as quickly as possible and then to increase its profits.

In case of an innovative start-up, everything is different. It is an embryo of a big business. From a team of two or three programmers or engineers, “a billion company” may grow. And if a start-up is truly committed to success on a global scale (and this is only possible in the case of international expansion), it must be prepared to continually reinvest its profits - in expansion of its line of products, expansion its regional presence, attraction of high-quality professionals and marketing (which is hard to form for a new, unknown product)... Thus, an innovative start-up may only work for capitalization – it may forget about stable return. We all know that over the years Amazon, Google received a huge investment, but also suffered billions of dollars in losses. The beginning of their explosive growth was only a matter of time: as soon as the companies found a proper business model, they got stunning results.

Thus, the very essence of business innovation comes down in many respects to its “strength in weakness”, which means that at the stage of “experiments” (testing a product and its demand in the market, checking viability of a business model and scaling pros-

pects), these companies need support. High-tech start-ups may receive such support from incubators, benefits of which form a unique “incubator climate”. In such circumstances, a start-up gets access – in a shared use mode - to real estate, high-tech equipment, consulting services of experts in different fields...

That is why it seems wrong to me that many heads of Russian authorities require from innovative platforms (incubators, technology parks) a stable revenue flow from residents. For an innovative start-up, the right criterion is the capitalization growth: attracting investment, increasing a consumer base, intellectual property. The main product of an innovative start-up is, in fact, that start-up itself, i.e. the idea, loyal users, team.

Another dangerous misleading thinking of heads of Russian business incubators and technology parks is the belief that the main thing is the property complex, real estate, while the range of services to support start-ups will be provided by a team of managers on its own. For an innovative start-up, real estate is not critical; the key is the development and promotion. Heads of an incubator or technology park cannot have all required competencies, be both good lawyers, economists, accountants, technologists, business analysts, organizers... All of these functions must be performed by companies with which an incubator or a technology park will be partners. This is especially important for infrastructure platforms which aggregate start-ups around from various fields. For example, residents of our business incubator “Ingria” are 70 IT companies and 3 nanotechnology start-ups. It is not profitable for us to keep a staff expert in this field: we outsource experts. It is also important to teach start-up companies, which often underestimate the role of “non-technology” skills for the development of a project, to value these services and to pay for them. The consulting market in the innovation field in Russia is just being developed and, contrary to common belief about its significant profitability, profitability of high-quality consulting services rarely exceeds 10-15%.

Incubators and technology parks should play the role of “connectors” of various elements of the infrastructure: to “let in” experts in different fields and to “bring” start-ups to them. The concept of a technology park as a “meeting place” is also important due to the fact that it is beneficial for many players to participate in its work: consulting companies look for customers, investors – for portfolio companies, mentors – for start-ups that need an advice. In this connection it is possible to expect that partners will do a lot for a technology park and an incubator for free. At least that was the experience of the business incubator “Ingria”. Our task is not to drive trains, but to build roads, to clear the debris (including, in minds) and to achieve the busy traffic on these routes, which are of key importance for Russia. ■



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KONSTANTIN FOKIN

# Flying with the wings of business angels

Russian innovative market has recently seen a growing number of public-private partnerships. Many tools are designed to support the start-ups at the pre-seed and seed stages, when the government works with seed investment funds and business angels. Unlike Russia, over 90% of the venture capital market worldwide is money for start-ups. This is a serious challenge for the Russian innovation market as it is the mass support of start-ups that increases the probability of new success stories and the organic growth of the industry. Nowadays the government implements efforts to shift the venture market focus from advanced companies to “beginners.”

The major role in the start-up investment market belongs to business angels who are informal investors ready to invest their personal funds (up to \$1 million). According to RVCA, the angel financing in Russia exceeded \$130 million (in 2011), and taking into account the shadow market (the visible share is about 10% of the seed investment segment in the developed economies), its potential is estimated to be \$1.3 billion. Today there are about 15 associations and business angel networks in Russia, which unite hundreds of private investors. The largest business angel network in Russia is the National Business Angels Association (NBAA), which unites thirteen communities of venture capital investors. All these vividly show that in Russia there is a new class of investors who are in need at the current innovative market, the individuals ready to invest in start-ups.

However, there are some problems leading to the need of governmental support to business angels.

To begin with, in Russia lacks of people with sufficient funds to put at risk. Therefore, the Russian business angels are still rather “cautious.” It also important that a business angel is committed to a project and has an experience in the industry a start-up belongs to. All three components of an “ideal” business angel – money, commitment and experience – are still rarely met among people supporting Russian innovative start-ups. This problem is usually solved through co-investment programs implemented jointly by governmental institutions and business angels: the government finances innovative start-ups, in addition to business angels and using their expertise in selecting the most promising investments. And the commitment of business angels to hi-tech industry and their competence will, I am convinced, arise with the maturity of the Russian venture capital market.

Secondly, the “older generation” of wealthy Russians consider state paternalism as an organic feature in the most promising areas. Therefore the government comes to the innovative market popularizing the technology investments idea, forcing those who still use only well-proved investment instruments to turn to the venture capital market. It is possible to stimulate those who hesitate on innovation investing by interesting projects and the fact that IT projects (software, web services or mobile applications) need not that much investments.

Today the government co-invests with business angels in three formats. First of all is a tax benefit - the government does not collect money could be used based on its needs. Actually, the “lost income” could be considered as a governmental investment into the innovative industry. Secondly they are the public-private co-investment funds

like the Moscow Seed Fund and RVC Seed Fund, where the government “adds money”, sharing both risks and future incomes with business angels. Third, the government implements the stimulating programs for business angels and investors and for higher competence of businessmen. Innovation competitions, pitch sessions, educational events, service support – all that should also be in a governmental focus (like in any other developing market where the Russian venture capital market undoubtedly belongs).

In western countries, co-investment funds are usually “tied” to a stable group of private investors who have proved their reputation for some years. Russia has no such sustainable communities yet - they are at the stage of development. In this context, the government should hold a competition among business angels seeking to join co-investment programs (taking into account their reputation, experience, amount of “free” funds). All that takes effort and time. For this reason, I consider that the government should promote shared investments by business angels with their peers or venture funds into large scale deals, as it will enhance business ties among private investors. ■



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MARIA PODLESNOVA

# RusBase – single point of entry to the Russian technological media space

One of the most important components in the development of an innovative ecosystem are high-quality media services that provide access to information about industry events and its condition as a whole, as well as market analytics. The critical goal is the effective work of not only media engaged in the promotion of technology entrepreneurship, but also venues for communication between participants of the venture capital industry.

The capabilities of modern online media make it possible to combine both of these components into a single resource. In Russia, such site is the RusBase project (first name - Startup Afisha). The project was launched in December 2010, and a new website and a new concept became available to users in October 2012. RusBase aims to maximize the effective integration of the Russian start-up community into global venture capital space.

For foreign investors and start-ups, RusBase is a single point of entry to the Russian market where they get all the relevant information and analytics of the industry, as well as networking and services to start work.

To tell you a few words about our story, RusBase derives from the Russian language project "StartupAfisha.ru", founded in December 2010 by Alena Popova and Maria Podlesnova. StartupAfisha was initially a Russian version of "Startupdigest.com", but within 2 months it grew into a platform that comprised a news service, an open events calendar covering all regions of Russia, an online start-up school and a recruitment service. In the summer of 2011 StartupAfisha was re-designed to add more services, such as a digital start-up map, trend analytics and a list of start-up communities and people. In December 2011 StartupAfisha launched a database of all Russian incubators. When, at the start of 2012, Black Ocean (investor) met with StartupAfisha's Team, our 10 months of collaboration resulted in what is now called RusBase. Today startupafisha.ru is the central Russian start-up/investor hub that provides all information for RusBase. We are working like media platform that provide news / analytics, like service platform and like database (Russian Crunchbase). Startup Afisha's Calendar is the main for Venture industry in Russia. Also we have a central service of matching start-ups and investors.

RusBase becomes not just a media or service provider, we've created a kind of model that could be used by any country to make its VC market global. We've designed ideal structure of IT-platform that works as a tool that opens and discovers local markets, get insights and bridges international community with country players. We strongly believe that only combining of media, database and services will work if you want to attract foreigners to invest in your local market. And we do know how to mix them to be successful.

Only such model (media + services) could be monetized. Next year RusBase is going to help its own events. Moreover RusBase Partners Program is one of the main services for Investor Community, with already existing members that are interested in co-investment

and spreading on another markets. RusBase Partners Program includes both Russian and foreign VCs so that we can provide bilateral services such as co-investment and risk sharing, searching for the best IT-projects to invest in, venture marketing and analytics etc. And in August 2013 RusBase has launched special project - Venture Kitchen – for potential investors, to attract new people in Russian Venture Industry.

RusBase is the project aimed at the creation of an international media resource, which already gathers the most complete information about the Russian venture industry.

The Russian and the English versions are two parts of a single project, which are combined by the same services, but focus on different audiences.

The core of the Russian portal (former name - "Startup Afisha") became the project "Wiki Start". Wiki Start is a wiki-platform used to maintain a base of transactions conducted in the Russian IT-market since 2008. Today, any user of the Website may become an author of the startup-encyclopedia. Thus, originally a model of moderated content UGC (User Generated Content) was offered: analysts of RusBase just compile the information and double-check the facts before publishing them.

Wiki Start does not cover other innovative fields (e.g., biotechnology, alternative energy or industrial technology). The main condition for the entry of a new element in the base is matching with any existing element. As a result, any component of the ecosystem - a company, an investor, a character or an incubator - gets its special «business card» containing basic information. It is also important to note that we are focused on trying to make the Russian market as transparent and understandable to Western players as possible. Therefore, another important criterion for entry of a start-up in the database is disclosure of investment made in it (it is necessary to specify a date of a transaction and a link to its description in an open source), and a name of an investor. If you want to add a person, then he/she must "match" another card (Fund/ Company/ Business Incubator) - such a requirement makes it possible to trace the connection between players in the market and pass from one card to another.

It should be considered that not all executives of Russian start-ups like the idea of the need to disclose the information about raised funding, however it is our principle. We are confident: if founders of a start-up do not invest in themselves, or do not find an investor willing to believe in them, such project is not interesting for the market. And in such case, is it worth posting information in the All-Russian venture encyclopedia?

The Russian-language base has also been translated into English and became the encyclopedia of the Russian start-up market for foreign partners containing the scope of transactions and results of the main players. The English version, in addition to the standard media part (RusBase contains such categories as «News», «Analytics» and «Video») and the base of transactions,

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also has the «How To Invest» section. This is a guide line that answers five major questions of foreign investors:

1. Why to invest in Russia?
2. What are the common risks?
3. What are the promising projects to invest in?
4. Who are the possible partners?
5. Where to find additional services?

It is planned to expand databases by including projects from knowledge-intensive industries. We are also working to attract key venture capital players of the Western market. We hope that soon we'll be able to adequately present Russia to foreign investors. This will create a new image of the Russian market as one of the fastest growing in the world - which, no doubt, will be of interest to potential venture partners of our country. ■

**MARIA PODLESNOVA**

CEO & Co-founder  
RusBase  
Russia

Pan-European Institute

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MICHAEL KHARUZIN

# RVC Seed Fund – sawing into success

Start-up investments are often a gap in the developing innovative markets. Few years ago, Russia has not been an exception in this sense – a small number of business angels invested in the pre-seed and seed stages (mainly in IT projects), as there have been no specialised seed funds. In 2009, only 18 transactions with the start-ups were registered in the Russian venture capital market; their total amount was hardly more than \$10 million (against 38 transactions and almost \$70 million of the total amount of investments in 2008).

We have observed reduced investments in start-up projects against the market. It generated a serious deficit in the market of the small technological businesses, which could subsequently apply for investments from venture investors. To solve this problem, the Russian Venture Capital (RVC) together with the Fund for Assistance to Small Innovative Enterprises (FASIE) created the RVC Seed Fund, which, in three years, has developed a number of tools to support the seed-stage companies on the Russian market. Today, the Fund provides up to 75% of the investment demand for any innovative company at the first investment round (up to RUB 25 million) in exchange for a share in the project company. Over 77 venture partners in 32 cities throughout Russia help us select the projects. As of August 2013, RVC Seed Fund had 54 portfolio companies, and their number continues to increase.

Today, other institutions also operate in the seed investment market, including the FASIE, the Moscow Seed Fund, the Skolkovo Foundation and regional funds, actively promoting grant programs. Actually, the joint efforts of the RVC and market stakeholders provided the growth of the seed investment sector to its maturity. Recently the main goal of the government and development agencies has become to provide the companies, which were invested in at the pre-seed and seed stages and reached their first commercial implementations, with the conditions favourable enough to reach the next investment rounds.

In this situation, it is important to pay attention to the quality of the Russian start-ups, which is growing not that quickly. Many companies build their business in the IT sector and create numerous variations of already existing web services or mobile applications. The venture capital market is also entered by the private enterprises aiming to upgrade their manufacturing facilities using venture investments, instead of their own capital investments. In my opinion, such start-ups have no venture history, in its classical meaning. The “cream de la cream” of the start-up market has already been skimmed, and now we should meticulously work with real hi-tech projects, which have the innovative potential in the global market.

The challenge is not so easy. One of the problems is that there is a class of start-ups which, having received financing at early stages, do not try to develop the business (to reduce costs, to compete for the market share), but prefer to draw a picture of their project at every public event related to innovations. For some years, such projects managed to adequately present themselves at competitions, forums and investment sessions and receive grants; but it does not go further

than that. Alas, Russian start-up entrepreneurs do not want to realise that the “innovative lift” should stop somewhere. The last “floor” is IPO, which is still considered by Russian businesses as an overseas wonder. Moreover, a more real success story, such as sale to a strategic investor to achieve a partial/full cash-out, is still rare in Russia. In such conditions, the development agencies should probably cease or reduce announcing new start-up deals (press releases about million dollar start-up financing stir up the “fashion” for innovation, rather negative) and focus on the mass cultivation of innovative businesses able to generate dividends and to achieve the technological level high enough to enter the international innovation market and, ideally, to “sell itself” to a transnational corporation. Such success stories are crucially needed in Russia.

Over the last few years, the development agencies have been creating comfortable conditions for technological businesses; and they have succeeded. Russian scientists ceased to flee from the country; innovative business ideas became popular among talented young men. Thus, now the Russian innovative economy should become independent from governmental support and generate profits, create workplaces and pay taxes. Russian start-up teams should realise that money invested in them is intended not for infinite experiments or high salaries but for creating high-margin businesses based on their innovative developments. ■



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NATALIA POLYAKOVA

# Intellectual property in technology development in Russia

One of the problems that seriously restricts the growth of the Russian innovation market is insufficient attention of Russian scientists to the protection of intellectual property. According to the World Intellectual Property Organization (WIPO), Russia's share in the total number of applications for the grant of patents for inventions is about 2.0% of the total number of applications for inventions filed in the world. In 2012, Rospatent received only 44,211 applications for inventions; the agency issued 32,880 Russian patents for inventions. For comparison: In China, which in 2011 was the leader in terms of patent activity, the number of applications for inventions filed in the past year reached over half a million; the number of applications considered by patent agencies of the USA, Japan, South Korea, is several hundreds of thousands.

However, it is clear that for successful commercialization of intellectual property it is necessary to ensure its protection. An inventor, who has not obtained a patent, is at risk for finding himself in the same situation as a person who has not put a lock on the front door because he thinks that even the most complicated mechanisms cannot stop an experienced burglar. It is possible that a burglar could easily open the door, but in case of absence of the lock, an apartment owner can not even file a robbery report to the police. The refusal of law enforcement authorities will be motivated: the apartment owner did nothing to prevent the robbery. The same goes for intellectual property: you must take all measures to ensure that third parties would not use it. To do this, there are procedures of state registration of intellectual property. However, the government will guarantee the safety of your intellectual property only in exchange for the disclosure of information: information about a patent becomes publicly available as from the date of the application publication. Unfortunately, many Russian scientists and innovators are not ready to share the details of their inventions, underestimating the importance of the registration of patent rights.

Another systematic mistake of researchers is the reluctance to consult with professional patent attorneys. Owners of patentable concepts often do not want to overpay for expert's services. And we understand that a duly executed application is a key to success of the patent policy of an innovation firm. However, even those who are willing to deal with patent attorneys, are rarely able to clearly explain a purpose of obtaining a patent. When depending on purposes and strategies of a firm, patents may be advertising or fence, defensive or offensive, provocative or simply an element of the office design. Unfortunately, Russian innovators, while remaining more "people of science" than businessmen, do not take into account such peculiarities when applying to patent offices. As a result, the majority of Russian patents are either too "averaged" or have too many claims, and thus are not effective in terms of business operations and commercialization opportunities.

Scientists face the same difficulties and make the same mistakes when obtaining a patent abroad (this is required for any innovative product with export potential). Many people forget that to obtain a foreign patent, they only have one year from the date of filing an application with Rospatent or the date of priority. This results in a situation when your Russian patent or application is opposed to your foreign application, i.e. the application does not meet one of the three criteria for patentability, namely, absolute international novelty (the criteria for patentability are: industrial applicability, absolute international novelty and inventive level, or inventive step). In such conditions, a Russian team which has developed a concept having export potential will not be able to fully use foreign markets due to the three principles of the patent law: 1. territorial: a patent is valid in the territory of patenting, 2. national: in accordance with the laws of a country of patenting, and 3. time-dependent: for example, a patent for an invention is valid for 20 years from the date of priority. In different countries there are "improvers" which are ready to refine a technology and to register their own patents. It is hard to understand the details of the process of registra-

tion of intellectual property rights, however it is still possible, as it is very important that Russian innovators should understand the need to cooperate with patent attorneys. They will, in particular, help to properly execute an application, which should be neither a scientific article nor an autobiography of the future patent holder. Only an expert can prepare an application that would contain all necessary information and at the same time would not disclose any confidential information. In Russia, scientists often want to obtain a patent, without denying themselves patent claims, and ultimately they reveal secrets of a concept so that there is no use protecting intellectual property. Indeed, if all details are published, potential users of a technology do not need to enter into a license agreement or an agreement on alienation (cessation) of rights with a right holder.

Thus, inactivity of Russian scientists in obtaining the rights to intellectual property, along with the Russian "rely on a bit of luck" attitude, plus law nihilism and the low level of business culture - all affect the overall level of innovation development in Russia. In this situation, the efforts of institutes for development are aimed at increasing the overall level of culture in the field of intellectual property. We need to explain to people why it is so important. We also expect improvements in the protection of intellectual property rights in connection with the creation in Russia of the Court for intellectual property rights. Indeed, only if there are reliable and civilized patent and judicial systems, intellectual property may truly be the guarantor for investors giving their money for innovation. Despite the fact that among intellectual property items, 5% to 10% business angels and venture capital funds are ready to support promising national concepts. In recent years, the markets for intellectual property and business culture in Russia are being emerged, in particular, due to the efforts of the government. Today, we can be confident that

[...] Russia's share in the total number of applications for the grant of patents for inventions is about 2.0% [...]

the course of the governmental support has been chosen correctly: in the coming years, with the increase in activity of venture capital investors, innovators in Russia will stop save expenditures (for registration of their exclusive rights and using the help of experts, as it is now accepted all over the world) and will understand that all costs associated with the protection of intellectual property will ultimately pay off. I am sure that to form the intellectual property market, the government should take such measures as allocation of target grants for the registration of patent rights, and conducting educational events that focus attention of scientists on quality protection of intellectual property. ■



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# BALTIC RIM ECONOMIES

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RENAT GARIPOV

# Russian Startup Rating – ranking the success stories

In the end of 2012, together with colleagues from RVC we started thinking about creating the rating of investment attractiveness of “young” Russian companies developing innovative services and products. We were confident that this tool would be useful to the market, and the main issue, of course, was how best to implement the method and the process of assigning ratings to startups. Today, Russian Startup Rating (<http://russianstartuprating.ru/>) is an effective tool for evaluating innovative projects; value assigned to each of them (from D to AAA, along with credit and bank ratings) is valid for six months and then extended through the re-evaluation. After analyzing the response of the Russian venture community and adjusting by several stages the mechanisms of expert review of start-ups, we have obtained a flexible and scalable service that now covers more than half a thousand start-ups, including not just online projects, but also high technology developments in the field of security, transport, energy, creation of new materials and equipment.

When conducting due diligence, investors carry out a deep analysis of the projects that have submitted an application to their venture capital fund. Such analysis may be carried out for a limited number of projects, and the results are not available to others. Various contests also give the opportunity to determine the quality level of venture capital projects; but, as a rule, projects are evaluated at contests “at the present moment” and more superficially. We do the work that lies in the middle: we more deeply analyze each start-up and can work with a wide range of small businesses. This, on the one hand, allows us to give advice to investors, and on the other - to provide a quality profile of the market of technology and start-ups. We have not seen such services abroad (the international project <http://www.startupranking.com/> which evaluates media activity of start-ups is a pleasant exception). Attempts to create a rating were made in Ukraine and Russia in 2009, but they failed. However, the lack of such services in other countries is logical - everything in its own time: “mature” markets with a developed ecosystem do not already need ratings or they replace them by other instruments. Now, both minimum components already present in the Russian venture capital market: an active supply (represented by start-ups and technology) and demand for them (represented by investors, corporations and business angels). The purpose of the Russian Startup Rating is to connect these two components.

The evaluation of projects within the framework of the Russian Startup Rating is carried out in two stages. In the first stage, projects get points based on the data provided by a start-up in a detailed application: we study the composition of a team, the size of the market, the availability of patents, etc. In the second stage, projects are evaluated by experts (both as part of expert meetings and through online voting) by **Product, Market and Team** categories). As a result of this work the final score is formed.

To engage a wide range of projects and investors to such evaluation, we work with a number of partners. Projects in High-Tech field are evaluated by the Center of Commercialization and Innovation of the HSE, a consulting company having extensive connections and

experience in technology parks, business incubators, Academic Towns and core businesses. Medicine and healthcare projects are processed by the Association of Medical Start-ups MedStart, and IT/Internet projects are submitted to the center Digital October. All these companies are also actively involved in improving the methodology (Russian Center for Technology and Innovation PwC helps us in its development).

We set two major objectives for the Russian Startup Rating: first, to show to existing investors promising technology in knowledge-intensive fields (such fields as “green technologies” and biotech remain “blind zones” for Russian business angels and foundations); second, to show a well-structured database of start-ups to those who is still thinking about investing in high technology.

These objectives are difficult to achieve without a strong media support, thus Russia beyond the headlines, a foreign partner of Rossiyskaya Gazeta, helps us report about activities of the service. The international agency SPN Ogilvy and Russian PR-company A-TAK, which has broad experience in the promotion of start-ups, also work with mass media. We report the evaluation results at major industry conferences such as DEMO and TechCrunch.

We constantly keep feedback with representatives of the venture capital market, and it is important for us to make all processes of the evaluation as transparent as possible. For example, we are now moving away from the concept of “investment appeal rating” (as it only may be qualitatively assessed by an investor who votes for a project with his money) towards the service that evaluates the availability / absence of necessary elements of success in a start-up. We do not want to create neither an additional project “promoting technological entrepreneurship” nor another “gallery of startups”. Our goal is to create a quality benchmark for investors of market technology market. ■



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VICTOR SIDNEV

# Regional innovative cluster – Troitsk Innovation Center

The basic idea of the cluster approach to building an innovative economy is to focus limited resources of government support in a particular territory. To accelerate the development of certain sectors of the economy, the government should not spread limited resources throughout the country: it is especially true for Russia, which occupies one ninth of a total land area of the world. A more appropriate strategy is to analyze places with the seeds of innovation economy, and to support these regions. The clusters are formed mostly on their own (without government support): sometimes for no apparent reason companies are gathered on some territory, and their productivity in certain industry is higher than in other territories. A key feature of a cluster is co-competition: by working in the single industry, cluster members, on the one hand, compete with each other, and on the other - with the outside world they act as representatives of the cluster. This makes them more competitive.

If we talk about the Troitsk Innovation Cluster, there are several favorable conditions for its development. First, there may be no innovation without science (if we talk about technological innovation). Troitsk is a science city with a long history, a world-class research center with competencies in the various fields: laser physics, radiation technology and new materials. These fields have become a priority for the development of the Troitsk cluster. But innovations are primarily business. The development from a scientific concept to a commercial product requires the creation of appropriate innovative infrastructure, which allows not only for conducting research, but also for creating a prototype of a future product, and making its preproduction lot. Therefore, at our nanotechnology center we have the center of technological support, the industrial design studio, and specialized technology companies (for example, the company engaged in spray coating of multilayer laser mirrors), without which it would be impossible to create innovation in a particular field. In addition, the nanotechnology center also includes a business incubator, where start-ups can take the first steps in business and get support from more experienced colleagues.

Already today we have several companies working in the field of laser technology, especially in the field of laser application in medical devices. For example, Optosystems, our core business partner in the establishment of the nanotechnology center, produces up to 70% of ophthalmic laser systems for the Russian market. Today, the company is preparing for a market launch of a new type of a device using a femtosecond laser, which will completely eliminate the use of conventional surgical instruments during a surgery. Recently, we have established a company to test the technology of manufacturing artificial diamonds based on CVD technology. Today, these products are in demand by manufacturers of drilling tools, dosimeters, surgical instruments and other products.

Anyway, the top priority of governmental support of clusters is the development of innovation infrastructure. Infrastructure is a very capital-intensive activity with low return. Therefore, businesses poorly invest in it. The tasks of each cluster are, of course, associated with its specialty. IT companies generally do not need "hard" infrastructure: all they need is office space, computers and good communications. But if you are engaged in material innovation, that is design, development and manufacture of industrial products, then you need much more, starting with the modern machines and ending with expensive analytical equipment. A key role in this process belongs to the Troitsk nanotechnology center. We already purchase equipment for hundreds of millions of rubles, select and train personnel to work on it. By analogy with Yandex, the motto of which "You can find here anything!", our motto is "We can do anything!"

For Troitsk cluster, in my opinion, the main problem today is the lack of specialized real estate and technology infrastructure. The situation is paradoxical: Troitsk Institutes have huge areas specially built in Soviet times to study science and innovation, but innovation companies do not have access to them. About two years ago, the Supervisory Board of the Agency for Strategic Initiatives, chaired by Vladimir Putin, decided to create a technology park on the basis of unused RAS property. Since then things haven't budged an inch... We have great expectations for the new heads of the RAS. In contrast to the previous President of the Russian Academy of Sciences, who in 22 years of his presidency did not come to the academic science city of Troitsk, Vladimir Fortov did not just come to Troitsk, but also together with Moscow Mayor Sergei Sobyanin signed the Agreement on joint development of the technology park on the basis of the RAS property. This fact reveals one more very important change for the cluster. Recently, I heard on the radio how Minister of Science Livanov said that for the time of his work, he never talked to Yuri Osipov (although he met with him every week at a meeting of the Government). It is impossible to carry out any reforms if their key participants do not even talk to each other! Hence, another important issue (and the main task of the government) is to establish a productive communication between cluster members: science, business, education, and government. Only this will allow cluster members to fully use their key competitive advantage – co-competition. ■



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STANISLAV BABICH &amp; DMITRY VASILENKO

# The perspectives of the Russian-EU cooperation in the field of use of the LNG as motor fuel in the Baltic Sea region

The analysis of the project activities related to the European transport system development which shows that in the nearest future marine and river vehicles will use liquefied natural gas (LNG) as motor fuel. Led by Denmark, Finland and Sweden the majority of projects are targeted on LNG-infrastructure establishment. The mentioned above processes stirred up since 2011.

In 2011 the representatives of four countries of the Baltic macroregion (Denmark, Sweden, Finland and Estonia) signed agreement with TEN-T (The Trans-European Transport Networks) to run "LNG in Baltic Sea Ports" project. Leaders of the project are Malmo-Copenhagen and Orhus (Denmark), Helsingborg and Stockholm (Sweden), Helsinki and Turku (Finland) and Tallinn (Estonia). In the nearest future Szczecin-Świnoujście (Poland) and Riga (Latvia) will join. The main goal of the project is to develop joint strategy for establishment of LNG-bunkering infrastructure in the Baltic Sea Region. Each of the consortium partners plans port infrastructure development to give ship-owners opportunities to use LNG as alternative transport fuel. Being successful this experience can be transferred onto other European transport areas.

At the same time the Netherlands, Belgium, Denmark, Sweden, Norway and Finland form the market for the new motor fuel – gas-fuelled marine and river vehicles. Such projects are also financed by the EU: the ferryboats "Viking Grace" and "Fjord Line", river vehicles "Ecoliner" (under support of the Government of the Netherlands) and "Fjalir" (Sweden).

To ensure extensive use of LNG-vehicles the EU develops international legal platform. According to the MARPOL documents it is planned to limit maximum share of sulfur in marine fuel by 0,1% by 2015. This will lead to drastic increase of costs of traditional fuels, reconstruction of vehicles and LNG-bunkering infrastructure development. We can predict that certain environmental limitations for ships going through the Danish Straits will be introduced in 2015.

The EU announced policy for wider use of LNG in the nearest future. Thus experience gained in The Northern and Baltic Sea Regions will be used in other European regions and first of all in the Mediterranean. More than 139 LNG structures will be in use till 2020-2025. Moreover, LNG-infrastructure for heavy trucks and CNG-structure for automobiles should be established in 2020 all over the region road network.

Russian companies started research projects on LNG-infrastructure development in the Baltic Sea Region as well. The LNG-terminal is planned in Ust'-Luga, some Russian companies ordered LNG-carriers (i.e. Gazprom) and LNG-fuelled ships (i.e. Gazprom Export).

Realization of the LNG and the CNG projects in the North-Western Federal district seems to be very forward-looking. The Strategy of LNG use in St. Petersburg and Leningrad Oblast includes:

- Evaluation of opportunities for the LNG use as fuel for small agricultural vehicles;
- Creation of LNG-infrastructure in the ends of European transport flows – St. Petersburg – Helsinki through Vyborg and Kotka-Hamina ports; St. Petersburg – Tallinn through Ust'-Luga and Paldiski ports; Riga – Moscow and Klaipeda – Belorussia/Russia.

The development of LNG-filling stations' system must be developed according to transport flows from the EU:

- Strategy of LNG use in NW Russia must be developed jointly with the EU;
- Perspectives of the international LNG-terminal in the Finnish Gulf must be evaluated;
- Harmonization of legal issues and technical regulations from the very beginning is crucial to avoid the "socket paradox" when different countries have different technical characteristic of the electricity socket.

Abovementioned problems were discussed in St. Petersburg in framework of The 7th International scientific conference "Energetika XXI: economy, policy, ecology" which is traditionally held by the St. Petersburg State University of Economics and JST "Gazprom". The discussion at the "LNG development in the BSR" workshop gathered together representative of GasTerra R.V., SSPA SWEDEN AB, JSC "GydroGasCenter", JST "Company Ust'-Luga", Lithuanian Association of Energy Economics, "BaltGasBunker", STATOIL, "Soyuz-Invest" and many others. Participants agreed to continue discussions in framework of the expert team. The following expert meeting will be held in Aleksanteri Institute of University of Helsinki on 10th April 2014. ■

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# The Russian FDI in the Baltic Sea region

Russian foreign direct investments (FDI) outflows appeared long before the collapse of the USSR. However, only in the 2000s Russia became a significant exporter of capital in legal forms. According to the Bank of Russia, the Russian outward FDI stock reached \$406.3 billion at the beginning of 2013.

Neighbouring countries are usually more popular as recipients of FDI. Countries of the Baltic Sea region are not an exception for Russian investors. Nevertheless, there are two limiting factors for investment expansion of Russian transnational corporations. First of all there is a strong competition between Russian and Swedish investors (in Finland and the Baltic States) or German investors (mainly in Poland). Various political problems also exist, for example strong disputes around rights of ethnic minorities in Latvia and Estonia or some cases of investment protectionism in Poland (e.g. against Acron). As for the Schengen unfavorable visa regime, it disturbs some foreign contacts of Russian businessmen but it also leads to a significant FDI stock of Russian citizens in Latvian real estate (in fact, they "buy" stay permit in the EU). Only Finland can be compared with Latvia by Russian FDI in real estate in the Baltic Sea region (due to a Russian diaspora and close touristic ties with St. Petersburg).

We cannot also forget rather a small size of economy of the Baltic Sea region. Some Russian companies used to establish subsidiaries in the Baltic States as a bridgehead for their expansion in the whole EU. However, RESO (insurance), LSR (construction materials) and some other investors realized that rather comfortable business climate of former Soviet republics cannot help in competitive struggle in markets of "old" EU members. As a result, the share of the region in the Russian outward FDI stock will decrease when Russian transnational corporations become more active in North and Latin America, Asia or Africa.

According to the Bank of Russia, Lithuania is the main recipient of Russian FDI in the Baltic Sea region. At the beginning of 2013, their stock was \$1.33 billion. Finland was slightly behind with \$1.31 billion. However, the growth of the Russian FDI stock in Finland was \$336 million during 2010-2012. Latvia was on the 3rd place with \$0.88 billion and the growth of the Russian FDI stock was \$344 million during 2010-2012 which was the record of the region. Sweden was on the 4th place with \$0.84 billion but a great instability and finally a slight decrease of the Russian FDI stock during three years took place. The Russian FDI stock in Germany was \$9.09 billion but only small part of it was situated in German lands of the Baltic Sea region.

Russian official statistics showed that the Russian FDI stock was \$0.6 billion in Poland and only \$0.27 billion in Estonia at the beginning of 2013. However, it is well-known that many Russian FDI flows are trans-shipping via offshores. The Institute of World Economy and International Relations (IMEMO) of the Russian Academy of Sciences made a research on actual locations of Russian foreign assets. It was found that the real Russian FDI stock was \$1 billion in Poland and \$0.87 billion in Estonia.

Many large projects with Russian FDI exploit a transit location of the Baltic Sea region. Globaltrans controls a railways operator in Estonia. Global Ports has subsidiaries in Finland while several Russian chemical companies have terminals in ports of Estonia and Latvia. Transneft owns 34% of LatRosTrans which is an operator of oil pipelines. However, the leader is Gazprom with its assets in Finland, the Baltic States, Poland and Germany.

There are also Russian market-seeking FDI. For example, LUKOIL has petrol networks in several countries of the region while Bank of Moscow owns 59.7% of Eesti Krediidipank. Main industrial plants under Russian control are situated in Finland. For instance, Norilsk Nickel has a Harjavalta plant and OSK owns 50% of Archtech Helsinki Shipyard. However, some large projects can be found in other countries too. For example, RUSAL owns aluminium plant KUBAL in Sweden and EuroChem has a production of fertilizers in Lithuania. SPI Group produces alcohol beverages in Latvia while Russian Standard bought a vodka producer in Poland. There are many small projects in different other sectors, including construction materials and food industries, electricity, hotels and IT-technologies.

At the same time, there were several large unsuccessful examples. Russians tried to remediate dockyard Wadan in German Mecklenburg-Vorpommern. Yukos lost its control over Mazeikiu nafta refinery in Lithuania. Gazprom has some problems with its gas assets too.

In general, prospects of Russian FDI in the Baltic Sea region are vague. There are many possibilities to increase investment cooperation between Russia and its neighbours, especially for the "second" echelon of companies. However, Russians are afraid of different problems in the region. ■



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# The soft power dimension of Russia's foreign policy towards the Baltic States

The 21st century is marked by a sharp shift in the nature of power. The changes occurred due to the rapid rise of interconnectedness of economic and political institutions in the international arena. As a result, the appeal and positive image of a country became an important tool for attracting foreign investment and boosting international image. This became evident at the end of the Cold War, when liberal values spread to the countries of the post-Soviet bloc, which later would integrate into the EU and NATO. This phenomenon is defined by Nye as soft power—the ability to get what you want through attraction of a country's culture, political ideas and policies. It is clear that in today's highly globalised world soft-power resources are becoming relatively more important and the use of power is becoming less coercive, at least among the major states, which are trying to adopt to these changes. Few would think that Russia would be among the states with soft-power ambitions, but the truth is that it has started to invest in the infrastructure of a soft power.

Russia's soft power is strong and is limited at the same time. Today's system of values is still in the formation process, but it is increasingly based on reviving the pre-Soviet Russian ideas: Christian ideals, trans-ethnic imperial principles and the model of strong state in internal and external affairs. Russia's soft-power ambitions evolved in the mid-2000s due to geopolitical events that 'damaged' its image: the colour revolutions, the entry of the Baltic States into the EU and NATO, and Russia's war with Georgia. These processes were interpreted by the Kremlin as a 'threat' to its strategic interests in the region. Western predominance was explained by better access to public opinion through well-developed soft-power channels such as NGOs and the mass-media outlets. Russia decided to counterbalance Western influence with its own interpretation of soft power. Certainly, there is nothing illegitimate about Russia's intentions to implement soft power in the Baltic States but what sets its influence in the region apart from the EU, is its initial objectives and the tools it uses to meet them.

Traditionally, Moscow always struggled to define a precise foreign policy doctrine for the Baltic States as they do not fit into the traditional concept of 'near abroad', nor do they reflect the characteristics of the countries of 'far-abroad'. However, what is critical in Russia's relations with the Baltic States and what helps it to maintain its 'presence' in the region, is a large Russian diaspora. Russia's support for the diaspora translates into a variety of soft power tools that differ from cultural to political means. In general, the use of Russia's soft-power influence in the region could be summarised as the creation and maintenance of Russia-friendly networks in the cultural, economic and political spheres. These networks are maintained through Russia's compatriot policy and the familiarity of the Baltic States' population with the Russian language and culture. The creation of loyal elite and interest groups in various political, economic, social and cultural sectors involves co-opting officials and policy-makers through financial assistance and valuable connections and contracts. The 'boundaries'

of Russia's soft power are very blurred: it is difficult to make a clear distinction between cultural, economic and business spheres of activity since influence in the political sector is often achieved through economic and energy networks. Likewise, economic and energy networks are maintained by cultural links to Russia.

Speaking about strengths and weaknesses of Russia's soft power and its future trajectory, it could be argued that although Russia possesses influential cultural and economic channels in the region, Moscow has been unable to enhance its attractiveness among its closest neighbours. The Kremlin officials focus all their attention on loyal constituencies and seek to mobilise individuals, who are already following Russia's agenda. Russia's insufficient soft-power activism in the Baltic States could be partly explained by Moscow's inability to offer an attractive model of cooperation, which will not include patterns of strong dependence that affect negatively the long-term development of the Baltic States.

In the forthcoming years, Russia would most likely continue to experience difficulties in implementing soft-power strategy. To improve its tactics, Kremlin should note that the notion of soft power embraces strong normative potential based on *internal standards* of social and political life that are practiced in the country seeking to enhance its influence abroad. It is almost impossible to create an attractive international image without tackling Russia's domestic problems such as corruption, the abuse of human rights, and the rule of law. ■



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# Russia's Baltic policies – what kind of soft power?

Russia has important economic, societal, humanitarian, environmental and (still) military-strategic interests in the Baltic Sea region (BSR) although this region is not a highest priority for Moscow's foreign policies. Over the recent years, the Kremlin's interest in the BSR has grown because of the implementation of the Nord Stream project, some progress in Moscow's bilateral relations with the BSR countries, the need to respond to the EU Strategy for the BSR (EUSBSR) of 2009 and Russia's presidency in the Council of the Baltic Sea States (CBSS) in 2012-2013.

So far Russia's BSR policies turned to be less assertive, as compared to other regions where the Russian and EU interests overlap, such as Eastern Europe or South Caucasus. Russia's geoeconomic and geostrategic ambitions in the BSR are still rather high, supported – contrary to the 1990s – by political willingness and money.

Russia's BSR strategy represents a mixture of different approaches, not always consistent with each other. On the one hand, despite its ambition to be maximally specific Russia's strategy in the BSR has a number of evident lacunae. Moscow failed to use its CBSS presidency to avoid the pitfalls of the EU-Russian relations stuck in endless debates on visa facilitation and different understandings of key concepts of partnership. Without offering a regional way out of the deadlock, Russia instead locked its BSR policy in either controversial (like fighting unnamed extremism) or differently interpreted (e.g., modernisation, public-private partnership) concepts. To put it differently, the Kremlin was unable to use the chance of the CBSS presidency to effectively build its political and institutional capacities in the BSR. It is the lack of a normative appeal that seriously undermines Russia's socialisation in the BSR, as well as in other regions of direct neighbourhood. Moscow was unable to strike a balance between multilateral (CBSS) and bilateral diplomacies. The Kremlin has obviously had communicative problems during its CBSS presidency because it was unable to clearly explain its priorities to the Council's member-states and take a lead in implementing the most important projects. The EU normative hegemony in the BSR to a larger extent remains unchallenged.

On the other hand, many voices in the BSR countries argue that further regional development cannot be successful without Russia, and that there should be an effective interface between the EUSBSR and Russia that is lacking for the time-being. Within Russia the technocratic part of the ruling elite realises that most of threats and challenges to its positions in the BSR originate from inside rather than from outside of the country. Independent experts confirm that these problems are caused by the complex of factors such as the degradation the Soviet-made economic, transport and social infrastructures in the region, the current resource-oriented model of the Russian economy, the lack of funds and managerial skills to develop the Russian part of the BSR, etc. Regional elites understand that the success of Russia's Baltic strategy to a larger extent depends on the efficacy of socio-economic policies in its north-western regions. The Russian leadership seems to understand the need for a deeper engagement of sub-national actors (regional and local governments), yet Moscow is still wary of separatism or attempts to encroach upon federal for-

eign policy prerogatives. In terms of implementing cross-border and trans-national projects, the Russian federal bureaucracy's policies are not always conducive to the local and civil society institutions' initiatives.

The Russian diplomacy will seek to defend its economic, political, environmental and humanitarian interests in the region, more often bilaterally than relying upon the institutional resources of the CBSS. Moscow will be open to mostly technical cooperation with the BSR partners that are willing to contribute to solving numerous socio-economic and environmental problems of the Russian border-located territories. In promoting its regional policies, Russia will prefer to use soft power instruments. Some of them – like, for example, the gradual legitimization of the Nord Stream project through engaging with its former critics – used to be rather successful. However, against the background of Russia's policy toward Ukraine in 2014, it is obvious that Moscow's interpretation of extremism, as well as its intention to more aggressively protect Russian-speaking minorities in neighbouring countries, will face a negative reception in the BSR and cause new political ruptures, if not security tensions. ■



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# Western companies promoting transformation of leadership culture in Russia

The latest events in Crimea show, 23 years after the system collapsed, for the Western political establishment, that the West can not change Russian political elite's thinking and behavior models by the pragmatic means practiced so far. The West has encouraged and supported – and tolerated – Russia, by all means, to take part in the global political and economic collaboration as a truly accepted member. The overall failure of this 20 years' educational change process towards the Western democracy is quite evident.

As the leading Western politicians have commented the past events, the fundamental cultural and value base of the Russian political top elite still seems to come from the Soviet time. The Western attempts in the past 20 years to even gradually change Top elite's way of thinking and acting have failed - and actually they even did not have any theoretical or scientific ground to succeed.

People change only under a strong want or a forcing must factor. The record high oil price in 2000 saved the elite from the "must change" - factor which still back in the 90's seemed to be the inevitable faith of the Russian future outlook. Thus, the drivers or motives for changes were missing and there was never any true commitment for this change process the West hoped for and believed in.

Bearing in mind all this it becomes evident that trying to change Russia towards modern democracy from top to bottom is not the option. The remaining option, gradual cultural evolution from all levels is an ongoing process that is gradually shaping the culture and life towards the Western standards in the whole Russian society. The Western economy and business plays the key role in this vast change process.

## Western companies and consultants as change agents

We believe that the substantial base of larger and smaller Western corporates and companies in Russia employing today millions of Russian employees is one of the most important drivers for change in future Russia.

Take as an example a large Western industrial production unit built up far away Soviet era Siberian industrial city giving a new life for 20-30 % of the qualified work force; or, take the intensively "Westernized" cities like Kaluga with 20 Western production plants or Vsevolzhsk in Leningrad "oblast" with Ford and Nokian Tyres factories, both cities having half the active work force in the Western companies.

In most of the cases the Western companies manage to implement their corporate values like honesty and justice quite well, encouraging own thinking and initiative down to the floor level. Gradually, the new company culture start spreading around and beyond the company's border lines. More satisfied, better paid employees promote the image of "the Western way of working and western culture"

in their social network. Local authorities respect genuinely the rare honest tax-payers in the city. The overwhelming employer image of the Western companies forces finally also the local companies and competitors to change their old-fashioned authoritarian management patterns to more Western directions leading to the new more democratic life.

In the most competitive Russian market and in its competitive labour market in such cities like Moscow, St. Petersburg and Kaluga, Westernized strong company culture promoting the common Western values has become one of the most important sources of companies' competitive advantage. Thus, in the Western companies' own interest to build up a winning company culture with features respected in Western organizations.

## How to accelerate the change

We have experienced the cultural change taking place in thousands of Russian managers' thinking and later acting (patterns). In the past two decades we have been working in dozens of large business organizations in Russia, mostly in Western but also in a few Russian companies. Earlier we were in line management, in 2000's - in management consulting. Our main training topic was in hard business issues, like key account development or category management – or training of analytical fact-based skills.

However, our true legacy or mission as consultants has always been bringing in the elements of the traditional Finnish leadership culture to organizations in Russia, into the Russian managers head. Finnish Leadership Tradition has received several rewards and recognition in the past decades as being one of the most successful management styles.

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However, our true legacy or mission as consultants was always bringing the elements of the traditional Finnish leadership culture to organizations in Russia, into Russian managers head. Finnish Leadership Tradition has received several rewards and recognition in past decades as being one of the most successful management styles.

We have found out that building up a winning company culture in Russian can be even easier than in Western countries, when working with "virgin companies or managers", which have only experience from the traditional Russian management culture. Company culture will be changed only when the com-



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pany's leadership culture changes. We have seen that in less than one year's time the entire company culture starts changing when the management genuinely has adopted and started to practice the new Western leadership style, and issues like:

- Believing in employees' growth capacities and in employees' own will to grow and deliver their best
- Empowering, delegating more power and responsibilities especially in decision making
- Learning the coaching and supporting leadership mode
- Learning to motivate employees for various situations and levels

We will see whether it will take generation or more to find Russia in mid-way to Western democracy. ■

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# The Kaliningrad region – a search for a new model of economic development

The Kaliningrad region is an exclave separated from mainland Russia; it is not rich in either natural or human resources, nor does it have a large internal market. The region's economy is traditionally oriented to the All-Russian market. This orientation was strengthened by the 1996 Federal law on the Special Economic Zone (SEZ) and its successor, the 2006 SEZ law. The 1996 law introduced duty free entry of raw materials, semi-finished goods, and component parts into the region and duty free export of goods produced in the region with the use thereof to the rest of the customs territory of the Russian Federation and the Customs Union. A good is considered produced in the Special economic zone if the value added through processing is not less than 30% (or 15% in case of electronics and advanced household appliances) and if such processing entails a change of the industry classification code.

The law facilitated the emergence of new import substitution enterprises in the Kaliningrad region (working in, first of all, mechanical engineering – electronic household appliance and motor car production – and the food industry – meat and soya processing, etc.), which came to play an important role in the regional and Russian economies.

The 2006 SEZ law also includes customs concessions, however, they are effective for only ten years, until 2016. After that, the SEZ will enjoy only tax concessions introduced by the law. Without customs privileges, additional costs relating to the transit of manufactured products across several borders will make many Kaliningrad goods uncompetitive in comparison to those produced in mainland Russia. Thus, the abolition of customs concessions will result in a dramatic change in the socioeconomic landscape of the Kaliningrad region (from the perspective of both production and labour market situation).

The Kaliningrad region is faced with a need to introduce a new model of economic development, which would replace the earlier import substitution model.

I believe that, in the strategic perspective from the purely economic point of view, the most promising trajectory of the socioeconomic development of the Kaliningrad region is the gradual reorientation of the regional economy towards exportation. Of course, it does not mean discontinuing production for the All-Russian market, it rather relates to a change in the proportion between such production and export-oriented production in favour of the latter.

The prospects of development of export-oriented production in the Kaliningrad region is largely affected by the general state of Russia-EU relations, which, unfortunately, have been far from perfect in the recent years. However, it is important to remember that, despite the current tensions, both the EU and Russia are interested in the development of mutually beneficial relations, first of all, economic ones. Without Russian resources and the Russian market, the EU will lose its positions in the competition with the centres of economic

power in North America and East and South-East Asia. Russia, in its turn, needs European technologies, investment, and managerial experience, as well as the EU market (at the moment, only that of raw materials and semi-finished goods and, in perspective, also that of manufactured goods). The Kaliningrad region can and must cooperate with the EU in the framework of positive development of economic and political relations between Russia and the EU thus taking a place in the vanguard of this process. At the same time, it is important to remember that the prospective markets for the goods produced in the Kaliningrad region (despite the difficulties in accessing them) are not exhausted by the EU.

Certain steps towards more pronounced export orientation of the Kaliningrad economy have already been made. So, the Long-term Strategy for the Socioeconomic Development of the Kaliningrad region suggests attracting investment and introducing new technologies in order to ensure competitive export-oriented production and increase exports through improving the tax incentive system and the creation of a system of state support and guarantees for the foreign economic activities of SMEs. The creation of a favourable investment and business climate, which would facilitate investment, development of export-oriented production, and an increase in the competitiveness of the Kaliningrad region in the Baltic macroregion, is seen as the end result of The Socioeconomic Development of the Kaliningrad region until 2020 state programme, which was approved on March 27, 2013.

All the above is creating favourable conditions for further economic cooperation between Russia and the EU countries situated in the Baltic Sea region. ■



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# Strategic Communication Management (CM) in the post-communist Baltic Sea region

Considering the researches on media and communications in the Soviet Union, we can say that journalism served communication management function in the Soviet Union. The role of communication management in a transition society is unique. Firstly, this is due to the relationship between propaganda and communication, a very sensitive cultural context for all communication processes in new situations that a transition society has to face. The second important reason is definitely the fact that the countries of Central and Eastern Europe and of the former Soviet Union are undergoing a breakthrough stage in their transition from centrally planned to market economies. Due to such remarkable social and economic changes, it is very appropriate to add a transitional aspect to the communication management that emerged in the new market economy context.

The task of communication management during the first stage of the transition is to build up an image of 'capitalism with a human face' in order to secure public acceptance for ongoing economic reforms. The second task is to create public awareness of the wide range of possible alternative market economy models, by promoting value systems and lifestyles with products and services, and by keeping in mind that in the formerly socialist countries a struggle is currently under way to determine the final shape of the market economy. And thirdly, its task is to facilitate effective functioning of the market economy.

Based on the study done in Estonia in the 2003, it can be concluded that communication management perform a **pedagogical role** in a transition society. CM should be on the frontline of managing changes, as an agent of increasing knowledge and a follower of ethical operations principles, different from Soviet past. In this way a mutual understanding of the ongoing economic as well as more specific processes can be achieved. The pedagogical aspect concerns educating the public and more specifically different stakeholder groups of the organisation in order to help people change together with society and adapt to new cultural, philosophical and economic conditions.

Communication management' pedagogical role is particularly important at the very beginning of fundamental changes. From a pedagogical perspective, adaptation of the different sides in changing situations is much more dynamic, because decisions and strategies are based on special knowledge. An ethically realised pedagogical role helps organisations to learn about new conditions, to learn how to start to live in a new situation and on the other hand, CM' pedagogical role can also help stakeholders to understand organisations' behaviour in a new situation. The pedagogical role is mostly a one-way communication, based on ethics and tolerance. Putting a pedagogical role into practice, it is important to get systematic feedback and to correct procedures based on reactions of stakeholders.

Transitional communication management fulfil a role as an effective instrument for systemic transformation. There are certain 'generic principles of communication management applicable in every economic system', that communication practitioners in Central and East-

ern Europe need to account for the influence of political and economic systems to a much larger extent. The legacy of a former socialist system, as reflected in ways of thinking, the structure of the economy, and the mechanism for resource allocation, creates a unique combination of constraints on the application of the universal principles of CM. For this reason we can speak of transitional communication management.

The present author would suggest one additional role of communication management in post-communist economies, the **integrative role**: in the European context it is very important to discover opportunities for cooperation. The last ten years have been revolutionary in Europe – more than half of the European territory changed its basic values at a very fundamental level. As a result, more than half of Europe is still experiencing the stress of the change. In Europe we have encountered problems arising from encountering different national cultures and religious worldviews. In addition, there have been problems with economic, political, ideological, ethical and cultural differences, which are much more complicated aspects than mere differences in nationality. In the present author's opinion, it is possible to find opportunities to integrate the experiences of different economic systems and different societies. To do this it is necessary to have special skills and tolerance, along with good and ethical communication practice. ■

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# Cross external debt position analysis in the Nordic and in the Baltic Sea countries – quartiles 2011Q4-2013Q3

During the years of financial crisis in many countries of Euro area economic challenges of debt management have received a lot of political and economic attention. Policy-makers and citizens are worried about the financial balance of national and public economies. In this article a special financial analysis of cross external debt position (CEDP) is reported for the Baltic Sea and for the Nordic countries. The empirical analysis is based on the World Bank's debt database (World Bank 2014). The time horizon of the financial CEDP analysis is from 2011Q4 to 2013Q3. The cross external debt position analysis, which is presented in this expert article, covers 8 recent quartiles.

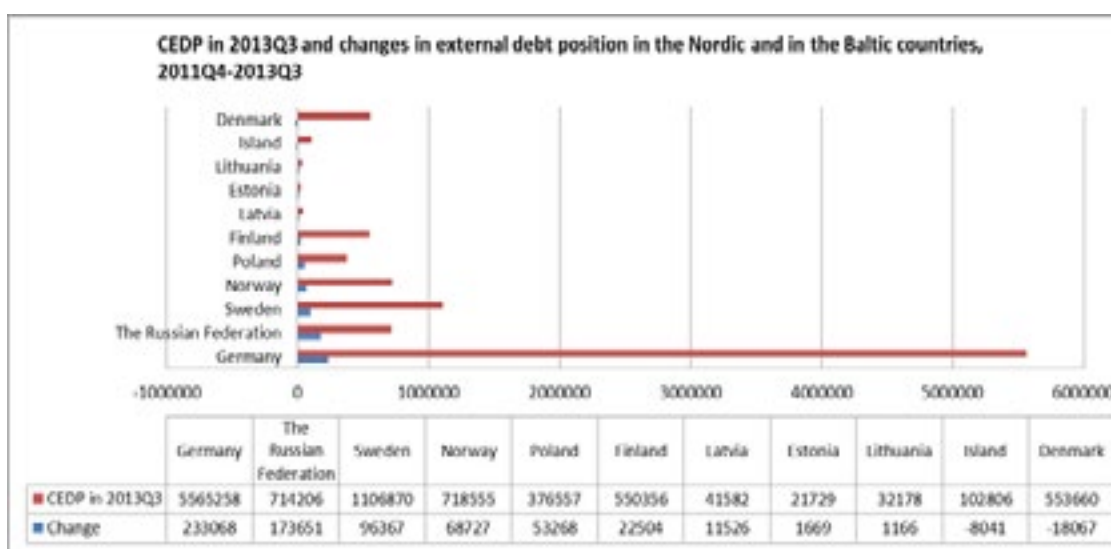
First, cross external debt positions in the Nordic countries were analysed. This comparative analysis informs us that Sweden has highest debt position in the Nordic countries (1 106 870 Million US Dollars in 2013Q3). Naturally, the lowest debt position can be seen in Iceland (102 806 Million US Dollars in 2013Q3). Among the Nordic countries Norway has the second highest debt position (718 555 Million US Dollars in 2013Q3). In Finland and in Denmark, the CEDP level is at the same level, about 553 660 Million US Dollars in Denmark and 550 356 Million US Dollars in Finland in 2013Q3. In the Nordic countries cross external debt positions have not changed much during the time interval between periods of 2011Q4-2013Q3.

We can observe quite stable time series of cross external debt positions in three countries of the Baltic region. The cross external debt position of Latvia has increased slightly remarkably in 2012Q1, but it

still is very low compared to the CEDP levels of other Baltic Sea countries. Its cross external debt position is highest among these three Baltic region countries (41 582 Million US Dollars in 2013Q3). The most favourable CEDP position has Estonia. In 2013Q3 the CEDP of Estonia was 21 729 million US Dollars, the CEDP of Latvia was 41 582 Million US and the CEDP of Lithuania was 32 178 Dollars Million US Dollars.

In this section the cross external debt positions of Germany, the Russian Federation and Poland are reported. Germany is having the highest cross external debt position (5 565 258 Million US Dollars in 2013Q3) among these three Baltic Sea large countries. The lowest burden of external debt is in Poland (376 557 Million US Dollars in 2013Q3). Cross external debt burden of the Russian Federation is second highest in this large country group of the Baltic Sea region (714 206 Million US Dollars in 2013Q3). During very recent quartiles debt burden of Russian Federation has increased quite much (32% from 2011Q4-2013Q3).

The general finding of this macroeconomic economic study is that changes in cross external debt positions of the Baltic Sea countries have not been extremely radical. Only in Latvia and in the Russian Federation considerable changes in cross external debt position were observed. In the Baltic Rim economic region the highest cross external debt positions have Germany and Sweden. Norway, Russian Federation and Finland have also quite high CEDPs (Fig. 1).



**Figure 1.** CEDPs in 2013Q3 and changes in cross external debt positions in the Nordic and in the Baltic Sea countries in 2011Q4-2013Q3.

Source: World Bank (2014) Debt Statistics. Table C1. Cross External Debt Position. Web page: [http://databank.worldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?Report\\_Name=Table-C1-SDDS-2009&Id=44d4afa56d](http://databank.worldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?Report_Name=Table-C1-SDDS-2009&Id=44d4afa56d)

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In Fig. 1 we can observe that the CEDP of Germany is over 4.5 times larger than in Sweden. The Russian Federation's CEDP has similar size scale of CEDP with Norway. Finland's CED position is quite similar with Denmark. Poland's CED position is not alarming compared to other Baltic Sea countries. Island and Denmark have paid their loans and report negative changes of CEDPs. Other Baltic and Nordic economies have increased sizes of their loans thus reporting positive changes of CEDP. In time period 2011Q4-2013Q3 biggest changes in CEDPs can be observed in Germany (233 068 Million US Dollars), in the Russian Federation (173 651 Million US Dollars) and in Sweden (96 367 Million US Dollars). In Russia, external debt is a part of the total debt that is partly owed to creditors outside the country. This piece of information is good to remember.

The expert observers of financial market should remember that CED position is always linked to the size of national economy and its trade, consumption patterns and investment activity. ■

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# Modern marketing communication on the Polish market

**T**raditional channels of marketing communication like for example, television or radio advertising, become less efficient on the Polish market. Companies outdo one another in the number of advertising spots, airtime or catchy content.

However, the target group doesn't really trusts this type of advertising, considering it to be a boring, confusing and therefore, usually changing the channel or leaving the room while it airs. On the contrary, the virtual, social and mobile media gain significant popularity. In order to make good use out of them, businesses must better get to know and understand the Polish customer. For that reason, they obtain detailed and in depth knowledge of the target group, including information on when, where and how the various consumer groups use various devices. In addition, they use research tools to assess effectiveness of communication on different screen pages, which translates into specific purchasing decisions.

Consequently, a massive shift of advertising budgets from television into multi-screens can be observed on the Polish market. In addition, there are increased investments in the mobile media communications especially in the case of brands aimed towards young customers. Communicated content is modified in terms of its emissions in mobile media. Some brands start experimenting with micro-video platforms. Also, the expansion of screens in all aspects of our lives, causes that attempts are being made to launch media marketing materials through creative use of digital outdoor media or screens that can be worn on our body, e.g. smart watches or Google Glass type devices.

A significant increase in the Polish market, have the already mentioned, social media. Facebook in Poland has already 8 million of active users. According to the Facebook analysts, Polish Internet users are not only very loyal subscribers (statistically speaking over 51% of registered users surf the Facebook pages), but also have an extensive network of contacts. Facebook users spend more time on it than even on Google. You Tube takes second place, used by 38% of customers, and the third place goes to the most business like network - the LinkedIn, used by 30% of customers. Most of companies (21%) are planning their future presence on Google+, and also consider creating a company blog (20 %). Flickr, NK.pl and Yammer are of the least interest.

With such popularity, no company or brand can afford to ignore social media. Business profiles include more and more information that interest their clients: new product announcements, behind the scenes commercial production videos or new patent making videos. Hence, multimedia materials become almost a requirement. In addition, social media extensively promote activities related to crowdsourcing, utilizing users' activity level for company/brand promotional and image-building purposes, along with the use of viral marketing.

Moreover, 37% of Polish companies declare, that they have an employee who exclusively coordinates marketing communications in social media. 17 % of the Polish managers and supervisors, who underwent the survey, already have a detailed strategy for action in social media, that is fully integrated with the business development vision and marketing strategies. 43% of respondents declare that their social media activity is a part of their marketing strategy, supporting traditional promotional activities and PR.

Companies in Poland do mostly concentrate on promoting the product and leading image-building activities via social media. They also perform tasks related to sales or customer service, and use public opinions in the design process of new products.

The email marketing is a form directly related to social media and widely used in marketing communications in Poland.

Current studies indicate that the highest level of email marketing is performed by some of the biggest companies, having more than 250 employees. They reach an average result of 67%. What's really interesting, in 2012, in the first place, with an average result of 69% - were medium-sized companies (51-250 employees). Industry, which does the best with email marketing, is the real estate business (73 %). The results of the study indicate that not all of the components of email marketing campaign, i.e. creating customer list, segmentation, delivery and optimization of outgoing newsletters, are treated equally. The greatest attention is paid to building subscribers database, optimizing subscription forms and deliverability of messages sent.

It should be noted that the study also indicates that, although companies recognize the nature and rank of social media as a great form of marketing communication, they are often still trying to figure out how to reach their customers. In conclusion, marketing communication based on social media on the Polish market is at the stage of transition from the birth to the growth phase. ■

Article was written on the basis of the Getresponse reports: Email Marketing Status in Poland in 2013r, Deloitte: Report on the Role of Social Media in Marketing Communication of Capgemini Poland Companies: Polish Companies in Social Media, Millward Brown: Traditional and Digital Media Market 2014, IMMOQEE: own materials.



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# The future of youth cooperation in the Baltic Sea region

**T**he Baltic Sea Region offers a remarkable example of yet rich and varied multi-level and collaborative cooperation, which has no counterpart in Europe or other parts of the world. A distinctive feature of cooperation within the Baltic Sea Region with its intensity and a diversity of forms and subjects, while being loosely formalised on the macro-regional scale, represents both a great asset and a limitation of this cooperation. It is no different in the field of youth cooperation. Baltic youth cooperation lacks a strategic policy framework referring to the problems of the BSR youth. Still, youth affairs and the participation of young people in the BSR cooperation structures is a constant element in this cooperation, ensuring, to some extent, a dialogue between the young generation of the Baltic Sea Region and the decision makers in developing and implementing sectoral policies. Individual Baltic organisations keep this dialogue running, each in a unique way, and there are as many models of dialogue and youth participation as there are organisations. However no form of Pan-Baltic youth organisation is currently in place, and the voice of young people is heard mainly, if not exclusively, at events held by Baltic organisations during annual conferences, summits, general meetings, etc.

## Setting common priorities, goals and objectives

It seems that, especially at the moment of difficult times for European young generation, the future of youth cooperation depends on the notion of common priorities, goals and objectives. The voice of the young people must be strong and clear to be heard by the policy makers. Therefore, a discussion on the identification of the role and problems of young people in the Baltic Sea Region needs to be now advocated by the young people and the corresponding bodies. Recently, we have seen attempts at creating a wide forum or a platform for cooperation among Baltic youth. In the resolution of the Baltic Sea Parliamentary Conference, which took place in St. Petersburg in August 2012, the Parliaments of the Baltic Sea States are welcoming the organisation of the first youth parliament within the framework of the CBSS Baltic Days in Berlin and encouraging the following BSPC Presidencies to continue this undertaking. This resolution initiated discussion on possible form that such representative of the youth from the Baltic Sea Region should take, just as it happened within the European Union Member States cooperation, where the European Youth Forum is acting very well. This kind of platform would enable young people from the Baltic Sea Region countries, including those who are not a part of the European Union, to shape and express opinions on issues important to the future of young people within their region. Actually, in 2013 and 2014 several meetings supported by the Seed Money Facility were organized with potential stakeholders of the process. Currently, the discussion remains at the stage of working out formulas and structures of cooperation, while the problem of objectives and priorities has been left to a later time. Let's hope that the establishment of the Baltic Youth Forum, or otherwise so-called the establishment of 'the institutional form of youth cooperation in the Baltic Sea Region' will have a significant impact on the situation of young people in the region.

## EUSBSR – a chance for effective policy framework

Linking the youth cooperation with the EU Strategy for the Baltic Sea Region (EUSBSR) gave us certainly a reason for hope - as the EUSBSR was established in order to harmonize and ensure the synergy of different activities, development and the implementation of the common policies within the Baltic Sea Region. We can now only keep fingers crossed on the development of a flagship EUSBSR project, where the youth organizations from the Baltic Sea Region, as well as the representatives of youth networks operating within the pan-Baltic organizations such as BSSSC, UBS, RPB, will all become members of one partnership. The aim of such a project would be to identify the problems of youth in the region and to develop possible pilot solutions for the future use by the local governments and organizations in the co-implementation of their common policies of youth in the region. Taking in mind the difficulty of achieving this goal, it should be noted, however, that the inclusion of young people in a real dialogue and participation is fundamental to the development of democratic structures and the development of a sense of regional identity. In the era of globalization, where there is a lot of pressure on the job and residential mobility surrounded by the variety of choices for life, it is still important to encourage young people to remain interested in the regional issues, to participate in public discourses and to actively participate in decision-making processes in the Baltic Sea Region, as it has become a big challenge for all actors involved. ■



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# Local border traffic between Poland and the Kaliningrad region – international and cross-border determinants

After Poland's joining the European Union structures in 2004 the terms of Poland's relations with the Russian Federation and its organs have been conditioned not only by the reciprocal agreements between the two countries but also by the treaties signed by the EU and RF. Such a legal system also pertains to cross-border cooperation between northeastern regions of Poland and the Kaliningrad Region. As far as Poland is concerned one of the priorities of the international and cross-border cooperation in the Baltic Sea Region is a collaboration with the Kaliningrad Region. So far the legal footing of the cooperation with the Kaliningrad Region has been determined by intergovernmental arrangements, agreements on forming euroregions as well as agreements of regional and local authorities.

In the framework of Poland's admission to the EU the issue of visas for the Russians was a vital one. The consultation on regularizing this issue commenced in March 2000. The both sides of the negotiations concurred that the visas ought to be used many times and they ought to be inexpensive. The first of October 2003 was fixed as a date of introducing the visas. On that day Poland denounced free-visa travel on the border between Poland and Russia.

The implementation of the new rules concerning visas influenced significantly the cooperation on the borderland. There appeared additional formalities on the border which occasioned the situation that in the first year of the visas being in force occurred a major diminution of the arrivals to Poland.

Polish authorities perceived it as important that the collaboration with the eastern neighbour in the new international and legal framework did not lead to the isolation of the Kaliningrad Region from northeastern regions of Poland. Consequently, EU fostered Lithuania, Poland and Kaliningrad Region of Russian Federation Neighbourhood Programme (INTERREG III A/TACIS) which was in force in the years 2004-2006. The funds of the European Regional Development Fund which were obtained by the warminsko-mazurskie voivodeship amounted to 4,8 million euros which constituted 14% of the country's funds. As far as the money is concerned about 1,6 million euros were designated for the projects concerning the development of tourism and tourism infrastructure as well places of historical interest which have trans-border importance. Over 1 million euros were designated for works on the state border. For instance, for the infrastructure in Elbląg harbour. The rest of the funds were committed to the projects dealing with the protection of the environment.

After the first of May 2004 the most significant role in cross-border cooperation between the warminsko-mazurskie voivodeship and the Russian Kaliningrad Region is played by the Euroregion Baltic (despite the contribution of new euro-region „Szeszupa” and „Lyna-Lawa”). It was mostly created in order to intensify cooperation from bilateral to multilateral.

In the recent years the Lithuania-Poland-Russia EISP Cross-border Cooperation Programme has been a vital project boosting the collaboration of the warminsko-mazurski region with the Kaliningrad Region. Its aim consists in enhancing of the contacts between Poland, Russia and Lithuania through bipartite and tripartite cooperation. The specific objectives are fostering of social and economic development in both countries, interoperability aiming at elaborating attitudes on common challenges and problems as well as supporting interpersonal contacts. The program has been offering support for social and economic development and has been pursuing the objectives of improving life conditions for the inhabitants of the region. Presently there have been 60 projects which have been allocating 100 million euros.

The new stage in the relations of Poland with the Kaliningrad Oblast was the implementation of laws on local border traffic.

The agreement on local border traffic was signed during the meeting of foreign ministers of Poland and Russia; respectively Radosław Sikorski and Siergiej Lawrow. The meeting was held on 14 December 2011. According to the statements of the both sides the arrangement constitutes a significant milestone in the relations between the two countries and enables a further opening up for the cooperation of the Kaliningrad Oblast with the EU in the future. It was decided that the borderland included the whole area of the Kaliningrad Oblast and the same area in Poland that is in Pomorskie voivodeship Gdynia, Gdańsk, Sopot and the following poviats: pucki, gdański, nowodworski, malborski powiat and in Warmińsko-Mazurskie the cities Elbląg and Olsztyn and the following poviats: elbląski, braniewski, lidzbarski, bartoszycki, olsztyński, kętrzyński, mrągowski, węgorzewski, giżycki, gołdapski i olecki. The terms of local border traffic apply to 2 million people in Poland and 940 000 people in the Kaliningrad Region.

The regulations of the agreement pertain to the whole Kaliningrad Oblast which is an exemption from the customary practice considering as a borderland an area from 30 to 50 kilometres from the border. The agreement entered into force on 27 July 2012. The inhabitants of the borderland wanting to travel more freely may obtain a special multiple exit and re-entry permit.

The agreement on the local border traffic facilitates direct local commercial tourists and other people-to-people contacts. The immediate result of the implementing the regulations of the local border traffic is an increase of trade flows on the borderland. The introduction of the agreement on the local border traffic is regarded as an outstanding achievement. On 11 May 2013 Radosław Sikorski stated: „thanks to the Russian customers (...) the turnover in our shops in the region which is included in the terms of the agreement has increased by 30%”. He added „It strengthens our determination to eliminate the barriers in the human traffic and to re-establish visa-free movement with all our neighbours including the Russian Federation”. In turn, Siergiej Lawrow evaluated the agreement as a positive one. He said

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that the free-visa travel of the inhabitants of the Kaliningrad Region and Polish inhabitants of the borderland does not pose any problems.

It ought to be noted that there have not been any serious violations of the rules of the local border traffic. Since the moment of issuing of the permissions for crossing the border there has been an increase in the human traffic and it reached the level of the human traffic before Poland's entering Schengen regulations. ■

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# Fostering sustainability and university networking – a case study from the RCE Hamburg and Region

**A**s outlined by Cooper, Evans and Boyko in *Designing Sustainable Cities* (2009), addressing sustainability issues in the urban environment is a complex, multi-disciplinary issue, and solutions never arrive from a single perspective. This means that a variety of perspectives is needed. This is especially so if different stakeholders are expected to work together.

The need for a greater engagement of local and regional stakeholders in addressing matters related to sustainable development, is acknowledged as a matter which needs attention, and which needs to be addressed so as to secure a solid basis upon which long-term activities may be undertaken. In attempting to foster networking and encourage the participation of universities and other local and regional stakeholders in sustainable development initiatives, the Regional Centre of Expertise in Hamburg and Region (RCE-Hamburg and Region) was created in 2008. The RCE-Hamburg and Region, which is associated with the Baltic University Programme Centre in Hamburg, has the purpose of acting as a hub to promote education for sustainable development in Hamburg and surrounding region. Its mission is:

*"to foster the cause of education for sustainable development in Hamburg and surrounding region (Hamburg Metropolitan Region) by means of education and awareness-raising initiatives as well as technology transfer, targeted to schoolchildren and adults, as well as special groups such as government employees and industrialists".*

The RCE tries to fulfil its mandate by means of education and awareness-raising initiatives as well as technology transfer, targeted to schoolchildren and adults, as well as special groups such as government employees and industrialists.

The RCE-Hamburg covers a rather limited area in northern Germany, namely the Hamburg Metropolitan Region. It involves the City of Hamburg and a 70 Km radius surrounding it, including districts such as Lüneburg, Stadte, Lüchow-Dannenberg, Lübeck and Lübeck Bay. The work of the RCE is meant to be centred on the use of educational approaches, methods and processes via which awareness about sustainability and education for sustainable development in particular, may be fostered. Ultimately, the RCE is expected to provide a concrete contribution towards a environmentally aware and more sustainability-oriented region.

Operationally, The Regional Coordination Unit (RCU) of the RCE Hamburg and Region is hosted by the Centre of Expertise for Sustainable Construction (CESC), a NGO with extensive expertise in the field of sustainability as whole and which is heavily engaged on issues related to education for sustainable development in particular.

Furthermore, the RCE Hamburg and Region provides expertise, support and practical assistance to teachers and schools facilitating access to training of trainers and co-operation between schools, NGOs, industry, universities and government organizations. In addition to the vital work performed by the Secretariat of the RCE Hamburg and Region, it is by nature heavily dependent on the active participation of the local stakeholders, which are:

- i. teachers,
- ii. government officials,
- iii. NGOs,
- iv. Universities in Hamburg and in the region, especially the Hamburg University of Applied Sciences where the Chairman of the RCE is based
- v. some local companies (e.g. the municipal cleaning company, a construction centre and the local electricity provider).

The ever increasing interest on matters related to sustainable development in the RCE Hamburg and Region by policy makers, industry leaders, educationalists and academics alike, means that prospects for the future are bright. The challenge and the main task is to ensure all stakeholders and the Hamburg University of Applied Sciences, as a founding member of the RCE Hamburg and Region, intends to carry on fulfilling its role in this regard. ■

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# Crisis taxes – threats and opportunities

**D**uring many financial crises there were implemented special crisis taxes which contributed to the revenues of the state budgets in particular countries.

The definition of an anti-crisis tax is the following: these are special statutory charges or levies which are imposed on business institutions during or after a crisis with the aim of alleviating or averting the crisis. The anti-crisis tax instruments are the following:

- lower rates of corporate income tax in the time of a crisis,
- a new capital income tax or an increased rate of such a tax (including a tax on interest on bank deposits) paid by retail clients,
- a special payroll tax on high salaries – imposed on highly remunerated employees or on enterprises which pay such salaries,
- one-off crisis levy on enterprises,
- a tax or levy on financial institutions (e.g. on banks) to raise money for the public recovery fund or the state budget.

The past experience connected with the introduction of crisis taxes gives rise to a number of fundamental doubts, e.g. should the taxes be increased or decreased at the time of a crisis, what type of post-crisis taxes should be implemented and what should they be allocated for.

The experience shows that additional statutory charges and levies should not be implemented during a crisis but during a boom. Moreover, opinions vary as to the benefits and threats of particular bank taxes (FTT, FAT, FSC).

There are a few examples. In 1984 a tax of 0.5% on securities transactions was introduced in Sweden. As it applied solely to transactions on the domestic stock exchanges, the tax was relatively easy to avoid. It was sufficient for the traders to transfer their operations to other stock markets. As a result, after the introduction of the tax, revenues fell. By 1990 about half of the trade on Swedish stock markets had been transferred to Great British. In 1991 the tax was lifted.

At the time of a financial crisis in Ecuador in 1999 there was introduced a tax of 1% on all financial transactions (FTT) which were made through banks. The profits contributed to the state budget. However, in the situation of a liquidity crunch this tax only exacerbated the situation of banks.

In Poland during the crisis in the 90s there was a tax on high salaries, which was paid by enterprises. The tax was very restrictive, e.g. exceeding the payroll fund by over 5% resulted in a tax of 500%.

In some countries, during the subprime crisis an opposite policy was implemented, i.e. the reduction of taxes. Similarly in Poland during the financial crisis in the 90s cooperative banks were exempt from income tax for a few years.

In 2013 Cyprus faced the necessity of introducing a crisis levy, which was proposed by the European Commission. The proposal provided for a one-off levy on bank deposits of retail customers. This triggered a lot of social protests. P. Krugman stated that the project "was a great blow to the whole banking sector". The evaluation of this kind of tax must be negative – it is de facto appropriation of a considerable

part of private capital. The criticism of this model of taxation is based on the following arguments:

- undermining the trust in the banking sector in the whole European Union,
- passing a tax bill which is retroactive,
- dissonance between this levy and the banking guarantee system,
- unequal treatment of people investing in different assets (e.g. real estate),
- ethically reprehensible appropriation of a considerable part of private capital in a situation other than the state of war or another emergency.

The positive evaluation of this project by the European Central Bank is surprising. In the light of the discussion concerning abandoning the "too big to fail" rule in the banking sector and in the conditions of a free market the bankruptcy of banks might be an appropriate solution. Of course, the costs of such an approach would be high.

The subprime crisis gave rise to a discussion about a bank tax as an anti-crisis instrument. A variety of bank taxes have been introduced in 13 EU countries. A draft of a EU directive on the EU financial transaction tax (FTT) has been prepared. Its implementation would cause that in some countries there would be two kinds bank taxes: national and the EU tax, which would lower the competitiveness of banks and increase the cost of credit.

The implementation of a special tax on the financial sector is explained, among others, by the necessity to raise public funds to bail the sector out in the future if a need arises and to improve the financial stability.

A common argument for FTT implementation is the reduction of high risk transactions. However, there is no good methodology or research which would show which tax model would effectively limit such a risk. There is a problem of banks' resilience to changes and their ability to transfer costs on customers.

It is not certain yet if all FTT tax proceeds will contribute to the EU budget (the opposition is increasing) or only to the domestic budgets and if they will contribute to a special recovery and bank resolution fund.

In conclusion – bank taxes will certainly become a part of the tax system of the European Union. If financial transaction taxes are not introduced globally, European banks will find themselves at a disadvantage. Generally, the issue of bank taxes requires further scientific research. ■



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# A BUP motivated system of education for sustainable development in Slovakia

The Faculty of European Studies and Regional Development of the Slovak Agricultural University (SAU) in Nitra is the only faculty in Slovakia which has Department of Sustainable Development in its structure. The department was established by initiative of teachers in 1995, it was not a simple project but an essential structural element of the faculty and also driving force in education for sustainable development (SD). The study programmes at the faculty started to include both strong and soft principles of sustainability (environmental management, regional development, protection from economic disasters etc.). The education has been oriented on rising the environmental awareness of students who, as members of management staffs, will be expected to respect relations between the environment and economical development. The students are educated to make economically effective, socially fair and responsible decisions acceptable from the point of view of SD. At present a problem often faced is formalism in environmental education and education for SD and teachers are more focused on lexical knowledge than on awareness and action. Slovakia is a part of the Baltic Region and it belongs to the Baltic waterscape by its rivers Dunajec and Poprad. The system of development of education for SD has been inspired strongly by the experience of the Baltic University Programme (the National Centre of BUP was established at this university), representatives of SAU attended almost all BUP and BUP-MEdIES conferences on education for SD (e.g. Integrated Approaches to Sustainability – Uppsala 2002, University Education and Didactics – Gdansk 2004, Education for Sustainable Development – Uppsala 2008 and Visby 2009, Residential Training Workshop on Universities & Education for Sustainable Development – Amfissa 2010). The experts of SAU also participated in preparation of course materials for the BUP network (A Sustainable Baltic Region, Environmental Science, Ecosystem Health and Sustainable Development).

The purpose of education at SAU is the creation of knowledge and within this it is necessary to integrate natural and social sciences, economics and arts. A relatively great problem arises from the fact that SD is a multidisciplinary system and the educational system is more or less monodisciplinary. The SAU is oriented mainly on farmers who know environmental and economic principles of agricultural production and therefore many approaches of art subjects were quite new to them. Although it is declared that schools fulfil three basic functions: the transfer of knowledge, the socialization and the development of an individual, we know that the transfer dominates. At the change of traditional education to the education for SD a serious dilemma appears: on the one hand it is expected that the education will be democratic and allow the creation of one's own opinion, but on the other hand it forces the implementation of a specific SD strategy. We use an ecosystem approach in the explanation of environmental relations and the social and economic issues are related to the structure and function of ecosystems (ecosystem services!). The environmental education has been changed towards education for SD and the teachers are considered facilitators in learning for SD.

Students approach the problems of the environment and SD in different ways, depending on the level of the study and study orientation.

Problems in education for SD often originate from the fact that the attitudes of the teachers in the eastern part of Europe are often pessimistic (low wages, low social rank, surviving corrupt practices, etc.). In order to improve the work of teachers we have adopted Wright's recommendations, according to which an education facilitator has to realise his/her imperfections, to decide for change, to identify functional methods, to experiment and test himself/herself and to identify resources for students and himself/herself.

One of the key questions is the methodology of education for sustainable development. This old rule is held to be true: „Tell me – I will forget, show me – I will remember, let me do – I will understand.“ The individual activity of students is realised by means of their own work such as projects, research activities and studies. In the didactic practice and in the education for SD different creative methods are applied. *Case studies* are typical methods of university education. They are used to investigate real phenomena and this makes them different from some other methods. *Research methods* are also typical methods of university education and are more frequent at advanced levels. They are used for practical training and for the production of seminar and diploma theses. *Problem teaching* is applied only when as the students have sufficient specific knowledge and skills for creative thinking. The work itself is carried out in the form of small projects. *Simulation or role games* are typical for the lower levels of study, at the university level of education they are relatively rare. The experience obtained during simulation games enhances the decision making abilities of students. *Effective communication* belongs to the most important of all abilities at which the educational process is aimed (determination of hypotheses, accumulation of information, development of methodological practices, project realisation, final reflections and recommendations for practice). The *summer schools* used to be more practical in comparison with standard university lectures or seminars (more field work, practical output etc.). The development of creative methods helps students to have an active approach in solving environmental problems when they become direct participants in the process of caring for the environment. ■

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# Kaunas University of Technology – steps towards sustainable university

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**A**iming to become the leading university, able to compete in the international arena, Kaunas University of Technology (KTU) bases principal activities on its strengths and traditions – links with industry, wide spectrum of technology related studies and research, as well as the latest trends in international development. Kaunas University of Technology, with its 14 faculties, high school (gymnasium), and numerous research centres, is the second largest university in Lithuania. About 80% of Lithuania's industrial engineers have graduated from KTU.

With a new management group in 2011 and the newly developed strategy, the University has focused and concentrated its efforts to the issues of social responsibility and sustainable development. On the platform of previous successful results and expertise, University sees the importance to reorganize University's activities and strengthen cooperation with partners for the unity of economic, environmental, social and cultural objectives and values, identify developmental issues of the city, region and country, constantly develop a systematic education and consulting for companies, organizations and business, support activities within the University that are responsive to the problems of sustainable development of the city, region and country and the quality of life.

The sustainability in every day practise is considered as a priority of on-going "flagship" project "KTU Green University" which involves all the staff and students in the sustainable development of KTU. Therefore, project has started the following initiatives in the KTU: waste (recyclable) management; implementation of green public procurements; efficient energy use; social responsibility and sustainability in the campus (canteens, hostels, etc.), development of sustainable mobility plans. The mentioned initiatives are based on scientific research and activities of researchers and M.Sc. students.

One of the first issues of the project "KTU Green University" was sustainable waste management. The amount of waste generated at Kaunas University of Technology (KTU) in 2011 reached 5 402 m<sup>3</sup>, its disposal expenses were 131 046 Lt. The majority of that waste (70%) was recyclable – paper and plastic. However, in 2011 the infrastructure for recycling was of very limited scope and most of the waste was going to landfill, as it was a case in the whole country. Waste management practices, corresponding to higher levels within the waste management hierarchy, are under implementation at the University.

The system of separation and collection of main recyclable material - paper waste from the main flow of municipal waste from office buildings was implemented in the framework of project "KTU Green University" and started functioning at KTU since September 2012. The main system actors, an initiative group of the project, established an infrastructure for paper collection on site. More than 600 specially developed boxes where sent and installed in all faculties and office buildings of KTU. Special containers where installed outside the buildings and an agreement (regarding the pickup of collected paper) with the paper mill "Grigiskes" was signed. Informative material on the rise

of awareness and information of university members and students was printed and disseminated. Informational events and public presentations of on-going activity were launched by the KTU Students Union. During the first three months of the project, outstanding results of paper waste collection were obtained. More than 14 tons of clean paper waste were collected and transported to the paper mill "Grigiskes". Separation of paper from the main flow of generated waste in KTU made it possible to reduce the number of containers for municipal waste by 25%. Development of a paper collection infrastructure, introduction of economic incentives and further awareness rise will help increase the amounts of collected paper, and according to the targets of the project, in future University expects to eliminate up to 50% of the containers for municipal waste. ■

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# Assessment of sustainable university development

**T**he digest of recent international publications shows that sustainable university development is hot topic for universities in EU countries and worldwide. In order to measure economic-social-environmental-institutional performance of the university, the authors of this paper proposed integrated sustainable development index. The index sums up the development tendencies of the economic, social and environmental settings of sustainable development in general as well as each setting separately. Also, it estimates the relationships between the settings and general university performance. With the intention of evaluating sustainable development progress, the authors carry out study which would help assess tendencies and perspectives of sustainable development at different universities in Kaunas, Lithuania.

As sustainable development is consistent goal, we need to have means how to measure the progress of the university. Economic efficiency doesn't guarantee environmental and social sustainability, therefore the assessment of sustainable development requires integral view, set of multi-dimensional indicators, which assess parts of investigated system and relationships between them. The systemic method of indicator selection should follow the adequate scientific methodology and should assess uncertainty. The method should be flexible, i.e. capable of supplementing or reducing the number of indicators in order to achieve a better evaluation results in the given case. Eventually, in order to promote the progress of sustainable development, strong streamline indicators should be identified and properly applied. Indicators of sustainable development should concentrate the attention on the start of the development cycle. The index takes into consideration local conditions and estimates physical (energy, materials, etc.), human and natural (environmental) resources of the particular university.

The advantage of the proposed integrated sustainable development index is flexibility: it can be applied to any university and any period of time, university is free to choose different aspects to be estimated, it could reflect local conditions, at the same time it gives possibility to compare sustainable development of different universities. For example, if certain aspect of sustainability is no longer relevant for the university, it can be eliminated and substituted by other, and vice versa, if some new aspects important to sustainable development appear, they can be included instead of the former ones or simply the whole calculation system can be supplemented by the larger number of indicators.

Existence of some sustainable areas in the unsustainable world is impossible in the long run, because they are interconnected. If we think about scenario of local sustainable development, both universities and municipalities (communities) must take steps for more efficient use of available economic-human-societal-natural resources. The society is in charge of formulating sustainability objectives, which should be constantly reviewed and assessed. Indicators can successfully measure the degree of progress (in some cases regress) and show efficiency of the measures implemented. Furthermore, the

answer to the question: "At what economic expense the development has been ensured?" could be obtained.

To summarize the proposed assessment methodology, it can be said that it has been developed in accordance with the main dimensions (spheres) of sustainable development, which should constitute equal weight in the aggregated index. Only by practical evaluation of sustainable development index it is possible to discover the tendencies of its change and encompass the direction of sustainable development of the university. ■

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# ESDAN – with quality management systems towards sustainability

The Baltic Sea remains the most polluted sea in the world yet has significant importance to the economies of the countries that share the shoreline to this highly vulnerable aquatic environment. In recent years the EU Strategy for the Baltic Sea Region has not only recognized the region's prosperity and dependency on the Sea for economic development based on fisheries, tourism, etc., but also the risk that their economies may be harmed as a result of environmental degradation. As environmental conditions for some sectors deteriorate, other sectors that profit by polluting the Sea grow. Co-operation between nations in the Baltic Sea Region will therefore only function if environmental policies and implementation practices do not allow any country to act as a "free rider" with regard to the sustainability challenges these nations commonly share. Henceforth, correspondence between the drainage basin of the Baltic Sea and the corporate politico-administrative map is of crucial importance. For instance, Russia is currently not integrated in the EU, hence fully in the EU Baltic Sea Strategy, which is why it is necessary that actions also be taken beyond these boundaries.

In the so-called "knowledge society", another dimension is also worth bearing in mind. As business, universities and government agencies become more and more intertwined, it is not only business or agriculture that can be blamed, although some sectors do cause more harm, or even harm other sectors and the environment systematically.

Research and education provide a significant contribution to the region's development, as well as innovative solutions to deal with the present and future sustainability challenges faced by the region. While environmental conditions are under stress, the skills and expertise required to deal with these challenges are in large part not present in higher education (HE) programs. For instance, one Danish study indicates that only 5% of education programs offered at a Danish University take up sustainable development. Against this background, the Nordic countries in general and the Baltic Sea Region in particular should pay much more attention to education for sustainable development (ESD).

The Baltic University Programme (BUP) has long provided a well-developed network for teachers and students to engage in the ESD discourse. As the EU Commission has encouraged member states to use the UN Decade of Education for Sustainable Development (UNDESD) 2005-2014 for ESD implementation, the Nordic Council of Ministers (NCM) has proclaimed its commitment to ESD, and national ESD strategies have been developed in all of the Nordic countries. According to the Nordic countries, the vision is to become one of the leading regions in enhancing the UNDESD. In addition, regional centers of excellence such as SWEDESD, RCE Denmark, and the Finnish SD-Forum in Higher Education have been developed. But while BUP provides a comprehensive platform, with its particular strength lying in its cross-border activities, little has been done to empower the integration of ESD through existing quality assurance systems.

The main idea behind Education for Sustainable Development in Academia in the Nordic countries (ESDAN) was to examine and develop a quality assurance model that better integrates ESD issues. ESDAN, an applied research project, is financed by the Nordic Council of Ministers.

ESDAN is a cross-border initiative that disseminates sustainable development practices, cases and ways of integrating ESD through quality management. The project developed, piloted and tested a model for enhancing ESD with management systems in collaboration between 11 universities from Sweden, Finland and Denmark. Further, the model has undergone pilot-testing by 13 other volunteering universities that were not part of the original project.

Sustainability aspects were screened in quality assurance systems and drivers and barriers for enhancing ESD, as reported by the participating HE institutions, were identified. The objective was to stimulate education that enables graduates to take economic, ecological and social aspects into consideration as future leaders, citizens and decision-makers. This requires development of holistic and critical thinking, and quality assurance systems must be used to support the integration of these qualifications into different disciplinary and cultural traditions. Nonetheless, introducing ESD into the management system could be a way to ensure its integration throughout the university system, where quality assurance is compulsory.

The project found that none of the Nordic countries have included ESD indicators in their HE quality assurance models. While much has been done, it remains to be seen when educational policies and environmental or climate change policies will not only be developed within their respective spheres, but also more fully reflect one another. Today, little or no relation exists between the EU Baltic Strategy, the Nordic ESD strategies, and/or the national climate strategies. This year (2013), however, the Baltic Sea Network on ESD (BSRESN) came into being, so the discussion on quality assurance as a way to meet one of the enormous challenges in the region, and cross-national as well as inter-sectoral collaboration, may have taken a step forward. ■

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# Development prospects for trade and economic relations between Kazakhstan and Finland in a short run

Finland decided to join the Charter of the Green Bridge Partnership Programme (GBPP). This was announced by the Speaker of the Parliament of Finland Mr. Eero Heinäluoma at the meeting with the President of Kazakhstan in Astana (Akorda, March 4, 2014), where the prospects for bilateral cooperation and also actual international issues of the agenda were being discussed.

Welcoming the first visit paid by the Speaker of the Finnish Parliament, the President of Kazakhstan Mr. Nursultan Nazarbayev has noted that Kazakhstan is interested in the development of economic and political cooperation between our two countries.

"The achievements of Finland in recent years are impressive. We are ready to adopt your country's practices in the field of education, development and implementation of new technologies. Our industrial and innovative programme offers opportunities for a number of Finnish companies to work in Kazakhstan", the President has highlighted.

In contrast to Europe, Kazakhstan, indeed, possesses 90% of land resources free of chemical and pesticide pollution. This makes it possible to produce "ecologically pure" foodstuffs, which are of high value and demand on the international markets. By means of such projects as "Green Bridge", there is an opportunity to cultivate products using the Finnish technologies, the owners of which will get good income while the Kazakh farmers will obtain new technologies. This means involvement of new projects in the field of renewable energy, production of "ecologically pure" foodstuffs as well as construction of socially important facilities.

The trade and economic cooperation between Kazakhstan and Finland significantly intensified in 2013. Signing new agreements and launching joint projects was reflected in the growth of trade volumes. Thus, according to the Customs Control Committee of the Republic of Kazakhstan, the turnover in 2013 increased by 18,6 % compared to 2012, and reached USD 916,5 mln (USD 669,3 mln exports and USD 247,2 mln imports).

Within the framework of the forthcoming international exhibition "EXPO-2017" to take place in Astana, aiming at increasing of power supply efficiency, stimulating of renewed energy sources and implementing of the power-saving manufacturing plan, the topic "Energies of the Future" is becoming increasingly important. The Republic is rich in traditional fuel types, though, it is vital for the country to build a new energy model based on the renewable sources of energy because of the following two major reasons.

The first reason is the urgent need to cut down the emissions of greenhouse gases and pollutants by the fuel and energy sector, which are caused by burning of fossil fuels (coal, petroleum and gas).

The second reason is the increasing energy deficit as a deterrent factor for the economic development of the republic. The specific value of energy consumption per GDP unit in Kazakhstan is 1.9. This is several folds higher than the same index in the developed OECD member states. High energy intensity has negative consequences, such as low competitiveness of the produced goods and significant

pollution of environment. As reported by the experts from the Ministry, Kazakhstan has the world lead in greenhouse emissions related to the GDP (3.38 kg per each dollar of the GDP).

Having ratified the Kyoto Protocol in 2009, Kazakhstan has committed to decrease the greenhouse gas emissions. However, despite the great prospects for using of the renewable energy sources, the share of this sector in the total volume of electric power produced in the country still remains low: 12.5%, taking into account the conventional large hydro-electric power stations, while the share of non-conventional types of renewable energy sources is only 0.5%. For the sake of comparison, the same index (without large hydro-electric power stations) is 29% in Denmark and Iceland, 18% in Portugal and China, 42.2% in Spain, and 10% in the USA, while the renewable energy sources take about 19...20% in the global structure of energy production.

At the same time, according to the expert estimates, the technical potential of the alternative energy production in Kazakhstan is about 1820 bln kWh per annum for wind power only, which exceeds the current needs many-fold. Nevertheless, this potential has been implemented for less than 0.05%. Based on the up-to-date information, the renewable energy sources facilities generate about 423...500 mln kWh per annum.

In compliance with the targets of the State programme for the forced industrial innovative development (FIID), the volumes of electric power produced by the renewable energy sources in 2014 should be equal to 1 bln kWh, while the consumption of "green" power should exceed 1% in the total volume of consumption.

The following trends presently have the best development prospects for the alternative energy production in Kazakhstan:

- Hydro-electric power. The capacity of the existing hydro-electric power stations is 2068 MW, and the annual electric power production is 8.32 bln kWh. The theoretical hydro-electric potential is about 170 bln kWh, whereas 27...30 bln kWh could be produced cost-effectively. The majority of the hydro-electric resources is located in the Eastern and South-Eastern regions of the country. Small hydro-electric power stations (less than 35 MW) are of great importance for the Southern region that lacks energy sources, because such stations have low production costs and exert insignificant effects on the environment. The following rivers of the region have the highest potential for construction of hydro-electric power stations: the Ili, the Charyn, the Chilik, the Karatal, the Koksu, the Tentek, the Khorgos, the Big and the Small Almatinka, the Aksu and the Lensy River. According to expert estimates, the small hydro-electric power stations located in the area will be able to produce about 8 bln kWh per annum and will be capable to fully meet the demand, which is currently being covered at the expense of imports from the countries of the Central Asia.

- **Wind Power.** Due to the geographical location in the wind belt of the Northern hemisphere and due to strong air streams, Kazakhstan has extensive possibilities for wind power development. For instance, the average annual wind speed in some regions of the country exceeds 6 m/s, which makes them attractive for the development of this branch. According to expert estimates, the wind power potential in Kazakhstan is 929 bln kWh per annum. So far, only one wind power station has been taken into operation: Kordayskaya wind power station with capacity of 1500 kW has been launched in Zhambyl region.
- **Solar Energy.** The climate conditions in Kazakhstan are favourable for development of solar energy. The experts estimate that the solar hours make about 2200...3000 per annum, and the solar radiation energy makes 1300...1800 kW per 1 m<sup>2</sup> per annum. The most suitable places for location of solar power stations are the Southern Kazakhstan and Kyzylordina regions, as well the Aral Sea region.

Taking into account enormous expenses required for facilities of the renewable energy sources to be constructed, as well as for necessary equipment to be purchased and set up, one should consider the possibility for direct financing of projects at the foreign investor's expense in accordance with the following scheme: an investor to a private partner.

In this case the investment risks can be proportionally shared between them, while the investor will be in charge for production costs and the direct site management. Kazakhstan is considering the draft law on certain tax benefits for banks that support "green" technologies. This economic incentive in the first place will stimulate banks towards working out new lending types and, accordingly, towards the development of management and analytical services in the sphere of the alternative power production. Obviously, still more attention should be paid to development of alternative power production in Kazakhstan, as fossil extraction costs constantly grow, while the level of emission of harmful substances remain unacceptably high. It is precisely the comprehensive state support and creation of the economic incentives for investors, which will make it possible to hold a strong position in development of renewable energy sources for the electric power balance of Kazakhstan.

Thus, this article highlights only the tip of the iceberg for the co-operation opportunities between two countries. Most of them can be found in mining industry, construction, eco-tourism (Finnish ecological houses), IT-technologies and many other sectors of the national economy.

Currently, the Institute of Bio-resources of the Eurasian National University named by L.N. Gumilyov, in cooperation with the scientists of the University of Turku (Finland) have submitted a budget-funded application of the following scientific project: "Implementation of the Green Economy Concept by introducing innovations of the Scandinavian countries (using the experience of attracting Finnish technolo-

gies to Kazakhstan)" for 2015-2017 based on grant financing. The programme of studies includes the following tasks:

- to achieve the high level of energy efficiency in remotely located areas by introducing renewable sources of energy at the pilot sites which will enable to set up new production facilities (greenhouse facilities and distant-pasture cattle tending), which will increase the competitiveness of regions;
- to implement contemporary agricultural methods (so-called "green" technologies) based on the investments and technologies of the Scandinavian countries, which will significantly improve the efficiency of the industry, since the economy of numerous regions greatly depends on this;
- to publish practical scientific recommendations on development of «green economy» by introducing innovation investments of the Scandinavian countries based on the experience of attracting Finnish technologies to Kazakhstan.

Most innovation systems of the Scandinavian countries have to be placed in Kazakhstan reality. Political, economical, geographical situation-those factors have to take into consideration during inputting process. Innovation policy of Kazakhstan is appreciated to integrate new technologies in preservation and in conservation of nature. It will take time and capacities of both countries for long run period. ■



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IRINA LYUTOMSKAYA

# Durham and St. Petersburg – university partners

There are not many places in the world which have something special about them, something that ensnares you and never lets you go. The city of Durham is one of them. What makes it unique is its peculiar aura: the tranquillity of the countryside and the bizarreri of a city of world significance. The city possesses England's third oldest University. The University was founded in 1832 and is still developing. It has a collegiate system. Today there are 16 distinct colleges. The teaching departments are divided into three faculties: Science, Arts and Humanities, Social Sciences and Health. The University lists more than 11 000 undergraduates. Students come from over 120 countries. Durham University teaching combines traditional methods, such as personal tutorials, with the most advanced digital approaches.

The author of this article has worked at the Department of Russian for two years and enjoyed it immensely. The Department of Russian is included into School of Modern Languages and Culture, which is part of the faculty of Arts and Humanities. Russian language courses are taught by highly experienced language instructors as well as academic staff. Today, the Russian department has 9 senior lecturers, lecturers, teaching fellows, part-time teachers, one professor and one language teaching assistant. Staff in Russian have particular research expertise in 19th and 20th -century social and cultural history (Dr Byford), 19th and 20th -century poetry, especially Anna Akhmatova (Dr Harrington), literary and critical theory, Bakhtin, Formalism, Russian and Soviet cinema (Drs Renfrew and Radunovic), Russian postmodernism, philosophy and religion (Prof Epstein).

The Department is now home to a Russian World Centre whose Director is Marianna Taymanova, a teaching fellow of the Russian department.

Marianna Taymanova is also a specialist in French language and literature. Marianna Taymanova is an acclaimed translator, whose translations of classic and contemporary French fiction include the works of de Nerval, Dumas, Jules Verne, Apollinaire, Simenon, Foenkinos, Millet, Japrisot. In School of Modern Languages at Durham Marianna's teaching includes Russian language, translation studies and unofficial culture of the late Soviet years.

Prior to coming to Durham, Marianna Taymanova taught French and English at Petersburg State Transport University (Leningrad at that time). Since the time when she started to live in the UK and teach at Durham University the contacts between Durham University and Petersburg State Transport University have been steadily developing, due to Marianna's expertise coordination.

Petersburg State Transport University (PSTU) is even older than Durham University as it was founded in 1809. Today, over 14,000 students study at the University, including more than 500 foreign students from around the world. Annually, the University sends its students for studies and internships at Universities abroad and receives students from Europe, USA and CIS countries. The University graduates work successfully all over the world. Petersburg State Transport University is a huge scientific and research center in the field of engineering, construction and railway operation. The University's lecture-halls and laboratories contain all the necessary equipment that complies with the latest requirements. PSTU takes part in the organisation and hosting of more than 10 scientific conferences, symposiums and work-

shops on a regular basis. The University has agreements of cooperation in the sphere of education and scientific research with more than 30 foreign partners, Durham University among them. The relationship between the two universities are based on an agreement system according to which Durham students come to Petersburg State Transport University during their year abroad to master Russian, to learn more about the Russian way of life and Russian culture and to work as teachers in our University student groups. They have an opportunity to live in the beautiful city founded by Peter the Great and study at the oldest engineering higher school in Russia. Russian students have an invaluable experience in communicating with English native speakers and get to know English way of life and English culture through them. In turn, the teachers of the Foreign Languages Department have had an opportunity to go to Durham University to gain experience in the English language and foreign language teaching. The teachers of the Foreign Languages department organise regular seminars for the students of the Economics and Social Management department where English and Russian students tell each other about their native towns, their studies and student life. Such meetings help widen students' cultural knowledge and language experience more than anything else. The Durham – PSTU cooperation is a good example of promoting Russian language abroad and English language in the Russian community. ■

IRINA LYUTOMSKAYA

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KARI LIUHTO

# Despite the NATO membership of the Baltic States their exports to Russia grown faster than those of Finland between 2004 and 2013

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**W**ith the annexation of the Crimean Peninsula to the Russian Federation, Russia wants to show the West that Ukraine belongs to its sphere of interest and that it is ready to use its military power to halt Ukraine's aspirations towards EU integration. Another likely motivation for Russia's military muscle flexing is to increase President Vladimir Putin's popularity among the Russian siloviki, who run the country behind the curtains of managed democracy.

The Baltic States – Estonia, Latvia and Lithuania – have been concerned about developments in Russia since the turn of the millennium and have increasingly questioned whether NATO would come to their aid should Russia exercise military aggression towards them. The Ukrainian case has demonstrated that NATO takes Article 5 of the North Atlantic Treaty seriously and is ready to defend all its members, including the Baltic States, militarily if necessary.

Some experts have argued that Finland's trade with Russia would be gravely damaged as a consequence of Finland's membership in NATO. We can get a hint of the possible impact of Finland's membership of NATO on economic relations with Russia by analysing the development of trade of the Baltic States with Russia following their NATO membership in 2004.

The statistics show that despite the NATO membership of the Baltic States, their exports to Russia have expanded faster than their exports in general. Surprisingly, the exports of the Baltic States to Russia have grown much faster than that of Finland, a non-NATO member, between 2004 and 2013. On the basis of the trade development one can assume that the NATO membership has not significantly decelerated the exports of the Baltic States to Russia. (See the table on the following page).

On the import side, the development is more diversified. Estonia's imports from Russia have grown at a slower pace than their total imports. In fact, Estonia is the only country among the studied nations that has decreased its dependency on imports from Russia. Conversely, Finland's and Lithuania's imports from Russia have clearly outpaced overall imports, thus increasing their import dependency on Russia. Since 2004, dependency on Russian imports has increased by 6 percentage points for Lithuania and by 5 percentage points for Finland. "Oversized" crude oil imports from Russia to Finland explain a part of this increase. To put it differently, Sweden is Finland's largest export destination with a 12%-share of the country's total exports. Oil products account for around a quarter of Finnish exports to Sweden despite the fact that Finland does not produce any oil.

To conclude, the objective of this article is not to promote Finland's membership of NATO, but to normalise the NATO-related discussion in Finland by shooting down the myth that NATO membership seriously damages trade relations with Russia. A look at the foreign direct investment and foreign tourism statistics of the countries in question reveals similar trends, further underpinning the conclusion that, so far at least, NATO membership has not harmed economic relations between the Baltic States and Russia. However, nobody knows what developments the future will bring. ■

KARI LIUHTO

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### Foreign trade of the Baltic States and Finland in 2004

|                  | Total imports<br>(million) | Imports<br>from Russia<br>(million) | Russia's<br>share of<br>imports | Total<br>exports<br>(million) | Exports to<br>Russia<br>(million) | Russia's<br>share of<br>exports |
|------------------|----------------------------|-------------------------------------|---------------------------------|-------------------------------|-----------------------------------|---------------------------------|
| <b>Estonia</b>   | 6,703 EUR                  | 617 EUR                             | 9%                              | 4,768 EUR                     | 267 EUR                           | 6%                              |
| <b>Finland</b>   | 40,270 EUR                 | 5,318 EUR                           | 13%                             | 48,790 EUR                    | 4,392 EUR                         | 9%                              |
| <b>Latvia</b>    | 3,805 EUR                  | 332 EUR                             | 9%                              | 2,150 EUR                     | 137 EUR                           | 6%                              |
| <b>Lithuania</b> | 34,384 LTL                 | 7,905 LTL                           | 23%                             | 25,819 LTL                    | 2,395 LTL                         | 9%                              |

### Foreign trade of the Baltic States and Finland in 2013 (figures for Latvia 2012)

|                  | Total imports<br>(million) | Imports<br>from Russia<br>(million) | Russia's<br>share of<br>imports | Total<br>exports<br>(million) | Exports to<br>Russia<br>(million) | Russia's<br>share of<br>exports |
|------------------|----------------------------|-------------------------------------|---------------------------------|-------------------------------|-----------------------------------|---------------------------------|
| <b>Estonia</b>   | 13,649 EUR                 | 787 EUR                             | 6 %                             | 12,275 EUR                    | 1,404 EUR                         | 11 %                            |
| <b>Finland</b>   | 58,168 EUR                 | 10,519 EUR                          | 18 %                            | 55,903 EUR                    | 5,354 EUR                         | 10 %                            |
| <b>Latvia</b>    | 8,793 EUR                  | 828 EUR                             | 9%                              | 6,937 EUR                     | 791 EUR                           | 11 %                            |
| <b>Lithuania</b> | 91,521 LTL                 | 26,827 LTL                          | 29 %                            | 84,779 LTL                    | 16,814 LTL                        | 20 %                            |

### Change in foreign trade between 2004 and 2013

|                  | Change in total<br>imports between<br>2004 and 2013 | Change in imports<br>from Russia between<br>2004 and 2013 | Change in total<br>exports between<br>2004 and 2013 | Change in exports to<br>Russia between 2004<br>and 2013 |
|------------------|---|---|---|---|
| <b>Estonia</b>   | +2.04   | +1.28   | +2.57   | +5.26   |
| <b>Finland</b>   | +1.44   | +1.98   | +1.15   | +1.22   |
| <b>Latvia</b>    | +2.31   | +2.49   | +3.23   | +5.77   |
| <b>Lithuania</b> | +2.66   | +3.39   | +3.28   | +7.02   |

Exchange rate per 22.4.2014 (European Central Bank):  
1 EUR = 3.45 LTL

Note: this article is not based on a scientific research. In a scientific study, a researcher should neutralise the impact of all the other factors on the foreign trade development in order to assess the impact of the NATO membership on the foreign trade development.

Sources: National statistical authorities and Customs Finland



KARI MÄKINEN

# The Baltic Sea – a meeting point for ecclesial traditions

**T**he Baltic has always been seen as a sea of connections by the churches. Seafarers, tradesmen, soldiers and itinerant monks brought Christianity to these shores. This is as true of my home town Turku as it is of any Baltic medieval city. The sea connected our ancestors with the rest of Europe, its culture, commerce, philosophies, politics and religion.

From the outset, however, Christianity arrived in two distinct traditions: Eastern Orthodoxy and Western Catholicism. Western Finland came under the Catholic Church through Swedish missionary endeavours which were led by an Englishman, St Henry, whereas the easternmost parts of Finland became Orthodox through the missions of St Sergius and St Herman on the shores of Lake Ladoga. The integration of Christian values and faith took time, as did that of the early migrants. The Legend of St Henry vividly records his martyrdom at the hands of local peasants in the middle of the 12th century – although significantly those peasants had Christian names.

The city of Turku came to prominence with the translation of Henry's remains to the newly built cathedral in 1300. The cathedral was dedicated to the Blessed Virgin Mary, whose monogram may still be seen on the city's coat of arms. Yet there is more to the cathedral: in addition to altars dedicated to the Blessed Virgin Mary and St Henry, the medieval cathedral had altars dedicated to St Erik, St Christopher, St Mary Magdalene, St Catherine of Alexandria, St Catherine of Siena, St Bridget, St Ursula, St Margaret, St Barbara, St Helena, St Anna, St Gertrude and St Veronica. These eleven female and two male saints connected the Cathedral and the city with European and Mediterranean networks of faith, commerce and culture, as evidenced by the formation of pilgrim roots and religious orders.

At the Reformation, the cult of the saints gave away to Lutheran principles. The new piety came to Finland via Turku, especially through the work of Mikael Agricola, the Finnish reformer, who later became Bishop of Turku. Although the vernacular replaced Latin in worship, links with the rest of Europe remained, with a strengthened emphasis on the Lutheran areas of the European North. Finnish students, for example, were now sent to Germany, whereas before they had studied in Catholic universities all over Europe.

During the period of confessionalism, when the Swedish Empire was at its height, the Baltic Sea almost became a Lutheran 'mare nostrum'. However, its potential as such was never fully realized, as constant wars between the Roman Catholic, Lutheran and Orthodox kingdoms ensured that the sea divided no less than it connected.

For Finland growing Russian domination of the eastern part of the Baltic Sea had unexpected consequences: Sweden lost Finland to Russia in the early 19th century, with Finland becoming an autonomous Grand Duchy under which the Finns were able to keep their laws, customs and religion. Furthermore, Russian rule meant two significant changes: first, the establishment of a new capital in the east,

Helsinki, which replaced Turku, for long the second city of Sweden; and second, the conferring by the Tsar of the title of Archbishop on the Bishop of Turku.

The independence of the Evangelical Lutheran Church of Finland thus significantly predates that of the Finnish Republic, which was established at the time of the Russian Revolution in 1917. Since national independence, the Finnish Church has been free to form relations with all the ecclesial traditions present on these shores.

This has been especially important as the Baltic Sea still forms a unique meeting point for three ecclesial traditions: Roman Catholicism, Lutheranism and Orthodoxy. All three are present in Turku, serving as a reminder of the importance of working for the unity of the church and of people, so that the Baltic Sea can become a sea of connections rather than of divisions. More widely cooperation between the churches has taken place, for instance, through the Theo-Balt (Theology in the Baltic Region) network, established in 1983 to create and nurture connections across Cold War divides. The network last met in 2009 in Turku.

Today, the churches of the Baltic Sea area have much in common across denominational boundaries. All of us are concerned, for example, with the challenges posed by climate change. The world has become irrevocably one, with everyone's fates connected by the waters of our seas.

We are called as churches to look for the signs of the times. In our time, the voices of environmental scientists are a prophetic call to us to do our utmost to stop wasting our waters and destroying our planet. This challenge does

not discriminate on the basis of faith. There is no difference between the greenhouse emissions of Christians, Muslims, Jews, Buddhists or atheists. Their effect is the same. The air we breathe and the water that sustains us are constrained by no boundary of nation or church or religion.

Against this background, it is clear that a faith community or a nation focusing on the defence of its own positions and concerned first for its own interests has lost sight of what truly matters. For once, we are all on the same side – hopefully on the side of our sea and of life on this earth, our common home. ■



KARI MÄKINEN

The Most Revd Dr  
The Archbishop of Turku and Finland  
The Evangelical Lutheran Church of Finland  
Finland

The air we breathe  
and the water that  
sustains us are  
constrained by  
no boundary of  
nation or church or  
religion.

PETTERI ORPO

# Turku and Southwest Finland – active in business and cross-border cooperation

The name of the Southwest Finland region is Varsinais-Suomi in Finnish and Egentliga Finland in Swedish, both of which translate as “the real Finland” in English. From the start of recorded history and up to the beginning of the 19th century, Turku was the most important city of Finland, and the surrounding region formed the core of the country.

Turku was the capital city until Tsar Alexander the First gave the order to transfer the seat of power to Helsinki in 1812. Finland had become part of the Russian Empire in 1809 after a war between Russia and Sweden. The decision to transfer the capital city was caused by Turku's proximity to Sweden. Alexander wanted to sever all of Finland's Swedish ties.

Another unfortunate event was the Great Fire of Turku in 1827. This disaster caused the move of the country's only university to Helsinki, which had been made the new capital city. Nevertheless, Turku and the region of Southwest Finland remain important areas because of their good, advantageous location on the shores of the Baltic Sea. Furthermore, the climate of the region is good, on the Finnish scale at least.

Maritime-based business has always been the backbone of the region's economy. Present-day shipbuilding is rooted in the region's long history of manufacturing sailing ships. There is also a long tradition of food industry here. Other important economic hubs are Turku's pharmaceuticals sector, the engineering workshops of Loimaa as well as the car factory in Uusikaupunki. In addition, the scenic archipelago offers a wealth of opportunities in the travel sector.

The region of Southwest Finland has been an active player in implementing the EU Strategy for the Baltic Sea Region. The macro-strategies of grand areas provide good avenues for cooperation. The aim is to supply coordinated answers to the challenges of grand areas and to capitalise on the possibilities these areas offer. According to a report of the European Commission, the value of grand area strategies lies in growing cooperation and coordination between Member States and regions.

The Commission also says that strategies have given more power to old cross-border projects. Furthermore, the strategies have helped develop new projects, networks and motions, which have provided concrete results in fields like the environment, infrastructure and science.

The implementation of strategy should focus on launching new and innovative projects, which provide direct answers to the goals of macro-strategies. Many actors in the region, including the Central Baltic Interreg Programme and the City of Turku, have actively enhanced implementation of the strategy and helped aim its goals.

The region of Southwest Finland has lots of specific know-how in different areas. The new regional strategy defines partnership as the seamless cooperation of many different fields. Next, I'll introduce you to the most prominent patterns in the region and its neighbouring area.

Biotechnology, diagnostics and pharmaceuticals formulate 50 percent of Turku's gross domestic product.

We have lots of Arctic know-how relevant to the shipbuilding industry and maritime sector, and we are keen to develop new technologies.

The development of new technologies and renewable energy sources is an emerging sector, which benefits the region's businesses as well as the environment. Another area of activity that has great potential in the future is provided by the so-called creative lines of business. Because of this great potential, the Regional Council of Southwest Finland has established a dedicated development programme for these creative lines of business. Also among our top priorities are the Nordic growth belt and providing support for infrastructure and business projects.

The Regional Council of Southwest Finland and the City of Turku have been showing active initiative with respect to launching the so-called Turku-process, which has huge potential because it would create a concrete confluence between the EU Strategy for the Baltic Sea Region and the Russian Federation's strategy for Northwest Russia. The Turku region expects to join the EU's new European Neighbourhood Instrument (ENI) programme, which will be launched this year and can provide us with a new source of project funding.

Southwest Finland enjoys good cooperation with other areas and organisations of the Baltic Sea region. The main sectors of cooperation are clean and safe shipping, reliable energy markets and the EU Strategy for the Baltic Sea Region as a frontrunner for deepening and fulfilling the single market.

I'd like to list a few examples about channels of cooperation: good relations between local sector organisations in both countries, ENI programmes, the cooperation agreement between the Regional Council of Southwest Finland and association of strategic partnership of economic and social development of Northwest Russia, the Baltic Sea Region University Network and the various local associations that support economic life in the area.

I bid you a warm welcome to Turku and Southwest Finland! I hope you will have a good time here. Turku is proud to also be the venue for other great maritime events after the Turku Baltic Sea Days: we will host the European Maritime Days in 2016 and the Tall Ships Race in 2017. ■



PETTERI ORPO

Member of Parliament

Chairman  
Executive Board  
Regional Council of Southwest Finland  
Finland

JUHO SAVO

# The Baltic Sea – on my mind

The importance of the Baltic Sea has reached a higher level during the past decade. Although the sea has served for centuries as a transport route and a connecting factor, not much attention was paid to it in the latter half of the 20th century. When we looked from Finland to the rest of Europe, the sea was seen as an obstacle and a restricting factor in a world dominated by cars. Ships sailed, but the sea under them played only a minor role. Furthermore, the Cold War made our sea somehow one-sided. At least pleasure boaters had no business on the coasts of the Soviet Union, Poland and East Germany.

As the Cold War ended, and Estonia, Latvia and Lithuania declared themselves independent, and Germany was united around twenty years ago, the situation in the Baltic Sea region changed radically. The old attitudes that were based on suspicion and fear gave way to opportunities for co-operation of the whole Baltic Sea region. Intensive dialogue began between the co-operative bodies of countries that had existed officially even earlier, but above all between civic organisations. When Finland and Sweden joined the European Union, a new financing instrument was introduced to part of the co-operation. And when the Baltic States and Poland also joined the EU, there were a great deal more resources available for key co-operation projects.

From the point of view of my home region, Southwest Finland, potential for direct co-operation between regions emerged, when the regional administration was reorganised in Finland in 1993. The new regional councils that represented the political will of the areas were assigned a statutory task to manage the international affairs and contact of the regions. The region of Southwest Finland already had working relations with Sweden and the Åland islands within the archipelago co-operation supported by the Nordic Council of Ministers. Other co-operation was conducted at municipal level with Estonia.

In a new situation, Southwest Finland initiated a contractual co-operation relationship with the state of Mecklenburg-Vorpommern in Germany and the province of Pomerania in Poland. One of the key focal points in the co-operation with both of them was measures aimed at the environment and marine protection of the Baltic Sea. I can still vividly remember that our German partners thought it was very strange. In the 1990s, the pollution of the Baltic Sea was not yet a well-known problem in Germany.

Memberships in regional co-operation organisations were built on top of the direct co-operation structures between regions. For us, the first one was the membership in AER (Assembly of European Regions). Its function was to strengthen the point of view of European regions. Southwest Finland assumed a bigger role in CPRM (Conference of Peripheral and Maritime Regions of Europe) which also has its own Baltic Sea Commission (BSC). As its name suggests, the Baltic Sea Commission focuses on the co-operation issues in our region. Not all provinces in the Baltic Sea region belong to the organisation, but as far as I understand, it nevertheless represents the interests of the Baltic Sea region in European discussion.

The European Union's Interreg programmes have offered an instrument for the development projects between Finland and Estonia. As the Regional Council of Southwest Finland is starting a third programme period as an administrative authority in the programmes, we have not made region-specific co-operation agreement with Estonian regions. In practice, our co-operation area has been the whole of Estonia.

After a separate Archipelago programme and a separate Finland–Estonia programme, we are now starting the second 7-year Central Baltic – Interreg A programme in which the central area of the Baltic Sea will participate. The Regional Council of Southwest Finland acts as its administration, audit and payment authority. The co-operation area includes the eastern parts of Sweden to the north and south of Stockholm, the Åland islands, 8 provinces of Southern Finland, as well as Estonia and Latvia.

It was estimated that around 70% of the projects during the programme period from 2007–2013 were allocated directly to projects in accordance with the Baltic Sea strategy. I believe that the Interreg V programme A (2014–2020), which will start in the autumn, will reach an even higher degree of allocation.

The biggest concern in the Baltic Sea region has been the eutrophication of the sea as a result of nutrient emissions. To put it simply, the water is seriously polluted. The measures aimed at purification of waste water generated by municipalities and the industry, limiting the nutrient emissions of agriculture and reducing the deposition through air have already generated positive development. Emissions from vessel traffic have also been curbed through increased control. Nevertheless there is still work left for decades, so that our shallow inland sea can provide an attractive environment in all its coastal states. In that respect, many foundations operating with private funding have done very important work, while the public players and states have focused too much on “solemn speeches”. Speeches are needed, too, but they are not enough!

The safety of maritime traffic and other safety issues have generated an excellent radar and traffic control system in the Baltic Sea region, and its importance has been concretely noticed in preventing a number of near-miss cases. The considerably increased oil tanker traffic on the Gulf of Finland is a particular risk factor. The safety level has been improved through programme funding. International co-operation plays a key role here.

There is still plenty of work to do regarding the utilisation of the competitiveness and innovations of the Baltic Sea region. There is a very broad network of universities and research institutes in the region. The networks are working in biotechnology and some other fields of research. In general there is still plenty of room for improvement.

In global terms the Baltic Sea region is still an almost unknown tourist destination. Tourism is one of the fastest growing businesses in the world. The biggest metropolitanises in the Baltic Sea region attract tourists, but

There is still plenty of work to do regarding the utilisation of the competitiveness and innovations of the Baltic Sea region.

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through networked activities we could easily multiply the income from tourism in the region. The issue can be acted on at national level, too. But the greatest benefits will not be achieved until the whole of the Baltic Sea is made an object of global marketing and service business. Safe, developed and modern environment which offers natural peace and quiet to all those who appreciate it.

Russia has been the weak link of the EU's Baltic Sea strategy. Russia is a coastal state and a powerful player in the Baltic Sea. It is not included in the common programme, however. For that reason, Russia has been on the agenda of Finnish players whenever the Baltic Sea has been discussed. My home region, Southwest Finland, has also contributed to the matter. In addition to close relations with the City of St. Petersburg and the Leningrad Oblast, we now conduct co-operation between the province and an organisation that represented the whole of Northwest Russia. The same themes which we apply in the Baltic Sea strategy, the Central Baltic programme, the archipelago co-operation, and with our Polish and German partners are also key themes in the co-operation with Northwest Russia.

After Russia shocked all of us with its aggression in Ukraine, one has to stop and think what it means for the Baltic Sea policy. In the worst case we will return to the time before the Baltic Sea policy based on partnership. As an optimist, I hope that reason will overcome, and trust and co-operation will be back on the agenda as soon as possible. That would be an undeniable benefit at least to the Baltic Sea and all of us living on its shores. ■



**JUHO SAVO**

Region Mayor  
Regional Council of Southwest Finland  
Finland

ALEKSI RANDELL

# Turku Pro Baltic – long term commitment for Baltic Sea cooperation

In June 2014, Turku will host a week of activities under the common name of Turku Baltic Sea Days 2014. Key stakeholders of regional cooperation – from Prime ministers to civil society representatives, business executives to experts in various fields – will discuss in their meetings best ways to promote concrete, result-oriented cooperation, under the title of Growing together.

Central among these meetings is the joint Baltic Development Forum/Annual Forum of the European Union Strategy for the Baltic Sea Cooperation on 3–4 June.

These conferences are not the only high-profile events with European dimension in Turku. Actually, the City has been – or will be – hosting several of them. Here, I would just like to mention the very successful year as the European Capital of Culture in 2011, as well as the forthcoming European Maritime Day Conference in May, 2016.

Why has Turku succeeded to become the venue for such important events, which have required endorsement and active cooperation by the Finnish Government and the European Commission/Union?

The reasons are several, but at the root, there is active long-term commitment to regional cooperation.

Centrally located at the crossroads of the Baltic Sea, Turku has since Hanseatic times served as Finland's gateway to the world. Turku is the oldest city and former capital of Finland. It has systematically promoted regional cooperation through twin city relations, multi-lateral networks and practical projects. Turku is an active member of the Union of Baltic Cities (UBC) and the Baltic Development Forum (BDF).

With its top class universities, vibrant and versatile businesses including life sciences, health and ICT, cutting edge research institutions and thriving cultural life, it is the growth centre of Southwest Finland – next to what many consider to be the most beautiful archipelago in the world.

Turku is the centre of Finland's maritime cluster, where the biggest and most luxurious cruise ships in the world have been designed and built.

Our region is home to a great "Baltic Sea knowledge bank". Hundreds of experts in universities, research institutions, companies, public administration, civil society organisations and media are daily working with their colleagues in Finland and abroad to promote smart and green development and wellbeing.

Centrum Balticum – Finland's policy think tank on Baltic Sea issues – is our ambitious platform to promote regional cooperation

nationally and internationally. Abroad, Turku has two "embassies": in Brussels and in Saint Petersburg – Turku was the first city in the world to establish official twin city relations with Saint Petersburg back in 1953.

I would like to mention here three of Turku's recent initiatives. The Northern Growth Zone (Stockholm-Turku-Helsinki-St. Petersburg) is an ambitious joint process to boost cooperation and competitiveness with public and private stakeholders in the Northern shores of the Baltic Sea.

The Turku Process promotes European cooperation, particularly with Saint Petersburg and the Leningrad region. Through it, the City of Turku serves as Horizontal Action Leader in the EU Strategy for the Baltic Sea Region (HA Neighbours).

The Baltic Sea challenge by cities of Turku and Helsinki is an ambitious action programme to promote concrete actions for Saving

the Sea. Between 2007–2012, about 200 organisations from Finland and other countries around the Baltic Sea joined in this initiative by agreeing to take voluntary actions. The renewed Action plan for 2014–2018 commits Turku and Helsinki to new, ambitious measures to ensure, that future generations can enjoy a cleaner Baltic Sea.

Turku is open to cooperation with old and new partners. Get in touch! ■

[www.turku.fi/english](http://www.turku.fi/english)  
[www.centrumbalticum.org](http://www.centrumbalticum.org)  
[www.turkuprocess.fi](http://www.turkuprocess.fi)



ALEKSI RANDELL

Mayor  
City of Turku

Chairman  
Centrum Balticum Foundation  
Finland



KARI HÄKÄMIES

# Work before everyday security is rewarding

The Ukrainian events have caused many of us to consider more than before security of the Baltic Sea region. The Baltic Sea has been one of the safest sea regions of the world despite the fact that states of the region have different backgrounds and they have made their security arrangements in different ways: Finland and Sweden are not part of any military alliances; six states are NATO members, and Russia has arranged its matters in its own way. On the other hand, except for Russia, the countries of the Baltic Sea area are members in the European Union. Against this background, the Baltic Sea can be legitimately referred to as an inland sea of the European Union.

While the Ukrainian events are far from the Baltic Sea, the states and citizens have real concerns. Has the continuing long-term peaceful development, where the dialogue between East and West has been successful despite the structural changes and regime changes, come to an end? European competitiveness, state economies, and the Russian economy in recent years have badly limped. One simply cannot afford mutual suspicion and a cooling of relations.

My office, the Regional State Administrative Agency for Southwestern Finland, does not operate in the sphere of international politics, or within the external security community, but one of its functions is to coordinate Finland's internal security operational programme. Although functioning transnational relations are a prerequisite for all kinds of cooperation, there is no reason to underestimate the work to be done in the sphere of internal security. It is worth remembering that, when citizens of the European Union are asked what the most important issue they would like to have the Union to most urgently deal with was not the economy or unemployment, but criminality, i.e. internal security.

Internal regulations of the European Union have facilitated the movement of people and in 2011 joint steps were agreed to with Russia about a visa-free regime. To be sure, the latter issue is now in the deep freeze, but when the atmosphere again clears up, continuing steps will certainly be started. But when freedom of movement is liberalised more than before, it also offers the opportunities for criminality, which unfortunately is even more organised.

Countries of the Baltic Sea region have by no means been inactive in fighting cross-border crime. The EU Strategy for the Baltic Sea Region has brought together a wide range of cooperative projects, many of which are related to internal security. The most important is probably the Organised Crime Task Force BSTF. It has been in operation for over ten years. It includes all the EU countries, Iceland, Norway, Russia, the Commission, Europol and Interpol.

Cooperation against criminality in the Baltic Sea region is fundamentally challenging: the region has two completely different types of legislation, external borders are quite long and the area has huge volumes of transport which create an excellent base of operations for many kinds of crime.

For border surveillance, there is a special cooperation project, BSRBCC. Countries in the region have established coordination centres operating around the clock. Also, human trafficking is a special object of attention in the form of a working group.

International politics is often quite alien to the average person. To be sure, together with statesmen, everyone perceives the importance of the matters to be handled, whether they are political conflicts in Europe or the resolution of economic crises gnawing at Europe. But often, the activity of politicians remains something mystical, perhaps a bit elitist and far from everyday life.

Internal security questions, on the other hand, are often quite concrete. Everyone wants to live on the street where no one is subject to being abused. Children and young people are completely of the same opinion that the sale and smuggling of drugs must be resisted even by extreme measures. Even a simple theft of a bicycle gets us upset and demands more resources for the police.

Although the Baltic Sea region is associated with many growing problems, the situation is better than in many other parts of the world. And although cooperation sometimes flounders about due to different operating cultures or top-level political problems, the work has been good and because it already begins to have long traditions. The Finnish Border Guard has been engaged in successful open interaction with our eastern neighbour since when the Soviet Union used to keep quiet about everything.

It is seldom that the everyday work gets into the limelight of television broadcasts, but it has its own rewards. If however a granny is satisfied or a child safely goes to school, this thanks feels much nicer than a lot of publicity. ■



KARI HÄKÄMIES

Director-General  
Regional State Administrative  
Agency for Southwestern Finland

Former Minister of the Interior  
Finland

KALERVO VÄÄNÄNEN

# The future lies in the hands of the youth

**W**here the young people are therein lies the future. This is truer today than ever before. The ongoing demographic change in the countries surrounding the Baltic Sea further highlights the meaning of this statement in that in nearly every country the size of the younger generations is getting smaller and they have to take care of the growing number of ageing people. This change places an increasing pressure on enhancing productivity and developing new innovations and service concepts. In some countries, immigration is levelling the playing field, but in most cases immigration cannot compensate for the demographic change. In order to develop innovation environments, we need more versatile and international approaches.

But where can we find the youth today? In most countries of the Baltic Sea region, about a half of the young population completes an academic degree in universities or in the universities of applied sciences. This part of the youth is easy to reach and introduce to international cooperation already during their studies. Both through research and experience we know that those young people who study in another country even for a few months have better prospects on the job market than their colleagues, who have conducted their studies only in their home university.

Active student exchange is probably the most efficient and fastest way to increase understanding between peoples and the appreciation of other cultures and societies. It is difficult to imagine what could be a better education on peace.

If we believe that the countries in the Baltic Sea region can improve their competitiveness by increasing cooperation with business life, we should create ample opportunities for even better student and researcher exchange.

How then could we further advance student, researcher and staff exchange? It can be achieved in many ways. However, we need the commitment of many different quarters.

Institutions of higher education must certainly continue to be forerunners in internationalisation, but we need to cooperate with many different players in order to advance it. We need further legal changes in many countries and well-coordinated agreements between states as well as joint funding programmes. In practice, it has been very difficult to adapt the tuition fee practices between universities as they greatly differ from one another in different countries. It is problematic both within the EU and with the countries outside the EU.

What is also very important is that the institution is located in an active area, especially when it comes to organising accommodation for students. It is necessary that all the educationally significant regions and cities have enough reasonably priced rental apartments available for students and researchers. Surprisingly often, at least in the Finnish university cities, the lack of apartments with suitable rents has been an obstacle to student exchange.

However, the main role in strengthening student and researcher exchange belongs to the universities. With what operations could we advance student and researcher exchange?

There are several cooperation networks between the universities in the Baltic Sea region. Others are more active than others, but each of them has roughly the same goal. The operations of many networks have remained relatively superficial and they reach mostly the directors and especially the administrative management of the universities.

I believe that now is the time to build the cooperation on a new foundation. In addition to the networks that cover tens of universities, we should strive towards developing strategic cooperation which aims at concrete and practical operations between only a few universities. Furthermore, it is necessary to bring the bilateral cooperation of the universities to a new level, especially when it comes to Master's degree and doctoral education. We have to create more actual double degrees, but at the same time take care that also shorter exchange studies can be transferred to the degree more effectively. The European ECTS system provides a good opportunity for this if the universities take it fully into consideration when developing their international operations.

Doctoral training is probably the easiest area in which to develop international cooperation between universities. An increasingly larger number of universities choose their doctoral candidates by international application procedures. The University of Turku, which I lead, opens 50 doctoral training

positions for international call each year. The four-year long and very intensive study period in a new environment often creates a stimulating atmosphere with new ideas and thoughts. For its part, this offers new vitality to the research and innovations of both the home and the target country.

The mixing of diverse approaches and ideas in different cultures and times has always portended progress in society and economy. The countries of the Baltic Sea region have never had a better chance for it than now. ■

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**KALERVO VÄÄNÄNEN**  
Rector  
University of Turku  
Finland

MIKKO KETONEN

# Economic growth is the best guarantee for the protection of the Baltic Sea

**T**urku and Southwest Finland lie at the centre of the Baltic Sea. The ports of Turku and Naantali act as gates to the west through which a large share of Finland's foreign trade is transported. The whole Baltic Sea region and its coastal countries are Finland's most important trading partners. More than 80% of Finland's foreign trade is transported by ship on the Baltic Sea. The most important trading partners are Sweden, Russia and Germany. Estonia is also among the ten most important partners, and Norway, Denmark and Poland are not too far away from the top 10, either.

Half of the imports to Finland come from the Baltic Sea states. 40% of the exports go to the Baltic Sea region. The biggest export destination is Sweden, and the biggest import volume comes from Russia, consisting above all of natural gas and crude oil. As much as half of the energy consumed in Finland is imported from Russia.

The Baltic Sea states are Finland's most important partners in many other respects. More than a quarter of the investments of Finnish companies are made in Sweden, and together with Germany and Russia, those three countries account for more than one third of Finland's foreign investments. Correspondingly, Swedish companies account for nearly half of the foreign investments in Finland.

Mutual tourism is also important in the Baltic Sea. Half of the tourists in Finland come from the Baltic Sea countries. The leading three groups are again Russians, Swedes and Germans. Finns make the same number of trips to the Baltic Sea countries.

More than a quarter of a million people have moved to Finland in the 2000s. Nearly half of them come from the Baltic Sea states. The biggest groups with over 10% share each are Swedes, Russians and Estonians. In addition, Finland practises lively student exchange in the Baltic Sea region.

All those figures indicate the mutual dependence of the Baltic Sea states. The co-operation is based on the long common history and culture of the countries. The Baltic Sea is above all a route for transporting goods and people. The countries are equal and all of them have had a chance to benefit from the co-operation. When Finland started its one-year Presidency in the Council of the Baltic Sea States in July last year, it announced its themes: clean, safe and intelligent Baltic Sea.

All three themes are good. In this case clean means above all non-polluting seafaring and use of alternative fuels. That is also very important for the shipbuilding cluster of Southwest Finland.

A passenger ferry that runs on natural gas was built in the Turku shipyard a couple of years ago for the route between Turku and Stockholm. The maritime traffic in the Baltic Sea is preparing for reducing sulphur and nitrogen emissions, and it would be important to launch new LNG-driven vessels. That would also generate an opportunity to attract new profitable business operations around the Turku shipyard.

The second theme of Finland's Presidency is safety. The issue is topical, and the goal has to be set at improving the co-operation between the authorities in the Baltic Sea states. At the same time, the theme reminds about the dangers related to lively vessel traffic which are the most significant in the Gulf of Finland where the ship transports to and from St. Petersburg encounter the ferry traffic between Helsinki and Tallinn.

A year ago in March, the international researcher community Balticstern published a report in which they had determined the monetary value of the Baltic Sea. 3.8 billion euro per year was the sum which the inhabitants of the Baltic Sea region would be ready to pay for the protection of the sea area.

The comparison figure was the value of the Baltic Sea protection programme produced by the Helsinki Commission, HELCOM, which is 2.8 billion euro per year. If the inhabitants of the Baltic Sea region are prepared to pay one billion euro more than efficient protection actually costs, there is more than enough will for the protection project.

The case is not so simple, though, as has been noticed in a number of Baltic Sea summit meetings. Finland and Sweden invest in saving the Baltic Sea, but other coastal countries are less enthusiastic. It would be important to attract contributions from Russia and the large EU countries Poland and Germany which prefer to look towards Central Europe. Another big challenge is the EU's attitude to the region. The EU has not set a sufficient budget for its Baltic Sea strategy. The EU calls the Baltic Sea its inland sea, which causes friction in the common goals of the EU and Russia. There is plenty of work for Finland in trying to reconcile the views of the parties. The crisis in Ukraine will not relieve the situation in the near future.

The best guarantee for the protection is the steady growth of the Baltic Sea economic region. The region needs new investments and jobs. Without economic well-being it is no use to imagine that the coastal countries would have the interest, let alone resources to increase their contribution to the protection work. Although many organisations and foundations do valuable work to save the Baltic Sea, it is not enough; all countries need to participate together.

Finland's goals for the Presidency are also well suited to the Archipelago Sea. The biggest concern of the inhabitants of Turku is the Archipelago Sea; its protection, cleanliness, reducing the emissions of agriculture, and safe and clean vessel traffic, so that the Archipelago Sea could remain the finest area for recreation and tourism in Finland. ■

**MIKKO KETONEN**  
Chairman of the Board  
TS-Yhtymä Oy  
Finland

KARI TAKANEN

# Maritime security at the Baltic Sea

**T**urku is Finland's naval city. One of Finnish Navy's two main bases is situated there as well as the Naval Headquarters. Cooperation with other maritime actors is lively - this includes several parties within education, research, harbours, shipbuilding, industry, authorities and organizations. Archipelago Sea is an important support area for naval operations.

The Baltic Sea is one of the busiest waterways in the world. Maritime traffic is increasing - both in numbers and size. The littoral geography is challenging. Traffic is channelized thru archipelago and several choke points. Shallow waters limit free navigation. Distances between the countries are short. Parts of the sea freezes every winter, so the conditions are arctic. The Sea both unites and separates the countries around it. Its importance for all Baltic Sea countries is strategic - the sea provides means to transport goods, people, energy and information. The importance of the sea lines of communication at the Baltic Sea is increasing and will be essential also in the future.

The Baltic Sea is today a stable and secure area. A threat of a large-scale armed aggression in the region is low, but it cannot completely be ruled out. The operating environment is unpredictable and may cause negative security impacts. A wider conflict or a regional crisis may result in using political pressure or military force in the confined area. Therefore countries need to prepare for external security challenges, especially in the challenging maritime arena.

In a globalizing world these challenges cannot be countered alone. They require increasing regional cooperation and new approaches from all actors. Nordic countries share similar values and therefore form a natural group. Nordic Defence Cooperation NORDEFCO is a suitable regional way to strengthen the countries' national defence, explore common synergies and facilitate efficient common solutions. This cooperation is not a military alliance, but it increases collaboration and promotes stability in the northern regions. Good example of a regional cooperation is the naval Surveillance Cooperation Baltic Sea (SUCBAS).

Besides the traditional military threat scenarios a number of different types of threats exist, such as environmental problems, organised crime, smuggling, terrorism and cyber attacks. The military organizations have to prepare to support other authorities in order to act against these kinds of challenges, too.

The Arctic is today's focus area. The main interest is in the economy, but alongside the security issues in the area are also growing. The northern navies have to prepare to operate in the severe arctic environment. At the first place future cooperation could be maritime surveillance and rescue operations. Best practices from Baltic Sea area cooperation could be utilized also in the Arctic.

Finland's security policy is based on active creation of security, and preparation and response to security threats. The goals of Finland's security and defence policy are safeguarding the country's independence and territorial sovereignty, guaranteeing the basic values, security and well-being of the population and maintaining a functioning society.

Main task of the Navy is to defend Finland. This includes protection of the integrity of the country, protection of Sea Lines of communication and repelling maritime attacks against Finland. The maritime defence is being executed in close cooperation with the Army, the

Air Force and Border Guard units. Other tasks are support to other authorities and participation to international military crises management.

Finland has an independent defence capability that provides deterrence and is tailored to the operating environment, available resources and security situation. The fundamentals of the defence solution are general conscription, territorial defence and military non-alliance. The defence utilizes comprehensively all resources of the society and multinational cooperation. Even though all military capability areas are maintained by the Defence Forces, the force is increasingly depending on international cooperation.

Defence is an integral part of Finland's comprehensive maritime security. The Navy's resources will also be used in support of the other authorities. Preparedness for wide ranging security threats demands networking between the actors. This comprehensive cooperation has been successful and it has created a strong culture of cooperation and trust amongst the maritime authorities, main partners being the Coast Guard, the Transportation Agency and the Transportation Safety Agency. Good examples of cooperation are a common situational awareness system and arrangements in oil recovery.

The Finnish Navy participates actively in international military crises management. Together with international exercises, this strengthens national defence capabilities and interoperability. Cooperation also makes it possible for the reception of support in a crises situation.

Economical challenges are facing most European countries. A following tendency is down-sizing forces. This drives the countries to find smarter defence solutions. Needed capabilities cannot be maintained with existing budgets in a long run. This means that the level of defence spending has to be raised - or the defence has to be arranged in a new way.

The Finnish Navy will implement a reform by 2015 as part of the Defence forces reform. The reform balances the unchanged tasks and available resources. The reform will form a basis for capacity and development of the Navy towards 2020s. In 2015 the wartime strength of the Navy will be down-sized to 20 000 troops. The aim is to have fewer, but more capable units and weapon systems to compensate the reduction of today's troop strengths. The end state will be well functioning and cost-effective naval defence, which is capable of executing its tasks.

Future challenges will require new naval capacities. The material situation of the Navy today is moderately good, but as systems get older they have to be replaced with modern capabilities. Planning for future multirole surface combatants, new Squadron 2020, has already started. Future tasks require balanced and effective new war ships that are ready to repel future challenges - both at home at the Baltic Sea and abroad in crises management operations. ■



KARI TAKANEN

Rear Admiral  
Commander of the Finnish Navy  
Finland



JUKKA SAVOLAINEN

# Coast guards – cooperating internationally for the security of the Baltic Sea area

**T**his year we celebrate two anniversaries: the Finnish Border Guard will be 95 years and the West Finland Coast Guard District, subordinate to the Finnish Border Guard, will be ten years. It was ten years ago when the two traditional Coast Guard Districts of the Gulf of Bothnia and of the Archipelago Sea were integrated and the West Finland Coast Guard District was established. Since 2013, the West Finland Coast Guard District operates on new premises at the Auriga Business Centre in Turku.

## How did we come to this?

In the 1920s, smuggling had taken on enormous proportions because of the Prohibition Act. That made the very foundations of our young state to shake. The coastline was surrounded by vessels loading spirits into smaller boats that smuggled the cargo to land. This posed a threat to the security of inhabitants on the coast and in archipelago. The respect that Finnish people have traditionally had for law was diminishing. Smuggling was a national disgrace.

The state did not have enough resources to stop smugglers and therefore, the National Board of Customs proposed that a separate authority be established to control smuggling. The Coast Guard was then established in 1930.

The duties provided for the Coast Guard were to control border crossing, perform maritime police functions and assist ships in distress. Even if legislation has advanced numerous steps ever since, this set of fundamental duties is still valid.

The control of alcohol smuggling turned out to be a great success. In the 1930s, the Coast Guard confiscated nearly 1.8 million litres alcohol corresponding to around 61 per cent of all alcohol confiscated in the whole country. This was a severe blow to organized crime.

Smuggling ended at the start of the World War II in late 1939. The Coast Guard then shifted its focus. The personnel and equipment of the Coast Guard supported the Finnish Navy in its military action. Operating under the coastal troops of the Finnish Navy, the majority of the coastguards carried out maritime police functions. The patrol boats of the Coast Guard were workhorses of the naval war and participated in various combat duties, and the bigger vessels of the Coast Guard – Uisko, Tursas and Aura – made the travel safe for merchant ships.

The Coast Guard was integrated into the Border Guard in 1944. During the Cold War, the Border Guard and the Coast Guard Districts operating under it guarded the western side of the Iron Curtain successfully. The cross-border border security arrangement then developed between Finland and the Soviet Union is nowadays considered as a best practise internationally.

After the Second World War, the doctrine and equipment of the Coast Guard Districts of Finland have changed a great deal. A significant change in past years was the assignment of overall responsibility to the Border Guard for maritime search and rescue activities. Simultaneously, a decision was made on maritime rescue helicopters to be maintained by the Border Guard. Now that the Iron Curtain has collapsed and Schengen free movement covers nearly the whole Baltic Sea Region our crucial everyday function is to save human lives at sea. For this reason, the West Finland Coast Guard District will this spring enhance its preparedness for major maritime accidents. We have already carried out a few exercises and we will continue to have them to ensure professional conduct of the next large scale rescue operation.

## What lies ahead?

International cooperation plays an increasingly significant role in Coast Guard activities. The dividing line of the Cold War has disappeared and the Baltic Sea has become a 'basin' connecting nations. The security authorities have also become more open.

The Finnish and Swedish Coast Guards made an agreement to exchange information on patrolling for the first time in 1996. At the same time, Finland and Germany started to plan joint operations between all Coast Guard authorities in the Baltic Sea Region. Joint operations have been arranged on an annual basis since 1998 and a permanent network of contacts has been created to operate on 24/7 basis. This arrangement is called Baltic Sea Region Border Control Cooperation (BSRBCC). Now, we can witness how all Baltic Sea Region Coast Guard authorities work for the same purpose - to combat crime. Consequently, any regular vessel borne cross-country criminality has become rather risky.

It is a proven fact that whenever the Baltic Sea has been used freely with no restrictions on movement or trade, prosperity has increased in coastal areas. Today, the vessels move freely and all the Coast Guards of the Baltic Sea countries cooperate closely on a daily basis. This can be considered a very positive sign for our successful future! ■



JUKKA SAVOLAINEN

Captain (N)  
Commander of West Finland Coast  
Guard District  
Finland



TAPIO HUTTUNEN

# The Baltic Sea – a sea of cooperation

With increased mobility in the Baltic Sea Region, life in the City of Turku has become more international, a fact visible also in police work: we encounter daily the positive and negative aspects of various ethnicities and linguistic communities; luckily for us, the positive aspects are dominant.

One of the new phenomena in cross-border crime is so-called 'Hit-and-Run' crime, with the criminals entering Finland primarily via the Helsinki Metropolitan Region but also by means of passenger ferries to Turku and Naantali. Once in Finland, the criminals head for their targets, possibly pre-selected well in advance, which implies careful premeditation and a professional approach. The criminals try to accomplish as many acts as possible in a limited time, and then leave Finland. Offences are mainly committed through burglaries to residential and business premises, shoplifting, and various forms of theft ranging from metal materials, purses and wallets, to outboard motors. Finland is also a transit country for eastbound trafficking in luxury vehicles stolen mainly in Germany and Sweden.

Increased mobility of criminals and crime across the Baltic Sea Region has been countered by heightened police cooperation and pre-trial investigations. This is a signal to criminals that the risk of being caught is great. Cooperation between authorities from the Baltic Sea Region states is being escalated, and joint operations are organised to combat cross-border crime. Such cross-border cooperation is today carried out on a daily basis.

The impact of transnational criminal groups, originating mainly from Estonia and Lithuania, is clearly manifest in Finnish drug-related crime. Lithuanian criminal groups, in particular, have in recent years increased their presence significantly in several areas of crime in the European Union. In Finnish cross-border organised crime, criminal MC clubs are a significant element, and they cooperate with various transnational criminal groups that have a prominent role in crime in the Baltic Sea Region.

Trafficking in drugs is combated in the Baltic Sea Region through cooperation between member-state police, customs and border control authorities. For Finland, especially the Swedish, Estonian and Russian law enforcement agencies are vital cooperation partners. For several years now, Finnish and Estonian police have employed joint investigation teams in a number of investigation operations. Joint investigation teams expedite greatly cross-border pre-trial investigation, because the legal procedure for using coercive and other investigation measures is almost identical to that in domestic operations, without a request for mutual legal assistance being needed for every single measure.

For Turku and Western Finland, cooperation with Sweden is of great significance in combating drug-related crime, because Sweden is an important transit country for drugs smuggled into Finland. In recent years, there has been a significant increase in illicit imports of Subutex pills from France to Turku and Western Finland, often transported first through Northeastern Europe and then via Denmark and Sweden.

The Task Force on Organised Crime in the Baltic Sea Region (TF-OC) is unique in that law enforcement agencies from all 11 member states of the Baltic Sea Region are represented in the task force, including the Russian Federation. Russia is due to hold the rotating two-year presidency starting next year. In the work of the TF-OC, there are no visible signs of the general cooling down of cooperation between Russia and the European Union. Russia wants to take an active part in the TF-OC also in the future. In charge of operative cooperation, the Task Force's Operative Committee plans and organises cooperation in combating organised crime through improved and increased exchange of information, joint concrete and operative measures, judicial cooperation, training and other cooperation. The Operative Committee is a high-level working group consisting of representatives appointed by prime ministers. Over the long term, the objective of cooperation is to improve civil security in the Baltic Sea Region by means of increasingly close police, customs and border control cooperation.

A prime example of Baltic Sea Region cooperation is provided by the Safe Baltic Cruises project in 2011–2013, largely funded by the EU, which developed crime prevention methods against violence related to onboard entertainment on passenger ferries.

The project partners Sweden, Finland, Estonia and Åland Islands, together with the ferry companies, sought to establish a common policy and regulatory environment with clear rules for serving alcohol on board ships engaged on voyages on the Baltic Sea. In the project, the partners developed, and agreed on, common methods of investigation that are applied regardless of the original jurisdiction in which investigation is initiated. Furthermore, the project developed a concept for crime prevention education that can be used and implemented in internal security training which the ferry companies provide for staff.

In light of these examples, it is justified to describe the Baltic Sea as a sea of cooperation. ■

**TAPIO HUTTUNEN**

Police Chief  
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ARTO HONKA

# Customs as a facilitator of trade from the early days of history to the present and the future – with a Turku twist

**W**e are familiar with our past

We have made our way together from the past to the present, and our eyes are fixed on the future. In 1635, the Swedish statesman Axel Oxenstierna said that customs duties are the surest way of acquiring money and the best thing we can pin our hopes upon.

The history of Customs has mainly involved the physical presence of customs authorities around maritime operations, harbours, ships and the archipelago. Customs has been considered as the crossroads of international sea trade and domestic land trade, which has also affected the physical location of customs authorities in the historical context. The history of collecting customs duties is closely linked with the development of urbanisation and the concentration of trade in cities, which made it easier to regulate trade and collect duties. According to the most likely estimates, Turku obtained city rights in the 1290s. Turku was the leading customs house city during the Swedish reign. Turku is the only Finnish city mentioned in the regulation concerning customs duties and exchange of silver issued by King Charles VIII of Sweden in 1453. The customs authority responsible for the customs territory of Finland was also stationed in Turku, whenever such an authority was in office. Of all Finnish cities, only Turku and Vyborg received full rights to conduct foreign trade when the regulation concerning trade and sailing was issued in 1614.

As Finland's state connections with its former mother country Sweden ended in 1808, the Finnish regional authorities were at first left without a central government. In St Petersburg in February 1812, His Imperial Majesty Alexander I approved the ordinance regarding the customs administration of the Grand Duchy of Finland. The Emperor signed the ordinance which stated that the detailed administration and the enforcement of related regulations were to be the responsibility of an executive customs board based in Turku until further notice. It should be noted that the Governor-General of Finland at the time, Gustaf Mauritz Armfelt, could not stand Turku at all. He thought the city was a seat of evil where even public servants committed wrongdoings. This is why Emperor Alexander I declared Helsinki as Finland's new capital in the spring of 1812, at which time the executive customs board also moved there.

## Finland, Southwest Finland and Turku as a Baltic hub – role of Customs

Certain pillars of an independent country have, throughout history, been its own currency, defence, flag and collection of taxes. In this context, when we consider Finland's independence and the country's process of achieving sovereignty, it is good to remember the historical importance of Customs as a tax collector, enabler of foreign trade, and as an enforcement authority.

Many major parallel changes and events are included in the common history of Finland, Turku and the Finnish customs service; Finnish independence in 1917, the Prohibition of 1919–1932, and the handing over of 15 steamboats and 25 patrol boats, among other materials, from Customs to the newly established Coast Guard in 1930. Nowadays, Turku Customs has one patrol boat in its use. Over the course of its independence, Finland began conducting a sovereign trade policy. Foreign trade collapsed due to the Second World War, and several customs offices had to be closed down as well. After the war, world trade began to revive and Finland's war reparations gave a boost to progress and development. Two shipyards were established in Turku for building ships as part of the war reparations. The shipyards consolidated Turku's position as the country's centre for the shipbuilding industry, a position which has lasted until the present time. The GATT agreement was signed, and the EFTA and the EEC were introduced along with exemptions from customs duties. After this time, Customs was assigned the collection of certain special taxes, such as the vehicle and motorcycle tax introduced in 1958, and excise duties which entered into force in 1969. Finland's EU membership in 1995 meant a revolutionising change for the country and for the personnel and customers of Finnish Customs. The customs administrations of the EU Member States no longer operated solely for their own good, but for the good of the entire Community. It was time to learn and adopt new rules for the game.

## The present is a challenge for us – Customs in the face of turbulent times

Due to its geographical location, Finland is dependent on seafaring which is also a source of livelihood for Southwest Finland, Turku and the Port of Turku. About 90 per cent of Finland's exports and about 70 per cent of its imports are transported by sea. The volume of sea transports within foreign trade amounted to roughly 93 million tonnes in 2012. The considerable share of sea traffic in foreign trade requires sea connections that are smooth, reliable, safe and environmentally friendly. Functioning transport routes form the cornerstone of the competitiveness of Finnish trade and industry and its entire society. In this context, Turku and its port are a natural strategic gateway to Scandinavia and Central Europe. The Port of Turku is also a part of the TEN-T network which consists of the most important traffic connections in the European Union.

The strategic objectives of Finnish Customs include the facilitation of foreign trade, protection of society and extensive cooperation with interest groups. As an enabler, promoter and enforcer of foreign trade, Customs aims to target its resources according to the demand of services and the requirements of customs enforcement. This is why, for example, we have a unit in Turku which operates under Customs' national Electronic Service Centre and

has nation-wide responsibility for customers' import, export and transit declarations and for processing security data declarations. As for the protection of society, Turku is the base for a joint analysis centre of Turku Customs and the Border Guard focusing on the safety of sea traffic. The national Finnish Customs Sea Traffic Centre, whose main responsibility is the collection of fairway dues in Finland, is also located in Turku. Finnish Customs also participates in several other cooperation projects involving the Baltic region. In other respects, the mobile enforcement teams working in the operational area of Turku Customs see to the task of societal protection.

#### The future

In some ways, we remain unsure about the future. How will we tackle the recession in the Eurozone and the downturn in world trade, and how do these circumstances affect transport requirements? How will we revive Finland's exports? How will the new directive on sulphur emissions affect seafaring and logistics? The development of Russian ports will definitely have an impact on the activity of the ports in Finland and on transit traffic volumes. The structural changes of business and industry also have an effect on foreign trade and, consequently, on logistical solutions. How will climate change affect global trade and travelling in a wider sense?

The welfare of Finland's economy will be increasingly dependent on international trade in the future. The location of Finland and Turku on the northern edge of Europe, far away from the continent's main market areas, as well as severe winter conditions place Finland in a challenging position in comparison with several other EU Member States.

A new sea traffic strategy for 2014–2022 is currently being planned in Finland. Turku has its own part in the strategy as well. Customs and its strategic plans have a significance of their own in terms of the sea traffic strategy, when we consider for example reliable and safe transport chains, safety on the Baltic Sea, enhancement of harbour operations, intelligent transport chains, fairway dues and the Port of Turku and Turku Customs in the regional sense. ■



**ARTO HONKA**  
Director  
Turku Customs  
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Pan-European Institute

# BALTIC RIM ECONOMIES

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PEKKA SUNDMAN

# The role of Finnish marine industry in Baltic Sea area

**D**uring the spring of 2013 saw the completion of the Turku Seas 2020 regional competitiveness programme for the maritime and metal industries. In its part, the Turku Seas 2020 project complements the work of the Marine Industry 2020 competitiveness working group of the Finland's Ministry of Employment and the Economy. At the same time, the project positions the expertise of the Turku region and Southwest Finland, as part of national plans and projects that govern the future of the marine industry.

The goal is to focus the work of the national competitiveness working group in the most important marine industry region in Finland and maximise its impact on the development of competitiveness and the modernisation of the industry on the national scale. The research, development and training operations in the region lend national and international support to the following strategies: Finland's strategy for the Arctic region, Fairway to the future, the future of shipping in Finland 2015 and beyond and the EU strategy Blue Growth and Leader-SHIP 2020.

Turku is Finland's strongest centre of maritime production and expertise, which, through its networks, also has strong ties to the Finnish metal and engineering industries, as well as the services sector. The Turku marine cluster is unmatched in Finland, when it comes to innovation capacity and related references. With the help of appropriate development measures, Turku has the potential to become the leading centre of marine technology innovation in Europe.

For Finland, the future will be shaped in Turku. There are seven good reasons to back up this claim.

## 1. Tradition and expertise

Turku's tradition of shipbuilding and seafaring goes back centuries, and this tradition has shaped the region and its professionals into the best marine industry experts in the world.

The region has everything that an internationally competitive marine industry needs – education and research, a continually developing industry, as well as services for business internationalisation and the modernisation of business models.

## 2. Spirit of innovation and cross-sector thinking

The Turku region features continually developing industry that crosses boundaries, innovates, specialises, digitises, creates new jobs and internationalises. Turku's strong cruise and passenger ship production is supplemented by increasing business in the offshore and arctic markets. The cooperation of the marine and metal industries has already expanded business opportunities, and one of the most important future flagships for growth will be marine environmental technology, also called Blue Cleantech. Environmental perspectives are also strongly represented in the marine industry roadmap, and they will be answered in order to ensure competitiveness.

## 3. Internationality

The marine industry networks of the Turku's region are already increasingly international, and the development of these networks is a part of the everyday work of all of the region's designers, researchers, builders, officials, consultants and other experts. Operators based in the Turku region are well known in Norway, Brazil, China and Russia, among others, and numerous practical cooperation projects are already underway.

## 4. Operating environment and community

Turku has become an active community of experts, where companies are provided with the means to succeed. At the same time, the region's primus motor, shipbuilding, has brought Turku-based companies up to the same deck as world-class experts. Turku's marine industry has managed to navigate trade cycles by being patient and focusing on the long term. Companies are continuously developing themselves and investing in new projects, and the city is investing with them.

## 5. Companies

In certain segments, companies in the Turku region represent the very best the world has to offer. The Turku shipyard, which operates on the global market, is an important locomotive for Finland's export industry and employment – and it will continue to be an essential operator that feeds companies, all the way from preliminary engineering to the actual production. Companies in the field stand united behind the national and regional development of Finland's marine industry.

## 6. Research

Turku is already home to Meridiem, a network that spans Finland's top universities and research institutions and serves the development needs of the marine and metal industry.

However, current strengths will not be enough to answer the future challenges posed by global and international markets. What we need is continuous development, as well as new research and business ventures. Meridiem aims to make Finnish marine industry and research an international pioneer.

## 7. Responsibility

The marine industry is not just a form of industry. It is also an important part of responsible operations, from the perspective of both the environment and social and economic responsibility. Prevailing societal development and values are also guiding the marine industry towards the future and onwards to developing markets. Over recent years, Turku has served as the leader in the development of the

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Finnish marine cluster and marine industry, and it is ready to bear this responsibility in the future as well – at all levels of responsibility.

The marine industry is an important part of the identity, culture and business of Southwest Finland, and serves as a competitive advantage for the region both nationally and internationally.

At the present time, there are 290 marine industry companies operating in Southwest Finland, with a total of 6,000 employees and a total turnover of EUR 1.3 billion, which accounts for some 40 % of the total volume of Finland's marine industry. The region also has 6 university-level educational institutions that train personnel and carry out research for the marine industry. ■

**PEKKA SUNDMAN**

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# BALTIC RIM ECONOMIES

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KARI VAINIO

# Turku lies at the heart of the Baltic Sea

**T**urku boasts a thousand years of history as the gateway for seafaring and trade between the east and west. Professional shipbuilding operations have been run at the mouth of the River Aura for nearly 300 years.

Today, Turku lies in the middle of the European Union's Northern growth zone. The ports of Turku and Naantali and the motorway and rail connections from the west via Helsinki to St. Petersburg are part of the EU's core traffic network.

With more than 300,000 inhabitants, the Turku region's strengths include diverse business structure: maritime and technology industries, pharmaceuticals, foods, and retail and service clusters. The steadily growing immigration secures the availability of labour.

There are only a couple of tall chimneys left in Turku, but the city has to hold on to industry. Letting go of the industry would spell doom for the whole of Southwest Finland. There are always SMEs built around industry, and that's where new jobs are created.

Shipbuilding has always carried a special significance in Turku. Previously, after the war, it meant trade with Russia, and later, up to now, building luxury cruise liners to the Caribbean market.

Although the problems of the Korean shipbuilder STX are visible in the Turku shipyard, and the shipyard has not attracted new orders, the expertise and the extensive subcontractor network are still there. Turku's shipyards have always survived a change of owners. We have to believe in that now, because there is a demand for new ships.

The shipyard needs new owners. The Finnish state need not become an owner, but the state, its officials and politicians should show such expertise in industrial policy that would help retain thousands of industrial jobs in Finland.

Turku also has long traditions in pharmaceutical industry. Biotechnology has been expected to provide greater support and some proof of that is now emerging. Companies based in Turku have reported about marketing permits for the drugs they have developed, partnership agreements and licensing, the value of which totals hundreds of millions of euros.

The contraceptive methods developed by Bayer in Turku are conquering the large US markets. Turun Sanomat once compared the income from the company's older intra-uterine device Mirena to ten cruise liners being built in Turku. It is no wonder that Turku's biggest payer of corporation tax has climbed to number two spot in the country with taxes of 112 million euros.

Another big pharmaceutical company operating in Turku, Orion, has relieved the employment situation in Salo, which is suffering from the loss of Nokia's manufacturing, by opening a logistics centre in Nokia's old premises. Opened in the spring, the production line employs over one hundred people. The plant will be operating at full capacity by the end of the year. It is estimated that around 20 million packages of pills will be sent out from Salo this year.

Finnish institutional investors have not had trust in biotechnology, and not enough resources, either. Gradually the ownership of other biotechnology and pharmaceutical companies has been transferred abroad. That is hopefully the first phase. In the second phase the foreign owners would start investing in the Turku region.

An example of a company that has been under foreign ownership for a long time is Wallac which specialises in measurement equipment and diagnostics and holds a clear number two spot in the list of the city's biggest taxpayers. Wallac has been in foreign ownership for more than 40 years, currently as part of PerkinElmer, an American multinational technology company.

The achievements in the bio-business are a sign of competent labour, which is provided in Turku by universities and the university of applied sciences. The training for Masters of Science in Engineering was started in Turku through co-operation of the University of Turku and Åbo Akademi University.

The number of applicants to the University of Turku increased by 9% on the previous year in 2013 and totalled 18,000. The figure is second highest in Finland after Helsinki and those left behind include e.g. the Aalto University for engineering and commercial education whose applicant number was down by one thousand.

There are over 30,000 students in Turku. Every sixth inhabitant of the city studies in university. The diversity of universities is Turku's strength, but on the other hand it produces experts in many fields and all of them cannot find a job here. At the same time, we should keep in mind that those who leave after graduation are messengers of Turku and communicate an image of the city where they studied.

Turku lies at the heart of the Baltic Sea. Internationally people know our capital, Helsinki. Thanks to its location and status as the former capital, Turku is known as the number two city in Finland. Across the sea lies Stockholm.

Turku is offered more than a role of a dead end; the city and the port act as routes to the west, the rest of Europe, and Finland's most important trading partner Sweden. At the same time, Turku has connections to the east, above all its twin town St. Petersburg. Last year the cities celebrated 60 years of co-operation in which culture has always played an important role.

The success of the Baltic Sea economic region and environmental protection of the Baltic Sea are important for the well-being of Turku and the whole province. As we are now discussing the safety and cleanliness of the vessel traffic in the Baltic Sea, and reducing sulphur and nitrogen emissions, we should keep in mind that the greenest part of the whole Northern Growth Corridor is the LNG-driven passenger and car ferry Viking Grace which was built in Turku and sails between Turku and Stockholm. ■

Professional shipbuilding operations have been run at the mouth of the River Aura for nearly 300 years.



**KARI VAINIO**  
Senior Editor-in-Chief  
Turun Sanomat  
Finland

RIKUMATTI LEVOMÄKI

# Life science city Turku

## – real triple helix

**C**ity of Turku is known as a life science city. Turku focuses on the expertise of pharmaceutical industry and diagnostics as traditionally strong areas. Special areas of application include hormonal diseases and cancer, inflammatory and infectious diseases, as well as central nervous system diseases. These established life science strengths are complemented by materials and nanotechnology and bio imaging.

### Companies – user of new knowledge

In Turku there are around 100 life science enterprises, most of which have been founded after the mid-1990s. Pharmaceutical industry, diagnostics industry and foodstuffs are part of the traditional core expertise of the region which forms the basis for the new biotechnology industry. Remarkable companies in pharmaceutical industry include e.g. Orion Pharma and Bayer, in diagnostics PerkinElmer Wallac Oy, and in food industry Raisio Plc.

To highlight the importance of life science to Turku few key figures can be mentioned: Half of Finland's pharma and diagnostics industry is located in Turku and they generate half of the turnover of Finnish pharmaceutical industry. The biggest tax payers in Turku are biotech companies. Twenty percent of industrial workplaces in Turku are in biotech companies.

A number of internationally recognised life science products have been invented and are being manufactured in Turku. The best known brands include e.g. Mirena intrauterine device, Benecol cholesterol lowering ingredient of foods and beverages, Xylitol for preventing caries, GenomEra testing system for hospital bacteria, and BonAlive bioactive glass for repairing bone damage.

The pharma companies are in really good track at the moment. In the year 2013 there was three new Turku based drugs which received a marketing authorisation. That was an extremely good year for Turku, because in a global level only a few dozen new drugs are launched per year.

### Universities – producers of new knowledge

Life sciences has an important role in our universities: University of Turku and Åbo Akademi University. There are many life sciences taught in both universities. In these branches of studies there are all together more than 5,000 students. Accordingly every year there is a huge amount of new fresh employees with university degree coming to the local labour market.

Universities are working in a very deep collaboration in the field of life sciences. There are more than 10 doctoral programs at the universities of which most are operated together. Due to high number of researchers Turku gets every year more than 100 new life science related doctors. This gives us a solid base for wide-ranging research in life sciences. At the universities there are more than 100 research groups with more than 1,000 researchers doing high quality life science research.

One important part of the local life science research and product development is Turku University Hospital, which is the heart of Hospital District of Southwest Finland. Turku is one of the five cities in Finland with an own university hospital. There are currently more than three hundred active research projects at the Hospital District.

About one third of the research relates to development of new medicines and two thirds are research contributing to diagnostics, care and different treatments.

### Public sector – enablers

City of Turku has founded Turku Science Park Ltd as its business policy company to increase the well-being of enterprises. Developing research-oriented and expertise-intensive business is the engine of success for the Turku economic region, because expertise and jobs also generate other good things to share.

Turku Science Park Ltd promotes the utilisation of university-based expertise and competitiveness of the enterprises as well as generating new business in the field of biotechnology (BioTurku® - Life Science and materials technology). Business with a high level of expertise requires close co-operation between universities, enterprises and the public sector. Turku Science Park Ltd acts as a strategic partner of universities and enterprises, both startups and operational, growth-seeking ones.

The co-operation and the resulting success of local business also serve the development of operations and financing of universities and other educational establishments in Turku. High-quality basic and advanced research often forms the basis of new product and service innovations. The commercial utilisation of these inventions requires practical networking, process consultation and project know-how as well as practical knowledge of different areas of business operations. Turku Science Park Ltd is there to help especially to increase the companies' business know-how and readiness for international markets, as well as marketing Turku-based expertise in international partnering and other events. The services of Turku Science Park Ltd are in general free of charge for all of customers.

### All together – new possibilities

By doing things together we can reach much more higher. One good example of doing things together is Auria Biobank. It has been established by the University of Turku and the local hospital districts and it is supported by City of Turku. The biobank is a non-profit organisation. Its task is to maintain samples, such as tissue and blood samples of human origin and act as mediator for them for health-promoting medical research.

When co-operation aims to promote health and develop better products and services, Auria biobank also co-operates with commercial operators. In these cases Auria biobank acts as a contract party with research institutions and commercial operators. For example, a pharmaceutical company can order research from an independent research institution that borrows suitable samples for the project from the biobank. ■



**RIKUMATTI LEVOMÄKI**  
CEO  
Turku Science Park Ltd  
Finland



HANNA HALME

# Global human and environmental health company in Turku – making a difference, every day

**P**erkinElmer is a global leader, dedicated to improving the health and safety of people and their environment with 7,600 employees in over 150 countries around the world. PerkinElmer is focused on providing customers with critical knowledge and expertise, along with innovative detection, imaging, informatics and services solutions, so that they can make better decisions for better outcomes. Our solutions enable earlier detection of disease, more effective therapeutics, cleaner drinking water and safer food, positively impacting the quality and longevity of life.

As developed economies face ever-rising healthcare costs and expectations for improved outcomes, PerkinElmer is uniquely able to combine complementary solutions in diagnostics and life sciences research to help people live longer, have healthier lives. Our technologies and expertise were instrumental in the development of 26 of the newest therapeutic drugs and our advances in digital imaging technology are improving cancer treatment for over 1 million people every year. Our newborn screening technologies have helped screen 450 million babies worldwide, for a variety of life-threatening disease. We also provide over 2 million scientists worldwide with our electronic laboratory notebooks and software for more informed scientific decisions.

PerkinElmer accelerates scientists' ability to detect, monitor and manage environmental contaminants and toxic chemicals, while ensuring that safety and compliance issues are addressed and people are protected. Our detection solutions are used to analyse approximately 2.25 billion air, water and soil samples each year – reducing the risk of contaminants. We are a market leading provider of analytical techniques including inorganic, molecular spectroscopy, thermal analysis and gas chromatography, for faster and more accurate analysis of food and pharmaceutical samples. With an experienced multi-vendor laboratory service organization, PerkinElmer is the number one provider of comprehensive lab management services for analytical equipment, enabling over 330 customers to maximize their laboratory productivity.

PerkinElmer's Turku site was founded in 1950 and today is one of our largest diagnostics manufacturing, research and development facilities. The company develops and manufactures instrumentation, reagents and software for screening and research purposes.

PerkinElmer is a global market leader in newborn screening business, with 30 years of experience in this field. We currently have 65% global market share for newborn screening in 91 countries.

Newborn screening is a form of preventive health care in which babies are tested within the first days of their life to discover evidence of disorders for which the principal symptoms are not yet visible. The process starts with the collection of blood samples from a baby's heel on a special filter paper, for further analysis. Screened disorders are varied; they may be genetic, endocrine-related, metabolic or hematologic. What these disorders have in common is that without timely

detection and medical intervention, they can cause severe harm to the child. Unlike treatment based health care processes, newborn screening is population-based. This means that tests are not only administered to babies that are sick, but also to all babies, including the vast majority that may appear to be completely healthy.

Screening programs often result from national or state-level healthcare decisions, with the goal of screening all newborn babies. There are screening tests available for dozens of different diseases today and the healthcare decision on screening also covers which diseases will be included in the program. The benefits of a newborn screening program are often assessed from a healthcare cost perspective. Evaluating the total cost of diagnosis and treatment of the sick patients versus the total cost of a screening program, confirmatory testing and prevention of the disease, often results in favour of starting a screening program.

PerkinElmer's location at the Baltic Sea shore in Turku is beneficial from many perspectives. Turku is a thriving university town and an excellent breeding ground for numerous biotechnology start-up companies. This atmosphere provides opportunities for scientific and supply chain collaboration and it is easy for us to recruit talented people into our team. We also see opportunities for business growth in the Baltic countries – as only a fraction of the world's babies are screened for diseases. We will continue our efforts to make a difference in the lives of babies and families in the Baltic Sea area. ■

HANNA HALME

Vice President, General Manager  
PerkinElmer Diagnostics EMEA  
Finland

JAAKKO SAARI

# Growing opportunities in eCommerce all around the Baltic region

**T**he Baltic region reveals growing customer demands and expectations of eCommerce markets in all business areas. Continuous changes are occurring in the operational environment of the retail and industry segments. These changes bring great opportunities for growth to the Turku region.

As a business area, eCommerce requires deep know-how, understanding and experience of different technologies and ways of thinking, combined with a deep understanding of regular business models. Customer behavior in the B2C markets and B2B markets is changing all the time, and former web-store versus physical store competition has been replaced by a multi-channel concept. The multi-channel concept has already evolved to an omni-channel concept just waiting for the next generation to arise. Our B2B and B2C customers have the same expectations for this level of shopping experience: smooth omni-channel experience combined with a customer-oriented approach in all services across all channels.

Customers are now at the core of our business models in many ways, and the customers are the ones changing the expectations. This is something that our business decision makers need to consider in daily situations. Customers are at the center of our omni-channel way of thinking; and actually, the customers already are part of our value chain in the eCommerce business. Shopping experiences are not only limited to physical stores and web-stores. Shopping experiences surround customers where-ever they are and where-ever they make the decisions of where to find, try out and buy new products and services. Customers have a strong impact on the buying decisions of other customers, for example, in the social media; and today also on the purchasing and production decisions of companies.

To be successful today in eCommerce, understanding of the omni-channel concept is important. The omni-channel concept also requires smooth integrations between different IT systems to make the customer experience complete on all possible channels used; for example, the social media, advertising, email, mobile, catalogs, check-outs, stores, call centers, etc. The omni-channel concept requires us to understand that our customers are not outsiders, but that they are an important part of our value chains as the active actors influencing our company and customer behaviors.

All the mentioned aspects are possible to implement in our businesses, but that will not be enough. The future requires more relevant content on all possible channels. As customers, we are not willing to spend our time facing marketing that is not targeted on the basis of our own desires, needs and plans. Relevance is now crucial in the marketing of products on all channels, and it will be even more crucial for success tomorrow.

At the moment, the same development is occurring in all the Baltic region markets and in the European and global markets. The strong focus and know-how in the Turku region create excellent opportunities to achieve new possibilities in this growing eCommerce market. Focused experience in telecommunication, gaming and new technology companies provides us with new ways of thinking and new ways of succeeding in the future. We are inwardly ready for a changed operational environment and new global markets.

Turku as a region has the perfect location in the Baltic Sea context. Turku has good connections via road, rail, air and sea. Furthermore, our workforce is highly educated and has strong capabilities in eCommerce technologies, because our IT understanding is usually based on ERP world structures. We have traditionally been lacking a bit in sales emphasis. Yet, at the same time, we have always been strong in transactional emphasis, and that creates our advantage in comparison to competitive regions abroad. Integrations between different IT systems and channels have to be designed on the basis of both end-user experience and content and cost-effective and rational third party IT systems integrations.

The business decision makers are seeking professionals who understand omni-channel environments and the current change in retail and B2B market expectations. No longer are entry level eCommerce solutions sufficient. Deep integrations, together with smooth operational processes, need to be taken into consideration when designing and implementing future eCommerce solutions both in the B2C and B2B markets. Also, more relevant product recommendations and content are vitally important when competing in the global, European and even local markets.

The quality, knowledge and experience of eCommerce in Finland and in the Turku region are excellent and competitive in comparison to other Northern European markets. In the Turku region, the importance of thinking out 'our borders' is extremely important. We have to create a positive change in peoples' way of thinking and understanding the future possibilities that are within our local shell. In one form or another, eCommerce is here to stay. This is not a question of competition between web-stores and physical stores. This is the new way of thinking: of placing customers at the core of our operations and allowing them a small part of the control.

Think big, think global, think customers! ■



**JAAKKO SAARI**  
Director  
Igence Oy Ab  
Finland



VESA MARTTINEN

# Regional marine industry

Local is regional in Baltic Sea's shipping. The locations are connected regionally with short sea shipping and regions to each other with ocean going shipping. In our region the break bulk, oil & oil products, gas, containers, trailers and people are transported with in the area and to other regions. The marine service business is serving shipping where it takes place and thus it is also truly regional. The product business on the other hand is for multiple regions, and global to serve connecting of these regions, but it's not required to be "on-site" and therefore it has local characteristics. In addition to shipping the marine industry also serves natural resources harvesting. Sea and sea bed provides food, energy and minerals as regional offshore operation. Because being in it requires specialized capabilities and it has high capital intensiveness the local operation is typically governed by strong global players. In marine service and product business the same geographical fundamentals as in shipping are applicable.

European marine industries generate €85bn annual revenues and provides employment to 500 000 people. As mentioned this is partly connected to European shipping contributing €145bn to the European economy while supporting 2,3m jobs. In addition to work and prosperity the marine industry, shipping and natural resources have a significant role in local and regional security of supplies during abnormal situations. Locally in Finland the marine industry is going through evolution. We have, and have had, about 20 000 people directly employed, but the companies behind these people and market focus has changed in past 30 years.

In 1980's the main players were shipyards specialized in capital projects for North-European regional customers and following these customers to new markets like US cruise business and Offshore Oil & Gas. During years the number of capital business integrators and direct employment with in them has come down, while rest have changed the business model to value chain based assemblers. In this evolution the marine industry growth was enabled as suppliers became independent, spin-offs were created, innovation was boosted and these companies started to capitalize on created capabilities in new markets. As examples we have manufacturers of ship systems, cabins and cargo gear; designers of passenger ships, ice-breakers and short sea ships; project suppliers of accommodation, navigation and cleantech solutions. In capital business the location for area of excellence can be secured in selected site by commitment, development funding, education and hard work. The new business model securing the value creators commitment is the key why Turku region has so significant role in design and construction of passenger ships, Pori/Rauma in offshore products and Helsinki in arctic and short sea shipping. All in all we have currently strong and vital Finnish marine industry, spread around the country, with €5,4m business.

As a difference to capital business the service business follows customers in selection of operational sites. In our region the key operational, knowledge and business hubs are: Hamburg, Amsterdam, Rotterdam, London, Hull, Oslo, Stavanger, Copenhagen, Gothenburg, Stockholm, Mariehamn, Helsinki, St. Petersburg, Tallinn, Klaipeda, Gdansk and Gdynia. As an example the ship repair, maintenance and

conversion business of BLRT is performed in customer's business areas. Shipyards are in Naantali, Tallinn and Klaipeda complemented with customer service in Hamburg, Helsinki and St. Petersburg followed by flying squads mobilized around North-Europe. The Baltic Sea industrial marine service is about €3bn regional market. Actors in it are in addition to regional industrial operators with facilities, procedures and in-house talents are also global original equipment manufacturers services and local entrepreneurial installation teams.

In current market situation where scarcity of funding, work force and natural resources in expected and competition between regions is growing we need to do even better and be able to meet future challenges through renewal. Joining separated product and service offering into lifecycle business we can create additional value, having digital interfaces between operational end-users and this high knowledge industry we make interaction time and location neutral, introducing financing like in other transportation industries the overall value will be comparable, in these and other examples the focus to be on value creation and how it's captured. Current value chain model has worked previously and it's been strong especially in east-west co-operation of our region. One way to move forward is to re-think the value creation/capture and base it on value network where actor is awarded by value it's creating to end user, not necessarily the value it pull's through. Another element to be considered is sharing and collaboration. Lately the public-private co-operation has been lifted with enabling capabilities on discussions and studies. Perhaps that is one of future fairways, but crucial for marine industry will be how we in practice share and support research, business intelligence and financing. Locally in Turku area some good initiatives for specific developments have been taken lately. Now we need development also in other key locations, more regional thinking connecting Baltic Sea locations and wider scope of business cases from local start-up's to technology transfer into new regions. ■



VESA MARTTINEN

Managing Director  
Turku Repair Yard Ltd, part of  
BLRT Grupp

Chairman of the Board  
Finnish Marine Industries  
Finland



BO ÖSTERLUND

# Our national economy relies on our maritime traffic – true or not?

**T**he maritime transportation of goods will stop without fuel, and the world will dot without maritime transportation

The work shop instituted by the Ministry of Transport and Communications submitted a resolution on March 12, 2014 concerning our sea traffic strategy for the years 2014 - 2022. In the strategy it was stated among other things that "the maintenance of our national emergency supply demands specific measures which will allow us to keep up at our disposal an adequate tonnage sailing under the Finnish flag to safeguard the vital transportations for our society and industry under all circumstances." moreover, we should take appropriate precautions to secure the whole logistics of maritime transportation and the pertinent critical infrastructure in castoff serious peacetime disturbances. Maritime traffic and maritime transportation are linked together with other types of our traffic system which should be surveyed as a whole."

The encyclopedia "Kunskapens bok", published in 1960, deals with the maritime transportation of victuals and raw materials in the world in the year 1937. A total amount of forty-five million metric tons of goods was transported between Europe and America. Eighteen million metric tons of cargo travelled through the Suez Canal to the Far East. Ten million metric tons of goods crossed the Pacific Ocean from the Far East to North America and an additional cargo flow of -10- million metric tons make a total of eighty-three million metric tons of cargo travelled on the seas of the world. One year later the amount of maritime imports to Finland was 3,76 million metric tons including more than two million metric tons of coal, coke, and oil. The total flow of goods of sea-borne foreign trade of Finland in 2012 was ninety-three million metric tons, i.e. close upon the level of the whole volume of maritime traffic on all the seas of the world as calculated at the very entrance of the Second World War.

The clock has been ticking, times have changed, volumes have increased, globalization has reshaped the maritime transportation of goods; today, oil, oil products, coal, and gas with their total volume of 4,6 milliard metric tons make nearly 50 per cent of the cargoes travelling on the seas of the world.

In good times we take scheduled and regular maritime traffic for granted. Shop shelves abound with goods, raw materials and components are at the right place at the right time, the wheels of industry keep rolling, run with sufficient energy, either domestic or imported. We are used to enjoying ample export revenue contributing to our welfare and standard of living which we also take for granted. Last year, the share of imports was 40,3 per cent, and that of exports 39,7 of our GNP. But even a minor disturbance in our maritime traffic may change this situation into a serious challenge how to secure the conditions of living in Finland and to keep the wheels of our industry rolling. Since we Finns have no direct land bridge to the European market, we are, like Sweden, most dependent on our maritime communication system across the Baltic Sea. Sweden, however, has the possibility of exploiting the motorway bridge over the Sound which provides an access to the European market. In metric tons, approximately eighty per cent of the imports to Finland and close upon ninety per cent of the exports ply the seas on vessels. It is not feasible to substitute sea transportation with other forms of conveyance because the cargo volumes are

so high. The sea traffic routes with all necessary infrastructures are already there, i.e. they do not require the same amount of investments as road or railway transportation. The investment funds for channels and ice-breaking are collected as license fees from the sea traffic industry. Putting up new ports requires, naturally, new, but fortunately minor-scale investments.

According to our catalogue of merchant marine compiled by the Finnish Transport Safety Agency we possessed a merchant marine of 116 vessels with a total capacity of 1 269 994 dwt (i.e. the total weight of cargo, fuel, water supply appliances, and crew) in our overseas traffic.

Is this amount of merchant marine sufficient when it comes to maintaining our maritime traffic?

The volume of imports was in 2012 48,7 million metric tons and that of exports 44,5 million metric tons including 7,1 million metric tons of transit traffic.

The quotient of the division with the volume of sea transportations in metric tons as the dividend, and the dwt capacity of the merchant marine as the divisor shows that theoretically our merchant marine is expected to discharge as many as thirty-eight single procedures annually for the whole fleet to manage the whole volume of exports from the port of departure to the port of arrival; for imports the number of single procedures is thirty-five. To manage the two directions of overseas traffic requires a total of seventy-three single procedures a year, i.e. about 1,4 total procedures a week.

The share of the Finnish tonnage of the sea transportations to and from Finland in 2012 was 30,5 per cent, as expressed as an arithmetic average of the total volume of exports and imports. For exports the share of our vessels was 41,0 per cent, and for imports 19,1 per cent.

In comparisons based on average values reality may sometimes look merely like an average. This is not, however, the case. For the imported chemicals needed by our industry, the share of our own vessels is only 7,4 per cent. For the imported fertilizers needed by our agriculture the share of our vessels is 11,1 per cent.

When assessing the shares of the Finnish tonnage it should be kept in mind that export and import transportations cannot, as a rule, be into a well-functioning continued transportation system, i.e. the importing vessel cannot always take on export goods. The transportations of exports and imports should, when it comes to energy security and emergency supplies, be primarily surveyed separately on the basis of a reliable, and the "worst" option.

The total volume of the cargoes transported to Finland on averagely eighty vessels a day is about 2000 metric tons per vessel, i.e. a total of 160 000 metric tons. Such an amount of goods would require 3480 railway cars with a capacity of sixty-eight metric tons each, or 4000 trucks on our roads. All this applies to one day's imports only, export goods need a capacity of nearly similar proportions. As for the order of relative importance, exports do not stand in the front line in case of an emergency or on the same level with imports in significance.

The tonnage sailing under the Finnish flag carries, under normal circumstances, sixty-seven per cent of our total imports of crude oil and oil products. To convey this

amount, our merchant marine suffices for one journey back and forth monthly. If all the export mentioned above is carried by domestic vessels, the capacity will be sufficient for seventeen journeys a year. It is self-evident that the site of the loading port determines the duration of the journey to and fro. As long as Finland imports more than eighty per cent of its oil from Russia, the time spent on a voyage to Primorsk or Ust-Luga and back again is quite reasonable.

As for coal and coke, our domestic tonnage is able to carry, under normal circumstances, 58,6 per cent of the total import. The Finnish merchant marine is capable of managing this amount by making averagely one voyage monthly. If the entire import of coal and coke is transported on domestic vessels, the capacity will allow two voyages monthly. The sites of the ports of loading determine again the duration of the voyages and their maximum number. Most of the coal is imported from Baltic ports.

It is estimated that the whole truck traffic between Finland and Sweden could be executed by the ro-ro vessels and the car ferries traveling from Turku and Naantali, which demonstrates well the significance of South-West Finland in maintaining our overseas traffic and its continuous flow of goods annually. The number of trucks arriving at the ports of this region is about 110 000 carrying 1,6 million metric tons of imported cargoes; 90 000 trucks exporting 1,4 million metric tons of cargo depart from these ports. This flow of goods equals to more than 40 per cent of the whole number of trucks coming to Finland by sea, and more than 43 per cent of the imported cargoes. The import of crude oil to the oil refinery in Naantali is slightly less than 20 per cent of the total oil import to Finland; this and the delivery transportations of the oil products to the consumers make, along with the service transportation system on the Åland Islands, a vital link in the maintenance of our national emergency system.

Thus we can claim unambiguously that we are not in the possession of a domestic capability of maritime transportation of export and import goods if we are not prepared to increase our capacity in this respect. The degree of adequacy always depends on the subjective opinion of the speaker. Finland's merchant marine in our overseas traffic has, according to statistics, remained on the same level of cargo volumes despite various spurring statements and ambitions concerning adequate measures at least up to the present moment for the whole 21st century. We are dependent on the use of foreign tonnage.

*If there's one thing we know for sure, tomorrow's world will always be a little different. ■*



**BO ÖSTERLUND**

Commodore (one star admiral) ret.  
Finland

HANNU KOTTONEN

# HKScan – from Turku to the Baltic Rim markets

On 11 January 1913, a number of farmers from Southwest Finland convened at the Finnish Agricultural Society in downtown Turku to establish a cooperative slaughterhouse. Decades later, after many challenges in business and politics, this cooperative became the main shareholder of the company we today know as HKScan Group. The Group established livestock sourcing locations and invested also in meat cutting and processing. Both before and after Finland joined the EU, agriculture policies were important drivers for our business throughout the whole vertical meat value chain, starting all the way from genetics and feed. For a long time, HKScan remained a domestic Southern Finnish meat company. HKScan grew via local mergers and acquisitions to become the market leader in the Finnish meat business. Our acquisition of strong local brands such as HK and Kariniemen strengthened the sales of many of our product classics. HKScan was listed on the Helsinki Stock Exchange in 1998.

Joining the EU was predicted to spell doom for agriculture and the food industry in Finland, and admittedly it was certainly very tough for our industry – accustomed as it was to high local costs and prices and domestic regulations and practices – to transform itself and adjust to the EU era and wider internal markets. Drastic measures paved the way to HKScan's survival. Towards the end of the 1990s, we started to grow by making acquisitions abroad, our geographical focus being on the Baltic Sea countries. The first deal was signed in Estonia, resulting in the acquisition of Estonian AS Rakvere Lihakombinaat including Latvian AS Rigas Miesnieks and later on AS Tallegg. Our growth in the Baltics continued with the subsequent acquisition of UAB Klaipėdos Maisto Mesos Produktai in Lithuania and AS Jelgavas Galas Kombinats in Latvia. Our new Estonian business prompted the purchase of Estonian farms for primary production in order to ensure high quality and to avoid animal sicknesses in the primary production value chain. Also feeding and genetics had to be organised and upgraded. Today, HKScan owns roughly 60 properties in Estonia and close to 100 animal halls. One of our biggest pig farms is in Estonia, with a roofed area covering 8.6 hectares and one corner of the complex being six floors high.

After the Baltics, HKScan expanded into Poland by acquiring a minority stake in Sokół S.A. Later this stake was increased to 50%, and with our competitor Danish Crown buying the remaining shares, the whole company came under Nordic ownership. Sokół has grown, currently running seven plants across Poland. It has performed well over the years. The Sokół brand is the leading meat brand in Poland, and its exports are growing. Currently HKScan is in the process of divesting its Sokół holding to Danish Crown. HKScan will maintain its presence in Poland, however, by retaining full ownership of its processing plant in Swinoujście.

In 2006 HKScan bought the business of Sweden's biggest meat cooperative, Swedish Meats. The business owned two Swedish household brands, Scan and Pärsons, and had several production locations and associated companies inherited from the time when the former cooperative slaughtered livestock from across the whole country. The brand and product portfolio included several classics, Mamma Scan's meatballs perhaps being the best known. In late 2010 HKScan bought Rose Poultry A/S and its three processing plants in Denmark. Through its Swedish and Danish acquisitions, HKScan also established a small sales footprint in Germany and the United Kingdom.

HKScan currently exports to some 50 countries globally. The bulk of our exports are meat components which are not part of the traditional Nordic diet, but some specialities are exported as well. Nordic meat is appreciated abroad because of its good flavour, purity, minimal use of medication, hormone-free production and good animal welfare. Japan has long been an important market for quality meat. For many years, Finland and Sweden were the only countries eligible to export meat to New Zealand. Today you can find Mamma Scan's meatballs in retail outlets as far afield as Hong Kong. Work to secure the required bilateral agreements and certifications to get exports started to China will hopefully be finalised soon. EU exports to Russia are unfortunately "on again, off again", posing a challenge to our steady business development there. HKScan has a representative office in St. Petersburg and plans to grow the business. At the moment those plans are on hold.

After 101 years, HKScan is still headquartered in its hometown in Turku, Finland. HKScan's main business and its domestic markets are all in the Baltic Rim area. HKScan's mission states that we are "The Nordic meat experts" – but perhaps "Baltic Rim Meat Experts" would have been more accurate geographically. ■



HANNU KOTTONEN

President, CEO  
HKScan Group  
Finland

SAM HANSÉN &amp; ILPO MANTERE

# Surfing on the waves of emotion across the Baltic

**T**he essential difference between emotion and reason is that emotion leads to action while reason leads to conclusions.

This quote from Donald Calne, a Canadian neurologist born in 1936, is something we love at Saatchi & Saatchi. The word 'love' might not appear very often in this review, nor do we use it because we represent the whimsical, wonderful world of advertising. We use it because love, among other feelings, is a powerful marketing tool.

Consumers and markets have changed. According to Kevin Roberts, the CEO of Saatchi & Saatchi, we have moved from an attention economy to an attraction economy. Instead of informing people, we have to inspire them. We should measure the return on involvement, not on investment. Marketing is not about pumping markets anymore, it's about creating movements. It's not about products, it's about people.

The days of unique selling propositions are more or less over. Nowadays, almost all brands can demonstrate first class technical and functional advantages. This is why differentiation based on emotional benefits becomes essential – why we should make sure that we create emotional responses with communication. In a Journal of Advertising Research article from March 2006, John Pawle and Peter Cooper of QIQ International point out that people now understand how brands work and how they are intended to work on them: "Loyalty cannot be bought for money, but it can be for love."

Finding this a bit hard to swallow? Think about yourself: a smart and intelligent person well equipped with knowledge and the ability to draw conclusions. What happens when you are enjoying the joys of traditional media, e.g. watching a good film on TV? You don't think. You feel. You are full of emotion.

A marketer with emotional intelligence taps into this perception, finding support from many sources. For example, in their book 'Marketing in the Era of Accountability', Les Binet and Peter Field state that emotionally based campaigns on TV are not only likely to produce sizable business effects but also produce more of them, outperforming rational campaigns on every single business measure.

What makes some brands inspirational? We at Saatchi & Saatchi have been looking closely at this crucial question. The answer: they are emotional to the core. In other words, these brands have become Lovemarks. Like great brands, they enjoy high levels of respect, delivering great performance beyond your expectations. But there the similarities end.

Lovemarks also have high levels of love. They reach out to your heart as well as your mind, creating an intimate, emotional connection that you just can't live without. Take a brand away and you will find a replacement. Take a Lovemark away and you will protest about its absence. What is between you and a Lovemark is a relationship, not just another transaction. You don't just buy Lovemarks, you embrace them. That's why you never want to let go. Lovemarks inspire loyalty beyond reason.

Some people would describe Lovemarks as a marketing concept for products and services. We describe it as a thinking-feeling framework that inspires us to create great communication about things people really care about.

And when the communication is great, great things will happen. There is strong evidence to suggest that high levels of love and respect can increase a brand's sales. Consumers also use Lovemarks more often than brands with which they have no emotional connection.

Is your brand already a Lovemark? How do you know? You can put it to a quick test by answering a list of questions you find by doing a web search for 'The Lovemark Profiler': are there great stories attached to your brand, can it provide people with shared experiences, does it fit in with people's dreams about themselves, has it been inspirational in peoples' lives, does it feed the five senses that are portals to emotions?

To get the precise coordinates for your position on the pathway to love, further consumer research can be carried out. And here's the best part: the results not only tell you where you are, they also show you where your competitors are.

Our research partners have a large database of Lovemark studies for a number of brands from over 50 countries, ranging from airlines to banks to credit cards. Some of them have been commissioned by us on behalf of our clients operating in Scandinavia and around the Baltic. So we in Saatchi Finland know quite well, for example, which household brands are loved in Poland and which boat brands could use a dash of emotion when talking to the Swedes.

Are emotions cross-cultural then? Do we know what inspires or pleases people in other countries? Do we understand what brings them joy or makes them sad? Studies have been completed on this subject and the findings suggest that basic emotions are shared by all people.

Consequently, from the marketing communication perspective, the Baltic Sea does not separate us. It brings us together. ■

SAM HANSÉN  
MD

ILPO MANTERE  
COB

Lahtinen Mantere Saatchi & Saatchi  
Finland

ANNE-MARGET HELLÉN

# The Baltic Sea – a top travel destination of the future

**W**hat do the cities of Stockholm, St. Petersburg, Turku, Tallinn and Copenhagen all have in common? Together with the rest of the Baltic region, these coastal cities form a fascinating destination for travellers who love the sea, the natural world, rich culture or a city sojourn – or all of these combined.

It may surprise you to learn that of the top cruise destinations in the world, the Baltic region ranks third, welcoming over 3.1 million cruise visitors every year. Less of a surprise will be to note that the Baltic is outstripped by the Caribbean and the Mediterranean. However, time is on our side. This frozen treasure is beginning to thaw, glinting in the eyes of international tourists not so accustomed to its wonders. The huge, dormant potential lies waiting to be unlocked via the key markets of continental Europe and the US.

It has been estimated that the value of the global cruise market will almost double by 2025. We are gunning for a good part of this growth for the Baltic region. The vision is to turn the Baltic region into the best cruise experience in the world. This requires active cooperation throughout region – no small endeavour but one that can be achieved.

What is it that makes the Baltic region such a promising destination? At Cruise Baltic, a cooperative organization made up of ten Baltic countries, we talk a lot about the unique strengths of the Baltic Sea region.

The Baltic region is a perfect combination of old and new, east and west, modern and traditional. It offers probably the most diverse cruise experience in the world! Ten different countries and 27 different city destinations “on a string” – as we say.

The Baltic region has a long history of interaction. As far back as in the 14th century, the region was dominated by the Hanseatic League, an integrated trade network in Northern Europe. At the time the Hanseatic cities were the most important cities of the region. As a result of economic success, culture, arts and science flourished around the Baltic Sea. The medieval houses, churches, palaces and even castles provide a unique charm to the historic cities of the Baltic.

In addition to rich history, the cities around the Baltic Sea are among the most modern in the world. Copenhagen, Stockholm and Helsinki have repeatedly been referred to as “capitals of cool”. Modern architecture, avant-garde events and innovative restaurants all combine to create an atmosphere not to be missed.

The culinary culture is also on the rise as a new generation of ambitious and well-travelled cooks set up their restaurants in the region. Baltic and Scandinavian kitchen traditions have many great ingredients. We have fine seafood dishes, tasty bread, delicious cheese and the best berries in the world. You might consider this the cuisine of superfood at it's finest.

As the head of Turku Touring it is natural for me to be interested in the big picture and what role Turku will play. What distinctive ingredient can Turku bring to the Baltic blend?

A decade ago Turku Touring branded our city with the slogan “Turku – city culture in the arms of the archipelago”. This concept sums up the unique selling point of Turku from the perspective of tourism. It also goes to highlight the special role in which Turku can shine amongst other cities.

Turku, the European Capital of Culture 2011, is a gateway to the most extensive archipelago in the world, the Scandinavian Islands, stretching from Turku to Stockholm. This breathtaking natural wonder has been called the most beautiful archipelago in the world. For a traveller, there are many ways to get there, from cruising to sailing and from biking to hiking. The Archipelago Trail takes visitors deep into the heart of the archipelago without setting foot on a boat, removing any hassle or stress from planning a trip into the heart of the Scandinavian Islands.

The branding of the Scandinavian Islands is still a work in progress, but we in Turku Touring, Stockholm and the Åland Islands are busy working on it. The West Finland Film Commission has been promoting the region to get more international film groups to shoot in Turku. Its work has already been a success, most notably with regards to regional branding. This exposure has resulted in flattering articles on Turku popping up in such places as in the leading international magazine, the Monocle.

Despite our shared history, we in the Baltic region still see our neighbours as quite distant. This is something that I want to see change. The question is how?

My dream for many years now has been to see a ‘hop-on-hop-off’ cruise of the Baltic Sea. My vision sees a beautiful cruise ship touring round the Baltic Sea from one port to another, picking up and leaving passengers in every port along the way. What a perfect way to visit the Baltic, not only for citizens of the neighbouring countries but also for our more far-flung visitors exploring the wonders of the region.

In Turku Touring we are strongly committed to Baltic cooperation. When we get it right – and get it right we will – destination Turku will be part of a hugely attractive and thriving future for the Baltic region. ■



ANNE-MARGÉT HELLEN

Director of Tourism  
Turku Touring  
Southwest Finland Tourist and  
Convention Bureau  
City of Turku  
Finland



SARI RUUSUMU

# Destination for friendship

**T**urku, the European Capital of Culture 2011, is the oldest city in Finland and also a popular choice for conferences. Conference City Turku is a member of Congress Network Finland, an association connecting Finnish congress professionals, and also actively involved in marketing Destination Finland. The latest Finland Convention Bureau research gives us interesting information in this specific field of tourism: 662 international congresses with 71,697 delegates were organized in Finland 2013. The economic impact of the congress year was 117 million euros. The previous year 2012 was a record-breaking year with 73,300 delegates. Finland is number 22 in the international congress statistics in the world. How is this possible for a country of five million people? How can this happen so far North and such a distance away? They are not buying events in Scandinavia, are they?

The modern city of Turku has more than 40 000 specialists working in several universities and the largest University of Applied Sciences in Finland. The University of Turku has more than 3000 employees in seven faculties and seven independent units. The Abo Akademi University is the only Swedish-speaking university outside of Sweden and famous for Scandinavian contacts. These specialists and scientists are working in the universities and in laboratories or research centers close to the university hospital organization. The fields of interests and study are numerous in the university world and so is the number of scientists organizing congresses in Turku. Why is this? Who wants to organize a congress even though working life is more demanding than ever and the hours in a day are so limited?

The reasons for the Finnish success in the congress world are very close to human nature. It is very rewarding to host people in our own cities and showing the guests what we love the most: a Scandinavian style congress venue by the lake, a gala dinner in a villa by the sea, a hotel in the middle of a forest -and of course: an institution with the latest award-winning technology. The Finnish hard-working and actively sharing way of thinking is also one of the reasons why Finnish scientists often have leading positions in scientific associations. If you are a member of an association, you might as well be an active member and take part in all the activities benefitting your own field and your own area of expertise. Why be a passive member, it's a waste of time and money!

Honest and sharing people tend to have lots of friends in the working environment and in personal life. Science has no boundaries and a chemist speaks the same language in Finland as another chemist in China, the language of similar interest and inspiration. However, it is very human to like someone more than someone else: with some people one's ideas seem to fly to the same direction in a very effortless way. This is the reason why congresses are here to stay, no mat-

ter how fancy video connections are available. Science needs discussion and opinions, a friendly opening in a certain direction, to flourish. Welcome to Finland, we love to listen and learn more!

Whether one is hosting a dozen or a thousand delegates, national or international, a cultural event or a scientific conference, Turku makes a lasting impression. Turku has the soul of an international culture capital in the approachable setting of a small city. Green meetings are a real life fact in Turku: there are 2,200 hotel rooms in 18 hotels, all within a walking distance from each other and the river

Aurajoki. Destination Turku Finland has a splendid slogan to remember: Urban Legends since 1229. The slogan means that Turku was mentioned in literature in Vatican Rome already as early as in the year 1229. The city was never actually founded but the banks of the River Aurajoki have been a suitable setting for important meetings for decades.

Destination Turku has also another slogan: Kiss my Turku. This slogan is playing with bold words and meanings, but has also a deeper meaning: laughing is good for you. Kiss my Turku is an internet campaign in which local people are recommending their

favourite places in Turku and the Turku Region: a friendly tip from a local to a visitor. Most of us want to see and experience something exceptional, find a place or a spot with an individual meaning, a spirit of its own. Everyone needs a story to remember. I would recommend the Aboa Vetus & Ars Nova -museum with modern art and a medieval part of our underground city. Or maybe a visit to Turku Castle and a gala dinner in Duke John's Renaissance Banquet style. Who knows why there is so much salt served at the dinner tables? Kiss my Turku! ■



SARI RUUSUMU

Convention Manager  
Turku Touring  
Southwest Finland Tourist and  
Convention Bureau  
City of Turku

Chair  
Congress Network Finland  
Finland

JANNE TIENPÄÄ

# Focus on tourism – case Finland

**N**ine countries fringe the Baltic Sea: 8 of these are EU member states, 6 have joined NATO and 4 are in the Euro zone. Nordic countries (Finland, Sweden, Denmark) are among the wealthiest in the world, Germany is an economic super power by any standards, Poland together with the Baltic states (Estonia, Latvia, Lithuania) are emerging European economies. And the ninth country is Russia. Facing these facts it is obvious that although geographically uniform area Baltic Sea is economically, culturally and politically fragmented. This has its implications for tourism too.

The countries mentioned cover approximately half of all foreign tourists to Finland. Despite the economic highs and lows the number of foreign tourists to Finland has continued to grow every year during the past ten years, except one. Almost 5.9 million foreign tourists visited Finland 2013 – an all-time high! Forecasts show a 4% annual increase in foreign travel to Finland until 2020. This is not only because of leisure travel but also business segment has a positive trend. For example, according to a survey made by Finland Convention Bureau, year 2013 was the best congress year ever! Last year these congress delegates generated tourism income of 117 million euros.

In Finland the economic importance of tourism was not previously understood but this has changed and for a good reason. Tourism's share of GDP is now 2.7% and it is expected to rise above 5% by year 2020. A total of 13.3 billion euros was spent on tourism in Finland 2012 out of which foreign travellers accounted for 32%. Of Finnish total work force 7.4% (Ministry of Finance, statistics 2011) comes from tourism and this is growing too.

## Promoting tourism

Traditionally Finland is promoted the 'last pure & natural escape' in Europe. Now the focus has to be shifted to highlight trendy city life and our unique culture. We have managed to hold major scale happenings such as European Capital of Culture (Turku 2011) and World Design Capital (Helsinki 2013). But this is not enough, we need still more. Tourism operators have positively commented the talks to build up a new Guggenheim art museum to Helsinki city center. Further we should put more effort to promote the old King's Road connecting three Nordic capitals (Oslo, Stockholm, Helsinki) to St Petersburg. Also on agenda has been a new railway via northern Finland to Kirkenes, Norway on the shores of the Arctic Ocean. This joint-venture (EU, Norway, Finland) is well-worth further planning.

Official Finnish committee was set to define key strategy areas for developing tourism in the future. It highlighted 2014 five strategically important areas: Helsinki capital area, Turku archipelago, Lakeland, Lapland and proximity of Russia. Such strengths as pure nature, safety and well-functioning infrastructure were found. Some weaknesses were revealed too: accessibility, high price level and an image as an unknown destination.

## Possibilities

Now, domestic tourism demand can be increased a bit but true potential lies abroad. St Petersburg area has a population of more than 5 million people and it is situated only 300 km from Helsinki. Also the popular ferry routes from Stockholm and Tallinn to Finland make it easy & affordable to travel here. Further, the true future markets are both in central Europe and the Far East (Japan, China, South-Korea). The latter one is due to a Finland's geographically superb location on the geographical curve which makes flights from Western Europe via Helsinki to Asian cities the shortest possible one. This special feature has created Helsinki International airport a huge hub for Europe-Asia travellers. According to IATA (International Air Transport Association) Europe will see international passenger demand growth of 3.9% annually between 2013–2017. This will benefit Helsinki too.

## Future threats

Some dark clouds can also be seen on the horizon: general attitude to flying as a non-ecological travel alternative, EU-Russia relations (possible travel restrictions) and Finnish tourism & hospitality industry's ability to continue to be innovative. Official foreign tourist arrival statistics 2014 for Q1 are still to be seen, but entrepreneurs are estimating a significant, that is at -20%, drop of Russian arrivals. This is mainly due to the weakening of Russian ruble against euro in the past 3 months. If these predictions are true and the downward trend continuous it is inevitable that the Finnish tourism will be hit very hard. This underlines the importance of finding new markets, especially from Asia.

However, the future of tourism to Finland looks promising. It employs already 140.000 Finns and generates more than 4 billion euros tax revenue and is together with biosciences and cleantech showing the strongest growth rate. To copy this formula, sustainable tourism combined with quality image, for the years to come is in the wishes of many. I believe this is a mission possible. ■



JANNE TIENPÄÄ

Senior Sales Manager  
Sokotel Ltd, part of S-Group Hotels  
Finland

MIKKO LOHIKOSKI

# Cities as key actors in regional cooperation – the Turku Process as example

**T**he importance of macro-regions in promoting development has gained in importance during recent years in Europe.

This approach, which was first formalized in the European Union Strategy for the Baltic Sea Region (EUSBSR) and its Action Plan in 2009, is based on the understanding that many important goals can be best achieved through joint action across the borders in a distinct region.

After the Baltic Sea Region, the concept of macro-regional strategies has spread to other parts of Europe. The Danube strategy and Ionian-Adrian strategy are examples of this, and others are in the pipeline. The European Union and its Commission have, together with the member states, been instrumental in developing and formulating these strategies.

To be successful, a macro-regional strategy must be based on a shared view that there are enough unifying factors as well as sufficient will and cohesion to forge closer links of cooperation, that "it makes sense" and is beneficial to all partners.

It is not accidental, that the first macro-regional strategy was developed around the Baltic Sea Region. Since centuries, our region has been a natural area of trade and cooperation, as exemplified by the Hanseatic League. Today, the existence and work of numerous pan-Baltic organisations, bringing together states, regions, cities, civil society organisations, chambers of commerce, universities etc. testifies about the vitality of pan-Baltic links.

A macro-regional strategy such as the EUSBSR has already during its first five years proved to be very beneficial, as it creates a joint platform with common goals for all stakeholders in the region – and thus promotes closer cooperation between them. The existence of many and diversified organisations as such is not a real problem, provided they all work in the same direction, are "pieces of the same puzzle".

Traditionally, international cooperation has been the domain of mainly states and governments. Macro-regional strategies, based on the concept of multi-level governance, allows also other stakeholders to join as partners in this cooperation. They do not replace the important role of Governments but complement and enhance it.

The City of Turku has been an active participant in all this. Let us take as example the Turku process.

The Turku Process is an innovative, bottom-up collaboration concept promoting practical cooperation in the Baltic Sea region, particu-

larly with Russian partners. It builds on decades of close cooperation and accumulation of trust between twin cities. Turku was the first city in the world to establish official city relations with the Russian metropolis of Leningrad, back in 1953. Soon afterwards, the City of Hamburg and Leningrad established their relationship.

The Turku Process is a joint initiative of the City of Turku/Regional Council of Southwest Finland, the City of Hamburg and the City of St. Petersburg, supported by the European Commission's Directorate General for Regional and Urban Policy.

It is based on the understanding that close collaboration between EU countries and Russia is vital to tackling many of the regional challenges and to fully utilize our regional development potential – both human and material.

The Turku Process in working in two main fields of activities. It has been entrusted by the European Union to serve – together with the CBSS Secretariat – as Action Leader of Horizontal Action Neighbours, with the task of promoting participation of Russian, Belarussian and Norwegian partners in

implementation of the EUSBSR and in regional cooperation.

We do our best to ensure, that various flagship projects find partners from neighboring countries in concrete activities to save the sea, connect the region and promote prosperity. This "horizontal dimension" of our work will be strengthened in the future.

In addition, we are also directly involved in concrete projects with Russian partners. The EUSBSR Seed money facility has granted financial support to following three initiatives:

- preKNIGHT: Its goals include development of trans-border green energy and resource saving cluster; creation of regional knowledge network aimed at transfer of technologies and spill-over of information on best practices and new solutions. Lead partner the Turku University of Applied Sciences.
- BSR IWAMA: Interactive water management, with the aim of helping municipal waste water treatment plants in reaching HELCOM recommendations. Lead partner UBC Commission on Environment.
- TransMobinBSR: Structure to speed up the development of transitional mobility in vocational education in the BSR – innovation transfer example of Hamburg – St.Petersburg – Turku. Lead partner Arbeit und Leben Hamburg, Mobility Agency.

The Turku Process is an innovative, bottom-up collaboration concept promoting practical cooperation in the Baltic Sea region, particularly with Russian partners.

During last years, much has already been achieved in cooperation with Russian partners. However, much more could be done. Therefore, the discussions between the European Commission and the Russian Government on finding a formula of cooperation between two macro-regional development strategies – the EUSBSR and the Russian Strategy for the Northwestern District – are of great importance, and their successful conclusion would be very beneficial. Likewise, it would be very important to ensure that participation of Russia and other neighbors in forthcoming funding programmes for 2014–2020 will be achieved.

Recent developments around Ukraine which have led to increased tension between the European Union and Russia may well influence development of good neighborly cooperation in the Baltic Sea region. However, we should do our best to continue mutually beneficial links of cooperation and dialogue also in difficult times.

In this new, challenging situation, the importance of sub-state relations – such as mutually respectful co-operation between cities,

universities, businesses – as well as people-to-people contacts gain an even more important role in helping us to find again the road to trustful cooperation. It may be difficult but there is no other way, as we will continue to be neighbors – be the world weather sunny or stormy. ■



**MIKKO LOHIKOSKI**

Director  
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Secretary General  
Centrum Balticum Foundation

Coordinator  
Turku Process  
Finland

Pan-European Institute

# BALTIC RIM ECONOMIES

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KAUKO JÄMSÉN

# Small is beautiful in the Baltic Sea region

Russian ministers and likeminded experts often argue that there are too many players in the Baltic Sea region. We have to get rid of the “institutional nightmare” (“kashmar”) of the Baltic Sea labyrinth”, they say. Only the states can do something about the chemical weapons dumped in the Baltic Sea after World War II, not the cities. This project listed in the Strategy of Saint-Petersburg until 2030 is one example of the thinking “bigger players are better than the small ones”.

Russia wants to concentrate on the forms of intergovernmental cooperation, where the states have main say, such as the CBSS, Northern Dimension, and HELCOM.

The City of Turku and the Regional Council of the Southwest Finland are keen to comment on these views. They live from the Baltic Sea and want to invite all actors to develop the region. The up-down approach is not enough. There is much value in the multitude of organizations.

“They didn’t come up accidentally. There is a natural need for them and the multilevel governance. We have to give the possibility to everyone who wants to contribute to the wellbeing of the Baltic Sea region, not only to the states”, told Director of External Affairs of the City of Turku Mr. Mikko Lohikoski at the Baltic E&E Summit in March in St. Petersburg.

He stressed the importance of broad participation of various stakeholders especially from the Baltic Sea Region, as this promotes “ownership” of and commitment to the regional development. This commitment is essential for success, he considers. Therefore, the real issue is to ensure that all stakeholders and their efforts are “pieces in the same puzzle”, says Lohikoski.

He is also coordinating the Turku Process, which is a joint bottom-up, open for all initiative of the City of Turku and the Regional Council of Southwest Finland, the City of St. Petersburg and the City of Hamburg, supported by the EC Directorate General for Regional Policy.

The Turku Process is promoting practical cooperation with Russian partners, particularly with Saint-Petersburg and the Leningrad region, building on the trust gathered during a long period of twin city cooperation. It has a diversity of actors: cities, regions, companies, universities, social partners, various associations, NGO’s etc. Through it the City of Turku serves as Horizontal Action Leader in the EU Strategy for the Baltic Sea Region.

Another project, which doesn’t fly only through state efforts, is the Northern Growth Zone: Oslo-Stockholm-Turku-Helsinki-Saint-Petersburg. It is essential for the competitiveness of the whole region uniting cities, municipalities, people, business, investments, labor, education and research.

There are several reasons why Russia doesn’t see the point of non-state actors.

1. Russia has no own strategy for the Baltic Sea region. It’s not easy for Moscow to draft the strategy of joint interests for the region which has so many various actors: old Baltic Sea activists like Nordic countries, emerging Poland and the Baltics and the whole Baltic Sea now being a sort of “inner sea of the EU and the NATO”.
2. Whatever strategy Russia would ever have, its strategies have not been working as expected and they are constantly changing. Hopefully the forthcoming updated Strategy for Social and Economic Development of Northwestern Federal District

until 2020 will help the synchronization of European and Russian efforts in the Baltic Sea region.

3. Democracy is subordinated to economy. New ideas are not encouraged. The political and social reforms have got sidetracked. The up-down modernization of the economy has not brought enough innovations. Some of the best Russian economists suggest that the only way to the happy future is the rule of law with democratization of the political system and liberalization of the economy.
4. Russia has been troubled by the “greatness dilemma”. Big investors and companies are favored with benefits while the smaller enterprises try to survive. Even more than twenty years after the transition the SMEs employ only 20 per cent of the labor while in the EU the share is two thirds. The fresh study on the SMEs of the Southwest Finland shows that their share in the tax income of the cities and municipalities is as high as 32-87 per cent. However, this year the Russian government has started to encourage the SMEs by various new initiatives.
5. Russia’s civil society cannot contribute effectively to the Baltic Sea affairs. President Vladimir Putin said in December that civil society should be more actively engaged in decision-making by government and parliament, but that NGOs “should not be motivated by politically biased positions”. When starting his first term in 2000 he promised much bigger role for the NGOs by stating that “Russia needs to have a full-blooded civil society to balance and control the power structures” and “personally I want to establish partnership relations between the executive power and the civil society, the institutions and structures of which are capable of waging active and tough fight against corruption”.

But we have seen some good developments already. The various Baltic actors are influencing each other to avoid overlapping work. The need of joint planning is recognized. Thematic coordination is taking place. And the private foundations like the Baltic Sea Action Group and John Nurminen Foundation are being more appreciated. The NGOs try to “matchmake”, find right partners and list the issues to be solved by NGOs.

The good advice for all who love the Baltic Sea can be found from the great book of the British economist E.F. Schumacher “Small Is Beautiful: A Study of Economics As If People Mattered”. It is published in 1973 and ranked among the 100 most influential books published since World War II.

We can learn from Wikipedia that Schumacher proposed the idea of “smallness within bigness”. For a large organization to work, it must behave like related group of small organizations. His work coincided with the birth of environmentalism and he became a hero to many in the green movement. ■



KAUKO JÄMSÉN

Director, Ambassador

Turku Centre in Saint-Petersburg



KRISTA TAIPALE

# Smart development of Baltic Sea region at the core of EU funding programmes 2014–2020

**T**he EU's new Financial Framework period began in January of this year, and continues through 2020. Numerous players in the Baltic Sea region, and the implementers of the EU Baltic Sea Strategy, have been eagerly awaiting the launch of the EU's new funding programmes.

The reason for their eagerness is the fact that although the EU's Baltic Sea Strategy was approved in 2009 during the EU's ongoing Financial Framework period, no separate funding was "earmarked" for it, with the exception of a relatively small item for technical support granted by the European Parliament.

At that time, "the three famous nos" were linked to the launch of the EU's Baltic Sea Strategy: the EU will establish 1) no new institutions 2) no new EU funding, and 3) no new EU legislation for implementing the Baltic Sea Strategy. There was a natural explanation for this approach: the aim was to prevent a situation in which the EU machinery would have expanded, or in which one geographical area of Europe would have received a promise of additional funding in the middle of the framework period. This would quite probably have raised opposition to approval of the Baltic Sea Strategy in the Mediterranean, North Sea, Atlantic, and Black Sea areas, which would have been left without corresponding funding.

The Baltic Sea Strategy therefore hopped on an EU financing train that was already moving at full speed, which is one reason why the projects for implementing the strategy have often run into funding-related problems. At times, it has been difficult to find suitable EU funding for implementing concrete projects.

Now we are at the beginning of a new EU programme period, the structure of which also takes the funding needed for implementing the Baltic Sea Strategy into account. The basic starting point has been that no actual new funding programmes will be set up for the Baltic Sea Strategy. However, one new financial instrument experiment worth mentioning is the "Seed money facility", which can fund projects linked with the main themes of the Baltic Sea Strategy: Save the Sea, Connect the region, and Increase prosperity.

The objective was to respond to the strategy's funding needs in such a way that, in particular, the national and interregional EU finance programmes financed by the European Regional Development Fund correspond as closely as possible to the themes of the Baltic Sea Strategy. The most important funding programmes in the Baltic Sea region during the 2014–2020 funding period are the national ERDF programmes of the Baltic Sea countries, and the shared regional programmes.

## Aiming for smart development of the Baltic Sea region

The overall goal of the entire European Union is smart growth, meaning economic growth that is environmentally sustainable, encourages participation by the people, and is based on innovation. In practice, smart growth means improved educational levels (encouraging people to study and go on to further education), increasing research and innovations – developing new products and services which create growth and jobs and help respond to societal challenges and

develop the digital society – in other words, more efficient use of information and communications technology.

All of these strategic goals are also reflected in EU-financed projects to be implemented in the Baltic Sea Region. Strong themes in Baltic Sea Region funding programmes include promoting innovations (the concept of open innovation), improving the state of the Baltic Sea environment, efficient management of natural resources and reducing emissions into the sea, transport, logistics and accessibility, promoting small and medium-sized enterprises, increasing the appeal of the Baltic Sea region from, e.g., the tourism perspective, as well as health, culture, and education. Enhancing youth employment and the fight against youth unemployment and marginalisation is a shared and important goal for the entire EU.

One important regional operating model in the new EU programme period is the so-called smart specialisation approach. Smart specialisation means that regions specialise in their own areas of strength. It also means utilising growing industrial areas and new innovations, sustainable growth, and strengthening competitiveness by means of interaction among the business community, universities, and public administration. Before the approval of national Structural Fund programmes, the European Commission requires that the regions draft so-called smart specialisation strategies. In these strategies, the regions identify their most competitive economic cutting edges and the value-added chains that lie behind them, and create their own action plans for advancing their spearhead projects in smart specialisation.

Another element of smart specialisation involves developing the regional innovation ecosystem and making mutual collaboration among regional innovation players more systematic. Themes related to smart specialisation will be highlighted in future funding programmes, also in the Baltic Sea region.

However, it is still important to remember that the EU's funding programmes are merely operating tools. Successful implementation of the Baltic Sea Strategy ultimately depends on people – on you and me. Let's work together to make the Baltic Sea region a wonderful and unique place to live, raise future generations, and work! ■



**KRISTA TAIPALE**  
Head  
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TAPIO REPONEN

# University of Turku has an active participation in Baltic Sea region development

University of Turku is a multidisciplinary research University with around 20 000 students and with a personnel of 3500 people. Internationalization is a very important objective of UTU. In that context the University has made a plan for partnerships with other Universities and the Baltic Sea region has an important role in that plan. Links to Baltic countries, Sweden, Denmark and Russia are regarded important.

This development is a natural continuation of the earlier well-established relations with these countries. In the following there are some examples of the actions UTU has taken to deepen the Baltic Sea region relationships.

UTU is running an international master program, Baltic Sea Region Studies. It is interdisciplinary program with regional focus. The program has been introduced in the following way:

"It combines theories and methods from a host of academic fields to discuss and analyze the historical, political, social, economic and cultural development of the Baltic Sea Region, whose emerging importance was testified e.g. by the 2010 adoption of the European Union Strategy for the Baltic Sea Region. Regional perspectives are related to the effects of globalization as well as the national, cross-border and international cooperation in and among the countries of the region."

The students are coming from different countries but many of them are from the Baltic Sea area. The program combines political, social, economic and cultural aspects of the region's countries.

UTU is doing research on the state of the Baltic Sea at the Center of Environmental Research. The center has a research institute on an Island called Seili. It has a special focus on the longitudinal study of the biological and ecological condition of the Archipelago sea, but the Institute has also a wider perspective on the contamination of the Baltic sea. Additionally, the Institute offers research services and facilities for courses and seminars, mainly for universities.

The Turku School of Economics at the University of Turku is running Pan-European Institute. The Institute observes the economic development in the Baltic Sea region, in the Arctic region and in the EU's neighboring countries, particularly in Russia, Belarus and Ukraine. PEI conducts research that constitutes the basis of education and courses provided at the Turku School of Economics. The main interest groups for the Institute are international organisations, Finnish governmental ministries and the Academy of Finland, as well as large corporations.

UTU is also coordinating the PSKOV Eurofaculty project, which has been introduced in the following way:

"EuroFaculty Pskov (EF-P) project was launched in 2009 in the region of Pskov in Western Russia, close to the border of Estonia and Latvia. The main aim of the project is to upgrade university education in Business Economics/ Business Administration at the recently created Pskov State University (PskovSU) which is the result of a merger of five education institutions in Pskov. The Pskov State University celebrated its official anniversary on October 14, 2011. Before the merger the recipient institutions were the Pskov State Polytechnic Institute and the Pskov Volny Institute (the latter until June 2010).

The second three year phase (2012–2015) of the EF-P with newly revised objectives and even wider university base around the Baltic Sea area was launched on September 1, 2012. The EF-P has ambitious goals for the second phase: launching of an International Master Programme around the Baltic Sea business, launching of an International Management Development Programme with unique content, as well as drawing a regional development plan with emphasis on entrepreneurship and innovation"

University of Turku has membership in several organizations which are dealing with Baltic Sea region questions. These include Baltic Sea Region University Network (BSRUN), Centrum Balticum and WHO Healthy Cities network in Baltic Sea region. University of Turku is a founding member of BSRUN and it has coordinated the network over ten years.

These examples show the active interest in developing Baltic Sea region area. Baltic Sea region is a very natural operational environment to University of Turku. Networks and partnerships very much already exist, now the question is how to fully utilize them. It is widely expected that Universities would have a significant impact on economic and social development of societies. With collaboration within Baltic Sea region we can promote this objective. ■



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JUHA KETTUNEN

# A glimpse at the migration flows in the Baltic Sea region

According to statistics for the City of Turku, among foreign citizens in Turku in 2012, the largest number (1454 out of 10 888) were Estonians. This article describes the migration flows in the Baltic Sea region based on the Central-Baltic JobFerry project, for which the Turku University of Applied Sciences was a partner. The project was funded by the Central Baltic INTERREG IV A Programme, which covered regions in the central Baltic Sea area. The environmental projects of the programme were described in the earlier study (Kettunen, 2012).

The CentralBaltic JobFerry (<http://cbjobferry.eu/fi/>) is a cross-border educational and labour market project, which was planned as a collaboration among partners from Finland, Sweden, Estonia, and Latvia. The purpose of the project was to intensify the cross-border cooperation of labour market participants in the Central Baltic region. To achieve this objective, the project arranged cross-border conferences and networking events to exchange best practices.

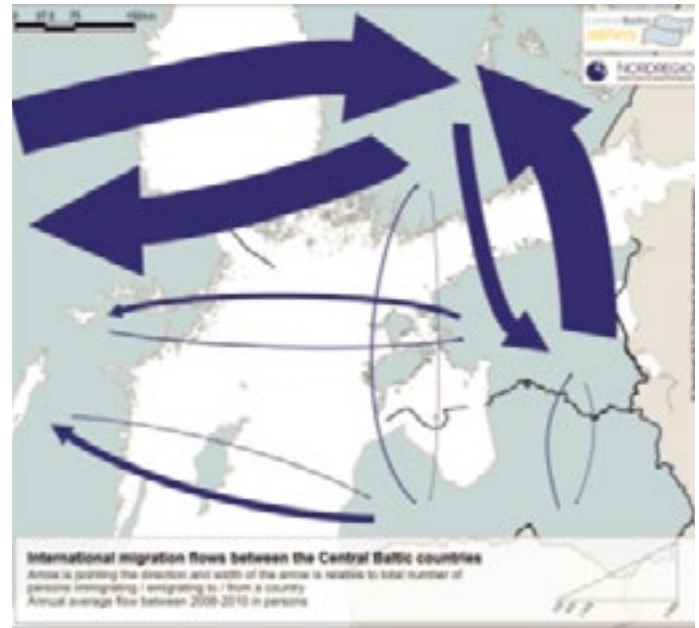
The project provided information about professional education and training in Latvia, Estonia, Finland, and Sweden. School graduates can find detailed information on such topics as educational requirements and contacts, duration, and the cost of the desired education. The project also provided information about employment opportunities in the neighbouring countries, level of salaries, and training opportunities in their professional field. Job-seekers can also obtain information on the recognition of professional qualifications. The project also provided information for employment agencies and educational experts.

The Centre for European and Transition Studies (CETS) of the University of Latvia was the lead partner of the project while the Nordic Centre for Spatial Development (NORDREGIO) was responsible for the research of professions and analysis of the cross-border labour market. The Institute of Baltic Studies (IBS) focused on the research activities, contributing to the partnership with an analysis of the Estonian labour market situation, a mapping of job profiles, and marketing and network development activities. The Turku University of Applied Sciences organised workshops and training courses with a focus on cross-border transfer of knowledge between labour market experts, educational institutions, and social partners.

Since the collapse of the former Soviet Union in 1991, the Central Baltic countries have integrated into a common economic and labour market area. Finland and Sweden joined the European Union in 1995. A remarkable change took place in 2004 when three Baltic countries acceded to the European Union and NATO. The Baltic Sea countries have experienced considerable structural changes and economic growth that have caused changes in the labour market and migration among these countries.

Figure 1 illustrates the migration flows among the Central Baltic countries during 2008–2010. It can be seen that the greatest migration flows between Sweden and Finland are somewhat in balance, which is partly due to the fact that there is return migration of Finns who moved to Sweden for better earning opportunities in the 1960s and 1970s. On the other hand, the migration from Estonia to Finland is much larger than the migration from Finland to Estonia. The other migration flows clearly have minor importance.

Figure 1. Migration flows between the Central Baltic countries (Kahila, et al., 2013)



Migration flows increased due to the free movement rules of the European Union. About 10 000 Estonian citizens lived in Finland in 2000, but the figure increased to 40 000 in 2012. Estonia has also lost citizens to the United Kingdom and other Central European countries. In addition, Estonia has received return migrants from Finland, Russia, and the Ukraine.

Overall, migration can be seen as a positive thing, if it is in balance and if it promotes fruitful collaboration in international trade. If the migration occurs mostly in one direction, the result will be economic and social instability. This brain drain causes a negative contribution to the number of applicants in higher education. There are also consequences within the labour market and among the ageing population in the long run.

In summary, it can be concluded that the imbalances of migration cannot be ignored. The labour market flows of the Central Baltic countries are closely connected and there are economic incentives to move to other countries. For example, wages are higher and social security is much better in Finland than in Estonia. These circumstances attract more people to come from Estonia than the lower cost of living and other incentives encourage people to migrate to Estonia. ■



JUHA KETTUNEN

Rector  
Turku University of Applied Sciences  
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MARKUS GRANLUND

# Looking at research and education in business and economics from local and global perspectives

**T**he new strategy of Turku School of Economics (TSE) specifies the mission and vision of the school. We want to be leading edge researchers, educators, and actors in the society especially in innovation, foresight, and responsibility. We see these interdisciplinary fields important in the short and long run, as well as at local, regional and global levels.

Often, business schools declare in their mission statements that they want to be leading schools at the global level. The discourse seems many times to operate only at this relatively abstract level. At TSE, it has been extremely important to position ourselves also at the local level; as a desired and respected partner for the local communities and stakeholders. We are continuously making an effort to guarantee our position as the leading university based partner in research, education and societal interaction in Southwest Finland.

The careful SWOT analysis (strengths, weaknesses, opportunities, threats) carried out last year testifies to the strong position of TSE in many respects. TSE belongs to the wide group of established and esteemed business schools in the Baltic Sea region that maintain high international standards in research and education. Our unique expertise in innovation, business foresight and responsible management/businesses provide a platform on which to develop the position of Turku and Southwest Finland as an "intellectual center" of also Baltic Sea related issues in Finland. At the school level, this work is naturally mainly carried out at our five departments, including the internationally unique Finland Futures Research Centre (FFRC).

Being part of University of Turku, TSE is able to combine its knowledge and expertise with similarly highly respected and globally recognized research and teaching practice from other relevant disciplines, which range from humanities, education, sociology and law to medicine and various fields of natural sciences. We have over the last years built strong research projects and groups to facilitate interdisciplinary knowledge creation, and also built mechanisms to facilitate the transfer of this knowledge to the society broadly.

One example of such broad-based co-operation is the newly established research network on digital games, called "Up your game". The network combines game research from several disciplines contributing to our existing knowledge on games, gaming, and utilization of games. The network combines cultural and artistic contents with technologies and business aspects. The network has members from all the seven faculties of University of Turku – including TSE widely,

and disciplines such as psychiatry, information sciences, and cultural studies – as well as from the Åbo Akademi University and the Turku University of Applied Sciences. The network is supported by the City of Turku by several means.

Another example of a notable co-operation network relates to the transformation of shipping and shipbuilding, a particularly important topic in the Baltic Sea context. TSE and the faculty of law at the University of Turku recently received a significant research funding from FIMECC (Finnish Metals and Engineering Competence Cluster; one of the top know-how Strategic Centres for Science, Technology and Innovation in Finland). The researcher group aims to develop new business models for the maritime and offshore industry and improve the agreement processes in business networks in this field. There are also other related projects in this regard that relate to the sustainability and responsibility in shipping in the long term. Such projects broadly combine visionary know-how of marketing, international business, strategic management, and futures studies. Such research and visioning is partly related to the ideology of creative destruction, needed to shake and transform old and established business models.

These kinds of examples are many and increasing in volume in the Turku area. Even if we may be relatively small in terms of resources as compared to the largest universities in, for example the US, together with our partners we may be surprisingly strong and innovative. By combining the resources at the local levels – involving universities, companies, cities, and other public sector organizations – we may build regionally and even globally impactful research and teaching communities. We may say that we constantly operate in the local-global continuum, where our local, regional and global partners are equally important. ■

By combining the resources at the local levels – involving universities, companies, cities, and other public sector organizations – we may build regionally and even globally impactful research and teaching communities.



**MARKUS GRANLUND**  
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URPO KIVIKARI

# Turku – “Baltic city”

The report “Vision and Strategies around the Baltic Sea 2010” (VASAB 2010) was accepted by the Baltic Sea Region (BSR) states in 1994. The report was no mere idealistic chimera, but a programme document with the widest political support. VASAB 2010 report includes named “Baltic cities”, which were expected to get a special role in region’s integration and priority when homes are chosen for BSR institutions and organisations. How well Turku – one of named cities – now twenty years later meets the expectations as a “Baltic city”?

The history of Turku is unique in Finland. Finland’s oldest town never was founded, it just started to develop at the mouth of river Aura more than 700 years ago. Throughout its history Turku has been linkage between Finland and the rest of world without any break or decline, which has been the fate of many other ancient cities. Indeed, Turku is neither a late gate nor a newcomer in the BSR networks.

The location of Turku at the seaside in South-West Finland is very favourable for a hub. According to an old saying Turku is Finland’s “gate to West”. Moreover, e.g. in trade with our eastern neighbour the Soviet Union/Russia Turku has been in many years the most important origin of exportables. Various traffic connection to inland and abroad together with developed logistic services increase Turku’s attraction as a center of economic and cultural exchange.

The City of Turku has given in its development plans a high priority to BSR perspective. Turku’s closest city relations are in the BSR, where Turku has a comprehensive network of sister cities. These originally bilateral relations now have new forms and dimensions. Turku was founding member of the Union of Baltic Cities (UBC) in 1991, and continues to be an active participant in the UBC. Turku has hold a vice presidency and responsibility of strategic development of the UBC and hosted many years the Secretariate of UBC Environment Commission located in the Baltic Sea House in Turku.

Turku has been the initiator and active promoter in the Turku Process. This is an innovative, bottom-up collaboration concept promoting effective cooperation in the BSR, particularly with Russian partners. The Turku Process is a joint initiative of the City of Turku, Regional Council of Southwest Finland, Saint Petersburg and Hamburg, supported by the European Commission (DG REGIO).

The “Oslo-Stockholm-Turku-Helsinki-St.Petersburg development corridor” is aiming at revival of old “kings route” and enhancing overall regional cooperation in the northern coast of the Baltic Sea. The City of Turku has high expectations for this project, which puts together public sector, business life and other relevant spheres.

The City of Turku has been again and again one of initiators and active participants in many common projects. Turku and its surrounding constitute the Regional Council of Southwest Finland. The Council is an active member in several BSR and other international organisations.

Centrum Balticum Institute is a think tank aiming at efficient collaboration among BSR experts. The City of Turku is the main partner of the institute. Two universities in Turku play important role in the work of institute.

International dimension is absolute necessity for all high standard universities, also for University of Turku and Åbo Akademi (university using Swedish language) in their all activities. Proximity is not in university world as evident advantage as e.g. in business life, but anyway the BSR and universities of this area have a special position in our universities. In research and education as well as in exchange of teachers and students the BSR has a major share.

In addition to various research projects related to the BSR, University of Turku has carried out remarkable programs concerning specifically the BSR. Interdisciplinary Doctoral Programme of Integration and Interaction in the BSR has long traditions. Baltic Sea Region Studies programme offers two tracks of studies: a two-year international Master’s programme as well as non-degree studies for exchange students and Finnish degree students at the University of Turku. Both tracks are interdisciplinary gathering the academic expertise from several faculties and international partner universities. An incontrovertible proof of interest in BSR cooperation is that University of Turku has been the prime mover and promoter of The Baltic Sea Region University Network.

The significance of the BSR is great and still increasing for many areas of activity not touched in this short article. In business the re-born functional BSR is seen more and more as home market.

Turku, “Baltic city”, certainly is in June 2014 competent to host the Council of Baltic Sea States and the meeting of the Baltic Development Forum as its member, as well as many other events of the “Baltic Sea Week”. ■



URPO KIVIKARI

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NIKLAS ÖSTERLUND

# Sports – a bridge across the seas

**T**he Baltic Sea connects, it protects, it transports, but, in course of time, it has also isolated and separated people from each other. Sports unites people across boundaries and represents international intercourse at its best.

In the first Summer Olympic Games arranged in the Nordic countries, Stockholm 1912, Hannes Kolehmainen put Finland on the world map by winning gold medals in cross-country running, and all long-distance races. As Finnish runners started to dominate long-distance running, the nickname “the flying Finns” was passed on to all successful Finns in the sport, including multi-Olympic gold medalist Paavo Nurmi. He was born in Turku, won three gold medals at the 1920 Summer Olympics in Belgium and five at the 1924 Summer Olympics in Paris. Finland is widely known all over the world, even beyond sports circles, due to them and other world-class athletics champions, rally drivers, soccer players, and particularly our ice hockey players.

Since the Treaty of Lisbon of the European Union in 2009 sports has been one of the official policies of the Union. According to the Treaty “the Union contributes to promoting European sports, and takes into consideration its specific features, structures based on voluntary activities, and its social and educational objectives.”

The roots of ice hockey reach back in the history for many centuries to various bat, stick, and ball games played in Europe on the land and on the ice. During the 1800s a game called “hockey” was developed in England, and subsequently it came to be called “hockey on ice” or “bandy”. In the 1890s the game gained foothold in Sweden and in Russia. In winter 1899 Suomen Urheilulehti (“the Finnish Sports Magazine”) published an article on a hockey game played on the ice off Helsinki. This item of news has been regarded as the earliest notice of the arrival of ice hockey in Finland but actually the game may have been an event of bandy in which a wooden puck or a ball was used even in Sweden until 1904.

Winter and icesports are inborn in us Finns who live here in the North by the Baltic Sea. As a rule we have lots of snow in the winter season, and the Baltic is bound to freeze up allowing us to skate on natural ice.

The International Ice Hockey Association was established in 1908, and the first European Championship Tournament was won by Great Britain in 1910. Also Swedes were swift to learn the secrets of this new game; their team, composed of bandy players, came fourth in the first Olympic Tournament in Antwerp in 1920. For a long time, Finns were averse to this Canadian game and preferred “European ice hockey” which in the 1920s was renamed “bandy”. In fact, Finland was one of the last European winter sports countries to join the circle of ice hockey devotees.

The breakthrough of ice hockey was connected with the critical years of social changes in the late 1960s and the early 1970s when ice hockey became the most popular team sports in Finland and the whole nation's favorite game.

Differently from most other countries, the youth of the growing Finnish urban neighborhoods now found their way to the ice hockey rinks rather than to soccer fields. Top-level ice hockey became a matter of business, and the best players were practically professionals. TV and commercial agreements brought more money to the game, and the Ice Hockey League was reshaped into the Finnish Championship League, administered by the associations, in 1975. At the same time, Finnish ice hockey excellence was acknowledged as

a successful export article. Finnish ice hockey players were seen in the rinks of Central Europe as early as in the late 1960s. Veli-Pekka Ketola and Heikki Riihiranta were the first Finns to appear in North American professional ice hockey events, and Matti Hagman became the first Finnish NHL-player in 1976.

In the 1970s the Finnish National Ice Hockey Team, “the Lions”, proceeded to hunt for medal in earnest. In ice hockey, unlike other ball games, top-rate contests are arranged annually. Every spring “the Lions’ ” pursuit of medals became a thriller which always ended unhappily but, nevertheless, contributed to increasing the public interest much like a good serial. On our domestic athletic map ice hockey is the most popular sport when it comes to the numbers of spectators, to TV visibility, or to sponsorship. Ice hockey cannot boast of such dominance in any other European country, and even on the global scale only Canada reaches the same level. For this reason, Finland has become a superpower in ice hockey in spite of its small size.

In international ice hockey it is always a question of winning but also of learning and acquiring knowledge and information. Tournaments and other top-rate contests have been arranged by several countries to settle the best team and the winner already for a long time. Culture has developed and brought forth “local adversaries” between certain countries; the contests between Finland and Sweden being two of the best examples in this aspect.

International ice hockey will take a long leap forward when the CHL (Champions Hockey League) starts running in August 2014. This league, established by twenty-six European teams, six national leagues, and the International Ice Hockey Federation (IIHF) is the next long step towards a thorough-bred European Championship League. The European attitude and strong togetherness is utterly tangible when the leaders of the teams gather to build up the common dream. I have had the honor to promote the progress of one of the most successful Finnish ice hockey teams TPS on its way to the CHL. Even if the one and only objective of the game is to win, this will be a unique opportunity to the supporters of every team to open their eyes and business channels to Europe through ice hockey.

On the annual IIHF ranking list of ice hockey countries Finland was rated second in the year 2011, which position we have now held for four years, the first two years after Russia, and the the two next after Sweden.

During the ice hockey season 2013–2014 Finland has had about twenty ice hockey players as sports envoys in the NHL, more than thirty in the KHL, and more than ten in the “Elitserien” (the Elite League) of our neighboring country Sweden. Finnish ice hockey players are well-known sportsmen in the world. Among the players raised by TPS, the Koivu brothers, Petteri Nummelin, and Lauri Korpikoski are well renowned in the ice hockey world, and quite recently young Rasmus Ristolainen has entered upon his professional career. ■



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JUHA JÄRVINEN

# Communities, individuals and cultural history among Baltic and Nordic male choirs

The Baltic and Nordic countries around the Baltic Sea share a common governmental and cultural history. International trade markets since the Hanseatic League have made people and goods to travel. The Swedish great power period seems to be a conjunctive issue that explains many educational and cultural similarities of the area. During that time Sweden founded three universities: Tartu (1632), Turku (1640) and Lund (1666).

The male choir instrument with four or more adult male voices without boy sopranos or altos was born around 1808 in Zürich, Berlin and Uppsala. In Finland and Sweden the university students organized the start of the modern male choir singing, which explains its close connectio to the circumstances of the whole society. The male choir instrument has had strong positions in language cultural fights and even in the born of national states according to the national romantic ideologies during the 19th and 20th centuries.

In Finland the oldest male choir still existing is *Akademiska Sångsällskapet*. It was founded in 1838 by a German conductor, composer and teacher Fredrik Pacius. In 1848 the choir performed a premier of the hymn *Vårt Land*. The Pacius's composition is the national anthem both in Finland and Estonia.

Founded in 1883 within the Helsinki University, the YL (students' union) male choir is the oldest Finnish language choir in Finland. During the next decades there started several other male choirs in Viipuri (1897), Jyväskylä (1899), Lahti (1904), Tampere (1909), Outokumpu (1910) and Turku (1914). Especially YL has had a significant position as a developer of the Finnish male choir instrument, both as subscriber of new compositions and as performer of the national repertoire in Finland and overseas.

During the 19th century, the Russian emperor governmented the areas, which are at present known as Finland and Baltic states. After the World War I and the Russian revolution in October 1917 Estonia, Finland, Latvia and Lithuania became independent. In all of these countries the male choir repertoire had included songs about people and nationality during previous decades. These patriotic songs became now symbols of the independent nation.

Besides of patriotism, the male choir songs about the nationality had connections to a voluntary national defence. In Finland the Finnish White Guard organized voluntary military training during 1920's and 30's. Many guards had male choirs and marching bands, too. After the World War II the Guards were closed down due to the peace treaty. However, many male choirs of guards established themselves again. That's why there are so much male choirs aged 65-70 years in Finland.

Male choirs in Finland share a common repertoire containing dozens of songs. When two choirs meet, they are able to sing together for hours. The repertoire also includes some songs, which are widely

known in Baltic and Nordic countries. Many choirs have toured abroad, especially in neighbouring countries. Furthermore, many choirs have friendly choirs abroad and a history of many concert tours astride. Besides the choir organizations and the members of the choirs, their family members often have been involved to the participatory international cultural changes, too. Even if there is not any shared language, singing and music offer a strong feeling of togetherness.

Especially in Estonia, a song celebration is a strong tradition. The most popular festival is organized in Tallinn. It will collect dozens of thousands of performers and an audience of more than 100.000 people again in summer 2014. Estonian provinces produce their own celebrations. The different choir forms gather their own festivals. The male choir song celebrations are collecting singers from all Baltic and Nordic countries.

Many Estonian people seem to consider these massive happenings as the most important symbols of their nationality. The current Estonian independency since 1991 is often said to be based on a singing revolution, while the ideas of independency and nationality had encouraged among the participants of the song celebrations during the 80's.

In 2009 Luvia Male Choir LMC, which I conducted that time, was participating in a party held after a concert as a guest of Võru male choir in Estonia. With the Estonian choir conductor, with whom I did not have any shared language, we could somehow decide to sing our national anthems, which share the same melody composed by Fredrik Pacius. Somebody announced and instructed that the Estonians will start, LMC will continue in Finnish and the song will go on further by turns in Estonian and Finnish languages. The Estonian flag came in, everybody raised, and the song started. It was an incredible moment containing a lot of Baltic history, friendship and relationships among singing men, and a feeling of brothers-in-arms. Obviously our singing described the shared emotions, which may be hard to describe with spoken words.

The future of the male choir instrument is connected to the number of the boy's choirs and singing boys. In Estonia there is a lot of boy's choirs. Unfortunately, in Finland the situation is not so promising. The school music teaching is not based in singing as much as in earlier decades. Surprisingly, there have born some popular new male choirs in Finland, for example Semmarit in Jyväskylä, which is promising a good future for brave male choir reformers.

The existence of many male choirs around the Baltic sea may be explained by the motivation factors of the individual choir members according to Abraham Maslow's hierarchy of needs. The choir members have usually fulfilled most of their physiological and safety needs elsewhere. The choir offers them a feeling of a strong belonging to a remarkable group, brotherhood of singing men (called "lauluveljet", in Finnish) and connections to the reputable societal and cultural his-

tory. Further on, the singers feel achieving self-respect and respect from other people in the choir and also outside it among the concert audiences. Finally, at least sometimes, they reach a fulfilment feeling. Often it is a sudden, short moment, when the technical demands of the choir singing succeed and the emotions of the singers are unveiling. The audience may understand and also feel this for example in tears of some singers. This emotion is hard to reach, and more often it is impossible to maintain. ■

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# BALTIC RIM ECONOMIES

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KARI IMMONEN

# Monuments for men or monuments men? (Best) possible scenarios for visual arts

In today's uncertain and unpredictable moment in history everything seems to be in flux and the predictions of what might come are increasingly manifest. Being a museum man and arts professional I tend to dwell on the matters of visual arts. What are then the futures of art and what is the ideal preferable situation that we should strive to create? Here few in my view not too utopian and economically and politically feasible scenarios.

In the coming decades the winners will be found among the decision makers and resource granting bodies whose actions are guided by the arm's length principle and who do not see art as an instrumentalized part of the spectacle of entertainment industry. Instead of measuring effectiveness by income and attendance figures we should evaluate the quality of experience and artistic value of each cultural event. Visual arts and other manifestations of culture have an inherent value and making of art should be made possible by tax deductions, by providing rent free studios and exhibition spaces, by initiating art projects in conjunction with building projects and by other means that ultimately make cities, counties and countries economically viable and desirable destinations for visitors and inhabitants alike.

In the future the new generation of artists, curators and producers are internationally networked and educated. Their field of practice and alike their identity and frame of reference is global and neither they nor their 'comings together' – in the form of exhibitions or other instances – are first and foremost manifestations of national culture. Their actions, message and values might stem from the local situation but don't carry the banner of those in power. The increasingly scarce ecosystem for art and arts institutions has its impact on the policies and guidelines of recruiting. If in today's Finland headhunting new talent to run an art museum or art school is made difficult by rules and regulations concerning the applicant's ability to communicate in Finnish (and Swedish), in the future the focus should be more on the substance know-how and other areas of excellence. By this simple feat of recruiting new raw global talent, the institutions raise their bar and the quality of their products. This becomes manifest in the excellence of student body, art exhibitions, scholarly work and research.

The breaking of demarcation lines and blurring of boundaries becomes markedly visible in the practices of art making, its reception and in its evaluation. For some the value of medium becomes all the more important and for others it is almost obsolete – depending on the maker-creator and the user-receiver of an art object, instance or other manifestation. Same goes for the substance, message or meaning. Within the old school, the traditional paradigms are followed. The artist, and only the artist, gets to decide and has the capacity, skill and gift to unveil his/her vision on canvas and to decipher or reveal

its meaning to the chosen few. Elsewhere the idea, content, visual outlook and methods of making of an art work are crafted in co-operation where the artist becomes more alike a producer and viewer-contemplator is transformed into an active creator of both the work and meaning. This meaning making or reading of an art work has also stepped into a river of flux. The way the art work is 'read' depends increasingly on the aptitude, capacity and goodwill of the member of an audience although a multitude of tools and dictionaries for deciphering the code are provided. On the other end of spectrum reading and understanding is no longer needed or expected. What counts is the common and shared experience. Art becomes temporal and project-

like instead of being something made to last for eternity. The processes might fail and the material outcomes might look less than pristine without making these instances artistic failures. One might say that John Dewey's old maxim "The proof of the pudding is decidedly in the eating" does not go too much of the mark in this instance.

All tomorrow's parties aren't nevertheless that joyful. Naïve belief in technology and its instruments and gadgets becomes apparent in the numerous and all too often embarrassingly bad (post-) internet-art exhibitions and in countless presentations of design and art objects

made by holographic or 3D-printers. Publicity seeking second division players get all the attention and steal the media space from more serious contenders. Line-up is made even more perplex by the arrival of ultra-traditional hippie-luddites whose performances in the wilderness, with their torsos painted with –'vegetable-colours-made-in-tee-pee' – are witnessed by non-other than a solitary crow in the sky. The art scene still consists of shows of good quality sculptural and painterly art, videos and other moving image and photography. The makers and doers of new mainstream still believe in the doctrines of relational aesthetics and preach their gospel in a plethora of multi-medial exhibitions, happenings and events. The art object itself has not disappeared into the horizon, but the means of art making and selection of media is increasingly guided by the practitioner's own background, the good will of funders and the access to technologies.

This multitude of ecosystems and many forms of art also change the places of production and consumption of art. Where before you needed an atelier to be able to make art, today a computer suffices. But as stated before art is not (necessarily) made by a singular person but instead art is made by teams of persons of different backgrounds and professional capacities. Art is shown in temporary spaces outside the traditional hubs made of museums, galleries and showrooms. Breaking and making it becomes all the more difficult and the competition for attention, markets and acceptance is fiercer than ever before.

Instead of measuring effectiveness by income and attendance figures we should evaluate the quality of experience and artistic value of each cultural event.

Art museums turn in this tumultuous moment into 24/7 spectacle bazaars serving food and drinks in a desperate attempt to justify their existence. The interesting question in the future – and more importantly now – is what are the actions and ways of art making and its presentation that are seen as relevant and valuable by the decision makers who ultimately decide the future of art. Is there space for open and constructively critical debate and free discussion about the arctic strategy for visual arts or does art transform into clean and safe CE-certified export product. ■



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MAIJA PALONHEIMO

# Film city Turku

**T**he European Capital of Culture year in 2011 in Turku gave the city a positive image boost as a dynamic city of culture and events.

More than half of the residents of Turku and a fifth of all Finns say their interest in Turku and its cultural life grew during the European Capital of Culture year and still continues after 2011. The European Capital of Culture year strengthened Turku's image as a European city with a rich culture field. Still as late as fall 2010, the residents of Turku showed more reserve and skepticism than other Finns, when asked to evaluate the possible positive impacts the European Capital of Culture could have in Turku. However, by January 2012 the residents of Turku confirmed that they felt the European Capital of Culture year left an overall positive impact on the city. In short, one can say the impacts of the year met the expectations.

After 2011, there was clear will to find out how culture should continue to be developed as a part of the economic activities in Turku and its region. An expert working group was appointed to conduct this research and planning work. As a result of its work, the working group made a suggestion that the City of Turku should include the field of culture as a strategic focus point in the overall future strategic decisions. The city should develop its organization in a way that supports the city leadership's ability and possibilities to responsibly secure and advocate the future of the cultural industry. The working group stressed the importance of continuity and development in the cross-administrational work that was greatly strengthened during the European Capital of Culture year and made a concrete suggestion to create a unit that would have the resources and ability to coordinate the event production in the Turku region and stressed the importance of the lead and initiative of the City of Turku and Turku 2011 Foundation in this process. Such a cross-administrational unit already existed in the field of film.

The West Finland Film Commission (WFFC) started its activity at the core of the Arts Academy of the Turku University of Applied Sciences as early as 2003. The basis of its activity is to offer education in film production in Turku. The WFFC's mission is to support the development of the conditions surrounding local production companies, increase the number of locally produced filming productions, improve the employment possibilities in film industry and attract national and international film and television productions. By doing this, the WFFC aims at growing the economic impact and image boost for the region.

Today, the West-Finland Film Commission (WFFC) is administratively under the Turku Region Development Centre and the services the WFFC offers and provides include scouting and securing filming sites, organizing and administrating film shoots, recruitment services, financial advisory services and production support. The conditions for making films and other productions are excellent in Turku as the city has a rich and multi-layered history and modern and logistically urban city structure. The surrounding Turku archipelago is vast and unique in its beauty.

The West Finland Film Commission has actively collaborated with the Turku University of Applied Sciences and its Arts Academy as well as other educational institutions in the region, trying to ensure internship opportunities for the local students in the film and television productions taking place in the area. The productions the WFFC has attracted to the region have offered more than 200 internship

opportunities to the local students and have offered employment to the newly graduated ones over many years. 5 to 7 new audiovisual companies have emerged in the region since 2003 and thousands of volunteers have participated in different movie productions. Some of people them have worked as extras and in assisting roles, some have taken on tasks in production, logistics, costumes, set design or catering. At best, Turku has seen eight long films, a few documentaries and a TV production in one year. This year, the renowned film director Mika Kaurismäki has been filming his latest international film, *The Girl King*, in Turku. More than 10 years of discussions and negotiations lie behind the final result of having this film shot and produced in Turku during this year and next.

In the future, the audiovisual education programs offered at the Turku University of Applied Sciences and the Arts Academy should be developed in a way that they benefit from and advocate even more the activities and overall mission of the West Finland Film Commission as well as the film and television productions in the region. Without an existing film and television education, the West Finland Film Commission would lack an important element and tool in attracting productions to the region. At the same time, without the WFFC, there would be no natural and supportive link between the educational system and working life.

It is of utmost importance to create a film-friendly atmosphere in order to continue the flow of national and international filmmakers to Turku. This is first and foremost a question of right attitudes, but what is equally as much needed from the part of local companies, the municipalities in the Turku region as well as the third sector, is an open-minded approach and collaboration with the West Finland Film Commission and film producers. In many European countries, an effective incentive system is already in place, creating added financial value for the productions choosing these countries in question as production locations. At present, this type of system does not yet exist in Finland. This international support system in question returns the producer a certain percentage of the finances invested in productions abroad. Culture is a dynamic and important part of the business activities in an area and the more this aspect is understood and supported in our region, the more can be done in order to add its importance in the development of the Turku region. ■



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RAIJA-LIISA SEILO

# Turku and changing cultural climate in the Baltic Sea region

The seaside city of Turku and the Southwest region of Finland are regarded by many as the heartland of the country's cultural identity. As the old capital, the city has always been of national significance, and its geographical location at the junction between East and West means it also plays an international role. Turku is Finland's gateway to the world.

For several centuries, Finland formed a part of larger political entities – first the Kingdom of Sweden and then the Russian Empire. The influence of this shared history on the country's cultural life continues to this day. After the First and Second World Wars, Finland as a young, independent nation was in search of its own distinct identity, and close cooperation with the other Nordic countries played a key role in this process. Arts and culture – and their accessibility to all citizens regardless of background or socioeconomic status – came to be seen as an integral part of the Nordic welfare-state model. Another important channel for cross-border ties and exchange in the post-war era was the twin city concept, which became an officially recognised form of cooperation all over Europe, even across the Iron Curtain.

The current and former capitals of Finland's old rulers, Stockholm and St Petersburg, became natural partner cities for Turku. The Baltic Sea, which connects these three cities, has also enabled Turku to reach further south and engage with the artistic and cultural scenes in dozens of other European towns and cities. The Baltic Sea could indeed be described as a 'sea of culture' – surrounded by regions with unique yet interconnected cultural identities.

Linguistic diversity is an important characteristic of this region, with deep historical roots and significance. Europe is fortunate in having managed to sustain such a rich mixture of active, living languages. Similarly Finland has succeeded in protecting its distinct linguistic heritage. Turku and the Southwest region in particular, have played a key role in enabling the country's two official languages, Finnish and Swedish, to develop and prosper alongside one another.

The cultural institutions – the art museums, galleries, theatres and libraries – that were built during the past century along the Aura River, which flows through the heart of Turku, are still important for the city's cultural life. Beyond these buildings, the river itself and its banks have evolved into an open space which today hosts a variety of cultural projects and events.

Just like its political and social history, the cultural history of Turku is long and varied. The structures and connections that were built during the immediate post-war era are still important, but since the early 1990s, the environment has been significantly altered by far-reaching political changes, not least the ever-increasing influence of the European Union. Another, more global, force has been the explosive growth of information technologies and the internet. The past two decades have seen a dramatic change in the forms, content and collaborative opportunities for cultural and artistic expression.

New channels for cultural exchange have developed alongside political ones. The Union of Baltic Cities, for instance, regards arts and culture as one of its main areas of activity, and there are a plethora of other collaborative networks based either on geographical sub-regions or different fields of arts and culture. Perhaps the largest pan-European initiative in this area is the European Capital of Culture, chosen annually. Of cities around the Baltic Sea, Copenhagen, Stockholm, Helsinki, and this year Riga and Umeå, have all held the title. In 2011 Turku and Tallinn shared the honour.

The Baltic Sea was a key theme during Turku's year as the European Capital of Culture. Turku's location as a natural seaport, surrounded by unique archipelago, combined with a city-scape shaped by Central European influences, created a diverse and challenging environment for its cultural programme. Both residents and visitors from other parts of Finland and the wider world were able to enjoy a broad range of cultural and artistic experiences. A lot of emphasis was put on environmental sustainability as well as the ability of audiences to access events and shows online. The Turku Philharmonic Orchestra, for example, was the first in the world to stream its concerts over the internet, while at the other end of the spectrum, some performances were moved from their usual locations and taken to the places where people live – including small and remote island communities.

For Turku, the European Capital of Culture year was a great success. The programme included many collaborative projects with Tallinn, building on the two cities' rich and varied links which extend from the past to the present day. Other Baltic cities, among them Stockholm and St. Petersburg, also featured in the programme and helped to lay the ground for several ongoing initiatives. Many new events and projects were produced specifically for the Capital of Culture programme, but the city's permanent cultural institutions also played an active part during the year.

The programme encouraged people to experiment with new and innovative ways of creating and enjoying culture, and to develop new ties across the region, while also strengthening existing ones. Our task and mission now is to actively build upon this foundation and seize the new opportunities that have been opened up. The Baltic Sea is vast, but as a shared cultural and social space its shores are increasingly close to one another. ■



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RIITTA AHDAN

# Cooperation challenges in the regional context

Cooperation is maturing in European regions. Next year it is time to celebrate the 25th anniversary of this cooperation that started under the EU supported Community Initiative INTERREG, which has grown into a full scale European Union Objective of European Territorial Cooperation in 2007. This territorial cooperation framework has offered a multitude of means for regions to exchange with each other in order to face common challenges and to exchange their specific expertise. The region of Southwest Finland and its leading city, the city of Turku, have had the opportunity to make the best of these opportunities from the beginning of the Finnish membership in the European Union.

## What does regional cooperation mean?

The European Union cohesion policy is the guiding principle underlying the cooperation funded by the union. The joint policies and strategic objectives are spelled out in the strategy outlined for each financial framework and funding period of the European Union. Currently, the Europe 2020 sets out the strategic objectives for all regional cooperation. In addition, this strategic thinking includes the principle of complementary strategic approach that includes the macro-regional strategies as well as regional and local strategies. This means that each level setting out its own objectives at the same time contributes to the overall strategic objectives of the surrounding larger regional area up to the level of the whole European Union. This deeply involves the cooperation perspective in meeting strategic goals as the regions are dependent of the strategic objectives of their neighbouring regions. The European Union funding programmes targeting regional cooperation set out the specific criteria for the eligibility of the recipients of the funding in their rules. These rules guide us in understanding what kind of actors can apply for funding and thereby become partners in cooperation. Most of them are public bodies and civil society associations located within the specified geographic area that a particular funding programme can cover. The new programmes for the period 2014-2020 are being finalised at this very moment, and in many of them the private sector is also becoming an eligible partner for project funding. In other words, regional cooperation is made of partners who originate from regions specified in the programme rules and represent bodies that qualify for the funding. Regional cooperation is policy driven and allows individuals to participate only through formal structures.

## How to become the centre of cooperation

Regions that have been involved in cooperation over the past decades have developed many good projects and many good methods of implementing cooperation approaches. It is in the utmost interest of all actors to identify best practices in order to attain sustainable impact and higher result efficiency. Very often the success of cooperation depends on the success of the management of cooperation. Sometimes not even the best management modalities can save good initiatives from external factors that can become crucial success factors or hampering bottlenecks.

The actors and key stakeholder groups of the European Union Strategy for the Baltic Sea Region met each other in their annual working meeting in Tallinn on 9-10 April. The meeting addressed the cooperation across these groups and across different types of funding programmes available for the strategy implementation. From all sides it was confirmed that information exchange and knowledge sharing are key to success. The regions around the Baltic Sea already possess high competences and capacities for this kind of cooperation. The central roles can be adopted by those institutions that have high readiness to share this knowledge and ability to communicate with each other and across sector borders. An integrated approach to managing the exchange was called for.

Regional cooperation can have many centres, just as regional cooperation has many challenges. Links between these centres are of fundamental importance. It could be said that if the links are functional, the more centres there would be and the more effective the cooperation would be. This is providing of course that the centres have different and/or specific enough objectives and goals as operational overlaps only lead to inefficiency in delivery and diversified results. In the region of Southwest Finland the City of Turku has proven its capacity, for example by assuming the role of a Horizontal Action leader in one of the current five horizontal actions implementing the objectives of the European Union Strategy for the Baltic Sea Region.

## Opportunities are plentiful

Experiences gained in one framework of cooperation are the building blocks of creating new cooperation actions. Macro-regional strategies challenge regions to reflect their own strategies in this larger context. At the same time, the reflection mirrors the relations between funding flows from European sources and national/regional sources. Being a centre in cooperation brings along the necessity of being an expert in merging the flows of funding and the policy initiatives influencing the focus of each. Yet this is not all, it is vital to have the individuals in the regional and local institutions who have the vision and the capacity to transform this talk into actions. ■



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BJÖRN GRÖNHOLM

# Increasing role of cooperation – again

**T**he cooperation and interaction in the Baltic Sea Region has changed a lot during the last decades. Three main differences can be observed. First, cooperation has changed from bilateral relations more into network cooperation. This is most visible when focusing on city cooperation. Another change is in types of cooperation. It has shifted from a general and ceremonial cooperation to a concrete, sector-based but in particularly need-based cooperation. A third change is about who are involved in the cooperation. In earlier times the political and administrative leaders were responsible for and main partners in cooperation - with national and particularly international colleagues and stakeholders. Today all levels and sectors in public administration can be or are involved. In other words, cooperation has become much more diversified.

Despite the above mentioned changes, the EU Strategy for the Baltic Sea Region as well as the general situation and opinion has both brought up the need for further development of the Baltic Sea Region. The macro regional strategies in EU are rather new but bring another coordinating element to the already existing work in the regions, which is needed. The global competition of businesses and skilled persons is ever increasing and every region need to be alert and active in order to manage in this competition.

## New growth, new profile and new excellence needed

For a long time, environment and sustainable development has been considered a necessity or legally binding tasks that included extra costs. For private companies, the green profile was something that was considered a part of the corporate social responsibility strategy. The global downturn of 2008 was expected to have a negative effect on sustainable development. However, the recession, including the broad and complex challenges, triggered innovative thinking. Both the political forums and the market started to promote Green Growth. Today we are approached with Smart - ICT-based transport and energy solutions sustaining the quality of life without compromising the environment. The number of solutions to tackle the climate and the economic challenges are increasing steadily, catalyzed by clear incentives benefitting citizens and the environment. Today more than 4 million people are directly employed in the "Green Sector" in Europe. Large scale trend shifts have taken place in China, Japan, and Germany and elsewhere. Nevertheless, the perception of a smart and green profile is still in an initial phase in Europe as well as in the Baltic Sea Region.

Changing a focus from "conventional" to new modern and Smart is a challenge that takes time. The current change can be described as an industrial revolution of 21st century. Brave political decisions can speed up the transformation into modern, energy efficient and smart societies of the Baltic Sea Region and Europe. In the Baltic Sea Region we have a superb basis to participate and build new success stories and growth. The level of education is high, the region is known for being forerunner actors and there is a culture of cooperation, particularly cross-border cooperation. The region in itself is also a growing market, predominantly Poland but also the neighbouring markets of EU (Russia, Belarus, Ukraine etc.) where technical assistance cooperation under the European Neighbourhood Partnership Initiative (ENPI) has taken place.

## Increasing role for cities

Political decisions and legislation do not alone make a change. Dedicated, visionary actors with a strong desire to reach goals are needed. During the last years a lot of new types of consortiums have been created in order to meet the challenges with growth but also for example with improved state of the Baltic Sea. The consortiums involve new cooperation partners, more private – public or triple helix consortiums. Many consortiums are often cross-regional or cross-sector. New partnerships with new goals have emerged. Furthermore, there are numerous sub-regional initiatives on Growth Corridors, global private – public partnerships like the World Business Council for Sustainable Cities, philanthropic initiatives, private Foundation Action plans and regional development areas beside more traditional cooperation.

Cities are usually forerunners in cooperation. Many of them have been actively involved in new types of cooperation and partnerships for developing the solutions to meet common challenges and to build attractive, smart and efficient cities with a high quality of life. The traditional cooperation as well as its new types is most important in unstable times. Local authorities can have a bridge building role, more room for building cooperation concepts and increased trust. Cross-border cooperation is an instrumental solution for building our common future. ■



BJÖRN GRÖNHOLM

Head of Secretariat  
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SALLA-MARIA LAUTTAMÄKI

# A clean, productive and shared Baltic Sea

**C**lean Baltic Sea is a productive Baltic Sea. Since 2007 the Cities of Turku and Helsinki have joined forces to make this dream into a reality together with their partners through the Baltic Sea Challenge initiative. Local actors are stepping to the forefront and making a difference.

The Baltic Sea Challenge is a network of about 200 actors from around the Baltic Sea region. These actors recognise that reconciling the need to utilise our common sea with efforts to improve its state presents a challenge but want to commit themselves and their organisations to take action to ensure a better future. They have a vision of a clean, productive and shared Baltic Sea.

## Committed to a shared sea

The Baltic Sea Challenge is a free of charge international network that is focused on protecting waters and is open to all actors. The actors within the network have committed to take concrete action to protect the waters on a voluntary basis, exceeding the requirements of law and their own core operations. They can use the network to find partners, share information and learn and work together to improve the state of the waters.

Through strengthening the shared sense of ownership of the waters and the responsibility for their well-being the Baltic Sea Challenge partners strive for clear coastal waters, healthy marine habitat, clean and safe water traffic, systematic water area management and active Baltic Sea citizenship. The network stresses cooperation and has already realised two international EU-funded projects between its partners.

The City of Turku has been very active in its efforts to improve the state of its local waters. For the City, and the Southwest Finland as a whole, the sea is a matter of the heart. Living next door of unique island scenery, and the Archipelago Sea's waves almost washing the city dwellers' feet, creates a natural desire to preserve.

## Local actors and local waters

Together with the City of Helsinki and partners within the network the City of Turku has realized many Baltic Sea themed projects, seminars and working meetings. It has streamlined its internal operations, involved new departments in operations and steered towards a holistic view of water protection.

In addition to developing cooperation and best practice sharing, many concrete actions regarding storm waters, waste waters, farming and harbour operations have been taken in Turku. Wetlands, buffer strips, submerged dams have been built. Recreation grounds have been fitted with new waste water systems. During a dredging project of the River Aura, 88 000 m<sup>3</sup> of contaminated dredging spoils were processed and placed into harbour basin.

As a part of its commitment the City of Turku has supported the establishment and operations of the Protection Fund for the Archipelago Sea. The Fund receives donations from private persons, associations and companies and grants them to concrete water protection projects. During its first six years of operation, the Fund has already financed some 30 projects.

In the future, in addition to already started processes, efforts will be directed to combatting harmful substances, marine litter and noise, supporting provincial marine spatial planning and to offering citizens more possibilities to participate – for example in annual beach cleaning events. The City of Turku will also develop its public feedback service in terms of coastal and water observations. The Baltic Sea Challenge initiative will also be presented by the Turku Centre in St Petersburg and Turku EU Office in Brussels in order to find new ways of cooperation and possible partners.

Water protection work does not stop at the shoreline. The Baltic Sea Challenge stresses the importance of rivers and inland actions, and the role of the catchment area. Local actors in the Baltic Sea region have a great responsibility and possibility in making sure their water system is both ecologically healthy and clean and sparkly for us to enjoy! Benefits of protection work are not always countable but they are indisputable – nature is an invaluable factor in our well-being and industries.

## Invitation to renew

As a form of activity, the Baltic Sea Challenge is unique. Its core is formed by concrete actions to protect the waters, taken at a local level and in the organisations' own operations. A great number of those that have joined the network also have their own Baltic Sea Action Plans.

The Cities of Helsinki and Turku published their updated joint Baltic Sea Action Plan in January 2014. It acts as an expression of concern of the state of the sea and a commitment to act. We hope that the Baltic Sea is a matter of the heart also for your organisation and that you want to join the Baltic Sea Challenge network and update your commitment to saving the sea. See [www.balticseachallenge.net](http://www.balticseachallenge.net) for more information. ■

SALLA-MARIA LAUTTAMÄKI

Coordinator  
Baltic Sea Challenge

Executive Manager  
Protection Fund for the Archipelago Sea  
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Finland



KARI LIUHTO

# Build common strategies to avoid common tragedies

**G**ood neighbours communicate, co-operate, and even plan their future activities together. The strategies employed by neighbouring regions as tools for planning and shaping the future should therefore be in close dialogue with each other. The deterioration of EU-Russia relations due to the Crimean conflict emphasises the need to improve collaboration at the regional level. There is an urgent need for the EU's Baltic Sea Region strategy and Russia's North-West strategy to communicate and co-operate even more vigorously than before, and for national strategies and programmes on the Arctic region to also be brought to this dialogue.

The Centrum Balticum Foundation (CBF), Finland's BSR think-tank, will contribute to this dialogue by dedicating the national Baltic Sea Forum 2014 to the integration of the EU's strategy for the Baltic Sea region, Russia's strategy for North-West Russia and various national agendas related to Arctic regions. The national Baltic Sea Forum will be organised on 2 June 2014 as a part of the Baltic Sea Days in Turku. For more information, please contact Hanna Ekman, Development Director of the Centrum Balticum Foundation ([www.centrumbalticum.org](http://www.centrumbalticum.org)).

In addition, the Centrum Balticum Foundation has created a database, Domus Baltica, to support the aforementioned process by providing access to material that fosters communication and co-operation between these three regional strategies. I warmly encourage researchers and BSR experts to contribute to supporting the database by sending us their reports, articles and presentations in Finnish, English or Russian.

We are also looking to publish unpublished policy-oriented articles in our BSR Policy Briefing series. A growing number of ministers, MPs, ambassadors, leading policy-makers and academics have accepted our invitation, and their contributions will feature in the autumn editions of BSR Policy Briefing.

Last but not least, we will be hosting for the second time the national BSR Arena for researchers on the 25th of November at the Forum Marinum, Finland's national maritime museum. We expect that Finland's leading BSR researchers will get together to shape the future of the region. In this event, the Centrum Balticum Award for the most promising BSR researcher will be granted.

I use this platform to welcome you to Turku, Finland's Baltic Sea Capitol. ■

**KARI LIUHTO**Director  
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## BALTIC RIM ECONOMIES

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CARL HAGLUND

# The Baltic Sea as an example of regional maritime security cooperation

**T**he importance of the Baltic Sea for Finland is evident. A clear majority of our foreign trade is transported via the Baltic Sea. Similarly, about half of our foreign trade takes place with the countries around the Baltic Sea. In other words, our wellbeing is in many ways dependent on the Baltic Sea. No doubt the sea is equally crucial for all other countries around it.

With that background in mind, it is not surprising that Finland has an interest in identifying security challenges linked to the Baltic Sea and creating the most effective ways of addressing them. Recent developments in Europe have underlined the need for enhanced cooperation, as risk for increased tension is now more concrete than in years. In maintaining security and stability in the region the role of NATO is the most crucial.

Environmental challenges continue to be enormous. The volume of maritime transportation in the Baltic Sea has doubled in twenty years and is heavily concentrated in the Gulf of Finland. The risk of an environmental catastrophe is real and poses by far the biggest threat to the region. Considering the volume of maritime traffic in the Gulf of Finland, it is almost a miracle that no major oil accident has taken place. A concerted effort is needed in order to prevent environmental catastrophes from happening in the future.

Strengthening regional cooperation in the Baltic Sea area is important, as it enhances the stability of our neighboring areas and contributes to situational awareness. The cooperation solutions in the Baltic Sea area can be used as an example when discussing and developing ways to enhance regional maritime security. Finland has consistently strived for better and more effective coordination in the area.

In the early 1990's various agencies in Finland dealing with maritime issues saw the need for coordination at national level. Multi-agency cooperation between the Finnish Navy, Finnish Border Guard, Finnish Transportation Agency and Transport Safety Agency was initiated. Gradually it led to the establishment of the National Common Information Sharing Environment (NCISE). NCISE is an excellent example of well-functioning civil-military cooperation and has shown the advantages of comprehensive approach to security.

However, it is clear that cooperation at national level is not sufficient as the Baltic Sea is surrounded by nine countries. In 1999, Finland and Sweden started to inform each other about their naval exercises. There was clearly a need for a platform for sharing information. Later on the exchange of information led to the establishment of Sea Surveillance Cooperation Finland Sweden SUCFIS, which has been operational since 2006.

Based on the SUCFIS experience, Finland and Sweden had a vision of wider cooperation between the Baltic Sea countries. As a result, Sea Surveillance Cooperation Baltic Sea (SUCBAS) was created, under which for example vessel data and reports are exchanged. All countries around the Baltic Sea, except Russia, participate in the

cooperation. It is worth emphasizing that SUCBAS cooperation does not only comprise of technical sea surveillance but consists of exchanging views on current issues. The general aim is to strengthen common understanding between the participating countries, as building trust is a crucial element of successful cooperation and leads to increased security.

In the EU, similar kind of cooperation takes place within Maritime Security Surveillance MARSUR, which for the first time integrates sea surveillance at the European level. Even if built by the military, MARSUR is not only meant for armed forces. It is intended as the defence layer of Common Information Sharing Environment (CISE) of the EU which can be used by any agency in the EU. Again, it is not just about technology. Instead, the key is in networking and building trust.

The recent adoption of the EU Maritime Security Strategy demonstrates the importance Finland and the other EU countries attach to maintaining open, protected and secure waterways. The EU Strategy provides a framework for addressing maritime security challenges.

The EU has also a Strategy for the Baltic Sea Region (EUSBSR), which has three main objectives: save the sea, connect the region, and increase prosperity. While the focus of the EUSBSR is on safety rather than security issues, cooperation between civilian and military authorities has been extensive, including for example areas of maritime rescue, natural disaster and border control, research and sea surveillance. There is a common interest in a better and shared situation awareness which enhances safety and security in the Baltic Sea area.

If secrecy has earlier been seen as part of security, in today's interconnected world security builds on transparency, information sharing, situational awareness and trust between actors. All this is equally important as we seek enhanced defence cooperation. Finally, while increased cooperation is crucial, it does not substitute the capacity and readiness of a nation to defend itself militarily. In close cooperation with its partners and with a view to maintaining its own defence capacity, Finland is determined to do its part in order to increase the security and stability in the Baltic Sea area. ■

There is a common interest in a better and shared situation awareness which enhances safety and security in the Baltic Sea area.



**CARL HAGLUND**  
Minister of Defence  
Finland

ROKAS MASIULIS

# Klaipeda LNG terminal – the game changer in the Baltic region

Politically and economically Lithuania is an integral part of the EU, yet unfortunately, this cannot be said about its energy sector. Lithuania with other Baltic States are still being compared to the “energy island” in the context of the EU internal energy market, due to lack of gas and electricity interconnections with other EU Member States and extremely high dependency on energy resources supply from Russia.

However, this situation is about to change irreversibly. As one of the key measures to increase the security of energy supply and to create the environment for effective competition, Lithuania has finished the construction of the first liquefied natural gas (LNG) terminal in the Baltic States. The LNG terminal, located at the port of Klaipeda, is based on FSRU (Floating Storage and Regasification Unit) technology, it will have a regasification capacity of 4 billion cubic meters (bcm) natural gas per year and that will be a key game changer in the completely monopolistic gas market of three Baltic States, which in total consumes approx. 4,8 bcm of natural gas per year. Considering its benefits, Lithuanian LNG terminal is also included in the recently released European Energy Security Strategy, being one of the top key projects in the list.

In this context, October 27th, 2014 – the Opening ceremony of Klaipeda LNG terminal – was a historical day when Lithuania, together with its regional partners, has celebrated the arrival of a newly-built FSRU vessel “Independence” to Klaipeda seaport.

Although the primary goal of Klaipeda LNG terminal is to satisfy national needs, the terminal will operate under the so-called *third party access* regime, which means that our neighbors and partners will also have the possibility to use terminal's capacity for their own needs on the regulated and non-discriminatory basis.

Klaipeda LNG terminal will also provide possibilities for cooperation in LNG reloading which is a new type of activity in the Baltic Sea region. Gas in liquid form would be pumped to smaller tonnage vessels at the all year round ice-free Klaipeda port and shipped to small terminals. Since the Baltic Sea and the North Sea are being classified by the International Maritime Organization as the *Sulphur Emission Control Area*, starting from January 1, 2015 ships sailing in these seas will have to use low-sulphur fuel, which means that LNG will become one of the preferred alternatives.

On August 21, 2014 state-owned natural gas supplier and trader LITGAS has signed LNG supply contract with Statoil ASA which offered the most favourable conditions to supply 0,54 bcm of natural gas per annum through the LNG terminal for the 5 years. This contract is a guarantee for Lithuania that we will no longer pay a political-based price for natural gas – it will establish a new natural gas pricing policy linked to the natural gas price movements on the international markets. The price of LNG in Lithuania will be in a range of € 260 – 290 per 1000 cubic metres, which is considerable achievement having in mind that just one year ago (in the 2nd quarter of 2013) Lithuania was paying the highest wholesale price for natural gas among all EU member states – € 395 per 1000 cubic metres.

Lithuania has already undergone legislative reforms which will allow to effectively ensure diversification of gas supply, including regulation which ensures that not less than 0,54 bcm of natural gas (~20% of annual gas consumption) must be supplied annually via LNG terminal for a period of 5 years. Lithuania is also encouraging Latvia and Estonia to consider applying such mandatory gas supply diversification requirements. Baltic States, with the support of the European Commission, should prepare the favourable regulatory environment for alternative gas sources to enter our regional market in order to increase the competition among suppliers.

Considering the peculiarities of Baltic States gas market (small size vs. a need to implement large-scale projects) we need to promote an efficient use of existing gas infrastructure in the region. Therefore, our main focus in gas sector should be given not only to the construction of necessary infrastructure but also to the harmonization of the regulatory environment among Baltic States. Otherwise, market players may not be able to interact with each other which also mean that regional market may not react with a sufficient speed in emergency situation, or even may not react at all due to legal formalities. In order to prevent such scenario Baltic States need to actively cooperate on implementation of the necessary legal, economic and technical measures for effective functioning of a common regional market.

To sum up, the Klaipeda LNG terminal will be the first large scale LNG terminal in the Baltic Sea area with the capability to provide reloading opportunities from all year round ice-free port. The LNG terminal “Independence” will be the “ice-breaker” for the region, helping to ensure an alternative gas supply and create a functioning gas market. However, construction of the necessary infrastructure is only a part of the task – we have to continue our work on the harmonization of the regulatory environment among Baltic States to form a well-functioning regional gas market. ■



**ROKAS MASIULIS**  
Minister of Energy  
Lithuania

MARTIN LIDEGAARD

# The rising importance of the Baltic Sea region

**T**he Baltic region is unique in many respects. It shares many commonalities. History, culture, economic development and not least economic potential are but a few examples.

The Baltic Sea area is a region with immense potential. And the EU membership of Poland and the Baltic states has given the area more clout. We work together, trade together and share a common culture and approach to many issues. But it is also an area where – as the latest developments have shown – global politics influence our citizens. We need to ensure that the Baltic Sea area is a low tension area where cooperation, not insecurity, is the name of the game.

Baltic Sea cooperation is at its best when we create concrete results to the benefit of the countries around the Baltic Sea. At this point in time, energy is perhaps the best example and where we stand to gain most by enhancing our concrete cooperation. We have shared interests when it comes to protecting the environment, adapting to climate changes and reforming our energy policies.

Apart from the benefits to our environment, concrete cooperation on energy security will contribute to reducing tensions and furthering economic cooperation and growth. Therefore energy security in a broad sense is a central priority for the Danish Government – also in the Baltic Sea area. It reflects the Government's Green Growth agenda and Denmark has many good experiences from building our green policies and sector.

Energy security is important as well as multi-faceted. There is broad scope for increased cooperation within several fields, in particular regarding energy efficiency, interconnectivity and variability of energy sources. Excessive dependence on one supplier is a real risk – both in our region and to Europe in general. The region also holds extensive commercial potential, in particular within energy infrastructure, the maritime sector, and transport/logistics. I am pleased to see a number of projects in these fields already prospering. And I see an important role for our countries in advancing this agenda.

Politically, Baltic Sea cooperation is at its best when it means building confidence and dismantling tension. In fact, this was a main reason for establishing the Council of Baltic Sea States (CBSS) in 1992. I believe we should seriously consider reinvigorating this aspect of our regional cooperation and devote more attention to this.

The need for building confidence and dismantling tension is obvious when you look at the members of the CBSS – as it includes both Russia and the EU members around the Baltic Sea as well as Iceland and Norway.

Russia's recent behavior towards Ukraine is a serious concern to us all. But understandably not least to our Baltic neighbours. For Denmark it is a priority to contribute to reassuring the Baltic states that they will remain free, secure and prosperous.

Through the CBSS we cooperate on issues that are not high politics and can hopefully help influence the values held by Russian decision-makers. Moreover, cooperation with Russia within the CBSS is also relevant in order to make progress in areas where we have shared interests with Russia, such as protecting the Baltic Sea environment.

Baltic Sea cooperation is a priority for the Danish government because it is our local area. Commercially, the region offers a host of opportunities. The region is a local market for Denmark and of

major economic significance. 40% of Danish exports go to the Baltic Sea states amounting to almost 55 billion euro. Growth in the area means more jobs.

The Baltic Sea cooperation has come a long way since the CBSS was founded more than 20 years ago. Despite the recent tensions in the broader region, the outlook is promising. I see firm signs of a common will to intensify and deepen cooperation in our region to new levels. I would like to see more focus in our cooperation. The number of priorities should be limited and clearly defined.

I would also like to see a more result orientated approach to Baltic Sea cooperation. Our results must be visible, provide added value and communicated effectively to the public. Our aim should be to concentrate on areas with the largest potential for results.

Finally I would like to see increased involvement of the private sector in our regional cooperation. All three aspects would benefit growth and employment in the Baltic Sea region. And all three are at the top of Denmark's Baltic Sea agenda.

Since the establishment of the Council of Baltic Sea States (CBSS) more than twenty years ago, Denmark has played an active part in the development of Baltic Sea regional cooperation. Not only within the CBSS but also in cooperation formats such as the EU Strategy for the Baltic Sea Region (EUSBSR), The Northern Dimension and the Helsinki Commission (HELCOM). The prominent Danish role as coordinator for several of the priority areas under the EU strategy is a case in point.

Last year, we decided to step up our involvement in regional cooperation. To do this, we developed a new Danish policy framework for the Baltic Sea region. We aim not only to raise our political profile in the Baltic Sea context but also to increase our focus and impact in the Baltic Sea cooperation.

The Danish policy framework outlines what we would like to achieve through cooperation in the region. The framework is based on this:

It has one main goal: to tie the Baltic Sea Region together in an ever stronger cooperation between all Baltic Sea States, including Russia.

It has two priorities: to protect the environment and climate as well as to create growth in a broad sense.

We have chosen to focus our efforts mainly on three main fora for cooperation: The Council of Baltic Sea States, the EU Strategy for the Baltic Sea Region and the Northern Dimension. Our efforts in other regional for such as HELCOM pull in the same direction.

The economic potentials and the challenges to secure a sustainable region will only grow in the years to come. We must work – inside and outside the EU and inside the CBSS – on both together. ■



**MARTIN LIDEGAARD**  
Foreign Minister  
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HANS-PETER BARTELS

# Cooperation in European security policy with the prospect of a European army, and the topical relevance of this debate for the Baltic Sea region

When the subject of a European army is reported on, it is almost always in connection with the problem of declining defence spending in nearly all EU Member States and the resulting need for greater multinational cooperation. There is no denying the necessity of enhanced cooperation and, in the long term, a European army – but reducing the idea of a European army to the issue of financial constraints fails to do it justice. Since the first steps towards European integration were taken in the 1950s, the EU has become a union of states which is unmatched anywhere in the world in the extent of its economic and political cooperation. In many areas, the Member States have already transferred far-reaching sovereign rights to the EU: the single currency is just one example. This partial surrender of national sovereignty is what paved the way for successes such as the internal market or comprehensive freedom of movement for EU citizens. And at the same time, it brought peace to what was one of the world's most warring regions in the last century.

This can also serve as an example in the field of security and defence policy. Naturally, the idea of an integrated European army cannot be implemented overnight; a step-by-step process will be required. It will also continue to be the subject of contentious political discussions. For example, as we all know, the concept of "Pooling and Sharing" developed by the European Defence Agency (EDA) requires countries not only to specialise in certain capabilities, but also to forego others. This is a step which many countries find difficult. In addition, the power of command over one's own armed forces is a core area of national sovereignty. Rethinking this centuries-old concept of security policy requires a great deal of courage and determination. The Netherlands is the first European country to have shown this courage, by placing an entire brigade of 2100 personnel under the command of the Bundeswehr's Rapid Response Forces Division in June 2014.

Current examples in the Baltic Sea region show that military cooperation can work very well. One example is the Multinational Corps Northeast in Szczecin, which was established in 1999 and now involves 12 partners. In mid-2013, Germany and Poland agreed to engage in enhanced naval cooperation, ranging from joint training and surveillance to, potentially, joint missions and cooperation on shipbuilding. And in June 2014, BALTOPS, an annual multinational exercise, took place for the 42nd time, led by the US and with the participation of 4700 service personnel from 15 countries. Here too, the aim is to increase the interoperability of the forces involved.

When it comes to the use of the Baltic Sea, whether for economic or military purposes, it is important not to lose sight of the fact that this is a highly sensitive region. Not just in terms of its biodiversity and natural resources, which require protection, but also from a security-policy perspective. This is true of maritime areas in general, as their

shared use always holds a certain potential for conflict. In the case of the Baltic Sea, however, there is a heightened degree of sensitivity, particularly at the moment. After all, the Baltic Sea is bordered not only by EU and NATO members, but also by Russia.

It is no secret that the crisis in Ukraine has severely disrupted relations with Russia for the EU, NATO and their members. The tensions between "East" and "West", if we choose to think in such terms, are today reaching heights not seen since the end of the Cold War. And these tensions mean that a high degree of level-headedness is needed from both sides with regard to the Baltic Sea. After all, there is a thin line between a routine military exercise and a provocation, and crossing it could have disastrous consequences.

None of the countries bordering the Baltic Sea can seriously have an interest in extending the Ukraine conflict to this region. The region is far too important in terms of business and trade, and, in Russia's case, as a gateway to the west. Since time immemorial, business and trade have depended on peace above all else.

This does not rule out a military presence and cooperation in the Baltic Sea region, however. Indeed, part of the Russian navy is also located there, in the form of the Baltic Fleet. The situation requires particular care from the countries concerned and from the service personnel deployed there. In any case, the ability to operate and cooperate in a fragile situation without provoking others is, looking to the future, an essential capability for a functioning European army. If this can be achieved, a military presence can safeguard stability rather than endangering it. After all, a balance of military forces guaranteed peace for many decades in the past.

Nevertheless, jointly resolving crises like the current one in Ukraine remains our aim, of course, and I am optimistic that we will succeed. But a way must also be found to avoid extending a regionally contained conflict to other areas in times of political and security-policy tension. So far, despite the legitimate concerns of the Baltic states and Poland in particular, this has generally been achieved in the case of the Baltic Sea region.

If this remains true, the Baltic Sea region could become an example of how peaceful coexistence is possible even in times of crisis. ■



HANS-PETER BARTELS

Dr., Member  
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JETTE NORDAM

# The importance of cooperation across the Baltic Sea region

The Danish government has chosen an ambitious approach to the Baltic Sea regional cooperation and to the many networking and project-based activities that are underway in the region. The collaboration is now closer and more branched than probably even Hans-Dietrich Genscher and Uffe Ellemann-Jensen could have hoped for. So much has gone well, and it has created significant improvements for those living around the Baltic Sea. However, some areas still need an intensified effort. We have come a long way in the cooperation among our region but we should strive for ever higher aspirations. We should focus on collaborating on our joint challenges and opportunities.

In a time where everybody speaks about the importance of BRIC countries we should remember that the Baltic Sea region is the nearest marked for Denmark. 40 pct. of our export is directed to this region. Therefore, Denmark is focused on ensuring that the conditions for Danish exports to the Baltic Sea region are in order and continually trimmed and developed. When the bridge between Copenhagen and Malmö was built it had a huge impact on the labour market and economic growth in Denmark and southern Sweden. It is so popular that some are even voicing the idea of another bridge across the Sound.

In about seven years we will be opening the fixed link to Germany across the Fehmarn Belt. It will be the longest immersed tunnel for trains and cars. An ambitious approach to the region's future, but major investments in infrastructure does not realize the entire economic potential by itself. It also requires an effort to strengthened cooperation in business, education and research - in the Baltic region there is space and room for more targeted regional cooperation.

Most of the countries around the Baltic Sea are relatively small with open economies in which trade and foreign investment are having great importance. Attracting investments play a major role in the development of these economies. However, we shall be better to draw attention to our skills and qualifications to foreign partners.

In maritime safety, Denmark and Finland together are leading the work of taking the objectives of the EU Strategy for the Baltic Sea Region into action. One of the ambitions is that the Baltic Sea should become a pioneer of so-called e-Navigation. E-Navigation is a model for how to implement the gradual introduction of modern digital communications in the maritime transport sector so it can increase safety and environmental protection, increase efficiency and at the same time reduce administrative burdens and costs to the benefit of crews on board the ships, ship owners and authorities inland. Based on the Baltic Sea Strategy, the Danish authorities and companies - in close cooperation with partners in other Baltic countries, developed and tested the concept of e-Navigation. It is now being accepted as a new global standard in the UN Maritime Organization. Danish companies should to seize this opportunity as e-Navigation has a great potential for Danish exports. Denmark is already strong in the maritime sector and it should be exploited even further in the future.

Furthermore, Denmark has taken a special responsibility in the energy sector under the EU's Baltic Sea Strategy. The so-called Baltic Energy Market Interconnection Plan (BEMIP), which focuses on interconnecting all Baltic countries to the EU energy markets and the security of supply, is worth mentioning.

Lastly should be mentioned some of the cooperation fora where the practical implementation of the political directions take place. They deserve to be highlighted as they represent good and constructive cooperation in so many areas. This applies to e.g. HELCOM, which focuses on a cleaner Baltic Sea and is in charge of the implementation of the Convention on the Protection of the Baltic Sea environment.

The Council of Baltic Sea States, the EU Strategy for Baltic Sea Region and the Northern Dimension have largely the same overall objectives. Environmental protection, economic growth and education and culture are high on the agenda of all three forums. The widespread regional cooperation in these organizations is characterized by not only involving governments and authorities in the Baltic Sea States but it also includes a wide range of businesses, community organizations and representatives of civil societies as well as various financial institutions and development banks.

Twenty years after the creation of the Council of Baltic Sea States, there is little doubt about Denmark's interest in Baltic Sea cooperation. Denmark has over the years expressed support for the development of close cooperation in the Baltic region and in several areas followed up with concrete action. This is the case in all the three central forums and the creation of the Danish Baltic Sea Policy was the answer to the need for increased focus and a shaper Danish profile within the Baltic Sea cooperation. ■



JETTE NORDAM

Ambassador of Denmark in Helsinki  
Finland

RIITTA HEMMI

# Hazardous waste landfill near the Baltic Sea

**T**hanks to international cooperation, environmental awareness is growing in Russia - especially around the Baltic Sea. With the help of international grants and loans, St. Petersburg is soon reaching the HELCOM requirements in the sewage treatment. Finland, Estonia and Russia have dedicated year 2014 to the Gulf of Finland and they are, among other things, improving the joint monitoring of the ecological condition of the sea. Even though major progress has already occurred, there is still plenty to be achieved. One of the examples requiring remedial actions is the emissions of hazardous substances ending up to the Baltic Sea.

Krasnyi Bor polygon, a hazardous waste landfill located in Tosno, Leningrad region, 35 km south of the City of St. Petersburg, is one of HELCOM's hot spots. Notwithstanding its location in the Leningrad region, the St. Petersburg officials manage the landfill. Dangerous solid and liquid waste is transported to the landfill from the industrial enterprises in St. Petersburg as well as in the entire Leningrad region and further off in the Northwest Russia. The landfill started operating as a temporary landfill in 1973. The 72 hectare territory is no longer temporary as it stores today nearly two million cubic meters of chemical, medical and metallurgic waste in underground basins isolated by Cambrian clay. The basins are not hermetic, but they are overloaded and they leak during heavy rains and snowy winters. Toxic emissions find their way to the nearby rivers Izhora and Tosno, both discharging to the river Neva and all the way to the Baltic Sea. Moreover, the landfill has faced several major fires during the past few years releasing hazardous air emissions. Urgent measures are necessary for eliminating the detrimental effects on the Baltic Sea.

Already in the beginning of 1990's the landfill was in an alarming condition causing health and environmental danger. Then the City of St. Petersburg officials arranged tours to the modern Finnish hazardous waste treatment plant Ekokem in Riihimäki. Since those days, the officials have learned how the hazardous waste is treated abroad in special recycling and treatment plants. Hazardous waste should be separated from other waste and every potential recyclable part or component should be recovered and utilised as raw material for secondary production. The remaining waste fractions should then be incinerated with the most efficient technology and the strictest possible gas purifying systems. The ashes could be used in green building, if the remaining heavy metals were purified. The officials realised Krasnyi Bor needs a modern treatment plant.

Planning a well functioning and ecologically safe treatment plant was started. Grant and credit funding negotiations with the European funding institutions were almost completed in 1995, but the city officials decided that the plant was to be executed by Russian resources and technology. Building has been in process for the past 15 years, 1.5 billion roubles have been spent but there is no sign of a new treatment plant.

In spring 2013 high political levels in Moscow still made promises to establish a new treatment plant by the end of 2015. The mass media, experts and environmental organisations opened the Krasnyi Bor's bad situation to the public. It was obvious that no plant will be built within the promised time.

At the end of 2013 new city officials were appointed to take over the 40 years' accumulated catastrophe of Krasnyi Bor. The federal controlling organisation closed the landfill in February 2014 after the license for its operation had ended. The same has happened several times before, but the license was always prolonged in lack of any other landfills not to mention a treatment plant for the hazardous substances. Now the officials have demanded clarifications on the basins' contents of mercury, obsolete pesticides, PCB transformers, oil refinery wastes, pharmaceutical substances etc. A report on the impacts on health and environment is required. The landfill's clients, industrial companies, are in trouble with their own storages getting full. Thus, environmental organisations and people fear for a reason that the hazardous waste will be dumped into forests or gravel pits.

The officials know that Krasnyi Bor needs urgently remedial measures. The established expert group concluded in June 2014 that the technical plan from early 1990's is undoubtedly out-dated. Renewing the plan was put out to tender in July 2014. A Finnish-Russian company Pöyry RUS won, and is now working on the plan until the end of 2014. The technology and implementation will be also publicly procured in the beginning of 2015 after public hearings.

Along the plant construction the emptying and restoring of the existing basins and making the territory safe will be an enormous and expensive task. To meet the modern standards and best available technology will require a lot of money. Hopefully the international expertise is not cut out this time even though today's geopolitical situation does not support new funding projects by the European financing institutions. The list of priority investments in Russia may look somewhat different compared with the past few years. Nevertheless, the hazardous waste problem of Krasnyi Bor does not vanish, but becomes more and more dangerous, if the area's current waste disposal continues under the present circumstances. ■

RIITTA HEMMI

Consul, Environment  
Consulate General of Finland in St. Petersburg  
Russia

KATARIINA KIVILUOTO

# Cooperation vital in insular oil spill response

**B**altic Sea has seen a steady increase in marine traffic, and oil and chemical freighting in the recent years. For example the Finnish Environment Institute (SYKE) deals with around 50 oil spill related cases concerning either actual oil spills or close calls only in the Finnish sea areas every year. Though bigger oil catastrophes have fortunately not occurred in the Baltic Sea, the risks are ever growing and a major incident is inevitable.

The costs caused by major oil spills are often astronomical. According to SYKE a minor 500 ton oil spill could in some cases grow into catastrophic proportions and result in both major damage and considerable cleanup costs. A 5000 ton oil spill could amount to a grand total of tens or even hundreds of millions of euros including the direct costs of onshore oil combating as well as the indirect costs caused by the destruction of nature and livelihood, and the damage done to shoreline settlements. It's been estimated that the direct costs resulted from the 1989 Exxon Valdez oil catastrophe of 50 000 ton climbed up to two billions.

Oil accidents are massive disasters, which require coordinated national and international response cooperation. Baltic Sea states have been involved in oil spill response work especially through the work done within HELCOM's Response Group. The HELCOM Response group is responsible for the Response manual, which contains operational guidelines and procedures to be followed in international oil spill response. International cooperation is put to a test every year in HELCOM's BALEX DELTA exercises, which have been organized by each Baltic state consecutively since 1989. In addition to international cooperation each Baltic Sea state has organized both strategic and operative national oil spill response to a varying degree. Although major steps in Baltic Sea oil spill response have been taken on both national and international level, responding to a plausible 30 000 ton oil spill would be a struggle even as a joint international effort.

As marine traffic grows steadily throughout the Baltic Sea, navigating the narrow and treacherous coastal waters will also increase. The archipelago area spanning from Stockholm to Åland and Turku is especially challenging from this perspective. Depending on how you count, there are between 60 000 to 80 000 islands and islets in this area many of them featuring rocky shorelines, protected nature reserves, and livelihoods highly dependent on ecosystem services. A feasible 20 000 ton oil accident would have devastating effects in this area leaving shores covered in toxic oil, and livelihoods, nature and settlements compromised. Even after a time-consuming, logistically challenging and incredibly expensive oil spill response effort the affected area could still remain polluted for decades to come. Bearing in mind the growing accident risks stemming from increased marine traffic, the challenges of insular oil spill response should be firmly and swiftly addressed.

Turku University of Applied Sciences decided to tackle these challenges by launching a project concentrating on oil spill response in the insular areas of Stockholm, Åland and the Archipelago Sea. The 16 month ARCHOIL project, financed by the Central Baltic IVA Programme, was an international undertaking with project partners from Sweden, Åland and Finland.

ARCHOIL project's first objective was to develop oil contingency plans specifically tailored for archipelago conditions. These were made in cooperation with local and national authorities responsible for oil combating and special attention was paid to the challenges posed by logistics and difficult conditions. The other objective was to develop training materials for municipal authorities responsible for operative and strategic oil response. As a part of this work practical scenario-based tabletop exercises were organized both locally and internationally. These tabletops gave a unique possibility for the responsible authorities to sit down and discuss the challenges of insular oil spill response in an informal setting. These tabletops were especially useful in revealing potential bottlenecks in both the operative and the strategic level making future cooperation in emergency situations much easier.

A very important step was also taken during ARCHOIL by introducing Åland into the international oil spill response arena. As no single region can handle a major oil accident by itself, cooperation is vital especially when facing a major challenge like an oil disaster. Oil slicks float across regional borders unpredictably and need to be combated in close regional and international cooperation. ■

KATARIINA KIVILUOTO

Project Coordinator

The ARCHOIL-project

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KSENIA YUDAEVA

# Introduction of inflation targeting in Russia

**B**y the end of 2014 the Bank of Russia is completing its previously planned transition to inflation targeting. This decision is made at a time of significant challenges for monetary policy, such as increased uncertainty arising from geopolitical problems, the associated weakening of the rouble, and sanctions combined with the now exhausted traditional sources of economic growth, which have been applied in previous years. Nonetheless, we do believe that it is a right decision, taking into consideration the current need to increase long-term domestic investment and economic growth.

## The right policy depends on the right diagnosis

In Russia the question of the effectiveness of monetary stimulus is discussed intensively. However, the policy depends on the diagnosis. If Russia's current economic growth decline is due to a cyclical slowdown, which is usually accompanied by an increase in unemployment and a fall in inflation, monetary stimulation would help. But if it is due to a structural slowdown growth accompanied by falling production, monetary stimulation would lead to stagflation.

In fact, the current deceleration is not leading to reduced inflation, and many indicators point to the structural character of Russia's economic slackening, including declining unemployment, the negative demographic trends, including a drop in the working-age population, decline in external demand, and the poor business climate. These factors applied even before the sanctions. Seasonally adjusted unemployment is just 5.1%, which is extremely low, while several other factors such as the number hours worked, compulsory holidays and low productivity point to near full employment. Therefore, inflation has increased due to both endogenous and exogenous shocks, but is not discernibly influenced by the declining growth rate in production.

Given that the situation in the economy cannot be improved by monetary stimulation - long-term structural measures are necessary, in particular shifting labour to more effective sectors and production and increasing productivity. The second well-known factor pointing to the structural character underlying the slowdown is the level of capacity utilization. Admittedly, this is not a very reliable indicator, but the utilisation of production capacity has now practically reached the same level of the pre-crisis period in 2008 and competitive facilities are working close to full capacity. The third factor is lower external demand for Russian goods, largely due to the deceleration in the Eurozone and China, although in this case it is difficult to assign a structural or cyclical character.

## Domestic criticism of inflation targeting based on wrong cyclical diagnosis

Domestic criticism of this decision is based on the assessment of the growth decline as cyclical, which is, as just shown, largely not the case. International criticism of inflation targeting is based on economies experiencing very low inflation. With inflation of almost 8%, Russia does not fall into this category.

The Bank has successfully reduced inflation in recent years, but as noted, 2014 has seen a significant acceleration in inflation. According to the Bank's forecasts, inflation will exceed 7% by the end of 2014, substantially above the target level of 5%. It is therefore important to continue with a monetary policy aimed at slowing the growth in consumer prices. Our goal is to reduce inflation to 4% in the medium term, and according to our forecast, if sanctions last for one year and no new negative shocks occur, consumer prices could fall to 4% by 2016, with no significant cooling of the economy. In scenarios, when sanctions last longer and/or oil price decline more significantly, the targeted level of inflation is expected to be reached by 2017.

The Bank of Russia adjusts interest rates to achieve its inflation target, but directly controls only the short-term money market rates. The interest rates on banks loans and deposits are influenced through short-term money market rates. Since monetary policy only affects the economy gradually, with a certain lag, the Bank of Russia relies on economic forecasts when deciding the level of the key rate. Unforeseen factors may result in significant fluctuations

in inflation and deviations from the target level, so the Bank's need to react is based on an evaluation of their effect on prices in the medium term since that could lead to an increase in inflation expectations.

## Intervention still possible

To improve the effectiveness of monetary policy, the Bank of Russia is moving towards a floating exchange rate regime which rejects intervention in order to maintain the exchange rate at a certain level. The national currency's exchange rate is then established by market forces, allowing the economy to adapt more easily to changing external conditions.

Floating exchange rates will allow the Bank of Russia to concentrate fully on managing interest rates and achieve its inflation target. Even so, in altering the level of the key rate, the Bank of Russia also influences the exchange rate. In the event of a threat to financial stability, the Bank of Russia may still use traditional foreign-exchange interventions.

By ensuring low and stable consumer price inflation within the framework of inflation targeting, the Bank of Russia is creating the conditions for Russia's sustainable economic growth.

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**Low inflation expectations encourages confidence**

Another important condition for a sustained reduction in the rate of growth of consumer prices is the formation of inflation expectations at a stable low level. This requires people to have a high level of confidence in the central bank's policies. The challenge for the Bank of Russia is to establish confidence in its policy despite volatile environment.

**Conclusion**

Inflation targeting has been applied successfully in many developed countries and emerging markets. Experience in recent years has shown that such an approach has also worked during periods of great economic uncertainty. A clear understanding of the ultimate target and, at the same time, flexibility during decision-making in response to changing conditions, make inflation targeting the natural choice for the monetary policy regime in difficult times. International experience shows that the transition to inflation targeting not only helps to reduce

the rate of growth in consumer prices, but also has a positive impact on economic growth, conclusions which are confirmed by numerous studies. By ensuring low and stable consumer price inflation within the framework of inflation targeting, the Bank of Russia is creating the conditions for Russia's sustainable economic growth. ■

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# BALTIC RIM ECONOMIES

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LENE ESPERSEN

# Bridging the Baltic Sea

**B**y 2021 the new Fehmarnbelt tunnel between Denmark and Northern Germany is expected to open, creating a new gateway to the entire Baltic Sea Region and paving the way for the development of an integrated Fehmarnbelt region. The fixed link across the strait of Fehmarn is a European project, which will bring positive impacts to the lives of people and companies, creating new growth and business opportunities in the Fehmarnbelt region and beyond. The 19 km long tunnel and improved connections on both sides will potentially half the transport time between the two metropolises, Copenhagen and Hamburg, thus serving as a milestone in development of a Scandinavia-Mediterranean corridor from Malta to the Russian-Finnish border.

A large number of stakeholders and project partners from several countries are involved in the process. In addition to the actual tunnel construction and the on land projects, there is a great amount of activities carried out by a diverse set of actors, whose individual and joint efforts would benefit from better co-ordination. Regional authorities, municipalities, local organizations, representatives from educational institutions and from business all have a strong involvement on different levels with the aim to strengthen conditions for growth in Malmö/Copenhagen – Lübeck/Hamburg.

In the light of this development a more streamlined, non-bureaucratic process and decision-making procedure – a modern multi-level governance at the regional level - is a key element and would benefit all stakeholders.

Baltic Development Forum (BDF) is therefore looking forward to the outcomes of the Baltic Sea Region TransGovernance project that will present new instruments to ensure better coordination and alignment of transport policies in the Baltic Sea Region. The results of the TransGovernance project will be presented at the final conference on 3 November 2014 in Bruxelles. The project has developed a toolbox with recommendations to ensure that all relevant public and private stakeholders at the European, macro-regional, national, regional and local administrative levels are involved in dialogue and decision-making when planning larger cross-border transport projects like the construction of the Fehmarnbelt tunnel.

The emerging global economy has transformed how we govern at the local and regional level. Governmental policies and decision-making are no longer developed and carried out in isolation but have gradually transformed into processes that include continuous interaction with and between groups of stakeholders. This requires a combination of reasoning, knowledge, responsibility, awareness, incentive and action in order to utilize the competencies of all players. This governance model is a flexible and efficient one, in contrast to rigid conventional decision-making structures where – due to the focus on institutions and regulatory framework – unexpected options and unforeseen impacts frequently are neglected. A new multi-level governance landscape of decision-making has emerged.

In our own way, BDF has been promoting the multilevel governance model for the last 15 years by offering a platform for regional development in the Baltic Sea Region, connecting private and public interests at both local, regional, national and macro-regional level and facilitating dialogue between business, media and academia. BDF has also supported the EU Strategy for the Baltic Sea Region, providing a framework for implementing concrete cross-border activities.

In the beginning of October, BDF served as the secretariat for organizing the Fehmarnbelt Days 2014 in Copenhagen. Under the heading "Creating Connections" the Fehmarnbelt Days 2014 brought together more than 700 participants from diverse sectors, regions and levels of decision making to exchange ideas and experiences and discuss cross-border cooperation and growth opportunities in the emerging Fehmarnbelt Region. The theme of bridging the Fehmarnbelt and connecting Denmark and Germany got put into a wider perspective: Bridging the Baltic Sea – Connecting people by creating a North-South fast transport corridor in Europe.

The final decision on the actual construction of the Fehmarnbelt fixed link has not yet been made and is expected later this year or in the beginning of 2015. But to quote a former Danish Minister of Transport: "No one has ever regretted building a bridge!" ■



LENE ESPERSEN

Chairman  
Baltic Development Forum  
Former Minister of Foreign Affairs  
Denmark

HANNA EKMAN

# Centrum Balticum – making the most of the Baltic Sea region

**T**he Baltic Sea Region is bordered by Scandinavia, northern Europe and the western part of Russia. The region is unique in the sense of economic strengths, environmental questions and the tradition of co-operation. It is the home of over 60 million people and it comprises a highly competitive part of the European and even of the global economy. Today, more than ever, the need for mutual understanding is essential. Co-operation with all countries of the region is a necessity, when we want to save the sea, connect the region and create prosperity.

Centrum Balticum was founded in 2006 to promote Baltic Sea Region issues and to bring together all the actors and the stakeholders of the region. In the past eight years Centrum Balticum has become an independent expert between research and decision-making. It acts as an information unit and it coordinates a network of researchers and experts. In co-operation with cities, universities and other interest groups, Centrum Balticum generates new ideas for policy-making, facilitates best practice sharing and sets public debate in motion.

In times of international stress in state relations, the importance of regional stability, dialogue and co-operation grows. The need for impartial information has been critical as well as the easy access to the sources of information. For this requirement Centrum Balticum has created a web portal called Domus Baltica. It contains wide-range Baltic Sea Region related news from Finland and abroad, an ever-growing databank and a network of experts, timely blogs on variety of subjects and information about the events throughout the entire region. Currently Domus Baltica is maintained in Finnish, English and Russian.

There are many frameworks for co-operation in the Baltic Sea Region. One of the most ambitious mechanisms is the European Union Strategy for the Baltic Sea Region (EUSBSR). The EUSBSR was the first macro regional strategy within the European Union, when it was adopted five years ago. Now it has three main objectives: saving the sea, connecting the region and increasing prosperity. The purpose of the Strategy is to solve jointly problems and challenges facing the region and to take advantage of the opportunities that greater co-operation provides.

The EU Strategy for the Baltic Sea Region is not only a co-operation strategy for the governments. Actually it is meant before anything for citizens of the European Union. It is a strategy for regions, cities, businesses, universities, educational institutions and non-governmental organizations. One of the strengths of the EUSBSR is that from the beginning it was based on the involvement of multilevel stakeholders. It brings together initiatives in different sectors and is built on the understanding that one sector often has impacts on others.

So far the EU Strategy for the Baltic Sea Region has created multiple new networks, brought new ideas and achieved many concrete results in its priority areas. It is clear that there will be no simple or fast answers to the cross-border problems such as cleaning up the sea, mitigation against climate change or fighting the cross-border crime. The co-operation in the framework of macro regional strategy is also a long term effort. A lot has been done, but we are still far from using the potential of the region to the extent we could. The Baltic Sea Region represents a great potential for more sustainable growth.

In spite of the good results the strategy has reached so far, the awareness of its possibilities is still rather limited. Information about the EUSBSR has been scattered. It hasn't been easy to find or in other occasions there has been too much information. The language used in the communication of the Strategy has been somewhat difficult.

To tackle these problems in Finland, Centrum Balticum and the Ministry for Foreign Affairs of Finland started working together in June 2014. Centrum Balticum is supporting the Ministry in strengthening the EUSBSR's national communications and co-operation with interest groups. The objective is to raise the awareness about the strategy, gather and disseminate relevant information in Finnish and to get new stakeholders involved with the strategy. A great deal of information can already be found in Domus Baltica web portal and in the following months the amount of information will grow significantly.

This autumn Centrum Balticum continues to publish a Baltic Sea Region Policy Briefing series for international experts to discuss developments and future trends from the Baltic Sea region viewpoint. Centrum Balticum also publishes a weekly column called Pulloposti in Finnish. Currently, several thousand Finns interested in the Baltic Sea region affairs receive this weekly column written by the top Finnish professionals in their fields.

Centrum Balticum organises annually the Baltic Sea Forum, which gathers hundreds of region's leading experts to Turku to discuss topical issues related to the Baltic Sea region. The Baltic Sea Forum is a good example of the multilevel approach and the contribution of various actors. The aim of the forum continues to be promoting effective dialogue between the neighbouring regions. ■

**HANNA EKMAN**  
Development Director  
Centrum Balticum  
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MARIE-LOUISE RÖNNMARK

# Aiming for growth in the far north – Umeå's goal as Capital of Culture 2014

**U**meå, the Swedish town in the far north, wants to grow on many levels. The year as a Cultural Capital will help putting Umeå on the map, and raise cultural interest and awareness. Mayor Marie-Louise Rönnmark tells us more.

In Umeå, we aim at growing in size and also at personal growth for the inhabitants, and the activities and experiences from this year as a Cultural Capital of Europe will serve as a lever to the next step. Being Europe's Capital of Culture is part of Umeå's long-term development strategy up to 2050. The award will accelerate investment and growth, and create new opportunities for development in cooperation with the rest of Europe and the world. Umeå will be more attractive to students, entrepreneurs, investors and creators, who will be some of the leaders in this progress.

We believe that towns and cities that don't put a lot of effort in development will risk to suffer from stagnation or even recession. As a geographically distant town, we must try even harder than some other towns and regions, and we think that culture could be one key to success. Umeå's objective as European Capital of Culture is to promote human growth, strengthen the role of culture as a driving force for sustainable development of society, and reinforce cultural life's international relations and dimensions. Umeå2014 is also building new networks for collaboration with municipalities, cultural institutions, associations and companies in Västerbotten, Norrbotten, Västernorrland and Jämtland, and strengthens co-operation and development in the northern region.

Umeå2014 goes by the motto of Curiosity and Passion — the art of co-creation. The concept stands on two legs. One is to arouse curiosity and involve people through dialogue and cross-border encounters, and the other is to further develop practical methods for co-creation. When people get involved in culture, their knowledge will rise together with their interest in taking part in or just enjoy culture. We think that this is very important, because culture is the heart of personal development. It opens creativity and raises the society's level of development, and where there have been major investments in culture, people thrive. The towns where creativity and open mindedness rule will flourish. Umeå's intention is to encourage new forms of cultural expression, new cross-border ways of working, and new methods for artistic dialogue and co-creation.

Umeå2014 has co-funded around 100 local projects, and also distributed around 100 "Cultural Boosts" — up to 20,014 SEK per project to local associations and independent actors for organizing projects or events during the year. As a result we have had more and better events than ever — Umeå in 2014 is a melting pot of different cultural expressions, raising the knowledge and interest in the cultural sector as well as with the general public. The museums, the opera and many other institutions and organizers have seen a dramatic and very pleasing increase in the numbers of visitors, and so has the tourist's office and Umeå Airport. To name just one example: Bildmuseet, Umeå University's centre for visual art, reported an increase from 28,520 visitors to 41,868 visitors comparing the first quarters of 2013 and 2014.

The year as a Cultural Capital of Europe has also put Umeå on the European map. More than 170 foreign journalists or teams of journalists have visited Umeå2014 during the first eight months, and the PR-value of articles and programmes about Umeå exceeded 210 million SEK from November 2013 to May 2014 (according to MediaPilot, who survey media in 11 countries on the behalf of Umeå2014). Our promotion tour Caught by Umeå was nominated for the Special Events Prize at the prestigious Sabre Awards in London, and VisitSweden brought us the news that Umeå was, along with the opening of Stockholm's Abba Museum, the most frequent topics in foreign media describing Sweden as a destination during 2013. This year we're nominated for the big Tourism Prize in Sweden as well as the national Place Branders of the Year.

The increase in visitors (hotel nights) in Umeå from the first two quarters 2013 to the same period 2014 was 20 percent. Visit Umeå's (the tourist agency) website had 64 percent more visitors on the first half of 2014 compared to the first half of 2013. The total turnover of the Umeå region is approximately SEK 1.3 billion, meaning that if we in Umeå increase the number of visits by 20 percent, more than SEK 200 million will be added to the city and the surrounding region. Transformed into jobs, this means hiring hundreds of people. I personally think that even before the end of this year, I can honestly say that we have succeeded. We're stepping up our game. You are very welcome to visit us and see for yourself! ■



MARIE-LOUISE RÖNNMARK

Mayor  
The City of Umeå

Chairperson  
Capital of Culture committee  
Sweden

PAWEŁ ADAMOWICZ

# A strong brand is fundamental

**G**eographical location, transport accessibility, the labour market, dynamic business development, colleges and universities, research and development facilities, favourable conditions for innovative ventures and an abundance of tourist attractions are just some of the advantages of Gdańsk. They are founded on the city's strong brand. A brand that has been built and consistently developed for years.

Building the Gdańsk Brand is a long-term evolutionary process, written into the city's history, as it were. In 2008, Gdańsk completed a pioneering marketing project among Poland's cities and regions: an international research programme which brought about the "Strategy of the Gdańsk Brand until 2013." The in-depth analysis indicated 5 strategic goals aiming to determine the development direction for the Gdańsk brand, to inspire work on the designated areas and to develop an overall framework for initiatives and projects. At the top of Gdańsk's identity pyramid was the promise of freedom, inspiration and a creative environment. The consistent implementing of this strategy helped build a cohesive city brand and increase its presence in the global market.

One of main premises behind Gdańsk's promotion and communication measures is to present the city as a place where important things happen; important not only for Poland, but also for Europe and the entire world. Gdańsk's history and its location mark it out to build its identity around features associated with events of great magnitude, for a city that is nonconformist and ready to rebel for a higher cause, a city which moves with the times. Gdańsk's coastal location and its role as a seaport mean that it is perceived as a city open to the world, rich in new ideas, always a step ahead of the others. Curiosity of the world, courage to take on new challenges and an exuberant temperament make up a unique mix of features to create the city's magnetic atmosphere and spirit of freedom expressed in what goes on in the city. Gdańsk plays host to many prestigious cultural and sports events, while using anniversaries of important city events to build its brand. The European Solidarity Centre, a new international institution with great potential, will help to enhance Gdańsk's brand. Its mission and values are fundamental and based on the principle of freedom, in the broad sense of the term, which is permanently etched into the city's identity.

The European Solidarity Centre is a bridge that links the past with the future. It is a centre for dialogue about the most important issues of the contemporary world: the development of democratic communities, social justice, equal opportunities in market economies and freedom in the broadest sense of the word. It is also a museum which reaches out with the subject of Solidarity and the opposition movements of Poland and Europe. Freedom, as a certain temporal and spatial link, makes sure that the European Solidarity Centre will continue to grow and evolve together with the Gdańsk Brand, which is making a great leap forward right now.

Gdańsk's development in recent years and the pace of change in its environment are the main reasons to begin work on an updated vision of the city's brand. This new strategic document will include the evaluation of the previous efforts and a critical analysis of the brand's current condition based on, among other things, the results of the 2013 international research project. The chief aim of the new strategy is to present a vision of the brand's future from an evolutionary point of view and to indicate specific measures for its further development and growth in a cohesive and consistent manner.

The strategy will be a key signpost of inestimable value to the further economic development of Gdańsk and its consolidated role in the region's economic and geopolitical system. ■



PAWEŁ ADAMOWICZ

Mayor  
The City of Gdańsk  
Poland

JOHANNA REIMAN

# Health in All Policies needs a boost in the Baltic Sea region

**S**ocial and welfare costs remain to account for a very large share of both national and local budgets in all countries surrounding the Baltic Sea. Promotion of health and well-being requires coordinated action from all sectors of the society at national, regional and local level. It has been confirmed that investment in health promotion is cost-effective and that the best results are obtained if all sectors work together, taking into account the effects of policies on well-being. This means that, for example, education, economic and cultural sectors can strongly promote health. Also traffic and environmental departments should enhance human well-being.

The 8th World Health Organization Global Conference on Health Promotion in Helsinki in June 2013 concentrated on Health in All Policies. Experts from all over the world gathered to seek common understanding and to learn about good practices in cross-sectoral health promotion. The World Health Organization definition of health says that "Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity."

From November 2013 to February 2014, the Baltic Region Health Cities Association conducted a project – "Implementation of Health in All Policies on the local level for more effective prevention of non-communicable diseases in the Baltic Sea Region/Northern Dimension area – Healthification" to review the status of Health in All Policies (HiAP) approach in seven Baltic Sea Region countries: Lithuania, Latvia, Estonia, Poland, Finland, Sweden and Norway. The project was funded by the Northern Dimension Partnership in Public Health and Social Well-being (NDPHS). According to the analysis, the Health in All Policies concept is well-supported and widely understood in all these countries. However, its implementation needs a boost.

The final report on the state of play shows that common problems prohibiting the full use of Health in All Policies are: the lack of clear responsibilities on the part of the municipalities, weak leadership for health, and missing procedures. This results in insufficient budget allocations. Economic challenges continuously outweigh health in decision-making, even if choosing correct actions could bring considerable savings. Investments in family programmes and preschool education have been found to provide a 7:1 return (Melhuish E. 2011).

Some conducive conditions have been identified for the implementation of Health in All Policies. It is essential that the municipality or region knows the health situation in the respected area and has the resources and skills to analyse impacts of major policies from the health perspective. Political will and legal backing are also important in bringing HiAP into practice.

However, why should action on health be a priority of local, regional and national governments? The recent health data show that non-communicable diseases (NCDs) cause the biggest disease burden in all European countries. Illnesses such as diabetes, cancer, and cardiovascular diseases account for an ever larger share of fatal illnesses. In the Baltic Sea Region countries, NCDs cause 78 % of deaths. These diseases are preventable and can be avoided by the modification of unhealthy lifestyles, e.g. healthy habits: diets containing more vegetables, adequate physical activity and the avoidance of smoking should all be adopted. The national governments recognize

this necessity in their health programmes and strategies. How they are implemented depends on the capacity of the municipalities, their politicians, public health administrators and methods of working. The Health in All Policies approach allows for unifying the efforts of different sectors and making health promotion not only effective otherwise but also cost-effective.

The WHO Healthy Cities programme has promoted cross-sectoral well-being effort as well as comprehensive and systematic policies and planning for health since 1987. The Healthy Cities movement is present in more than 30 European countries and over 1400 cities and regions. The Baltic Region Healthy Cities Association has served as a World Health Organization Collaboration Centre for Healthy Cities and Urban Health in the Baltic Region since 2002. The Association assists cities in implementing Healthy Cities' goals and to build capacity for health and well-being. Furthermore, the Association is involved in health promotion projects, many of which concentrate on promoting Health in All Policies. The members of the Baltic Region Healthy Cities Association include the City of Turku, University of Turku, Åbo Akademi University and the Social Insurance Institute of Finland. The Baltic Region Healthy Cities Association – based in Turku, Finland – aims at increasing the awareness of local governments to in adopting health as a central part of the decision-making process in municipalities.

A positive outcome of the Healthification project was that there is a strong will for evidence-based decision making, investment in cross-sectoral health promotion, and a more practical adaptation of the Health in All Policies approach. To read more about Healthification, please check:

[http://www.marebalticum.org/brehca/images/stories/healthification/healthification\\_reportfinal\\_february2014.pdf](http://www.marebalticum.org/brehca/images/stories/healthification/healthification_reportfinal_february2014.pdf). ■



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JAAKKO LEHTONEN

# The appealing Maiden of Finland

**M**ental images are becoming more and more important nowadays. People are generally lazy and superficial, making absorption a painful task for many. Prompt images are enough. Even on the Facebook pages of the Finnish Tourist Board, adorable animal pictures and short videos are the most popular features. Longer reports are left unread.

The international marketing of Finland has also progressed towards mental images. You could call it the image of Finland, or an identity, or even a brand. Branding has indeed become fashionable. There is no town so small that it has not claimed a brand for itself. This basically consists of a logo and slogan designed by an advertising agency, nothing more. "Turvettula – a good place to live and to do business. Nature and services nearby." About a couple hundred towns use this same slogan.

Of course, this does not have anything to do with brands.

An image of a country exists when a group of people think similarly about that particular country. This image is usually thin, old and simplified to the extreme. It is like judging a book only by its cover.

Every country has some kind of image. It can be positive or negative, mixed, or even contradictory. The image strengthens or weakens the country's chances of success in international contests, whether about political influence, international commerce, tourism, investments or, for instance, organizing a major sports event.

## What exactly is a country brand?

The literature has not come to a consensus over whether a country can even have a brand. Is a nation too rich and diverse to be squeezed into the hard shell of a brand? Another problem is that no one can manage a country's brand, whereas product branding is a different matter.

An image of a country forms from nuggets of information a person collects. Such data can originate from media, other peoples' opinions, personal experiences or education. Surprisingly fundamental factors are a person's own preconceptions which are not based on anything at all.

The official communications of a country – or propaganda – represents only a fraction of the formation of the country's image. Such images were not born by propaganda and are thus not changed by propaganda. It is exciting that the image of a country will not change easily even when people visit the country and see everything with their own eyes. It is uncomfortable to admit that you have been wrong your entire life.

Country branding has multiple dimensions. Internationally acclaimed expert Simon Anholt has identified six different dimensions to country branding in his GFK-Roper's Nation Brands' Index research. These are:

- 1) Governance - whether or not laws are obeyed, if corruption exists, if human rights are respected
- 2) People – would you want to be friends with a person born in that country
- 3) Export and International business - if a product originating from that country is high quality by default, if corporations from the specified country are welcome elsewhere
- 4) Culture - cultural heritage, does the country have nice vibes, does it triumph in sports

5) Tourism - natural beauty, bustling city life and the appeal of the cities

6) Immigration and Investment - would you want to move to that country to live or study, would you invest in that country

## How to enhance a country's image?

A country's image can be changed by actions, not by talk. This is absolutely crucial, yet many governments refuse to believe it. Governments want to believe in communications, advertising in particular. At their wildest, people think that with a grand enough advertising campaign even a negative country image can be changed into a positive one. On the other hand, shockingly negative events do not degrade the image, contrary to what is commonly believed.

For example, the image of Finland consists of independence, payment of war debts, the Winter War, EU-membership, joining the euro zone, Nokia and to some degree Pisa. That's about it.

An exception to this is the tourism image, which can be affected by communications, meaning marketing. Credibility, creativity, positive contrast, freshness and trendiness have been selected as the foundation blocks of the Finnish touristic image. These form the backbone when we market Finland as a challenger brand, brave, even a little annoying, funny, witty, surprising and different.

Contrarily, it is completely useless to create a campaign which says that our prime minister is a great guy or in which we brag about the high quality of our sewage system. These aspects do not improve anyone's image of Finland.

## Finland punching above its weight

Finland is a small player in the grand world. By surface area, we're middle ground, about the size of Italy; but we are small on population and we are not used to making much noise about ourselves. This shyness is indeed our biggest weakness in the international arena.

Nevertheless, almost in every comparison of different nations we are in the top group, whether it is about honesty, paucity of corruption, almost anything. Our credibility is top notch. We are not used to drafting hundred-page-long contracts like the Americans. The shake of a hand is sufficient. The Finnish handshake is the most reliable handshake in the world.

We just need to learn to tell the world about it, along with our other strengths. Our current prime minister has said that an introvert Finn stares at the tips of his own shoes when he speaks; an extrovert Finn looks at the tips of the listener's shoes. ■



**JAAKKO LEHTONEN**  
Director General  
Finnish Tourist Board  
Finland

ANU VALTONEN

# Tourism insights from the Arctic Circle

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**F**innish Lapland is a tourism region par excellence. No wonder, thus, that much of the research and education of the University of Lapland is linked, in some way or another, to tourism. The Multidimensional Tourism Institute is a unique expert organization that brings together the know-how at Lapland Tourism College, the University of Lapland and the Lapland University of Applied Sciences. The Institute boasts a student body of over 1200 tourism students and a staff of 120. Moreover, the four faculties of the University, Faculty of Social Sciences, Faculty of Law, Faculty of Arts and Design, and Faculty of Education, are all involved in solving various tourism-related issues.

Tourism-related issues are, indeed, numerous and various. They encompass questions such as management of small and medium sized enterprises; understanding the brand value of Santa Claus; commodification of local cultural history; the negotiation of different interests between local people and tourists; seasonality and issues of safety; specific nature of different forms of tourism, such as fishing tourism, nature-based tourism, or shopping tourism; service design of memorable experiences for ever demanding global customers; legislation of land use; and a broad range of wider political and ethical issues from sustainability to social responsibility, and to the reconciliation of livelihoods in the Arctic region.

While studies of tourism are a unique feature of the University of Lapland, they merit reaching wider audience. This is because the bear important implications beyond tourism industry and tourism discipline. In particular, the field of tourism has developed a sound body of knowledge of the production and consumption of experiences. Studies conducted in various empirical contexts bring to the fore, for instance, the significant role of the body and of all the senses in the co-creation of memorable and distinctive experiences. This kind of knowledge would be useful for a broad range of businesses from retailing to media that aim at developing their competitive advantage in the current economy, commonly characterized as experience economy. Moreover, as tourism is a service-intensive field, the theoretical and practical insights gained in this field, would benefit many other fields dealing with services.

One unique opening made at the University of Lapland is the study of sleep in tourism. The project led by the author, New Sleep Order, seeks to develop a socio-cultural approach to the study of sleep - this far dominated by medical and natural sciences - in the fields of tourism, organization and marketing. To us, the overnights, key strategic figures of tourism, are much more than statistical numbers. We seek to understand *how* those who come to Lapland manage to sleep; what is the role of sleep during the visit; what kinds of sleeping habits and preferences different customer groups have; what kind of sleeping place the Lappish nature affords, etc. While questions like these may seem simple, they have been overlooked in previous tourism research that has focused on investigating wakeful experiences and alert activities. Yet, sleep is, as our studies argue, a significant issue both for the development of tourism theory and practice. Sleep tourism, for instance, thus a type of tourism in which sleeping in extraordinary places constitutes the core of the experience, is a rapidly growing business in itself. For tourism theory, our study offers an expanded conceptualization of the players in the field: both the hosts and guests, visitors and locals, service providers and recipients are sleeping and waking beings and merit to be recognized as such. ■



**ANU VALTONEN**  
Professor of Cultural Economy  
University of Lapland  
Finland

TEIJA RANINEN

# Turku – a European film city

**T**urku has been a shooting location for 43 international and national feature and TV Films during the past 15 years. This is a respectable number taken into account there are an average of 20 to 25 fiction film releases in Finland annually.

There has been courage to invest in Film industry development in the City of Turku and in Turku Region. West Finland Film Commission (WFFC) has been the operational tool for this.

There are almost 400 Film Commissions in the world. The word Film Commission is quite unfamiliar to public. In general, Film Commissions exist at a regional and national level to attract inward investment to their relevant regions/nations and work closely with the local film and TV production industry to facilitate filming on the ground. They predominately have an economic mission like WFFC does, relating to growth and job creation. The production of a single film requires a crew of tens or hundreds of workers. The film crew stays at the filming location for several days if not weeks and utilizes local services such as equipment rentals, hotels, catering, car rentals etc. The publicity surrounding the film can also bring significant revenue to the region through tourism. In addition to employing film industry professionals, film productions bring direct financial gains to the region they film in.

West Finland Film Commission has been marketing Turku Region for international and national production companies for 11 years. In addition to this WFFC aims at development of the local Film Industry by providing financial advice and consultation services. WFFC has close co-operation with the universities in Turku. For a Film City both media research and Film and TV education in Turku are very important. Films employ various professionals. For that reason there has been co-operation with various academies to create Film professionals in costumes, props, make-up department and set design. Hundreds of students have had an opportunity to internship in Films shot in Turku. There have been also projects that give unemployed professionals such as sewers, tailors and costume designers a possibility to work in a Film.

The Girl King production which was shot early 2014 is a great example of this. Film is directed by Mika Kaurismäki, starring Malin Buska, Michael Nyqvist, Sarah Gadon and Martina Gedeck early this year. Film Commission together with the City of Turku and the Production team hired both unemployed young and more experienced professionals to make the 17th century costumes, jewellerys, arms together with the production's own costume department. In addition approximately thousand volunteers took part in film as extras. Film City is about participation where everybody has a possibility to take part. This is the reason why the City of Turku, The University of Applied Sciences and Linnateatteri (a local theatre) founded an association called Film City Turku.

Jobs for local professionals, internships for students, business for local companies and more tourists to Turku, these are goals for the European Film City.

Travelsat Competitive Index 2012 noted that around 40m international tourists chose their destination mainly because they saw a film shot in a particular location, and up to 10 visitors in every 100 choose a destination thanks mostly to movies. The survey also noted that this channel is particularly useful for attracting first-time visitors, young travellers and short-stay and city-breakers. European Film City Turku attracts more tourists to Turku because of the films shot here.

Turku is a Film friendly City. West Finland Film Commission has trained local companies with Film Friendly courses so that the companies serving Film Productions understand the specific needs of a film production. WFFC has also created an operational model for local companies to utilize the audiovisual content of Films shooting in the region. This means new film tourism services and products and more revenues. Film City Turku has brought companies new clients and co-operation partners that they could have never dreamed of. Film City Turku has already network of tens of companies who are informed every time a Film is coming. This network is growing all the time. The ideal co-operation process starts from the script phase and culminates in finished services and products at the premier.

If there is something a European Film City Turku would wish for, it would be a national tax incentive for Film Productions. Almost half of the European Countries have some kind of incentive for audiovisual industry. Incentives create new jobs and tax revenues and increase tourism. The Invested money pays back multiple times.

The European Film City takes a bow and welcomes new Films and tourists to Turku. ■



TEIJA RANINEN

Film Commissioner  
West Finland Film Commission  
Finland

JUHA AALTONEN

# Turku Airport

**A**t the core of our strategy is ensuring the competitiveness of Turku airport in international air traffic.

Our task is to create, by means of functional air traffic, the prerequisites for the competitiveness, movement of people and goods as well as international reach. We accomplish this by producing safe and cost-effective air traffic services of high quality. Responsibility, such as producing services in an environmentally sustainable manner, is closely linked to our business.

Safety, customer orientation, efficiency and ability to reform – as well as collaboration, transparency and environmental and social responsibility – are our values.

Ensuring the safety of air traffic forms the basis for all airport operations. This requires seamless cooperation between the different actors in the air traffic service chain and the public authorities. Airport first-class safety culture and safety management system are the cornerstones of safety.

This allows comprehensive and smooth connections from and to Turku, a factor providing vital support to economic growth and possibilities to succeed in international competition. Success in international air traffic competition ensures easily accessible and also benefits the tourist industry regionally.

Turku airport provides smooth, individual services and positive experiences to passengers. We also provide quick turnaround times of airplanes and other customer-oriented airline services to airlines.

Our extensive route network enables rapid and smooth transport of passengers and goods from Turku to all around the world.

All of the airside areas and aprons will be re-asphalted in summer 2014. Also the passenger terminal will be updated in 2014 to respect present passenger volumes. Simultaneously, air cargo operations boomed as Turku Airport proved a competitive player in its field due to its excellent location and the other means of transport available nearby to complement it.

Today, Turku Airport is a modern, unique and versatile airport that continues to develop its operations based on customer needs. Its modern equipment and systems enable operation in all seasons on a 24/7 basis. Although other modes of transport compete with air travel, it is difficult to find one that could really compete with air transport.

The various players operating from Turku Airport include traditional commercial airlines, low-cost airlines, general aviation companies, skydivers, the Finnish Air Force, the Finnish Border Guard's Air Patrol Squadron, rescue services, and cargo, charter and taxi services.

We are proud of our performance since profitable growth provides new opportunities to further benefit from our route network and other services that we provide to airlines, passengers and other companies operating at the Airport.

Due to this profitable growth performance, a comprehensive land use plan has been created for the Airport area. This enables efficient operations of both existing and new players while providing opportunities for future expansion. In this way, especially companies already operating at the Airport can continue to operate profitably and even expand operations according to their needs.

Turku Airport provides a highly competitive operating environment for all players. We are focusing on excellent service and smooth travel to the world, and back.

For its customers, Turku Airport continues to be a reliable partner that implements Finavia's strategy and operating plan enabling growth.

Thanks to its excellent location, our airport provides an efficient and profitable operating environment in the field of air traffic for the whole economic region of Turku.

Turku Airport continues to develop its operations from the customer's perspective in collaboration with the City of Turku, the surrounding subregions and the whole economic region.

Turku is a pioneer city in Finnish civil aviation: the country's first civil aviation airport was inaugurated in Artukainen, a district of Turku, on 8 September 1935.

Smooth Travelling. ■



**JUHA AALTONEN**  
Airport Manager  
Turku Airport  
Finland

FRØYSTEIN GJESDAL

# Baltic Management Institute – a success story in executive education

The Baltic Management Institute (BMI) was established in 1999 as an academic partnership among five European business schools for the design and delivery of an International Executive MBA (EMBA) programme of Western European quality for experienced high-level managers from Lithuania and neighbouring countries. The BMI partnership consists of HEC Paris (France), NHH Norwegian School of Economics (Norway), Louvain School of Management (Belgium), Copenhagen Business School (Denmark) and Vytautas Magnus University (Lithuania).

All four business schools are EQUIS accredited and are members of CEMS, the global alliance in management education. VMU ensures that the EMBA programme always meets local academic standards and legal requirements.

BMI's mission is to train management leaders in Lithuania and the wider region of Northern Central Europe according to the highest international standards of academic and professional excellence. BMI is unique in several ways: its focus on training high-level executives; its combination of the resources and experiences of five business schools in five countries and the related pool of international lecturers with strong links with the corporate world; and shared vision of responsible leadership and family spirit to relations among alumni, students, faculty and staff. These are the hallmarks of the BMI brand.

To date, 550 executives have graduated from the BMI EMBA. BMI admits one cohort of about 50 persons each year for the 18-month EMBA programme. If non-degree Executive Education Programmes are included, the BMI impact is even bigger.

On average, more than 75% of participants in the programme are top or senior-level managers in local or multi-national companies, a quarter is women, and two-thirds already hold a master's degree. Students have an average age of 34 and an average of 11 years work experience. The economic sectors of companies where students work are also consistently diverse, with well over a dozen distinct industries represented in each EMBA cohort.

The BMI EMBA programme is the only management programme in the Baltic countries to have accreditation from a top international body. The programme earned EPAS accreditation from the EFMD in 2006, renewed for the maximum term from 2010.

## NHH Links to BMI

NHH is a founding partner of BMI building on its experience in executive education in transition economies from the NORLET<sup>1</sup> programme in St. Petersburg, a project aimed at training Russian middle management involving in addition Stockholm School of Economics, CBS, Aalto Business School and Nordic based multinationals, and also in the creation of the Business School at Warsaw University of Technology together with HEC Paris and London Business School.

We have been involved since the very beginning in the design and governance of the EMBA programme, with representatives on BMI's Board and Academic Council. NHH Professor Rolf Jens Brunstad, who was also a key person in the St. Petersburg and Warsaw ventures, is the long-time chair of the BMI Academic Council. Over the years, a number of distinguished professors from NHH have taught at BMI, both in the EMBA and in Executive Education programmes.



- 1990 Lithuania declares restoration of independence from Soviet Union
- 1991 Independence recognized
- 1999 BMI created, 1<sup>st</sup> EMBA class forms
- 2004 Lithuania joins the EU and NATO
- 2009 Lithuania celebrates 1000 years since the first mention of its name in historical documents

## Wider context of BMI and its programmes

Since the restoration of independence in Lithuania and the other Baltic countries in 1991, the region has undergone tremendous social and economic change. Management training was been identified by the World Bank, the local business community and the government of Lithuania as a key priority for fostering the competitiveness of this small open economy. This vision was shared by BMI's founders. It was also shared by authorities of the European Union's PHARE programme, which supported the start-up phase of the EMBA programme.

One challenge which emerging economies face is the emigration of young talent, the so-called "brain drain". BMI helps Lithuania retain its intellectual potential and business talent. Courses taught locally by professors from prestigious international schools make it possible to get a top-notch management education without leaving the country. And because the lecturers come from business schools in a number of different countries, the result is an internationally enriched educational experience of global relevance.

## Reputation at home and abroad

BMI positions itself as the top educational institution for business executives in the Baltic region. Local media reports generally echo this claim in covering BMI events and achievements. News reports about new executive appointments often mention if the new CEO is a graduate of the BMI EMBA. Academic and social arrangements hosted by BMI and the BMI Alumni Association have been honoured by the presence of Valdas Adamkus, then President of Lithuania, Vytautas Landsbergis, who led the country's peaceful drive for independence from the Soviet Union, and others. The current Lithuanian President, Dalia Grybauskaitė, received BMI students on a study trip to Belgium when she was working as a European Commissioner. ■



FRØYSTEIN GJESDAL

Rector  
NHH Norwegian School of Economics  
Norway



<sup>1</sup> NOrdic Russian Leadership Executive Training



PER HOLTEN-ANDERSEN

# Copenhagen Business School in the Baltics – where university means business

## A Global Institution with Strong Regional Ties

With over 20,000 students and 748 faculty, Copenhagen Business School is a multidisciplinary business university, the largest institution of its kind in Northern Europe. CBS is an internationally recognized source of quality research and education in traditional disciplines and in creative new areas of study. We align our research and teaching around a core strategy of linking business and society.

As CBS continues to gain global prominence, we remain deeply committed to engaging with local and regional partners, such as the Global Alliance in Management Education (aka CEMS). Through a variety of research and teaching initiatives, we also remain actively engaged with our neighbors in the Baltic Region.

## CBS and The Baltic Management Institute

BMI is a non-profit educational institution based in Vilnius, Lithuania. BMI's mission is to train business executives across the Baltic according to international standards of academic and professional excellence. BMI delivers the only International Executive MBA in the Baltic region to earn the prestigious EPAS accreditation from the European Foundation for Management Development. BMI also provides customized Executive Training programs for companies, and promotes dialogue on issues important to the Baltic business community through public lectures, seminars and articles in Baltic business journals featuring BMI professors.

CBS helped found BMI in 1999 together with four other partner schools: HEC Paris (France), NHH-Norwegian School of Economics (Norway), Louvain School of Management (Belgium), and Vytautas Magnus University (Lithuania). Along with these partners, CBS remains actively engaged in the daily operations and future strategic direction of BMI.

Two of our faculty sit on the BMI Board of Directors and teach regularly in the EMBA program: Dr. Lars Christian Ohnemus, director of the CBS Center for Corporate Governance, has served on the board since 2000; Dr. Eric Guthey, Associate Professor in the Department of Intercultural Communication and Management, joined the board in 2010. Other CBS faculty who have contributed to the advance of management education in the Baltics via BMI teaching include Dr. Jens Aaris Thisted, Dr. Niels Mygind, Dr. Robert Austin, and lecturer-practitioner Mark Payne.

## Board Leadership and Corporate Governance

In collaboration with Lars Ohnemus and Eric Guthey, BMI will contribute to the 2015 launch of the CBS Global Program in Board Leadership and Principled Corporate Governance. This innovative new executive program will partner with Danish companies and investment firms, especially those operating internationally, to develop and to disseminate new knowledge about corporate governance, best board practices, and board director competencies. Through our links with BMI, we intend for this program to strengthen board director leadership and economic competitiveness in the Baltic Rim economies as well.

## A History of Research and Collaboration

Our partnership with BMI builds on our long history of interest in the Baltic Region. Inspired by regional movements towards democratization and privatization, CBS established a Center for East European Studies (CEES) in 1996. During its nearly 14 years of activity, CEES initiated a variety of funded research projects, partnerships, and academic exchanges. These included a major project on Privatization and Financial Participation in the Baltic Countries; a four-year project on Governance and Enterprise Restructuring in Eastern Europe; and the Nordic Russian Leadership Executive Training Program, which inspired the founding of the Graduate School of Management in St. Petersburg. The CEES also helped establish exchange programs from which CBS continues to benefit with the Estonian Business School (Tallin); University of Latvia, Riga; ISM University of Management and Economics (Vilnius); Vilnius University; Plekhanov Russian Academy of Economics, Moscow; Graduate School of Management, St. Petersburg State University; Kozminski University (Warsaw) and Warsaw School of Economics.

## The CBS Maritime Business-in-Society Platform

The CEES merged into the CBS Center for International Business and Emerging Economies in 2009, but our interest in research relevant to the Baltics remains high. For example, the core strategy platform CBS Maritime currently hosts two such research projects: on competitiveness and regulation in the Baltic Sea, and on issues in Arctic shipping of central concern to Baltic Rim economies. For more on this research, see the article by CBS Associate Professor Carsten Ørts Hansen in this journal: "Shipping In The Baltic Sea - Stormy Weather Ahead," *Baltic Rim Economies* 3/2013:22ff. And visit the CBS webpages to join us in our efforts to link business and society through innovative research, teaching and engagement. ■

PER HOLTEN-ANDERSEN

President  
Copenhagen Business School  
Denmark

KALMAN KALOTAY

# The Crimean crisis and the future of Russian outward foreign direct investment

## A complex crisis in Ukraine/the Crimea

Regarding contemporary Russian foreign policy one has to disagree with Winston Churchill's aphorism that the country "is a riddle wrapped in a mystery inside an enigma". The main aim of Russian foreign policy is clear: the preservation and strengthening of Russian interests abroad. Such foreign policy attempts to juggle with a multiplicity of interests derived from the complexity of the country itself. Of those interests, following the spirit of our times, economic considerations play a major part, naturally in competition with other – mostly geo-political and military – priorities. Complexity in this case can easily lead to complications and imperfect results. This analysis argues that the fallout of the Ukrainian/Crimean crisis for foreign economic relations, including outward foreign direct investment (FDI) is a case point of sub-optimal results from the point of view of Russian interests.

Russian foreign policy uses a multiplicity of tools. For the sake of brevity, mention is given only to two which are relevant for the current analysis: protecting ethnic Russian communities in neighbouring countries, and fostering Russian business interests abroad. The former is very powerful tool but could easily clash with other goals, especially in the economic sphere where firms, both privately and state owned, have to protect their interest in territories spanning beyond Russian-speaking areas. Foreign expansion by Russian firms gets support from public authorities. This type of arrangement is not unique to Russia: a similar arrangement characterises for instance China. Even in less étatique countries such as the United States or France, the Government promotes business interests abroad.

Russian foreign economic policy pays close attention to regions with which it has the longest tradition to cooperate: the former Soviet Union, the European Union (EU) and other European member states of the North Atlantic Treaty Organization (NATO). It has to be stressed however that the Russia's interpretation of recent events in this Wider European space is very different from that of its Western partners. For the EU and NATO, former Comecon and Warsaw Pact members and the Baltic States switched to Euro-Atlantic integration because that was the will of local population, and their incorporation, rather than threatening Russia, promotes peace and stability. The Russian point of view is that EU and NATO acted unfairly by exploiting the temporary weakness of Russia in the 1990s and early 2000s to push its Eastern expansion unopposed. Moreover, Russian politicians feel a parallel with the mid-20th century when the West tried to isolate the Soviet Union through engaging countries of the neighbouring buffer zone (such as Poland and Romania) in a scheme called the cordon sanitaire.

The main aim of Russian foreign policy is clear: the preservation and strengthening of Russian interests abroad.

Against this backdrop, the EU's initiatives in 2012–2013 to sign Deep and Comprehensive Free Trade Agreements (DCFTA) with countries from the region that Russia calls immediate neighbourhood (Georgia, Moldova, and Ukraine) was opposed by Russia, which this time was promoting its counter-proposal in the form of the extension of the Belarus–Kazakhstan–Russia customs union. In this clash of interests, Ukraine, itself a very complex country, became the main ignition point for conflict. During this struggle for influence, a Ukrainian President who hesitated between the two trade blocs but finally (in 2013) opted for Russia, was removed by an uprising (in 2014) led by political forces who in international relations were in favour of Western orientation. The interpretation of this political change varied geometrically in West and East. For the West, this was the legitimate action of people against a corrupt regime; for Russian foreign policy, it was an illegal coup d'état involving worrisome political forces, including anti-ethnic-Russian far right.

In its response, Russian foreign policy used the protection of the sizeable ethnic Russian community in Ukraine as a justification for intervention. This was facilitated by the choice of the new political leadership in Kiev to opt for a centralized political structure, abolishing the previous Government's concessions to Russian speakers in terms of language rights. Pro-Russia sentiment was the strongest in the Autonomous Republic of Crimea, where ethnic Russians formed majority (59%) of population. Local authorities started a secessionist movement and, with the help of paramilitary groups coming from the Russia, removed Ukrainian authorities; then organized a referendum about (re)joining Russia, to which the peninsula used to belong up to 1954.

Russian and Western interpretations of the Crimean referendum diverge sharply. For Russia, it was an issue of self-determination for the majority population, undoing a Soviet-era transfer of the territory from Russia to Ukraine. For the Ukrainian authorities and for the West, the referendum was illegal and illegitimate, because of the presence of the pro-Russian paramilitary forces and the absence of international observers. Ukrainian press even raised doubts about the veracity of the officially published results, claiming that in reality only a small part of population participated in the vote, and barely half of them said yes; it was claimed that most of the ballots in favour of Russia were inserted in the voting boxes a fraudulent manner.

The secession of the Crimea, while apparently satisfying the aspirations of part of the Russian speaking community in the territory, and increasing the popularity of Russian Government at home, had mostly negative foreign policy consequences for Russia. International reaction was overwhelmingly

negative. United Nations General Assembly Resolution 68/262 of 2014 reconfirmed – by a large majority (100 for, 11 against, 58 abstained and 24 absent) – the international community's attachment to Ukraine's territorial integrity. The Russian Federation fell into isolation at the United Nations not seen for a long time, with the scanty list of votes for its side including mostly countries already under heavy criticism on the international scene, such as the People's Democratic Republic of Korea, the Syrian Arab Republic or Zimbabwe. Within the former Soviet Union, only Armenia and Belarus voted with Russia; the majority opted for abstention or absence.

The secession of Crimea strengthened the resolve of countries such as Georgia and Moldova to accelerate the signature and application of their DCFTA with the EU, reducing further Russia's influence. Most importantly, the Crimean separatism failed the change the policy course of the Government in Ukraine in favour of stronger links with the West. Rather it led to an escalation of the conflict to other Russian-majority areas in eastern Ukraine. These areas tried to follow the Crimean path but with practically no chances of joining Russia. Although the idea of creating a separate "country" from Eastern Ukraine has been floated, that "country" would stand no chances of being recognized by the international community, and its creation would only bolster the resolve of Ukraine and the international community to resist Russian territorial aspirations.

The Ukrainian crisis and the role of Russia and ethnic Russian minorities may have a particularly chilling effect on political and economic relations in the Baltic Sea region, in which various countries are direct neighbours of Russia (Finland, Norway, the Baltic States and Poland); and some of them (mostly the Baltic States) are also home to sizeable Russian minorities. For these countries, the Ukrainian-Crimean crisis is a major security concern.

#### **The economic fallout of the Ukrainian/Crimean crisis – for outward FDI**

Although the secession of the Crimea might have been a Russian military success, enshrining control over the port of Sebastopol for the Russian Navy, and contributing to revived Russian national pride, from the point of view of economic interests, the consequences are negative. First of all, the integration of the Crimea into Russia will be costly due to the need to construct hard and soft infrastructure (from roads through water supply to hospitals and banking), and to raise salaries, pensions and social benefits for the local population to Russian levels. On the cost side again, Russian business interests are hurt in Ukraine where authorities may consider the nationalization of Russian property. There are also a number of post-Soviet republics which have cooled off on the idea of joining the Belarus–Kazakhstan–Russia customs union. But probably the largest negative effect is to be expected on Russian outward FDI. It has to be stressed here that the chill will be felt even if the economic sanctions, initiated by the EU and the United States in July 2014 concern on paper only parts of the outward FDI universe: EU sanctions so far affect the international activities of Russian banks; US sanctions affect selected banks and two oil-related businesses: Novatek and Rosneft.

Outward FDI has been one of the surprising success stories of post-transition Russia. Rising from nowhere, its total stock exceeded the amounts of \$300 billion in 2009 and \$400 billion in 2012. With this, the country entered the club of leading investors around the world. Among emerging economies, its performance has only been surpassed by China.

In the 1990s the Government treated FDI as an unwelcome loss of resources. At a later stage however, it discovered its strategic value. Indeed, state-owned and privately owned firms alike participated in an outward push, which seems to fit into the style of Russian state capitalism, and ensures the control of Russian firms over the value chain of their goods, be it natural resources (metals, oil and gas), or services (such as telecommunications and banking). It is also logical that after the centres of transshipment (e.g. Cyprus) used heavily by Russian firms for various strategic reasons – accounting for almost three-fifths of the outward stock –, the second most important destination of such outward FDI is the Wider Europe – accounting for over one-quarter of the total. This is the area with which Russia maintains close trade, business and logistical links, where the per capita incomes are the highest, and where the battle for control over value chains is the fiercest. These are key reasons for targeting these countries. Beside these two groups, the only massive target of outward FDI is the United States. The share of other large emerging economies (such as Brazil, China and India) is low, and so is the share of developing regions, despite reports of Russian interest, for instance, in Africa.

From the point of view of the fallout of the Ukrainian/Crimean crisis, we have to use an alternative classification: separating those countries and territories whose Governments voted for General Assembly Resolution 68/262, implicitly condemning Russia's action, from those that either voted against, or abstained, or were absent. In this counting, we have to consider the vote of those countries that exercise foreign policy sovereignty over their dependent territories obliges the policy stance of the latter. For instance, if the United Kingdom voted for the resolution, we have to consider it binding for the British Virgin Islands, too; and if China abstained, it binds also the authorities in Hong Kong. If we categorize the year 2012 outward FDI stock of Russia (the latest year for which complete statistics are available), 95% is located in countries and territories that directly or indirectly voted against Russia, starting with Cyprus, followed by the Netherlands, the British Virgin Islands, Switzerland, the United States and the United Kingdom. All major offshore financial centres that Russian firms use for transshipping fell into this "unfriendly" category. Only minor financial centres, such as St. Kitts and Nevis, Belize and St. Vincent and the Grenadines remained neutral. And although the large emerging countries of Brazil, China and India also abstained, these economies are hosts of very small volumes of Russian outward FDI.

It is not expected to see an overall stop to Russian capital in "hostile" countries though. With the exceptions of Russian banks and State-owned Rosneft and "State-friendly" Novatek mentioned above, most Russian multinationals are apparently free to expand abroad.

Nevertheless, in three areas, the action of host countries can hurt the interests of all Russian firms. One of them is merger control. All countries use that instrument to block firms, especially state-owned ones, from countries deemed to be unfriendly, from acquiring "strategic" assets. Right now most Russian firms face mainstream merger control in host economies. However, should these countries transform their General Assembly vote into less friendly stance towards Russian firms, they could deprive the latter from a key conduit of their foreign expansion. Another measure that could hurt the foreign expansion of Russian firms is related to the financing of international business dealings. The amounts involved in large international transactions require the active participation of banks and other financial institutions. Needless to say that, in this respect, Russian companies already started facing difficulties with the onset of the current financial crisis. These financial problems can be seriously exacerbated if countries unhappy with Russian policy start implementing restrictive measures in their financial sector, following the footsteps of the EU and US embargoes. The third area is anti-corruption measures. Non-transparency of Russian firms has traditionally raised suspicion in the West about illicit activities such as money laundering. While so far general economic interests tended to override the calls for closer scrutiny, in a more hostile environment anti-corruption investigations could get a new impetus.

### Conclusion

The saddest fallout of the ongoing Ukrainian crisis is its ever rising human toll, including victims from third countries (especially since the downing of a Malaysian Airlines flight in July 2014). Even more serious harm to Russia can come on the economic front, and not only due to the cost of "integrating" the Crimea or to the destruction of economic links with Ukraine, but mostly as a consequence of the damage caused to economic relations with the world at large, including via outward FDI. It seems that Russian authorities attempt to mitigate the impact by diversifying economic links with new partners such as China; however it is doubtful that a major switch would be possible, and if it had taken place, it would be possible without major interruption to the traditional transactions of Russian business. The flag of BRIC may be important for political purposes but can have a moderate impact on the economic realities of Russian outward FDI. ■

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



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# BALTIC RIM ECONOMIES

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ANDRII CHUBYK

# European gas rebus

Europe still believes in gas interdependence with Russia, considering it from business as usual point of view. At the same time Kremlin builds up its own plans in terms of total confrontation with the West, where victory should be achieved by any means and economic losses are of minor importance. European leaders are elected to provide conditions for growing wealth of voters in peace and accord. Large-scale conflicts, not to say military actions, make them weak and unable for quick and strong resistance. Kremlin counts on this and tries to return Europe into violence and lawlessness of darkest days in recent centuries.

Kremlin's successful restoration of "soviet space" was prevented by Ukraine's Revolution of Dignity. Diverting much of Kremlin's efforts and attention, Ukraine contributed enormous to keep possible Association Agreements (AA) with Georgia and Moldova. Kremlin appeared to be unable for active destabilizing actions against more than one country. Failed "Blitzkrieg" in Crimea made possible for three EaP members to sign AA and to start ratification and implementation processes. Failed "Novorissia" project and large-scale war in East Ukraine tied up further Kremlin's efforts to destabilize Georgia and Moldova in similar way and completely destroy EU Eastern policy. It is not excluded however, that these countries and even several EU member states will not face military threats in coming years.

Kremlin considers very rational hostilities against the EU. Avoiding direct military operations, it prepares "gas weapon" to be launch widely during coming heating season. In Normandy V. Putin threatened to use it for political reasons to punish for reverse flows to Ukraine. In September several EU companies announced declining supply amounts. At the same time Kremlin postponed trilateral gas talks, showing its regular strategy to negotiate under worthiest period for partners. It is one of clearest signals that Kremlin is dealing in terms of war, while the EU still believes in common peace in Europe.

Kremlin is ready to suffer some financial and image losses in exchange for own goals being achieved. Large-scale gas war in Europe during coming winter will have immediate non-lethal effect on overwhelming majority in EU countries with opportunity for Gazprom to divide and rule by redirecting gas flows through already existing bypass network. It will keep possibility to justify itself by technical, economical, political or any other reasons, while waiting as long as necessary for solution, preferred preliminary by Kremlin.

To politically threaten Europe, Kremlin signed a very questionable gas agreement with China and demonstrated start of "Sila Sibiri" pipeline from the Eastern Siberia. On September 1, Gazprom promised to accelerate preparation of new contract on gas supply from Western Siberia (Altai pipeline).

Simultaneously Kremlin tries to divide the EU by carrots for some counties and sticks for others. Germany is ensured to be supplied via Nord stream even in case of full cut off through Ukraine. It could also provide surplus to neighbouring countries, if OPAL would be excepted from Third energy package. Austrian OMV is here surely among most important clients, emerging in recent time as the biggest supporter of Gazprom's plans in the EU.

Kremlin has selected Bulgaria to train sabotage of European Commission requirements on staying within European legislation, while implementing energy projects. By cutting off transit via Ukraine Kremlin seems to have intention both to create critical situation in Bulgarian economics and heating system during winter time and to set up control over elected in October politicians in parliament and government.

Italy is also likely to become a target for Kremlin. If during cold months gas supply will significantly go down because of gas transit cut off via Ukraine, Kremlin considers to find friendlier attitude both from Italian national politicians and new High Representative of the Union for Foreign Affairs and Security Policy with regard to own gas projects and control over Eastern Europe.

Romania may also face gas supply reduction, thus being eventually forced to eliminate deliveries to Moldova, which will stay without Russian gas in case of transit cut off via Ukraine.

Poland may also face full Russian gas cut off via Jamal-Europe pipeline, if some unexpected technical problems suddenly arise to put pressure on D. Tusk, acting President of the European Council to solve to conflict on V. Putin's terms and conditions.

Contrary to Europe, Russian citizens will not suffer from low temperatures without gas supply and worsening social conditions are already explained by hostilities of the West. Kremlin will rather burn gas surplus, not used domestically, than restore supply to Europe without own demands to be fulfilled.

Being ready to maximum conflict with Europe in gas sphere during coming winter time, Kremlin will certainly bring forward highest requirements:

- 1) Bilateral refusal on claims similar to outcomes of gas crisis in 2009;
- 2) Exception for OPAL and South stream from Third energy package;
- 3) Transfer of control over Ukraine's GTS and UGSF to Gazprom for ensuring gas transit to the EU;
- 4) Freezing ratification of AA with EaP countries (Georgia, Moldova, Ukraine);
- 5) Immediate ceasefire in East Ukraine with following negotiations under Kremlin's requirements;
- 6) Refusal on increase of NATO forces in Eastern and Central Europe.

## What could be a counter measures for such Kremlin's intentions?

The first and most important issue is common understanding, that Kremlin wages war not against Ukraine, but entire Europe. Citizens should be informed and instructed about possible threats, including reduction of gas supply, corresponding problems on local or national levels and even emergency state. Trainings and checks should be made in order to avoid massive panic and vulnerabilities at least in most threatened countries. Strong preventive measures against Kremlin may still hinder realization of its plans. Therefore launch of financial (SWIFT) and gas sanctions and investigations against Russian top-officials and businessmen in the EU and its partner countries, request to Kremlin to ensure access to Asia gas and its transit via Russian gas infrastructure may become instruments to prevent further conflict escalation in Europe.

Europeans and the entire world should understand that only removal of acting leader in Kremlin will prevent large-scale war, including a nuclear one, as threatened already by V. Putin. His isolation should become a prime goal for politicians and diplomats around the world to return stability of international order.



Ukraine is an advance post in combating Putin's regime, but needs international support of political, diplomatic and military nature. Peaceful resistance is not enough to protect European values in fight with "Russian world" with evidences of Maidan and Crimea. Aggressor is afraid only if it faces strong military resistance, the only it considers as strength. Frozen conflict will only postpone for some time next aggression. Only victory of democratic Ukraine will contribute to further democratization of Russia. And upcoming gas conflict should become the defeat not of Europe but V. Putin. ■

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# BALTIC RIM ECONOMIES

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# EU-Russian energy relations and Ukraine crisis

**T**he Ukraine crisis may have a long lasting negative impact on the EU-Russian energy relations. Even if the situation in the Eastern Ukraine calmed down, it is hard to believe in a quick solution of the Crimean issue.

## Russia's weaknesses

The benchmarking of Russia's oil and gas sectors against other important producers such as the Middle East and Africa reveals that in oil production Russia's weaknesses are small proved reserves and low growth of oil reserves and production. In the gas sector, Russia's weaknesses are also low growth of reserves and production. Compared to the leading western oil companies, the weaknesses of Russian companies are high indebtedness, modest profitability and low relative stock value. Russia's strengths are great proved gas reserves, geologically possible oil and gas resources and great export potential.

The weaknesses stem from too small investments in new production and the risks that threaten Russia's energy production. The most serious risks are: depletion of the low-cost oil fields, high taxation of oil sector, low domestic gas prices, competition and changes in international oil and gas prices, ruble inflation and exchange rate movements and problems with transit countries. Also, Russia is highly dependent on oil and gas export revenues. For example, the shares of crude oil, oil products and natural gas exports to the EU were approximately 26%, 7% and 10%, respectively, of Russia's export revenues in 2013. The EU's shares of Russia's total exports and imports were 54% and 42%, respectively.

## EU's weaknesses

The high dependence on Russia's oil and gas supplies poses a risk to the EU's energy security. The Russian state has a tight grip on oil and gas companies and a tendency to use oil and gas supplies as a political tool. Russia's share was 25% of the EU's oil and oil products and 26% of EU's gas imports in 2012. However, Russian oil and oil products accounted only for 13% and gas 6% of the EU's total energy consumption in 2012. Measured in euros the share of Russian oil and oil products was 3% and gas 1% of the EU's total imports. Russia's shares of the EU's total exports and imports were 3% and 5%, respectively.

The above average percentages tell only part of the truth. The EU countries' relative dependence on imported Russian oil and gas vary significantly between countries. However, dependence also does not tell the whole truth. A more useful measure is vulnerability, i.e., the oil and gas supplies that cannot be replaced from other sources. The general view is that the EU countries can relatively easily replace Russia's oil deliveries from safety stocks and by ship and rail from several other suppliers. It is more difficult to replace gas transported through pipelines. Liquefied natural gas (LNG) which is transported by ship is an alternative to pipeline and also Russian gas. Many EU countries have constructed and are constructing LNG import terminals and additional pipelines to decrease gas vulnerability. Part of the Russian gas can also be replaced by other fuels. Consequently, the EU's gas vulnerability originating from Russia is lower than the above 6%.

## Ukraine crisis

Russia's economic growth slowed down already before the Ukraine crisis because of cyclical reasons and the structural weaknesses of Russia's economy. The sanctions imposed by the EU and the US also affect Russian oil and gas companies. Sanctions reduce their access to western financing and ban exports of western technology necessary for deep-water, arctic and unconventional oil production in Russia. Uncertainty has increased capital flight and inflation and weakened the ruble and Russia's economic growth. The stock prices of Russian oil and gas companies have performed worse than those of their western counterparts. Standard & Poor's downgraded Russia's credit rating. The Bulgarian government suspended work on the South Stream gas pipeline on the recommendation of the EU.

The views on the efficacy of the sanctions vary. In the short term, it is likely that gas flows from Russia through Ukraine or related to Ukraine will be interrupted or reduced. The sanctions imposed by Russia will cut the export revenues of certain EU countries. It is logical to deduce that in the medium term, uncertainty and sanctions will exacerbate the weaknesses of Russia and Russian companies. Investments in new production will decrease, reserves and production growth will still slow down, profitability and stock prices will go down, and interest expenses will increase. Presumably, the Ukraine crisis will speed up technical and geographical diversification of the EU's energy sources. As the above percentages show, the EU is for Russia much more important trading partner than Russia is for the EU. Also, the EU's possibilities to diversify its energy procurement are better than Russia's possibilities to diversify its energy exports. ■



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# Russia sanctions – the need for new EU solidarity mechanisms

**R**ecent events show that the Russian Federation has (re-) developed a full spectrum of instruments of aggression. Ukraine has been the victim of a broad-spectrum campaign which has included economic warfare, hostile propaganda, state-sponsored hooliganism, “deniable” military attacks, and a credible threat of full-scale military invasion. EU and NATO countries need to enhance their capabilities in order to deter possible future attacks in all of these areas.

One important area for further development is economic coercion. The Baltic States in particular have been subjected to multiple provocations and acts of coercion – both recently and in years past. EU Member States have a duty to protect not only themselves but also each other in a spirit of solidarity and mutual assistance, and the European Commission and Parliament have a duty to shape and facilitate such solidarity.

## An EU sanctions solidarity fund

Sanctions have significantly different effects depending on the Member State. An EU Solidarity Fund could help to share the cost of EU sanctions (or of third party sanctions against the EU), thus increasing the ability of EU governments to support strong collective measures when necessary.

Building on a first proposal by CEPS Director Daniel Gros (1), the eligibility criteria should not only be what minimum proportion of business volume is affected, but also how fast and to what extent a re-orientation towards new markets can occur. Compensation payments should be time-limited in order to provide clear incentives for EU companies to re-orient their sales or purchasing patterns. Precautions should be built in to avoid abusive claims for compensation.

One further idea could be to generate solidarity funds by imposing unilateral import tariffs (and possibly export taxes) on EU-Russia trade. This would not shut down EU-Russia trade but would give a signal that one is ready to ‘grow apart’ from a country that has chosen the path of aggression. Such price-based sanctions could also be applied to energy products – a ‘diversification tax’, see (2) – whose proceeds could also be used to co-finance a more rapid diversification of source countries.

## Understanding vulnerabilities

Exports to Russia are close to negligible for large Western European countries such as the UK, France, or Spain. Contrary to popular perception even Germany is not especially exposed, with just 3.4% of its total goods exports going to Russia. For the EU as a whole the share of exports to Russia is 6.8% (excluding intra-EU trade), representing a value of just 1.2% of EU GDP. This figure is higher than any plausible worst-case scenario: to experience that level as an actual GDP loss one would have to have a full shut-down of all exports to Russia while also assuming zero re-direction of trade. In sum, the impact of comprehensive trade sanctions – let alone of those sanctions already in place – should not be exaggerated.

The four sectors most exposed to the Russian market are not high-technology manufacturing sectors but fruits and nuts (32.4% of EU exports in 2013), edible vegetables (25.3%), trees and plants (22.8%), and meat (19.8%). This explains why the Kremlin chose to impose sanctions on food and food products: it was looking to cause maximum relative damage, as it is high relative damage that has the best chances of causing firm bankruptcies and political pressure.

The most exposed EU countries are Lithuania (19.8% of total goods exports in 2013), Latvia (16.2%), Estonia (11.4%), and Finland (9.6%). The next most exposed country is Poland with 5.3%. In sum, the EU’s vulnerability is concentrated on just a few countries – interestingly not those that complained the loudest against the EU’s sanctions policy. The distribution of vulnerabilities as compared to the overall EU vulnerability suggests that an EU solidarity mechanism would be both very effective and of limited total cost for the Union.

The case of energy import dependence is of course quite specific. Here there are promising ideas in the direction of an ‘Energy Union’ – namely attempts to consolidate bargaining power while also developing mechanisms for rapid diversification of source countries, should the need arise.

What both general trade and energy trade have in common in the EU-Russia context is the insight that the EU can be a considerably stronger and more resilient actor if it creates solidarity mechanisms. This is an area where we need more Europe, not less. ■

Data sources:  
Eurostat, UN COMTRADE

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# Will economic sanctions work?

Several Western initiatives aim to change Russia's policy and involvement in Ukraine. These include economic sanctions. Russia has responded with a ban on the import of Western goods. The combined sanctions involve less free trade and economic losses for both Russia and the West, albeit asymmetric in Russian disadvantage.

Last time the West imposed an economic boycott of Russia was when the Soviet Union still existed. The American grain embargo in the 1970s was an effort during the Cold War to damage the Soviet economy. The ban on exports of equipment for the construction of the Siberian gas pipeline in 1982 was introduced in the interests of Western security. The Soviet Union was poorer than Russia is now and was at the time about to build itself up as a major exporter of natural gas to Western Europe, in addition to its oil exports. Energy exports' share of earnings of Soviet hard currency was about 80 percent. Sanctions aimed at the food and energy sectors were logical if the goal was to weaken the country's economy and political stability.

However, the Soviet Union did not change much because of the sanctions. The gerontocratic system and the Cold War remained. Under the grain embargo, Argentina greatly replaced the U.S. as exporter, against strong protests from American farmers. Under the gas embargo it was a political divergence between Western Europe and the United States about how much problems gas import dependency actually created, and several European countries wanted to have Soviet energy to diversify from other unsafe energy sources. The companies that lost contracts were not compensated, which created conflict within the West.

The lesson was that the success of economic sanctions mainly depends on three issues:

- Competing countries representing alternative sources should join the sanctions to make them work.
- Individuals, businesses and others who have to take the burden of an economic boycott should be willing to do it, and preferably be compensated.
- It is not always easy to predict the response to countries that are vulnerable to economic pressures. The reaction may be that they are softer, but also harder. An external enemy usually also creates stronger domestic cohesion.

The economic sanctions worked poorly at the time as instruments for economic warfare of one or more of these reasons. In the longer term only a strategic embargo of technological exports for military use was agreed upon (the COCOM rules).

The elements of economic warfare in current sanctions appears to be a degree of a lose-lose game for the same reasons. In addition, Russia is much more than the Soviet Union was, involved in international trade. The export ban is met with imports ban in boycotting circles. Hence, a fourth criterion for success may now be added:

- Sanctioning countries should not be too dependent on the country that is the target of sanctions.

Thus, it is uncertain to what degree economic sanctions are leading to positive changes in Russian policy, as seen from the West. It seems unlikely that Russia will withdraw from the Crimea or end their support for the rebels in Eastern Ukraine as a result thereof. There is also a question of how useful it is to irritate an angry bear, and strengthen anti-Western sentiments in Russia.

It is a hope that sanctions can provide incentives for continued and genuine negotiations. There are not many policy tools to use between sanctions and military action. If negotiations under pressure, however, do not work, we are left with the question about how to react to the unacceptable behavior of an opponent who is partially economic integrated with the rest of the world, and this world is gradually becoming more multipolar. The Russian–Chinese axis is strengthened further.

Back to Soviet times the most important economic element to its final resolution was not sanctions, but the fall in oil prices in 1986. National budgets and the current account went with large deficits and in 1991 the entire system unraveled. Perestrojka and reforms came too late to save the Union.

Oil and gas exports still dominate Russian foreign trade. It financed more than half of the Russian state budget in 2013, oil revenues reached 191 billion dollars and gas revenues 28 billion dollar (RT.COM 17/04/2014). The main single economical element that can change the Russian economic situation is now again a significant fall in oil prices, now as before outside the direct influence of either party. ■



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# Russia's innovation economy and impact of Western sanctions

Russia's innovation development is still uneven and highly dependent on governmental support as well as Kremlin's willingness to keep liberal character of post-Soviet economy of the country. Innovations' development is threatened by a low level of economic diversification, weak demand for innovation from large state-owned companies, and bureaucratized and inefficient public administration in terms of ease of doing business, tax burden, market openness, protection of property rights, administrative barriers, and corruption.

The main source of capital for innovation development in Russia has always been and still is public spending, defence industry and procurement. The structural dynamics of Russian exports have been unfavorable since 2000, when energy prices on the world market experienced rapid growth. During the period 2000-2013, the share of machinery and equipment in exports (including military equipment) fell from 9 percent to 4 percent. This unstable and rather fragile nature of national economy is now facing tremendous test due to economic and personal sanctions, imposed on Russia in retaliation for its policy towards crisis in Ukraine.

U.S. and EU sanctions on high-tech industries to a large extent affect many Russian companies that have nothing to do with Ukraine and ongoing crisis in this Eastern European country. This primarily relates to the field of military exports, which have increased in volume over the last 13 years by 4.2 times (from \$3.7 billion in 2001 to \$15.7 billion in 2013). Russia's share of the global arms market now exceeds 28 percent, but that could fall as a result of sanctions and closing several national markets for Russian weapons. Russia's main competitors in the market (the U.S., France, Britain, and Sweden) would be the primary beneficiaries if Russia faces slumping demand for its military exports. It is likely that Russia will see a drop in demand for its weapons and military equipment in the coming years.

Sanctions on investments in infrastructure, transport, telecommunications, and energy, as well as oil, gas, and minerals, will cause a slowdown and raise the costs for many ongoing projects. Disruptions are expected in the supply of equipment for oil production on Russia's Arctic shelf, because it is currently made only by a number of EU countries, Norway, and the U.S. The long-term consequences will be a slowdown in Russia's economic growth, severed negotiations on further cooperation, and Russia's reorientation towards the other BRICS countries, Asia, and Latin America.

The third wave of sanctions, introduced at the end of July and continued in mid-September of 2014, targeted Russian banks with government ownership of more than 50 percent. The European Union's sanctions list (as well as U.S. list since September 12th, 2014) included OJSC Sberbank, the largest and most important institution in the country's banking system. It owns a third of the total banking assets in Russia, and its services are used by 70 percent of the population. Going forward, it and other Russian state banks will encounter difficulties in securing loans for more than 30 days. Although it can be assumed that Russia will face a higher cost of borrowing, the country will focus on increased financial

cooperation with the countries of Asia, as well as the transfer of huge foreign reserves from dollars and euros to other currencies (Swiss francs, Hong Kong dollars, Japanese yen, Chinese yuan).

The notion that Western sanctions are unfair and potentially driven by broader foreign policy as well as purely economic considerations is gaining momentum in Russian business circles. Russia's business leaders were generally supportive of the Russian government's response to Western sanctions, which were unveiled on August 7, 2014. Observing the widening scope of sanctions over a period of six months, Russian business, which mostly backs the government's actions in relation to Ukraine and Crimea, continually puzzled over why Russia did not retaliate against the West. Kremlin had to follow this demand. Russia's August 2014 sanctions for exporters of food, vegetables and fruits into Russia from the EU, North America and Australia should be considered as reaction to growing dissatisfaction of domestic public opinion.

For business leaders, President Putin's willingness to respond to Western sanctions serves as confirmation that the Russian government is sure of its actions and ready to defend national interests, including economic ones. Furthermore, the transition from cooperation to confrontation with the West opens up possibilities for restricting foreign producers' access to the domestic market, which will lead in the medium term to higher production rates in the country and fewer imports.

There is also hope that the crisis-induced hike in the Bank of Russia's key interest rate will lead to the mothballing of unproductive projects. As a result, only successful innovative ones will remain. Thus will the foundation of healthy economic growth based on innovation be laid.

In recognizing the merits of the Russian government in developing and implementing an innovative development strategy for the national economy, one must not ignore the presence of certain flaws hindering development in this sector. Key among them is the practice of investing public money in a limited number of projects handpicked by officials. In most cases, the practice is doomed to failure because bureaucrats are not best positioned to set the priorities in the selection process, and may apply non-optimal financing schemes or appoint as subcontractors and partners companies that are unable to see projects through to completion.

If the Russian government does indeed want to increase the effectiveness of its national innovation system (NIS), it should focus squarely (and urgently) on political, legal, social, and economic reform, which Russia has not seen since 2003. The strategic goal thereof is to transform Russia from a resource-based postindustrial economy into one driven by innovation and knowledge. As for financing, the government should make wider use of the market development model employed by institutions such as Russian Venture Company (RVC), established in June 2006. The company has demonstrated its ability to efficiently allocate government resources on a competitive basis, inviting leading experts to take part in the pre-qualification procedure, building partner networks for projects, and delegating responsibility for implementing them. In devising its own operational strategy, RVC tries to respond in real time to market fluctuations and make key business decisions as transparently as possible.



### How Western sanctions might push Russia to modernize its economy

Ceteris paribus, Western sanctions over Ukraine, which have been growing progressively stronger since March 2014, will hinder the development of Russia's NIS. The cost of each stage of the innovation process inevitably rises, from obtaining visas and making contact with foreign partners to raising debt financing and increasing country exposure to Russia.

But sanctions can still speed up the process of modernization in Russia, due to the fact that the government will be forced to act under growing external pressure. It cannot put off the reforms any longer. In the early 2000s, the massive inflow of petrodollars meant that reforms could be postponed. Today, with the U.S. determined to contain Russian economic and technological development with a perspective of regime-change in Kremlin, the policy of stimulating innovation is not just a matter of industry and foreign trade, but national security. That is one issue that no modern state should treat lightly.

No country can increase production and exports of high-tech products simply by government decree, and Russia is no exception. Such a result can only be achieved through concerted efforts, including the creation of NIS institutions and new R&D facilities, and integration with leading companies abroad in possession of advanced technologies and standards. It must be recognized that most of these companies are under the jurisdiction of countries that have declared sanctions against Russia over Ukraine. Does that mean that Russia's innovation economy is facing an uncertain future?

No, it does not. The West's centuries-long monopoly on new technologies is no more. In the new climate, the Russian government will need to establish partnerships with other countries that possess such technologies. The most likely alternative will be Russia's BRICS partners.

Russia's innovation system is not yet the sum of its parts. This is partially because the innovation process is non-linear and weakly formalized. The key to any country's NIS is the interplay of elements, as popularly described under the Triple Helix concept, which argues that government, science, and business, as the main actors in the innovation system, should not only interact with each other horizontally (and not just by the dictates of the state), but also adopt each other's functions to make the NIS more efficient.

Consequently, under the current sanctions, the Russian government will be forced to listen more closely to the opinion of domestic business with regard to improving the environment in which they operate, as well as to actively liaise with foreign partners that are prepared to ignore U.S. and EU efforts to isolate Russia from the global economy. The sanctions will force Russian business into markets where it previously had no presence or was subordinate to the overriding priority of developing relations with transatlantic partners. The center of the world economy is ever more clearly shifting towards the Asia-Pacific region, of which Russia should take full account and reduce its economic and technological dependence on the U.S. and its closest allies. ■

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# Thinking beyond Putin

Since his Munich Speech in February 2007 President Putin has been complaining about Russia not being treated on equal footing internationally. This has much to do with his own policies. Russia can only isolate itself. That is what the Kremlin is doing with its present course: revisionism, destabilization of neighbors and their military infiltration, distraction from internal problems through confrontation with the outer world. This is the opposite of Gorbachev's "New Thinking".

That, however, is exactly what Russia needs: "new thinking" in foreign and security policy, as part of its much-evoked modernization. Conversely, the West, and particularly NATO, should make that easier by self-critically recognizing its share of the responsibility for the continuous worsening of the relationship over the last 15 years.

New thinking on the Russian side would comprise the following: NATO clichés and stereotypes from the Cold War period should be overcome as well as their instrumentalization for domestic purposes. Since its London Declaration in July 1990, the Alliance has sincerely extended to former adversaries the hand for cooperation, and in their "Founding Act" of 1997 NATO and Russia declared no longer to regard each other as enemies. Russia must realize that dangers to its security loom in the South and possibly in the East, but not from the West. At the same time the Kremlin must realize which worries arise in neighboring countries from its insistence on a privileged sphere of influence, its proclaimed "obligation" to "protect Russians wherever they live" and from Russia's "history policy".

Sovereignty, integrity and independence of the post-Soviet states have to be recognized, and Moscow should actively contribute to their reassurance instead of undermining it. Respect for the obligations, rules and institutions according to the 1990 Paris Charter is the basis of cooperative security in Europe. Here just as in global affairs Russia should constructively contribute to problem-solving instead of mainly acting through "nuisance power" and "prevention policy". This includes the requirement to actively promote solutions for so-called "frozen conflicts" (such as Transnistria, Nagorny-Karabakh and Georgia) instead of keeping them simmering for the sake of destabilization and influence. Nineteenth-century geopolitical categories should be laid aside, and what is urgent in general is to overcome the concept of security as a "zero-sum game", where allegedly one side can only gain at the expense of the other.

On NATO's side the following should be self-critically acknowledged (without being regarded as justification for President Putin's aggressive revisionism and violation of international law in Ukraine): First of all, Russian "political psychology" was insufficiently understood as well as what was aptly called "imperial phantom pain". After the end of the Cold War, too little attention was given to the question of Russia's place in the European security order. Also, for example, Russian proposals for the adaptation or the CFE Treaty on conventional forces in Europe were ostentatiously disregarded.

The NATO accession ambitions of Ukraine and Georgia were not handled constructively. When at the 2008 Bucharest Summit meeting mainly the US pushed for offering them the Membership Action Plan, both countries were for different reasons not in a position for that step. More importantly, no understanding was sought with Russia, whilst previous enlargement rounds had been "cushioned" through the crea-

tion resp. upgrading of the NATO-Russia Council. And the now so controversial missile defense plan, which should be in the interest of both sides, was offered as a cooperative project much too late. The West underestimated the significance for Moscow of Kosovo's recognition (although the analogy with the annexation of Crimea construed by Putin is flawed).

The NATO-Russia Council was insufficiently used and developed, and NATO put it on ice during the Georgia war in 2008 - just like Russia did during the Alliance's 1999 Kosovo air campaign, strongly criticized for this by the West. Finally, the zero-sum thinking condemned above is not quite unfamiliar to the Western side either. It is one of the greatest evils in today's world.

The West must be firm and demonstrate the limits of what is acceptable in international behavior. But at the same time it should hold out the longer-term prospect of better relations, of cooperation, of "modernization partnership". NATO should preserve the NATO-Russia Council for better times. The Alliance is right in not entirely deactivating it in the present crisis.

Concrete offers for a "better future" in the relations between Russia and the West, particularly NATO, could include for the NATO-Russia Council a new quality and determined broadening of the areas of conform interests and joint action, NATO readiness for a structured dialogue with the CSTO (the Russia-led Collective Security Treaty Organization), and with regard to further NATO enlargement frank discussion of Russia's sensitivities. Such discussions are also necessary regarding NATO's and Russia's contrasting concepts for the Euro-Atlantic area and Russia's place therein, as well as a new departure for conventional arms control.

Farsighted Western policy should promote and encourage the "new thinking" sketched out above. One day it will come, albeit possibly not as long as President Putin is at the helm. But his rule may end more quickly than he and the enthusiastic listeners to his Crimea speech in mid-March think. In any event, long-term offers for cooperation including the seriously renewed encouragement for cooperative as opposed to confrontational security should be developed - taking into account legitimate interests of both the West and Russia. It must be hoped that the Ukraine crisis will not escalate to an extent that such prospects become even more remote! ■

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# Atlantism versus gaullism? The sale of French Mistral-class ships to Russia in the context of French foreign policy

It should have been a foregone conclusion. In the context of mounting Western outrage towards Russia, the sale to the Russian Navy of two Mistral-class amphibious assault vessels, christened Vladivostok and (ironically enough...) Sebastopol, would obviously be cancelled by France in the spring of 2014. But the French decision was late in coming, with president François Hollande unwilling to explicitly cancel the sale. A new charge was thus added to the long roster of France's faults commonly developed by the Anglo-Saxon and German press: already unable to 'reform their economy', the French were now also cynical arms dealers supporting Putin's Russia.

From a French point of view, the Mistral sale had moved from one of the greatest trade-political successes of Nicolas Sarkozy's presidency into a disaster his successor had to deal with. The early 2000s had seen a strong commercial rapprochement between France and Russia, especially through France's modern military-industrial sector and with the guarantee and help of the French state. For Sarkozy the Mistral sale was a success, wrapped into a general atmosphere congenial to new and better relations with Putin's Russia after the thaw in bilateral relations linked to the war in Chechnya: the signature of the contract was hailed by the rightist daily *Le Figaro*, while significant parts of the French intellectual, academic and political scene advocated better relations with Russia essentially for commercial reasons. Meanwhile, in a dichotomy reminding one of the late 1800s French debates about tsarist Russia, some voices presented Putin as a semi-dictator crushing human rights: the leftist daily *Libération* titled on the day of Putin's 2009 visit to Paris « Corruption, murders...: the Putin routine » (27.11.2009). But despite *Libération's* protests, Vladimir Putin was well received in Paris, where several important contracts and economic agreements were signed between 2009 and 2011. Besides the Mistral deal, deals on raw materials, financial cooperation, and even infrastructure (a project of train connection between Nice and Moscow) were finalized or contemplated. Sarkozy's France was obviously eager to catch up on Germany in contacts with the potentially formidable Russian market.

Only 4 years later, the events of 2013-2014 unfolded like a slow-motion train crash. From the beginning, nobody in France denied that Putin's actions in Crimea, then in Ukraine, were unacceptable. The Mistral-class ships are state-of-the-art warships, and their delivery on top of the training of 400 Russian sailors in Saint-Nazaire seemed difficult to justify after the Crimean events. But Hollande stuck to his guns for an unexpectedly long time: it is only after a September 3rd meeting of the president's Defense Council that he announced, three days before a NATO meeting in Wales, that the conditions were not met for the ships' delivery. Hollande's reputation for slow decisions and procrastination can explain part of this delay, but there are other reasons.

To start with, the domestic costs of a cancellation are heavy for a French naval industry always on the brink of disaster and in times of high unemployment: the Mistral contract meant work for tens of thousands of naval workers and sub-contractors, and the contract itself is a 1.2 billion euros arrangement meant as the first of a string of trade deals. Furthermore, the French are bound to pay if the sale

doesn't realize, potentially a paltry 1.5 billion euros that the head of Putin's administration Sergei Ivanov has already announced will be dedicated to buff up Russian naval industry. The reputation costs for France of a Mistral cancellation are no less grave. France has a military industry that is modern and performant, but constantly in need of foreign markets. What would potential buyers think of the French military industry and its capacity to deliver the goods once it would be shown that France's head can be easily turned by US pressures? The Russian authorities have known how to exert pressure on that spot, the vice-Prime Minister Dimitri Rogozin declaring for instance that the decision would « damage France's reputation as a provider of security material ».

Another aspect is at play, however, less concrete but no less important: behind the scenes and in the depths of French society, the debates on the Mistral deal are a repetition of the fight between an atlantist and a 'gaullist' vision of French foreign policy. For most of the political right for example, defense of the Mistral sale came as much from the desire to damage Hollande's standing as from reminiscences of Charles de Gaulle's grand-standing in front of NATO and the US. For advocates of 'national independence', bowing to NATO pressures is not only a mistake, it is a fault, contrary to what France's foreign policy should be. On the other hand, the current government (and generally large parts of the French moderate Left) has a strong atlantist streak, emphasizing relations with the US and NATO.

So one can understand why Hollande's decision was late in coming - and why it remains conditional: the final decision should be taken in November, and as of late September the first Mistral warship, the Vladivostok, is training at sea with Russian sailors on board. Generally the Mistral conundrum can be seen as an example of the way high hopes regarding a 'reasonable' Russia have been bitterly dissipated in France and elsewhere. If the situation in Ukraine hasn't significantly stabilized in November, and if the US continue to make the matter a point of principle, the French will have to cancel the deal and go for whatever compensations Hollande will manage to negotiate with the US, NATO, and the EU. ■

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# Regulating the Baltic Sea

**T**he uniqueness of the Baltic Sea region, from several scientific perspectives, is well documented and understood by now. The legal/regulatory landscape of the region has received less scholarly attention, but is, it is submitted, similarly unique and worthy of academic study.

The cornerstone of this regulatory landscape has been, and continues to be, the national legal systems of the region's (sovereign) states. National laws reflect national policies and priorities, but implementation and enforcement, too, largely depend on the priorities, resources and governance capacity of the state concerned. It is well known that these priorities and capacities at times vary considerably between the different states in the region. The quest for joint and collaborative action among the littoral states has generated a series of international conventions and other policy instruments over time, at global and regional level, to complement and support states' national legal frameworks. More recently, European Union legislation has gained increased influence in the region. This follows from EU's geographical enlargement, now covering eight out of the nine Baltic Sea coastal states, but also from its increasing mandate and activities in several matters of key concern to the region. In addition, within the coastal states, law-making and enforcement authority is increasingly delegated to regions or even local communities, who have also increased their presence and impact on the international scene, through organisations such as the Union of Baltic Cities or the B7 Baltic Islands network.

As a result, the Baltic Sea has arguably come to be the world's most regulated sea area, with five or more layers of regulation acting in parallel. Yet these layers do not always interact well. The norms of different regulatory layers display both overlaps and gaps and are inter-related through a complex and constantly evolving relationship which needs to be assessed case by case. The relationship and hierarchy depends on, among other things, the subject matter, the EU's internal and external competence in the matter and, of course, the national laws of the state(s) concerned.

Another remarkable feature about the Baltic Sea is the number of transnational bodies and organisations involved in its well-being. In particular, the end of the cold war period brought along a variety of new institutions and formal and informal frameworks for addressing matters of common concern in the region. However, the legal basis of these bodies tends to be quite 'soft', which reduces their capacity to contribute to solutions with a normative impact, such as the adoption of new rules and the effective enforcement of existing ones. Out of the multitude of governmental co-operation bodies and platforms that operate specifically in and for the Baltic Sea region, only one, the Helsinki Commission (Helcom), is a clear-cut intergovernmental organization based on a classical founding treaty (Helsinki Convention), which at least in theory provides a solid platform for further regulatory developments. Other key organisations, such as the Council of the Baltic Sea States, is not established by treaty and has no legislative or regulatory powers in a formal sense.

A multi-layered regulatory setting does not necessarily guarantee regulatory strength. For example, despite the broad agreement on the main environmental challenge facing the Baltic Sea (eutrophication) and on the solution to it (a sizeable reduction of phosphorus and nitrogen loads to the sea), very few legal obligations have been introduced for states to reduce the total emission levels. As European sea areas raise very differing environmental concerns and eutrophication is not a major threat in any other of its regional seas, the EU has generally satisfied itself with rules that leave a significant discretion for states to set the targets and means to achieve them. To concretize this in a Baltic Sea context, Helcom has adopted more specific, and quite ambitious, nutrient reduction targets in its 2007 Baltic Sea Action Plan which, however, only exist in the form of (non-binding) recommendations. The absence of binding international rules is reflected in the national legislation of the littoral states which, in turn, means that the

whole array of legal tools that is normally available to promote compliance and to discourage violations, such as administrative and penal sanctions and liability instruments, are equally unavailable for this purpose. Informal and flexible framework rules, which have become the norm in environmental regulation, hence risk to weaken effective law enforcement.

Another risk with multiple regulatory layers is that the responsibility for ensuring compliance may be confused. This is also highlighted in environmental law, where international and EU legislation tends to leave increasing discretion for states to decide on how to achieve the broader – and more abstract – regulatory objectives. The new generation of rules for protecting the marine environment in the EU has moved away from a specific regulation of individual sources of pollution towards an integrated approach focusing on broader environmental objectives to be achieved in the longer term.<sup>1</sup> The Marine Strategy Framework Directive, for example, provides that the environmental status of the EU marine waters shall be 'good' by 2020, but offers limited guidance as to how the objective is to be achieved, or even defined, and how the responsibilities for achieving it should be shared among various players. In reality, states may not be familiar with implementing such prescriptive flexibility and may only have forwarded the normative uncertainty further down the

[...] the Baltic Sea has arguably come to be the world's most regulated sea area, with five or more layers of regulation acting in parallel.

<sup>1</sup> The key instruments are the 'water framework directive' (Directive 2000/60), the 'marine strategy framework directive' (Directive 2008/56) and, most recently, in the directive on marine spatial planning, adopted on 23 July 2014. The flexibility for member states was also noted by the European Court of Justice in Case C-335/07 (Commission v. Finland) where Finland was acquitted from allegations that it had violated the 'urban waste water directive' (Directive 91/271/EEC).

administrative line, to regions and local/municipal authorities.<sup>2</sup> Moreover, it does not seem that the regulatory flexibility – to date at least – has stimulated innovative approaches of legislation for the protection of the marine environment, such as incentive- or market-based emission reduction schemes or other mechanisms aimed at making environmental friendliness ‘pay’ for the individual operators.

Such a multi-layered and multi-institutional regulatory setting provides fertile ground for researchers interested in multi-level governance and regulation and the hierarchy and conflict of different kinds of norms. The two universities in Turku, Åbo Akademi (Department of Law) and Turun Yliopisto (Faculty of Law), have recently joined forces to establish an internationally leading legal research and teaching environment, BALEX, to help to fill the void in academic research in this area. More information on this initiative is available at [www.abo.fi/institution/balex](http://www.abo.fi/institution/balex). ■

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<sup>2</sup> See e.g. COM(2014) 97 final. ‘Report from the Commission to the Council and the European Parliament: The first phase of implementation of the Marine Strategy Framework Directive’

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# Current challenges of environmental economics in Estonia

**L**ow density of population (ca 30/km<sup>2</sup>) and the political past when economic utilisation of the coast as the Soviet Union border area was restricted, have enabled a large part of Estonian territory to remain in a good natural condition. It may be said that Estonia like Scandinavian countries and Finland has vast wilderness resources which in the European Union context can be regarded as deficient environmental good for which there is considerable demand.

In connection with economic development and especially as a result of European directives demanding priority development of renewable energy, the pressure from developers on Estonian nature and especially on coastal areas has increased in the last decade. Wind generators built in the natural coastline as well as major waterfalls and rapids left waterless due to electricity generation are competitive or exclusive ways of using resources for use and non-use values created by wilderness. Estonia has established higher buying-in prices for renewable energy compared to energy produced from fossil fuels. This has given rise to a boost in capital investments into renewable energy production and led to a situation where Estonia has already fulfilled the EU target of 2020 for the renewable energy proportion. At the same time, developers' pressure for building wind parks in the coast as well as in coastal waters as scanty hydro energy resource, continues. Developers apply for building permits for nearly all locations where the energy resource allows it. Often these places have also the biggest natural, aesthetic and recreational value which exclude the resource utilisation for energy production purpose.

Allowing of one or other exclusive resource utilisation should be based on cost-benefit analysis (in particular social cost-benefit analysis). This is a challenge for environmental economics since while income from energy production is market value which can be easily used as an input to cost-benefit analysis, then values of the nature (biological regulation value, aesthetic value, recreational value, psycho-social value, etc.) that compete with energy production are intrinsically non-market. Non-market values made unidimensional with market values are a precondition for using them equally with market values in social cost-benefit analysis. For that the market values should be quantified and a monetary equivalent should be calculated for them, which is the task of environmental economics. Another important task of environmental economics is monetary quantification of externalities of wind and hydro energy. According to the currently widely spread practice, the externalities of wind and hydro energy generation are often ignored, which gives from these methods of energy production a distorted, more environment friendly picture. Only when the monetary equivalent of both non-use values of the nature and electricity production externalities are available and incorporated into social cost-benefit analysis one can decide which of the exclusive ways of using resources is more beneficial for society.

Several research projects have been carried out in Estonia for monetary quantification of the values of the nature that compete with energy production where demand for coasts in their natural condition (e.g. Mürsepp, Ehrlich, 2012) as well as for waterfalls with natural flow of water (Ehrlich, Reimann, 2010) has been identified. The meth-

od of contingent valuation has been used and the results show that Estonian population has a considerable willingness to pay both for a coastline in the natural condition (wind turbines free) and for waterfalls with the natural flow of water. The demand for a coastline in its natural condition without wind farms of the Estonian working-age population is 23.4 million euro annually. The research findings allow concluding that a coastline in its natural condition as non-market resource of the nature is also economically more valuable than electricity produced from wind at the cost of destroying this resource.

A sharp resource utilisation conflict also occurs in the use of hydro energy for electricity generation. Mostly two types of damage occur here. First, the construction of dams rules out spawning of salmon fishes in the Estonian rivers with the biggest spawning potential (e.g. Sindi dam on River Pärnu, Kotka dam on Valgejõgi river and dams on Kunda river). The national policy has been clearly ineffective in liquidating these dams which are currently not used for producing electricity. The second problem is that as a consequence of the activity of hydro power plants built on major waterfalls in North Estonia (Jägala Waterfall, Keila Waterfall) the waterfalls as tourist objects will lose their recreational and aesthetic value, the measurement of what is a severe challenge for environmental economics.

The non-market value of the Jägala Waterfall with a natural flow of water has been estimated in Estonia (Ehrlich, Reimann, 2010). The research identified that the annual willingness to pay of the Estonian working-age population for a natural flow of water in the Jägala Waterfall is approximately 10 million euro, which is 35 times more than the annual income from electricity production.

When environmental economics has provided input to social cost-benefit analysis, the next step should be to ensure that the results were used for making political resource use decisions. By all accounts, the results so far question whether the wind and water energy produced in Estonia are green at all. ■

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# Russian minority in Estonia – social co-existence, educational transformation and the labour market

The role and influence of significant Russian minorities in Europe came to the fore since the occurrence of several commotions in Ukraine that led to the current crisis. Russian minorities and their discontent initially played a major role during the uprisings. For this reason, the topic is also vital for the domestic affairs of Estonia – a state that has to deal with a major minority population share for years and is now reconsidering their options.

Since the re-establishment of Estonian independence in 1991, with the Russian Federation have never been easy but stressful and encumbered by sharp political rhetoric and recent developments in the fields of security, trade agreements and minority policies. Until today, the situation of the large Russian minorities in Estonia has invoked dozens of international reports, resolutions and recommendations over the years. The consistent fear of seeing the pursuit for national unity, autonomy and confession having their own cultural heritage overturned by Russian influences is a familiar one. But so are the arguments of the Russian side.

Looking back in history, there was a significant group of ethnic Russians even before the emergence of the Soviet Union and after the annexation in 1940. Russians always valued the region as a stepping stone towards the prosperous countries of Northern Europe. Due to militarization, industrialization and Soviet policies of Russification, the number of ethnic Russians was growing significantly with the Russian language becoming official language.

In the aftermath of the USSR's implosion, the situation of the Russian minority changed dramatically with the renewed awakening of national consciousness as well as with a societal urge to come to terms with the oppression of the past. The Estonians faced the question: How can the country integrate the Russian minority in terms of citizenship, education, labour market access and social inclusion while avoiding the danger of excessive Russian influence and without coming into conflict with fundamental minority rights?

In the Estonian society participation and public visibility are useful indicators to measure the intended level of integration. Regarding the previous development, the key question is all about the extent in which societal minority participation may actually happen when "contemporary social context (stays) sporadically overshadowed by the historical context". This extent seems to be limited for various reasons. Mainly due to the citizenship policy, the degree of political participation is relatively low. And even the russophone population with Estonian citizen status shows a rather reserved behaviour towards political or other commitment. Almost 80% of the Russian-speakers do not hold membership or participate in organizations.

The field of citizenship is probably the most critical topic as well as the one where the unequal position of significant minority groups is the most obvious and visible. Many ethnic Russians felt humiliated by demanding knowledge of the local language and the passing of a history test in order to obtain citizen status, others simply had in the early years no sufficient command of Estonian or no willingness to learn it

because the surrounding they live in is predominantly inhabited by other Russian speaking. As a result, the number of completed naturalization procedures is comparatively small and also on the decline for years.

Furthermore, demographic changes and an aging society are nourishing the enmity against ethnic minorities. The fertility rate is low and many native citizens settle down anywhere else in the EU. Between 1989 and 2010, the Estonian population decreased by 0.23 Million. The Russian-speaking minority without citizen status itself feels often excluded – from access to higher positions within society or from the full benefits of the general welfare system. But there is still a strong core of (often older) minority member that will resist any state efforts to deepen their integration level. They often show difficulties and a lack of enthusiasm when it comes to language skills and the willingness to learn the official language. Moreover, the required fees for completing the naturalization process can play a role as well as the ability to avoid the otherwise compulsory military service or a kind of Slavic Pride that opposes an Estonian identity. Acquiring local citizenship would also be accompanied by the loss of several visa and registration privileges for Russia and the other CIS states. But even though those points remain obstacles for a perspicacious and long-term oriented minority policy, there are other categories that define the integration process as well.

The labour market is such a category and until today one of the main areas of social discrimination, repulsion and disparity. It is the backbone of economic security, a key factor for social relations and exchange, important for individual aspects of psychological wellbeing and self-respect and a major influence for the future opportunities in life. The Estonian labour market is competitive and the situation is very difficult for members of the Russian-speaking minority, regardless of citizenship status. They earn less, are often excluded from public offices and they have a significant higher risk of facing rejection by potential employers than other citizens.

The employment rate among Estonians is slightly higher than among non-Estonians. The unemployment rate confirms this impression with a difference of 8% (non-Estonians 19% and Estonians 11%).

The roots for this phenomenon and for other obvious disadvantages lie deeper and its main component is primarily an educational one. The official language has an almost "sacred" status and is widely regarded as a central part of national identity and culture; a consensus that even reflects the way the state constitutions handle this topic. According to official statistics, the Russian-speaking population makes up roughly a third of the Estonian population. However, many children today grow up in households with both languages. Nonetheless, in Estonia only the titular language has an official character while Russian is only recognized as a foreign language. After the declaration of independence, the Russian language was quickly removed from all official functions and limited in usage.

After some educational reforms in which most public high schools were abolished due to the mismatch of their curriculum with Estonia's educational plans, the language debate has gained momentum in politics as a front topic of minority affairs. In 2007, Estonia has implemented a law that obligates schools to teach a minimum of 60% of the offered subjects exclusively in Estonian; even in cases in which the overwhelming majority of the students has a Russian-only language background. The goal is to strengthen and standardize the national education, especially with the eastern region in mind, where the ethnic differences are most severe. In the border town of Narva which is the third biggest city in Estonia. The Russian-speaking minority accounts for about 97% of the population. Many minorities tend to recognize the pressure of the reform as an unjust imposition and when asked after the outcome, more than 50% claimed that the perspectives of Russian youth and their education quality will not improve but rather worsen.<sup>1</sup> The same rigorous language policy has also infected the higher branches of education. Public universities offer their degree programs in most cases solely in Estonian, fragmenting the education system and impairing the emergence of parallel societies even more. In 2007, 55% of all students wishing to study in Russian had to enrol in a private university, while only 7% of students studying in Estonian did so.

Despite some efforts by the Council of Europe and the European Union to help solving the problem with its Russian speakers, the international community recognized the struggle of the minority and the fear of the majority first and foremost as a problem of national, or at the very most, regional relevance. This perception has changed with the emergence of the Ukrainian crisis and the ethnic fracture that goes along with the breach of latent linguistic, cultural and habitual borders. It graphically revealed the sizeable influence of ethnic heterogeneity and the power of minorities to cause severe political unrest when feeling oppressed and underprivileged. It also revealed how minorities can be influenced from outside sources and used as an instrument for political purpose. And - maybe most notably - it finally revealed how seemingly stable political structures and constellations can cease to exist quickly and unexpectedly.

The Estonians are aware that the Russian role during the crisis does not only affect their foreign and military policy plans but also raises the question of the probability for violent turmoil's on their own ground. What would happen if the Crimean referendum on independence would have been held in Narva? Of course, there are plenty of Russians who are satisfied with the post-soviet circumstances, enjoying the improving living conditions and the benefits of an EU citizen, the rule of law and most of all freedom, without invoking any sort of nostalgia. But others feel isolated and disappointed with the state of affairs while they like to cultivate their minority role through glorification of being Russian natives.

<sup>1</sup>Twelve percent (12%) agreed to the full extent, stating "Exactly true" while thirty-eight percent (38%) chose "Moderately true" and only nine percent (9%) opposed strongly with "Not true at all". [www.ties-project.eu/component/option,com\\_docman/task%2cdoc\\_download/gid%2c351/Itemid%2c142/index.html.pdf](http://www.ties-project.eu/component/option,com_docman/task%2cdoc_download/gid%2c351/Itemid%2c142/index.html.pdf)

Russia gladly accepts this reception and is flexing its muscles. Since the 1990s, Moscow has emphatically proclaimed itself as the protector of Russians living in diaspora. It has developed a variety of instruments in order to influence the domestic affairs, spanning from trade limitations and price increases for oil and gas to the utilization of Soft Power. This includes but is not limited to the support of Kremlin-friendly groups and networks in the cultural sector with financial contributions, legal and organizational assistance as well as media strategies.

It is hardly possible to make clear distinctions between the different spheres of Russian influence since the usage of power on the political field is highly dependent on flexible business and energy networks. Estonia even has an organized form of political representation for the Russian minority: the "Russian Party in Estonia" (VEE) merged fully into the Estonian Social Democrats (SDE) in 2012 after a disappointing election results.

Estonia faces a problem that not only affects a wide variety of themes but also contains a historical dimension. Especially Estonia had to handle a major minority population share for now more than twenty years and did well. Nevertheless there are still issues they need to overcome. Maybe the most important one concerns the language. Estonia still considers the Russian language as a tool for spreading Russian influence, preventing the nation of finally growing together. It is not so much about the language itself but about the Russian broadcast media, which is a well-known fact.<sup>2</sup> The language policy itself is a double-edged sword. On the one hand, it is a clear sign that the society is willing to foster integration. It will also most certainly help Russian-speaking youth when applying for employment inside the country. On the other hand, some arrangements appear to not only look strict, incompliant and exaggerated but also seem to be contradictory to international law.<sup>3</sup> Feelings of discrimination that therefore occur lead to low level interethnic contact, isolation and

<sup>2</sup>This includes Television channels such as First Baltic, RTR Planeta, NTV Mir and radio stations. C. f. Agnia Grigas in Legacies, Coercion and Soft Power: Russian Influence in the Baltic States (2012), a Chatham House Paper [www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/0812bp\\_grigas.pdf](http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/0812bp_grigas.pdf)

<sup>3</sup>The Framework Convention for the Protection of National Minorities (1995), signed and ratified by all Baltic States underlines this in Article 10 (2) as follows: "In areas inhabited by persons belonging to national minorities traditionally or in substantial numbers, if those persons so request and where such a request corresponds to a real need, the Parties shall endeavour to ensure, as far as possible, the conditions which would make it possible to use the minority language in relations between those persons and the administrative authorities."

open animosity towards the majority. Events like the 2007 riot over the relocation of a Soviet-era war statue in Tallinn is good example for the societal tensions that may erupt at any time. Estonia should continue to promote a strong and durable integration while carrying on encouraging Russian-speakers to be more active in the local social and political life especially regarding the youth. They grew up in a comparatively prosperous state without the encumbrance of a Soviet past. The citizenship laws have been criticized as counterproductive and in addition inappropriate for the purpose of integration. The identity of young people and their self-conception as European citizen may help to develop a less demanding and more respectful dialogue between the members of the different ethnic groups. There are also other fields in which future generations sow the seeds of cooperation, exchange and partnership. The universities in Estonia could be a convenient tool to open up the European education market for Russian speakers in general. That would certainly strengthen the ties between all nations as well as conveying European values and a proper mode of thought to young Russians' mind-sets. In addition, it could serve the system of higher education as well. A stronger positioning on the education market towards Russia could satisfy all parties and become an important step on the road towards surmounting the past. The success of socialization and integration procedures as a whole will be in any case highly dependent on these educational developments but will also be affected by the general satisfaction with life and economic perspectives which society can ultimately provide.

Due to the European debt crisis and its surroundings, Estonia had to fight with rising unemployment and a recession-induced, shrinking GDP. But it quickly recovered.

Minority members have always been recognized as scapegoats and unreliable second-class-citizens but not many have identified them as ideal bridge-builders who can connect the titular identities and values. It is difficult, as long as the relationship between Estonia and Russia remains frosty but in the long run their capability to transcend linguistic and cultural borders can prove itself valuable for further societal developments in 21st century Europe.

The task is to make this positive change happen without trapping itself into a rigid and inflexible position or neglecting fear, sorrows and interests of the autochthonous population that already experienced marginalization and foreign cultural dominance. Regarding the fact that any policy approach to this day was primarily motivated by the necessity to handle the situation in the short run, the situation of minorities in Estonia still has the potential to experience a quick and unexpected change when the Ukraine crisis begins to fade away. ■

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**BRE**  
REVIEW

EVGENY GONTMAKHER

# The Russian labor market – European tendencies and national features

**D**emographic development of Russia in its main trends differs a little from the pan-European situation. The main coincidence - the process of population ageing. In 1989 the people over 65 years was 10% of the population, in 2012 this figure rose to 13%. In addition, the natural growth of the population in Russia, despite a slight decrease in the last years, has a strong negative rate, as in many European countries (e.g. Germany, Italy, Lithuania, Hungary). This leads to the fact that to the labour market come less people of working age. At the same time increases, as in most European countries, the flow of temporary labour migrants, mainly from former Soviet republics of Central Asia and South Caucasus, Ukraine and Moldova.

However, after this statement begins the Russian specificity. First of all it is necessary to note the relatively high compared to Europe, the share of those employed informally, without registration of labour relations. According to estimates, this share is not less than 20% and it has a tendency to growth. We are talking about people employed mainly in small business and agrarian sector of the Russian economy. The reasons lie in overly burdensome tax system, as well as in the global mistrust of the state as the manager of budgetary funds which collected through this system.

It is difficult to adequately assess the Russian unemployment rate. According to the ILO methodology its level is less than 6%, which would be the envy of many European countries. However, this prosperous figure conceals a huge number of inefficient jobs with low productivity and low wages. The closure prevents the policy of the state, which fear a surge in unemployment and related social unrest. Therefore, the employers have to ensure at least a minimal profitability to reduce the already low wages. Worker generally agrees with it, for fear of dismissal and further uncertainty with his employment. According to sociological surveys, the loss of a job is one of the biggest fears of the Russian.

This fear defines low interregional mobility of the Russian labour force. People don't dare to move, even for the sake of better-paid work. More significant are the risks of losing the usual circle of communication, reduction of access to social infrastructure (health care and culture, education for children). An important obstacle for a more active movement of labour force in Russia is the weakness of national housing market, the acute shortage of cheap rent apartments.

Existing labour mobility is determined by the long-term tendencies of outflow of population from Siberia and the Far East to the European part of Russia, and also gradual steady move of the rural population of working age in the cities. This creates great difficulties with the implementation of investment projects in the Asian part of Russia, where are the main reserves of export's raw materials.

One of the important problem of the Russian labour market is the disparity between its needs and the system of vocational education. There is a clear bias in favor of preparation of specialists with higher education - economists, lawyers, managers. The result is acute shortage of engineers and specialists of similar professions. Practically stopped functioning system of training skilled technicians and workers.

And finally, the main problem of the Russian labour market: a very large number of so-called "bad" jobs. These jobs are in non-competitive sectors of the Russian economy - manufacturing industry, agriculture, and this consequently leads to low productivity and wages of the majority of the economically active population. "Good" jobs are concentrated in export-oriented industries related to production of natural raw materials, as well as in public administration. This backward structure of employment aggravates the imbalance between the real needs of the labour market and the quality of vocational training. The situation can change only by large-scale reforms aimed at radically reducing the role of the state in the economy, guaranteeing the inviolability of private property and independent court, the formation of a truly competitive political system. The aim of these reforms should be the return of Russia in the European institutional space. ■



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# Kaliningrad's paradoxes

Many things are 'upside down' in Kaliningrad. Its location, that would be an asset in a democratic model, is the region's bad headache. What is a stimulus for growth in market economies, doesn't work with the exclave. Coastal regions usually outdistance the inland ones (as well as the national average) in their economic parameters, but, as a renowned economist Vladislav Inozemtsev points out, Kaliningrad's gross regional product is 36% lower than Russia's average. Within BRICS, the coastal regions' GRP significantly exceeds the national average: by 47-78% in case of Chinese coastal provinces and by 19-37% in case of Brazil.

Sandwiched between other states, Kaliningrad oblast successfully attracted foreign investments (Polish, Lithuanian, German and other) in the 1990s, under the Special Economic Zone established in 1996. However, the amended regulations in force since 2006 have only fostered large investors. As a result, foreign investors (most of them being medium and small) moved away, their number decreasing fourfold. Moreover, the federal government in Moscow has been undermining the Zone's conditions by removing successive products from the duty-free import list. For instance, the banning of duty-free imports of cocoa fat in 2012 seriously affected local chocolate producers.

Another paradox – applicable to entire Russia – is the fact that Moscow's recent counter-sanctions hit the economy much harder than the actual EU sanctions. This particularly concerns highly import-dependent Kaliningrad, which has already been called the main victim of the counter-sanctions (34% of the region's imports were food products from the EU). One of the sectors that suffered most is Kaliningrad's fishing industry, which is almost fully dependent on fish imports – which is yet another paradox of this Baltic coast region. Its own fishing industry plunged into crisis in the 1990s and never recovered, and fish processing plants use almost exclusively imported raw fish, mostly from Norway. Following Russian embargo on Norwegian fish, the price of fish in Kaliningrad increased more than twofold, and local processing plants were forced to suspend their activity and start laying people off.

Things can be upside down in a positive way, too. Kaliningrad is probably the only region in Putin's Russia, where the governor was dismissed following social protests. In 2010, in the aftermath of massive street protests, that were discreetly supported by local elites, a Moscow-born, 'bossy' and unpopular Georgy Boos was replaced with a local politician Nikolai Tsukanov.

Kaliningraders also stand out when it comes to mobility and directions of travel. 60% of them are passport holders (Russia's national average being 20-25%, according to different data), of whom 25% have Schengen visas and as many – local border traffic cards, entitling to visa-free travels to several Poland's regions. The region's residents frequent the neighboring (or other) EU states: it is close, cheap and cost-effective: grocery prices in a better-off Poland are lower than in Kaliningrad. The younger generation of Kaliningraders is used to weekend trips to Poland, Lithuania or Germany; most of them have never been to the Russia proper, Kaliningrad mayor Alexandr Yarovshuk admits. This "mental distance" is reflected in sayings like "I'm going to Russia" or "Them, in Russia". People, especially the young

ones, refer to their capital by its Prussian name, Koenigsberg, abbreviated to a tender "Koenig", and their region – an "Amber Land". Their identity, being undeniably Russian, nevertheless contains a portion of European identity, and their stance on many crucial issues may be different than the national average. The support for Crimea's annexation, for instance, is much lower than in other Russian regions – a survey, cited by Kaliningrad MP Salomon Ginzburg, places this support at a mere 15% level.

These are not signs of Kaliningrad's desire for sovereignty or separatism, despite recurring media speculations. What Kaliningrad residents and decision-makers expect is genuine federalization and consideration of their specificity. A consistent advocate of Kaliningrad's "reasonable" autonomy, Salomon Ginzburg, has for years sought the adoption of a special law for the region, that would offer it a degree of autonomy sufficient for dealing with many of its issues locally.

The problem for Kaliningrad and other Russian regions (especially those with major economic potential and resources) is that Moscow's priority has been control and security rather than the regions' development. It is yet another paradox: in recent years the Kremlin started to perceive the citizens' wellbeing as a challenge. Its experience shows that "excessive" increase of living standards gives rise to political aspirations that the Kremlin does not intend to fulfill, as happened with Russian urban middle class 2 years ago. Instead, a "tighten-the-belts" strategy is being employing in the face of Western sanctions, enhanced by Russian embargo on many imported products and numerous isolationist initiatives (e.g. the notification of dual citizenship has been made compulsory). In this context, Moscow may be anxious that a prosperous, Europe-integrated Kaliningrad will demonstrate greater ambitions and drift away from the Russia proper. Therefore, today's post-Crimean realities pose a question of Kaliningrad's future. Will the regulations fostering Kaliningraders' mobility and wellbeing (such as local border traffic with Poland) be maintained? Or will Moscow instead try to isolate the exclave, further strengthening its military potential and turn Kaliningrad back into a half-isolated military zone it was in the Soviet times? One may incline to the latter version, considering the large-scale strategic maneuvers, that stretched from Russian Far East via the Arctic to Kaliningrad oblast in September (in Kaliningrad oblast, the Baltic Fleet's land component exercised on 16-22 September) and were Russia's demonstration of power in in response to its deteriorating relations with the West. ■



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# Kaliningrad region establishes favourable conditions for international business

**T**he Kaliningrad Region is the westernmost part of Russia, located on the south-eastern shore of the Baltic Sea. The Region does not have a land border with the rest of Russia, only the borders with the countries of European Union – Poland and Lithuania.

Warsaw, Vilnius, and Riga are within a 500 kilometer radius of Kaliningrad. Stockholm, Copenhagen and Berlin are within 800 kilometers. Distance from Kaliningrad to St. Petersburg is 1000 kilometers and to Moscow is 1250 kilometers. Such points open wide logistic opportunities for business.

Kaliningrad region is the westernmost point, where you can establish an enterprise with Russian price level for energy supplies and electric energy. 22 border crossings enable to import and export goods, to enter the territory of Kaliningrad region by different modes of transport. One of the most important factors for the residents of the Kaliningrad region was simplifying the visa regime with the Republic of Poland.

The Region operates as a special economic zone which allows both Russian and foreign investors to obtain significant tax privileges. Kaliningrad has become an assembly platform for automotive giants like General Motors, BMW, and Kia. General Satellite, another resident of the special economic zone, implements its Technopolis GS project, one of the largest radio-electronic industrial clusters in Europe. RosAtom, GazProm, and LukOil carry on operations in the region.

The region's infrastructure is well developed: there is a sufficient number of hotels, restaurants, cultural sites and places for leisure. Health care system has modern perinatal and cardiology centers. In general, the Kaliningrad region is ready to provide guests with comfortable conditions in all aspects.

At 2013 the "Forbes" magazine published the rating of Russian cities, analyzing the terms of business development. The city of Kaliningrad took the first place in the rating: it turned out to be the most comfortable place for running a business. According to the experts of the edition, the features of the city allow to consider it as the one "with an affordable skilled labor force, loyal tax system and the minimal administrative pressure".

Kaliningrad has high rates on three parameters: availability of human resources, availability of finance and the tax authorities operating efficiency. As for the human resources, in spite of the average results in the number of graduates per 1000 population, the «Headhunter» and «Superjob» agencies state that there are five CV per one job opening in Kaliningrad, while the national average is three CV. So, the employer has a choice, both of skilled and unskilled labor force.

At present, there are plans to implement seven industrial parks in the region. Five of them are assigned to Kaliningrad Region Development Corporation. The fundamental tasks of the Corporation are: to work on investment projects, providing personal managers for the project assistance; to construct industrial and technology parks, implementing high-tech solutions; to assist the investors in selection and registration of land plots and to execute marketing activities of investment opportunities in the region. Distribution of the industrial parks in the whole region ensures sustainable development of advanced production throughout the area.

All these measures will enable to raise the financial attractiveness of the region and allow the residents of industrial parks to get a full range of privileges, necessary for the competitiveness improvement of their business and for entering the new markets in the nearest future.

Moreover, according to the decision of FIFA's executive committee, Kaliningrad is selected as one of the host cities during the World Cup 2018 in Russia. This decision will give a powerful new stimulus to the development of the region's economy and infrastructure, including tourism and hospitality sectors.

At the threshold of the third millennium, the Kaliningrad region is making a break-through in the united economic area of Europe. Many socio-economic indicators of our region are among the leaders of Russia's northwest. The Government of the Russian Federation gives preferences to the development of the Kaliningrad region, initiating the launch of new and prospective economic projects. ■

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KRISTIINA TÖNNISSON

# Where did we lose the students while teaching EU?

**A**round the world there is increasing fuzz about the content and approaches to teaching in primary, secondary and higher education. There is almost no higher education institution that does not go through constant curricula development process. On the one hand it is a very positive trend and on the other hand there are so many various and often also conflicting ways how to proceed.

Very often schools and universities are mainly concentrating on improving and updating the content. More and more evidence show that as important as the content/knowledge is also the form/methods of teaching/studying. Looking at the literature on development of expertise, students' approaches to learning, and the role of motivation in learning, it is hard to underestimate the importance of the whole study process as such. Learning means much more **interactive and social process** than we usually think.

European College at University of Tartu in Estonia has invested a lot of time and energy in order to bring back the students to the center of studying and teaching. We would like to stimulate simultaneously inquiry and interest while students acquire knowledge and skills. There are no better students than motivated students.

What knowledge and experiences do the students expect to get during the studies? How well do they/we predict what the future graduates need in the twenty-first century? What are the cornerstones of the term "European Union" in the changing world? What are the core experiences and competencies in order to work effectively for, within or due to European Union? All these questions lead to the central one - **how should we teach European Union Studies?**

Looking at various experience about teaching reforms around the world, we started our reform with the following standpoints: 1) the methods of teaching is as important as the content of the subject 2) EU is so multidimensional we need to move away from political science centered approach and include much more aspects from medicine, environment, economy, etc. Our aim is to increase students' competence in the analysis of complex systems, integrating societal, environmental and economic perspectives. We ask them to **reflect systems thinking** in a deepening understanding of complexity, holistic approaches, and how the parts relate to the whole.

We set to the whole institution certain goals: 1) to offer the students the best possible environment for studies and development 2) in addition to professional development there is a need to focus also on personal development of the students 3) to aim for graduates that would be able to **make better/more conscious choices** based on understanding, analyzing and reflecting information available. We want the graduates to reflect critically their own values and examine different paradigms and perspectives, seeing beyond objective data to understand how values shape commerce, policy and actions. After graduation we hope our graduates to work to make a difference in the civic life of their communities and countries through both political and non-political processes. If our graduates consider social problems to be at least partly their own, and they would feel an urge to take actions when appropriate, we are on the right track.

For the academicians and administration we had three simple goals: 1) to have constant open communication among us in order to be with the whole group "in the same boat" 2) to great a group feeling among all levels of the involved parties: students, professors and administration 3) to share the feeling of **common responsibility** among all involved persons.

One of the easiest responses has been the incorporation of more team-based, project-driven activities. Our active learning strategies refer to a variety of collaborative classroom activities, ranging from long-term simulations to five-minutes cooperative problem solving exercises. Students work to collectively design and implement interventions, anticipating future scenarios and adaptively managing information, human and natural resources for maximum impact. EU education should encompass a set of learning experiences that allow students to construct deep conceptual knowledge.

Our most appreciated professors are student-centered, they maximize participation while being motivational and they give life and immediacy to their subject matter by encouraging students to move beyond a fact-based linear approach to the material. In order to facilitate the teaching process, European College is currently also testing peer review teaching feedback systems among all our professors.

This is our way to seek deeper understanding of teaching and learning processes. We took notice from Chinese proverb "Tell me and I will forget. Show me and I will remember. Involve me and I will understand. Step back and I will act." Now it is time to step back and act. This way we will hopefully rediscover the students again. ■



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# The EU Centre in the Barents Euro-Arctic region

Cooperation between northern regions of Russia and the EU is crucial for their development and strengthening as well as for reinforcement of regional integration. The Barents EU Centre covers all territorial entities of the RF composing the Barents Region and thus it is the link, "bridge" between Russia and the EU.

The Barents EU Centre was established in December 2011 based on the EU Information Centre of Petrozavodsk State University and unites 5 leading universities of the region: Petrozavodsk State University, Murmansk State Technical University, International Institute of Business Education, Syktyvkar State University, Northern (Arctic) Federal University.

Its activity is dedicated not only to scientific and educational sphere but also directed to the satisfaction of interests and needs of different social groups and organizations. It is confirmed by diversified arrangements implemented by the Centre.

The Barents EU Centre pays special attention to work with wide public as this region is marked by the high interest in the knowledge related to the EU and participation in the events devoted to the EU. Each year the "EU Days" are conducted, they have information and educating form. One more arrangement is exhibition "The EU Today". The "Open Days" are also of great interest to the audience. Along with presentation of the Centre activity there are meetings related to the EU, European scholarships foundations and programs as well as lectures and information seminars.

For the representatives of authorities and civil society institutions training programs are designed. One of them was conducted in 2012-2013. The program consisted of 3 components: two training courses ("Integrated Course on the EU", "Principles and Basis of International Cooperation") and practical information on-line seminar "European Donor Organizations and Programs". As a result the participants of the training program submitted three project applications to the Nordic Council of Ministers. One project application for the program "Horizon 2020" was created and presented in Brussels.

Undoubtedly, the Centre also fulfills research and educational functions. Sequence and continuity of all levels of academic sphere are the peculiarity of the Centre's activity.

Various contests for pupils are conducted each year in Petrozavodsk, Syktyvkar and Archangelsk. More than 600 pupils took part in arrangements. Each year students participate in the international summer schools in Karelia.

One more significant direction of activity for the academic target group is inviting experts from the European universities for lecturing in English, for exchange of experience with Russian lecturers in the sphere of applying modern pedagogical technologies and educational process organization.

The logic continuation of the previous direction is the training program related to elaboration of educational courses on the EU issues. It had 3 stages. On the first stage the lecturers from partner universities of the Centre had English language course and then the course related to the modern pedagogical technologies and psychology. On the final stage lecturers had internship in Central European University (Hungary).

After the training program the lecturers implemented research in their spheres and elaborated educational courses on EU-related issues in English. The new courses meet the European educational standards and increase of educational quality in the Barents region. Therefore the universities of the Barents region of Russia made one more step to the European educational space. In 2013/2014 academic year the courses were approved and included into curricula of 2014/2015 academic year in each partner university. In the course of the working meetings representatives of the Centre and lecturers discussed the possibility of establishing the interuniversity Master's degree program related to the EU based on these courses.

Each year the EU Centre arranges the contest for post-graduate students. No doubt, it promotes development of the EU research in the region. The Centre concentrates its attention not only on humanitarian research as the applied part and practical applying of scientific achievements play the great role in the modern world.

Research component in the activity of the Barents EU Centre can be traced in the work of the EU Research Club. The Club provides opportunity to receive consultations from lecturers and experts, discuss scientific issues, urgent news and questions related to EU development, as well as to communicate with each other.

The Barents EU Centre fulfils irreplaceable function. It is link between the Russian North and the European Union. It connects geographical territories, social groups, different organizations and it will continue to make efforts for development, strengthening and extension of cooperation in this region. ■



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TOOMAS VARRAK

# Considering the stake of science in politics

**E**stonian writer J. Smuul (1922-1971) wrote a story „The Colonel's Widow" where he gave a grotesque picture of the human hubris which sometimes ensues from an elevated social position. The heroine of the story made herself notorious by her catch-phrase – “doctors do not know anything"! This odious character is occasionally reminded if one happens to notice the posture of political practitioners or even political analysts towards political scientist. Perhaps out of modesty or decency they do not rush to declare outright that political scientist does not know anything (about politics) but that is often their practical attitude. A prominent Estonian politician has once explicitly expressed that truth—those who really know their trade are members of the diet; those who only believe to know what politics is about are chatterboxes in politics. Accidentally the author of the dictum himself came from the academic community and held the highest academic degree in social, but not in political science. A political scientist hardly earns any professional respect in the eyes of a political practitioner or even an analyst let alone being taken seriously in the matters calling for practical decisions. Not many political scientists of international stature have won prominence as politicians or statesmen. That sort of career is usually reserved for the laymen in political science, i.e. journalists, lawyers, economists, sportsmen etc. In the list of successful politicians and statesmen political scientists usually occupy a modest position, if any at all, and are occasionally referred to in derisory terms. To give examples it is appropriate to make reference to some representatives, one even dare to say the classics, of political science from the past. Max Weber unquestionably ranks the most prominent among them. He unsuccessfully balloted for the German Reichstag and later on was engaged in practical politics in a modest position of an advisor to the committee that drafted the Weimar constitution. Karl Kautsky, one of the leading Marxist theoretician in the late nineteenth and early twentieth century is another example is. His practical political career in the civil service after the revolution which brought German social-democracy to power, culminated for a short period in the service of the Foreign Ministry in the capacity of under-secretary. Hans Morgenthau is probably the best known representative of realist theory of international relations who was engaged as an adviser for the US State Department for shorter periods after the World War II but was fired from the service when he started to publish articles which were at variance with the officially stated policy aims in Vietnam. Thus the point of the foregoing is trivial. Famous German proverb - wer kein Geld hat, hat auch keine Bedeutung can be applied hier. Geld in current context, of course, denotes political power. Political power in a democracy is granted by the voters. It does not have much to do with intellectual disposition that motivates and is characteristic of a scientist.

Politics for a practitioner is, after all, a practical activity which strives for palpable results (often including a personal benefit) and is to be judged on these results. The same stance is typical of a political analyst. However, analysts differ from the practitioners in their intellectual propensity, by the attempts to understand motivation, logic, far-flung consequences of political decisions etc. One may say that for both of them politics is pragmatic business by nature which has to be dealt with in relatively short-term perspective. In long-term perspective we shall be dead and need not worry about politics any more.

Still, politics is perennial. A scientist deals with the essentials and specific features of that phenomenon which are of more or less permanent nature. The problems, such as who will win the next election and form the government, how long a coalition is going to exist or whether a certain policy should be applied or not are not of scientific nature but practical, and hence of objectives for a political analysis. Despite the superciliousness towards the political science political practitioners and analysts themselves are hardly conspicuously apt in their profession. Out of multitude of example, the best testimony of the questionable quality of their professional competence in politics was their inability to predict the collapse and disintegration of the Soviet Union even in the nick of time. In short-term perspective a political scientist has, perhaps, no better chances in this respect, but, at least in long-term perspective, their bet is probably more accurate. Take Andrei Amalrik as an example: in 1970, i.e. at the summit of the Soviet might, he published a book under a provocative title “Will the Soviet Union Survive until 1984”? In historical perspective his prediction narrowly missed the point. ■

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# Shadow economies in the Baltic countries – recent trends

**S**hadow economies are important to understand because they can have detrimental effects on tax and social security systems, economic growth, inequality, and the ability to accurately measure economic activity. Policymakers' ability to influence shadow economic activity is often limited by a lack of information about the shadow economy. To help policymakers understand the Baltic shadow economies and thus manage them more effectively, the Stockholm School of Economics in Riga (SSE-R) annually analyses the size, structure and determinants of the shadow economies in Estonia, Latvia and Lithuania. Researchers at SSE-R have developed a novel approach to measuring the Baltic shadow economies, making use of annual surveys of entrepreneurs and company managers.<sup>1</sup> The method combines estimates of misreported business income, unregistered or hidden employees, as well as unreported "envelope" wages to estimate the shadow economies as a proportion of GDP. This article describes recent trends in the Baltic shadow economies, based on the analysis by SSE-R.

During 2013, Estonia and Lithuania continued their long-term trend of gradually reducing the size of their shadow economies, which in 2013 are estimated to have contracted by approximately 2.9%-3.5% of GDP to 15.7% and 15.3% of GDP, respectively. In contrast, the Latvian shadow economy has ended two consecutive years of contractions with an increase of 2.7% of GDP to 23.8% of GDP in 2013. These changes have halted convergence in the size of the Baltic shadow economies; the Latvian shadow economy is currently 8-9% of GDP larger than in neighbouring Baltic countries. The main contributor to the recent increase in the shadow economy in Latvia is corporate tax evasion. A particularly large increase in 2013 occurred in medium-sized construction companies.

The macroeconomic and institutional environment is likely to have contributed to the increase in the size of the Latvian shadow economy. As the Latvian economy continues to recover from the crisis, real estate prices have risen from their post-crisis lows and the construction sector has regained activity after having almost ground to a halt. In all three Baltic countries, the construction sector has the highest level of shadow activity of all sectors, and this tendency is particularly pronounced in Latvia, where 45% of construction sector activity is estimated to occur 'in the shadows'. The recovery of the construction sector is likely to have contributed to the increase in the size of the Latvian shadow economy in 2013.

Latvian companies are also less satisfied with tax policy and the government's support for entrepreneurs than companies in Estonia and Lithuania. Our analysis finds that dissatisfaction is a key driver of a company's involvement in the shadow economy, and therefore it is likely that part of the difference between Latvia and neighbouring countries is due to differences in companies' satisfaction with the fiscal and institutional environment. This issue could be addressed

with actions such as making tax policy more stable, making taxes more "fair" from the perspective of businesses and employees, and increasing the transparency with which taxes are spent. We also find that companies that perceive the probability of being caught for tax evasion tend to engage in less shadow activity.

Despite the recent increase in size, over the past five years the Latvian shadow economy has experienced the largest contraction of all three countries (from 36.6% in 2009 to 23.8% in 2013). Much of this contraction is attributable to two main factors: (i) improving macroeconomic conditions from the post-crisis lows (the crisis and recovery in Latvia was the most extreme of the three countries); and (ii) a package of 66 government policy actions aimed at combatting the Latvian shadow economy. The policy actions in Latvia, the most important of which took effect in 2010 and 2011, were the most extensive of the three countries. The regulatory/policy efforts targeting the Latvian shadow economy have recently subdued, in particular since the completion of the EU-IMF assistance program, and this is likely to have contributed to the recent reversal of the medium-term contractionary trend in the Latvian shadow economy. Combatting the shadow economy requires continued effort from policymakers and enforcement agencies such as the State Revenue Service. This is particularly important to avoid undoing the significant progress made to date. ■

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<sup>1</sup> Details of the methodology can be found in the article "Measuring the shadow economy using company managers" by Tālis Putniņš and Arnis Sauka, which is forthcoming in the Journal of Comparative Economics. Annual reports on the Baltic shadow economies are available at <http://www.sseriga.edu/en/centres/csb/shadow-economy-index-for-baltics/>

VICTOR VORONOV

# Systemic difficulties in Latvia – causes and possible solutions

Latvia has implemented an economic model based on the redistribution of wealth and other economic resources to corporate interests, not the production of material goods for the benefit of society. Its economy is growing since 2004 at the expense of the service sector, debt resources, but with a low level of savings of the population, with a strong dependence on foreign capital inflows, from the “infusion” of structural funds of the European Union. The structure of the Latvian GDP in 1990 was 79% of the product of precision engineering, instrumentation, microelectronics, forest, light, fishing and agricultural industries. At present the structure of the economy of Latvia is about 75% of the service sector (traditional and various mediation), while the share of the manufacturing sector declined to less than 15% of GDP. Why such a transformation has occurred in the country, a former member of the industrial and intellectual development?

Socio-economic difficulties of Latvia have a systemic character; look at them in more detail.

For *economic* reasons, systemic difficulties in Latvia include the construction of neo-liberal economics, where the main role played by financial institutions rather than the actual production. The industrial sector is characterized by low level of technology: now almost 70% of value added in industry done in its low-tech industries.

The share of the production of high and medium-tech production accounts for only 2% and 29%, respectively, of total production. Fiscal policy is carried out in the interests of oligarchs and bureaucrats (in Latvia reached one of the highest levels in the EU budgetary burden on the economy - about 44% of GDP). A high level of fiscal burden, as well as the growth of the tax burden, makes it difficult to now development of the real sector of the economy.

Monetary policy of the country is carried out in the interests of foreign finance capital (the high proportion of assets held by non-residents, especially in the banking sector - more than 80%).

For *political* reasons include complete dominance of pro-Western political forces represented by the national-radical and liberal parties, the low level of public confidence in political institutions because of their policy of discrimination considerable part of society (only 25% of the population trusts them), the weakness of civil society institutions especially associations of employers and employees. Also of note is the discriminatory exclusion of a large part of the Russian-speaking population of Latvia to participate in government, as well as the unfriendly policy towards Russia.

*Socio-cultural* reasons can be attributed unbalanced social structure (no middle class), the non-market mindset and values much of the population, making it difficult to actively adapt to modern people hard realities of the market, the underestimation of science and research for innovation (the costs are - 0.35% of GDP in the EU at a rate 10 times greater). At the same time Latvia has the intellectual and investment opportunities to participate in this process. One can also note the lack of government programs to combat poverty and create jobs in all regions of the country. Therefore, the main efforts are aimed at the population passive adaptation to social change and the search for ways to survive (at risk of poverty are subject to 26% of the population).

There are some internal and external conditions to address the systemic problems of the Latvian society.

The necessary transition to a new economic model focused on the development of production, and not on redistribution and the acquisition of wealth in the interests of specific groups. The current ruling elite go for a radical change of the system is not capable of managing and limited currently regrouping of forces within the government coalition. Therefore, the EU should take a more principled stand against the US-led Latvian neo-liberal economic policies that recognize and begin to assert their own interests in the country of its membership.

It is necessary to develop real production in Latvia on the basis of modern innovative development strategy of the country and its regions.

Now the world is actively formed VI technological way, the process will be finished by 2018-2020 years, and its driving force is likely to become biotechnology, nanotechnology, robotics, high humanitarian technologies, new medicine, new nature. Still remaining scientific potential of Latvia is able to solve some problems of this technological system (biotechnology, nanotechnology) and applied practice in this area (enterprise “Madara” and others) confirms this ability. ■



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# Live and let die?! Corporate social responsibility as a sustainable business concept

**“**I am an exceptionally pure capitalist. Nobody takes care of me, so why should I take care of anybody else? [...] There is nothing like human rights in business: either you are a shark or a fish.” Statements like this one given in a research interview on Corporate Social Responsibility by a South Baltic project reveal the urge of establishing responsible leadership in businesses. Live and let die – is this how we define our business culture while pursuing prosperous economy and sustainable development? Moral reservations against this predatorily concept manifest themselves in people's behaviour: consumers increasingly do not accept unethical business practices or organisations that act irresponsibly, and would consequently neither buy products nor like to use the services provided through these enterprises. A new era is rising: especially young people are not willing to be a part of a disposable society but are interested in socially responsible behaviour.

Corporate Social Responsibility (CSR) is a concept devised to channel businesses towards an ethical interaction with their stakeholder environment: respecting human and labour rights, facing the environmental challenges and fighting corruption. Even though big enterprises such as Microsoft, Google and IKEA apply and popularise this concept in their global business interactions, there is also a need for implementing the concept to small and medium sized enterprises considering their growing importance for the global economy in terms of productivity and employment.

This need has been recognised by the South Baltic project Responsible Entrepreneurship – a way of increasing SMEs' competitiveness in economical crisis (RespEN), which seeks to promote the CSR concept among SMEs from German, Danish, Lithuanian, Polish and Swedish regions surrounding the southern Baltic Sea, in order to ensure their commitment to fairness, tolerance and human right principles.

Findings from RespEN studies suggest, however, that there is still a long way to go: The majority of respondents to interviews conducted within the framework of the project had neither heard about Corporate Social Responsibility nor could they define this term, even less apply the concept within their businesses.

RespEN brings evidence that there is a lack of well-developed CSR culture in the South Baltic area and that socially responsible behaviour is not perceived as common sense. Having recognised the need for concrete action, the RespEN project established a South Baltic CSR network and successfully trialled the penetrability of the CSR concept counting several success stories of companies which introduced the CSR principles.

The advantages of responsible business are clearly visible in the long-distance view: Satisfied employees being proud of working for their company, satisfied customers who continue buying the company's products and the positive PR implications are major advantages of the CSR practice in enterprises. But also costs can be reduced with more efficient staff acquisition and retention strategies or through the implementation of energy saving schemes. Moreover, satisfied employees are more likely to vigorously contribute to the development

of their company. Of course, these benefits are to be considered as long-term ramifications which lend weight to the business sustainability.

RespEN's actions include trailblazing follow-ups like the Polish company Polix which is now one of the CSR pioneers in Poland's SME habitat. The company applied strategies for environmental protection, customer retention and employees' satisfaction. Polix achieves excellent market results by taking up consistent sustainable actions in key areas of the social corporate responsibility strategy. The company states that it “is not only about machines and technology, it is mostly about the people and their skills that have been gained over the years.” The PVC producing enterprise also applies ISO standards for quality management (ISO 9000) and environmental management (ISO 14000). While seeking to remain competitive, and guarantee high quality products, Polix cares about its environmental footprint. The manufactured PVC products are 100% recyclable and spare lead and cadmium, both having serious negative impact on humans, animals and the nature. With Polix, the RespEN project verifies the link between CSR and the reduction of hazardous substances outlets.

The engagement in the CSR practice can pay off for every company which follows in Polix' footsteps with promising outlooks for growth and good reputation overleaping the shark tank of business attitude.

RespEN has a pivotal role in the South Baltic SME environment sparking a live-and-help-live corporate policy through the good practice exchange across borders. ■

RespEN was co-funded by the South Baltic Cross-border Co-operation Programme, which covers Danish, German, Lithuanian, Polish and Swedish coastal regions surrounding the Southern Baltic Sea. The South Baltic Programme 2014-2020 will continue to support joint efforts enhancing the competitiveness of SMEs. More information at: [www.southbaltic.eu](http://www.southbaltic.eu)



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# Norway's priority on economic development in the Arctic

Norway's Arctic policy is creating a basis for job creation in many industries. Like the rest of the country, North Norway is currently seeing an increase in population and employment levels, and unemployment is low. The main growth industries are oil and gas, aquaculture, minerals and tourism. Compared to all other Arctic States, a larger percentage of the Norwegian population live in the Arctic. A sustainable economic development is a key to the future development of the Arctic region. Regional cooperation in the Barents region, with neighbouring countries and in the framework of the Arctic Council is in this respect a priority for Norway.

## Climate change

The defining issue with regard to the future development of the Arctic is climate change, which determines access to resources and transport routes. A melting Arctic has global implications. It increases global warming, accelerates sea level rise and could change weather patterns throughout the northern hemisphere. The only responsible way to approach Arctic climate change is to try to limit it by effectively reducing greenhouse gas emissions. Climate change is putting the environment of the north under increasing pressure. It is therefore all the more important that we manage our commercial activities responsibly and seek to limit their overall impact on the environment. Norway views its policies in a generational perspective. We intend to ensure that the planet we leave to future generations is in a better state than it was when we inherited it from past generations.

## Value creation in North Norway

Value creation in North Norway has improved considerably since 2008. Employment opportunities in the region have attracted many foreign employees, and this has helped to reverse a negative population growth. The main challenge for many companies today is a lack of qualified labour.

Much of the growth in the business sector in North Norway is connected to the extraction of oil and gas. For example the offshore supplier industry in Finnmark enjoyed an annual growth of 37 % from 2004 to 2011. The Norwegian Government has established a new centre of expertise and research for oil and gas operations in the Arctic under the University of Tromsø, with particular focus on responsible exploitation.

## Huge mineral assets

It is estimated that Norway has profitable mineral resources amounting to around NOK 1.4 billion, with the greatest potential in the north. The Norwegian Strategy for the Mineral Industry sets out the aim of increasing profitability and growth as well as the ambition that the Norwegian mineral industry should be one of the most environmentally sound in the world. It also paves the way for closer coordination with environment and Sami interests in this respect.

## A global leader in seafood

Around 30 % of Norway's value creation in the seafood sector is in North Norway, which has seen an annual growth of more than 20 % in the sea and coastal fisheries and the fish farming industry since 2004.

The tourist industry is also thriving. There was an increase in guest nights for international visitors of 19 % in North Norway from 2000 to 2012. This is considerably higher than the increase in the rest of the country of 9 %. Cruise tourism alone saw an increase of 41 % from 2011 to 2012. In 2009, the Government established Northern Norway Tourist Board to strengthen the profile of the tourism industry and international marketing of North Norway. Important new markets include countries like Russia and China.

These growth industries make it necessary to improve infrastructure. Since 2005, there have been large increases in the allocations for transport and communications in the north. Nevertheless more needs to be done, particularly to improve communication within the region.

## Record high cod quota in the Barents Sea

The cod stock in the Barents Sea is now higher than it has been for many years. This is the result of a consistent long-term policy based on the principle of responsible and sustainable harvesting. In addition, we enjoy close cooperation with Russia on the management of our joint fish stocks, which dates back to the 1950s.

Thanks to this cooperation, the fishery resources of our northern sea areas are among the best managed in the world. Our close co-operation on fisheries controls is particularly important in this context, and is the main reason why Norway and Russia have been able to put a stop to illegal, unregulated and unregistered fishing, which used to be a serious problem.

## Investments in education and research

Further investments in education and research are essential to ensure employment opportunities, a competitive business sector, sustainable development and increased knowledge of the causes and effects of climate change. The main challenge for further developing North Norway is the lack of qualified labour, particularly engineers and other skilled workers. Solving this issue is a key priority for Norway. We need both to increase the number of students within relevant fields and to cooperate with our neighbours in the north to create a well-functioning labour market in the region.

Increasing levels of activity in the north make it even more important to enhance knowledge of how to ensure sustainability in a region that is undergoing rapid growth. A new research programme at the Fram Centre in Tromsø has been established for this reason. The centre will build up expertise and new knowledge on the environmental consequences of industrial development in the Arctic. Such knowledge is needed in order to ensure environmentally responsible development, based on the best environmental solutions that will not have negative impact on ecosystems, cultural heritage or society. The research programme will also seek to promote international cooperation and exchange on these issues.



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### Safe shipping in cold waters

In 2012, the first phase of BarentsWatch was launched. This is an integrated civilian monitoring and information system for Norwegian sea and coastal areas. The next phase will be to ensure that authorities with responsibility for monitoring activities at sea and maritime safety have effective access to each other's systems. BarentsWatch makes it easier to identify dangerous situations in time, and will make it possible to save more lives.

Other measures that have enhanced maritime safety are the new vessel traffic service centre in Vardø, a new meteorological radar at Gednje on the Varanger peninsula, and routing measures to divert high-risk traffic further away from the coast. Year-round tugboat preparedness has been established in North Norway. This is important for preventing shipping accidents and oil spills.

### Regional and circumpolar cooperation

A sustainable development is a priority to Norway and it is important to promote and enhance this internationally. An increased economic and business cooperation in the North has been established with neighbouring countries Finland and Sweden, and a common approach to sustainable development is a key in the bilateral cooperation with Russia and in the Barents regional cooperation. Norway and Norwegian business have strongly supported the establishment of Arctic Economic Council in September this year as way forward to include this in the circumpolar cooperation in the Arctic Council. Established

in 1996, the Arctic Council was primarily a cooperation on environmental issues. In line with the developments in the Arctic, the Arctic Council has increasingly focused on climate change and adaptation to climate change. NGOs and international organizations with a focus on environment and climate change have positively been included as observers in the Arctic Council. With the increased economic activity going on in the Arctic, it is important for Norway to include all key stakeholders in the circumpolar cooperation. The involvement and competence of business is today not part of the Arctic Council cooperation. In our perspective, an independent and business led Arctic Economic Council with clear links to the Arctic Council would be an important way forward to include business in an even stronger circumpolar approach to a sustainable environmental, social and economic development of the Arctic. ■



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MAIMO HENRIKSSON

# The inevitable choice – Finnish companies go North

When the extremely pleasant and long summer of 2014 turned into autumn in the Nordic countries the value of open business projects in northern Norway was 800 million euro and the value of open projects in northern Sweden 600 million euro. The Norwegian economy is still performing well, with an estimated yearly GDP growth of 2 %. The Swedish economy is expected to grow by 2,5 % this year.

As Russia currently is a political and economic worry and a question mark, do the Norwegian and Swedish markets look even more attractive to Finnish business actors, who want to go international in the neighbouring region. At the same time it has to be pointed out that the Russian economy has already become dependent on world economy and international know-how. In the long run Russia will offer opportunities. Russia needs Norwegian expertise in developing its offshore resources. By allying themselves with Norwegian companies today, Finnish companies can be sub-contractors to the Russian offshore industry in, let us say, 15 years' time.

At the same time when our two western neighbours have a dynamic overall economic development including new business developments in the north, Finland is suffering from a 0 % GDP growth, which is expected to hardly overcome this red zero-line next year. Finland has recently suffered from several quarters in a row of negative GDP growth. Our unemployment rate is around 8 %. Our export has plummeted.

On the positive side we have one of the world's best educated labour forces. Many Finns have until recently worked in some of the world's best companies, but are now unemployed. This means that we have very qualified free capacity. Finland is the promised land of engineers. Norway for its part is suffering from a lack of engineers. We do not speak about a shortage of hundreds, but rather thousands.

In this situation it is very natural – you could even say inevitable – that Finnish companies start to go to the north. The Finnish maritime industry has traditionally been specialized in ice breakers and vessels, which are built for harsh conditions. The Finnish construction and housing industry has developed tools and methods for advanced building in a cold climate. The Finnish machinery industry combines robust quality with high technology. The strength of the Finnish energy cluster is a broad variety of knowhow and coldhow. The mining industry is today developing especially in the north in Sweden, Finland and Norway. The ambition of the Finnish Green Mining program is to develop the Finnish mineral industry to become the ecologically most sustainable and efficient mining industry in the world. Tourism has been important for northern Finland already for many years. The next natural step is to join forces between the three countries in order to be able to receive the growing middle class of Asians, who want to visit the northernmost part of Europe.

The Finnish government has nationally taken a lead role in focusing on the north. The first Arctic strategy was adopted in 2010 and a renewed strategy in autumn 2013. The new strategy is more strongly emphasizing business cooperation, with the precondition of ensuring sustainable business activities. An arctic bilateral partnership was established with Russia some years ago and this year a bilateral arctic partnership was launched together with Norway.

The Finnish prime minister has taken the initiative to gather a group of wise persons – one from each of the three countries Norway, Sweden and Finland – with the task of brainstorming and presenting new ideas on border-crossing business cooperation in the north. This group started its work in summer 2014 and it is expected to present its results in early 2015. New and fresh ideas on cooperation between Norway, Sweden and Finland in the north are expected from the group. The level of ambition is high; the work has been compared to the so called Stoltenberg-report from 2009 on increasing foreign and security policy cooperation between the five Nordic countries.

Not only the Finnish government, but also the Confederation of Finnish Industries has concluded that the companies need a push in order to get activated in the north. The Confederation has asked former prime minister Paavo Lipponen to present ideas on what needs to be done internally in Finland.

Initiatives from the government and central organizations are there. What now is needed, is hard work by the companies themselves. Certifications have to be in order, regulations and standards must be fulfilled. Networking is a necessary precondition for any company aiming at entering the Norwegian or Swedish market. The company has to participate in conferences and fairs, whether it is the huge Offshore Northern Seas happening or an exclusive small branch event.

The language skills need to be in order. In the Norwegian and Swedish markets Finnish companies have one asset, which is more valuable than any other asset: knowledge of a Scandinavian language, in practice Swedish, which is taught as a compulsory subject at Finnish schools. This is an asset that usually is a basic precondition for success when offering a service or a product in another Nordic country; the company has to be able to write its offer in Swedish and it has to have enough employees who speak Swedish (or another Scandinavian language) and thus can take the role of being contact persons.

Finnish companies who want to go north are in a good position. The need for good and reliable business partners is obvious. The government and central business organizations provide a strong support. And most important of all: many Finnish companies have extremely good products and highly qualified work capacity to offer. What seems to be the weakest link in the chain is the outreach of Finnish companies. Do not be shy, dear Finnish business man or woman: go out, be active, create networks – and you will be rewarded. The north needs you! ■



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# Financial and political crises are delaying projects in European High North

About five years ago investments seemed to be booming in the European High North. Swedish LKAB was starting huge expansion project in Kiruna. Hammerfest in Northern Norway was full of promising oil and gas projects after successful start of Snow White gasfield and LNG plant. Shtokmanovskoje gas field was still on agenda in Murmansk Region and mining boom in Lapland seemed to start within next couple of years.

Global financial crisis has had strong impact also on raw material prices all over the world. Shale oil and gas challenged the competitiveness of arctic offshore. All this has postponed most of the investments in the European High North.

Potential of Northern Norway is huge. Total value of planned investments is clearly over 50 billion euro. Energy sector is constantly on the top of the investments list including oil and gas, wind power and hydro power. Today all oil and gas projects are delayed or postponed in the Barents Sea.

Norwegian offshore giant Statoil is today focusing on Aasta Hansteen gasfield which is located in the Norwegian Sea off the coast of Nordland. Gas is conducted southwards via a pipeline and further on to the existing network linking to Europe.

The floating platform of Goliat oil field project by ENI Norge was expected to arrive at last to Hammerfest in 2014. Once again arrival was postponed with one year. So the platform should come to Hammerfest Polarbase for finalizing in summer 2015.

Largest Statoil project in the Barents Sea is oilfield Johan Castberg in front of Hammerfest. Statoil has so far twice announced to postpone this project. According to Statoil oilfield is not at this moment profitable and pipeline to planned oil terminal in Veidnes seems to be in danger to be removed from the project. Next Statoil announcement is expected in 2015.

In spite of all delays Northern Norway has still huge investment potential. Total value of all wind energy projects has been estimated to be more than 30 billion euro. More than likely that is too optimistic estimation. However growth is continuing in the tree northernmost counties of Norway. Public projects like building and construction of hospitals and schools are all the time implemented. Transport infrastructure projects are continuing as planned without any crises.

Kiruna Iron mine expansion by LKAB is working fine. This project is probably finalized within next five years. Finally LKAB has now also permit to open Mertainen mine in Svappavaara. All appeals have been withdrawn from Supreme Court. As result of this giant project cities of Kiruna and Gällivare are moved to new places and total production is growing almost double to 37 million tons of iron.

Also railway from Kiruna to Narvik is going to be improved. Norwegian and Swedish railway authorities published in July 2014 plan to build second track to this railway. Total value of this investment is over 2,5 billion euro. Final decision to start implementation of this project is expected to happen in 2015.

Most of the other mining industry investment plans in Northern Sweden are also iron ore mines. Strong decrease in demand of iron has caused serious problems. Pajala iron mine by Northland

Resources is at the moment closed and company is in bankruptcy. Also Kirkenes iron mine in North Norway has same kind of problems. Other iron ore projects seem to be postponed probably to 2020's and mining industry investment lists are at the moment empty after LKAB expansion is finalized.

The new government of Sweden made important decision during publishing the state budget for 2015. Government announced to start Norrbotten railway project from Umeå to Luleå. Implementation of this 3 billion euro project is going to be started in 2016.

Investment boom continues also in Haparanda-Tornio area. Large shopping, hotel and entertainment center with total area of 106000 square meters has got starting permission from authorities. Total value of this Barents Center is about 120 million euro.

Current crisis in Ukraine has created a new challenge for Arctic cooperation and implementation of investments. EU sanctions against Russia and Russian sanctions against EU and the USA have already had clear impact in European High North Business. In Murmansk region this could mean strengthening of military bases in Severomorsk and Pechenga area. Alakurti base near border between Finland and Russia was closed some five years ago. Now military forces are returning to this village and according to latest Russian rumours some kind of infantry brigade is coming there in spite of Radio intelligence troops.

Financial crisis delayed most of the investment projects in Murmansk region. First Shtokman gas project was postponed and Statoil withdrew from Shtokman Development Company. Mining industry in Kola Peninsula has however renewed mining technologies and one new mine has been opened two years ago in Kirovsk. Also Murmansk Transport Hub- project seems to be proceeding. Building and construction of new railway to the west side of Kola Bay from Pechenga railway started in last September.

New version of Cold War could be developing in the Arctic. The activities of Norway have been decreasing in Murmansk Region. According to latest news Norway is closing or strongly reducing SIVA Business Center in Murmansk. If military tension increases between Russia and Nato Norway could meet some sanctions regarding the use of the highway between Murmansk and Kirkenes. This highway goes through several military bases in Pechenga and Titovka. This highway was closed during Soviet time and a special detouring road was build from Nikel to Rajaajooseppi-Murmansk road. Actions like this could seriously damage the competitiveness of Murmansk region for foreign and investments. Situation has already now changed and the result is to be seen in near future and main focus of European High North investments is going to be in west. ■



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TERO VAURASTE

# Knowledge and data exchange between industry and academia in the Arctic context

## ARCTIC ECONOMIC COUNCIL, AREAS OF BUSINESS AND OVERARCHING THEMES

The Arctic Economic Council has started to work in the beginning September 2014 with the following business areas

- i. Infrastructure and related matters including
  - 1. maritime transportation
  - 2. communications and IT
  - 3. aviation
- ii. Energy, including oil, gas and renewable sources
- iii. Mining
- iv. Tourism
- v. Fishing
- vi. Human resources investments and capacity building

The Council was initiated in the Arctic Council Kiruna ministerial meeting May 2013 to foster the dialogue between the business community and the Arctic Council. In the inaugural meeting, the delegates representing the businesses of the member states and permanent participants chose the following overarching themes

- 1. Establishing strong market connections between the Arctic states;
- 2. Encouraging public-private partnerships for infrastructure investments;
- 3. Creating stable and predictable regulatory frameworks; and
- 4. **Facilitating knowledge and data exchange between industry and academia.**
- 5. Traditional indigenous knowledge, stewardship and a focus on small businesses

### The work

The need for the Arctic Economic Council, or formerly, Circumpolar Business Forum was acknowledged broadly in the preparation phase of current Arctic Council's Canadian chairmanship period. The Kiruna declaration (where the starting words for this period, were stated in May 2013) states as the first point: **improving economic and social conditions**

"Recognize the central role of business in the development of the Arctic, and decide to increase co-operation and interaction with the business community to advance sustainable development in the arctic." Furthermore, the declaration stated the decision on a Task Force to facilitate the creation of a circumpolar business forum, later renamed as the Arctic Economic Council.

With these statements and words it has been made clear, that the Arctic Council considers the interaction with the business community as important.

Many of the Arctic Council Working Groups submitted their ideas for possible areas of co-operation for the AEC's inaugural meeting. For instance, The Arctic Monitoring and Assessment Programme (AMAP) gave a useful submission.

But firstly, the AMAP mandates are:

- To monitor and assess the status of the Arctic region with respect to pollution and climate change issues
- To document levels and trends, pathways and processes, and effects on ecosystems and humans, and proposes actions to reduce associated threats for consideration by governments
- To produce sound science-based, policy relevant assessments and public outreach products to inform policy and decision-making processes

As we can see, the mandate is scientific. AMAP recognized the following needs – and potentials:

The main focus would be on the possibilities for improvement of the monitoring and observation of climate and pollution variables in the North e.g. by developing:

- instruments that can operate under arctic conditions all year round at remote places (remote sensing) on land, on ice and ocean and from space
- communication lines from these remote places to central places that can receive the data
- local and regional databases storing information about the local nature, natural variation, observations of changes beyond natural variations etc.
- improved involvement of local people/companies in the work mentioned above

The AEC inauguration received also input from CAFF, the Conservation of Arctic Flora and Fauna and EPPR, the Emergency Prevention, Preparedness and Response Working Groups.

The EPPR considers various opportunities on the possibilities for cooperation with industry. The PAME team, Protection of the Arctic Marine Environment, seeks also increase industrial collaboration for instance in updating the AMSA, Arctic Marine Shipping Assessment report.

### Discussion

With this background from the Arctic Council and the Arctic Economic Council, **let us now discuss this further:**

*What would be the main concerns, challenges and opportunities facing Arctic science? Which areas should the work on?*

Let us look the need for the loop, starting from the people, with a governmental example:

The Aboriginal Affairs and Northern Development of Canada (Government of Canada) state, that "Northern oil and gas exploration and development supports economic and social components of the Government's Northern Strategy. Working in partnership with northerners and Aboriginal peoples, government

recognizes that northern oil and gas exploration and development is a key component of the future economic well-being of northern Canada."

In a holistic way, the "main concern" can be sought from different angles. Firstly it's about people in Canada and other Arctic Areas as well. Is the main concern then human rights? Or protecting the nature? Or technological challenges of oil and gas exploration? Food security? Water and waste infrastructure? Some other?

One quickly comes to decision, that it is difficult to appoint one major concern, which would be valid throughout the arctic. **Unless, the climate change is considered as such.** But let us presume, that the climate change will proceed, with a slower or quicker phase, and discuss how to adapt this, and what would be the main concerns in the adaptations?

Since the previous description is only a hint of the complexity, let us draw our conclusion and recommendation on this. The complex interaction network between arctic nature, peoples, societies and their economies – and the interaction between those as well, could serve as our recommendation for academic research: Researching the complex interaction structures between arctic nature, people(s), societies and economies, with the intention **to help businesses support the northern developments by increased economical activity.**

*How can research organizations, institutes, operators and companies increase their international co-operation?*

We have occasions, where business can easily, with marginal or non-existing costs, act as research platform for academia. A practical example comes from years 2012 and 2013, where our Finnish Icebreakers of Arctia Shipping used the Northern Sea Route on their home voyage from Alaska back to Europe. This transfer voyage provided facilities for ice, meteorological and technical researchers to proceed with their research projects during the voyage.

*Can we adopt the technology that is needed to study and/or mitigate the rapid changes in the Arctic? If not, where are the main gaps in Arctic technology? Where can business contribute best?*

The rapid climatological and environmental changes IN the Arctic are a result of activities OUTSIDE the Arctic. So, the mitigation is not about the gaps in Arctic technology, but reduction in global carbon and other emissions. This, I claim, is much more political than a technological issue. Business can contribute by introducing renewable energy sources technologies (and those produced locally when in the Arctic) and improved enhancing of renewable energy techniques.

*How can public funding contribute to increased research co-operation?*

We have an example in Finland of improved national input in this area by Tekes, which is a governmental research funding organization. Tekes has just recently launched a 100 m € funding programme called the "Arctic Seas", where new solutions are sought. One of

these is a biodispersant research, where it is studied if we were able to produce a 100% environment-proof dispersant.

Arctic natural resources are vast. These include hydrocarbon resources, minerals, rare earths - just to appoint the most important ones. The climate change is opening doors and giving access to resources which were not accessible just some 10 or 20 years ago. The states and local governments rule the regulatory procedures in their areas.

There has been no significant global gamechanger – for the time being – for the use of hydrocarbon resources as an energy resource. World's energy consumption continues increasing and the need for all hydrocarbons; including the arctic – is depending on the developments of energy innovations.

However, the recent results of the ICC's Climate Panel and such gamechangers are urgently needed.

### Conclusions and recommendations

Renewable energy sources like water, solar, wind and tidal energy in the Arctic provide big potential in the future. For example, the tide in Frobisher Bay in Iqaluit Nunavut, is more than 10 meters. In these questions, Academia and Business are to work together.

To conclude, the final statement describes the reasoning for Arctic Economic Council's work in this field.

As we understand, this is a very dynamic area. Because of these complexities and dynamics, the Arctic Economic Council has chosen the co-operation between business and academia as one of its five main areas for work.

As a final recommendation for academia let us suggest, that holistic research which researches the complexities of the various elements and their interaction in the arctic to be chosen as a main area of research. ■



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KARI SYNBERG

# Finnish-Russian co-operation opportunities in the Arctic region

Today, one can hardly remember the time when crossing the border between Finland and Russia was the right and the opportunity for small number of people. A specific openness is integral part of life between Finland and Russia, which is especially seen in some Finland's northern cities, like Rovaniemi, where the Russians presence is quite obvious.

We all know that the Arctic is changing, its weather conditions, geopolitical position, human relationships and many other things. Unfortunately there are some dark clouds in the sky. Today Arctic agenda is characterized by pragmatism and security interest. Russia is developed its military strategy in the Arctic regions, as we can see from the document entitled "The Strategy for the Development of the Arctic Zone of the Russian Federation and National Security up to 2020". The question is also Russia's intention to legally define its continental shelf in the Arctic Ocean, the use of area's natural resources and exploitation of Northern Sea Route. USA, Canadian and Norwegian strategies are very similar, what we can see from their documents for the development of Arctic territories. For example Norway has moved some of its strategic military objects closer to the Arctic coast, Canada with USA holds military exercise in the region and Denmark has formed special military unit in Greenland.

The EU has responded to the Ukraine crisis with a set of political, economic and human sanctions against Russia. Also USA and some other countries have their anti-Russian sanctions. The question is on the other hand, the Americanization of global culture in Europe, in Russia and in the Third World. On the other hand Russia is seeking its own way and culture to solve global questions, secure national interests and country's position in this geoeconomic platform. Is Finland sufferer in this game? The relations between Finland and Russia are in a state of stagnation? What kind of consequences and changes this process is going to have in future and what is going on with our cross-border cooperation and cross-border business in the North? The fact seems to be, that several arctic projects were delayed because of this new political situation and sanctions. Let's hope that the world political situation does not lead to the fact that we are facing with the new cold war, as former Soviet President Mikhail Gorbachev said in Berlin 8.11.2014<sup>1</sup>. The Arctic can't play a key role for the military balance between two "superpowers".

Our two countries - Finland and Russia - are connected in many ways. We share in many respects, a similar culture, lifestyle and fundamental values, even though a lot of differences can also be found. We are linked together by history and geography: by the fact that both Finland and Russia are countries that stretch into the vast, remote

and cold part of the world called the Arctic. Finland is arctic country, despite the fact that it hasn't Arctic coastline. In both our countries we have a tradition of strong attachment to nature and this creates the possibility for cooperation between our countries. The Barents Region is also a strategically important region for Finland and of course for Russia; rich in natural resources, which possesses a considerable technological, scientific potential and human resources, with good experience in the environmental management in the sub-arctic and arctic climate conditions. Anyway, Arctic region is becoming more and more important for World's economy.

In the North, there were always practical relationships not only on the state level but also on regional one. This kind of regional-oriented international cooperation is not a uniform phenomenon, but it indicates the needs and desires of local people for cooperation. We can call this kind of cooperation as "people's diplomacy", which has brought also new horizons for business activities. This kind of activities and possibilities are possible

with some Russian documents, such as "The principles of State Policy in the Arctic" and before mentioned "The Strategy of the Russian Arctic Development". In this Arctic game, some less raised factors are the necessity of taking account the priority interest of the local and indigenous people in the process of modernization of Arctic region. But is this a real perspective, when the discussion is around oil and energy resources and their distribution? What is the role of the Arctic council in this geoeconomic confrontation?

What about the human dimension in the Arctic? Northern Finland is sparsely populated, but the greater Arctic area of Finland - we call it Lapland - is still home to about several thousand people, including the indigenous Saami. In Murmansk region are living over 800 000 people today. The people who live in the North need jobs and economic growth just like everyone else. Murmansk Region located close to Lapland could and should be important by economic point of view to Finland. This development must be balanced with protection of the sensitive Arctic nature and engagement with local societies. Unfortunately socioeconomic and cultural interaction between our countries has no clear strategic perspective. The development of municipal formations of the whole region (Lapland and Murmansk region) has some common features, long distances, population decline and aging for example. One of the problems in this area is a weak infrastructure and the lack of adequate communication routes. This gives for Finland and its high-tech business community some special cooperation opportunities, for example to design a common cross-border transportation plan, seen as the key factor for the region's social and economic development.

Unfortunately there are some dark clouds in the sky. Today Arctic agenda is characterized by pragmatism and security interest.

<sup>1</sup><http://www.reuters.com/article/2014/11/08/us-ukraine-crisis-gorbachev-idUSKBN0IS0QC20141108>



Russian Geographical Society is a significant new-old player in the game of Arctic. On October 31 - November 6 in Moscow held the geographical festival, in which a number of geographical societies from 10 different countries (for example China, Italy, Spain, Turkey and Czech Republic) signed a cooperation agreement with the Russian Geographical Society. Norway has signed the agreement before. Finnish Geographical Society has also discussions on closer cooperation with Russian Geographical Society. The Society has branches in 85 regions (including the Murmansk and Karelian regions) of the Russian Federation and its president is the minister of defense, Sergey Shoigu. President Vladimir Putin is the chairman of the board of trustees, whose other members includes the reigning monarch of the Principality of Monaco, Albert II, as well as a number of Russian CEOs of large companies. Less well known is the fact that Karl Gustav Mannerheim was an honorary member of the Russian Geographical Society.

It may be possible that geography as a science connecting people together can be used like a new kind of cooperation field in the Arctic. Russian Geographical Society is almost governmental organization, which have a lot of scientific goals, even if the political perspective

can't be ignored. Many European geographical societies are based on almost the entire scientific background. In any case, the geographic platform is an important way to bring out new innovations, business opportunities and meaningful cross-border co-operation ideas to the northern regions. However the Russian Geographical society is an essential part of the discourse in the Arctic regions. ■

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# BALTIC RIM ECONOMIES

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ANDREY KLETROV

# To become a supplier to Russian Arctic mines – a worthy choice

**W**hen it comes to business opportunities in the Russian High North, this mostly has to do with mining industry as it has been the most stable and thriving sector for decades.

Mining industry is remarkably well developed in Arctic Russia. Nickel, iron, copper, platinum, apatite, nepheline, rare metals, ceramic raw materials, mica make Kola Peninsula (with Murmansk as the capital city) the leading mining region of Russian North-West. Operations that shape the local mining sector are extraction, smelting and general processing.

Murmansk region's mining district is presented by a number of large Russian companies (Norilsk Nickel, Severstal, Phosagro, Eurochem, Acron) with total investments of approximately 154 MEU in 2014 for modernization of local production infrastructure. Traditionally, equipment, machinery, partially technologies and services are being exported from Japan, USA, Germany, Finland, Sweden and other countries.

Having studied companies' investments plans, carried out a number of market researches plus interviewed the key persons at local mines, we were able to define the following trends that will shape the development of the industry in the next few years:

- replacement of outdated equipment and processing lines
- investing in vertical conveying systems in order to reduce raw minerals transportation costs
- outsourcing and subcontracting of auxiliary services. Those services are energy, transport, maintenance, engineering, catering and others
- modernization of all major processes and building up a new infrastructure required to reduce low efficiency and increase competitiveness
- implementation of mineral wastes processing technologies for recovering saleable mineral products

It is also worth mentioning lack of local skilled workforce for many tasks so we expect that technologies requiring minimum level of manual input will be of high interest from Russian mines in the near future. The next question which a potential supplier quite probably would ask if the machinery maintenance and heavy equipment repair service market is highly-competitive up here.

The answer is no. We would describe the situation in the market of auxiliary services for local mines as a long, empty street with a few shops opened.

One of the reasons for that is that mines used to keep inside as many services as they could for many years because of both social obligations and, ironically, lack of professional service companies able to carry out quality and on-time operations on foreign equipment and machinery.

Now the situation has changed and Kola mines express a strong interest in meeting suppliers or service providers from Finland every time we apply for that.

Speaking about existing business opportunities in Russian High North, we cannot close our eyes on challenges that most likely foreign companies might experience. Those challenges are time and resources.

Mining companies expect a supplier to be located within a reasonably short distance from the mine and be reachable most of the time. That means one thing – a local office with service people speaking Russian language. This is the most successful way of doing business and yet the most challenging one in terms of time consumption and efforts to be made.

We believe that a good alternative for smaller and medium businesses could be a local partner. According to our experience, quite many local companies are interested in cooperation with Finnish SMEs.

Looking at the perspectives of such a receptive market with its 5 Russia's largest companies as customers located on a fairly small area, with very likely coming soon oil and gas Arctic projects, - all that makes the idea of becoming a local player a worthy choice. ■



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# Russia's monotowns in the Arctic region as centers of country's mining industry

In 2013, the mining industry took the fourth place in Russia's GDP structure having 11% and more than 1 million people working in this area. Russia has no certain region of mining, but a major part of non-ferrous metals and oil and gas resources is produced in the north part of the country. The Arctic region gives to the rest of the country 60% of copper, 95% of platinum, 85% of nickel, main part of diamonds, tons of gold and 80% of natural gas. The Russian north area is one the richest places in the world, but why do this regions develop so slow or become degraded?

The economy of Russia was created in the Soviet era and still has many things reminding of this historical period. For instance, the case of monotowns could be an example of it.

A monotown is a place whose economy is dominated by a single industry, company or sphere of activity. Nowadays, this term is mainly typical for Russia, where the Soviet Union founded hundreds of monotowns in economically feasible locations, which generally were geographically outlying and climatically inhospitable (such as the Arctic region).

For the time being, there are 342 monotowns in Russia; 86 of them are situated in the Arctic region. The number of monotowns are steadily going down, as their dominant enterprises, which do not belong to the state anymore, go bankrupt due to uncompetitiveness.

For instance, there was a rapid growth of coal prices until the end of the 70s; and the Soviet Union was motivated to found settlements near of coal deposits. During the 80s, the price was falling down and had reached its bottom by the beginning of this century. Many of coalmines were located in the Arctic region; and due to the above reasons, the coal mining in the area became increasingly unprofitable after the dissolution of the Soviet Union. People lost their jobs and started leaving their cities in the mid-90s. Nowadays, several former prosperous monotowns (Kadykchan, Halmer-U, and others) are ghost towns.

Despite the number of cities disappeared by the end of the XX century, there are several good cases that should be mentioned. One of the best examples of a city that has adapted well to the new economic model is Norilsk.

Created as a Gulag labor camp nearby the largest nickel-copper-palladium deposits in the world with 400 000 prisoners for its 21-year history, at present Norilsk is the world's second largest city north of the Arctic Circle with over 175 000 inhabitants.

Nowadays, MMC Norilsk Nickel, the world's leading producer of nickel and palladium (and also active in platinum, copper, and cobalt extraction) runs the mines and processing facilities. Norilsk's nickel production in 2013 amounted to 285 000 metric tons, and its copper production came in at 371 000 metric tons. The company has assets in Africa, Australia and Finland.

In any case, monotowns are still a problem rather than an opportunity. The prosperity of the people depends on the prosperity of the city; the prosperity of the city depends on the prosperity of the com-

pany; and the prosperity of the company depends on the prosperity of the world market. Therefore, we have an example of the butterfly effect – if the price on nickel goes down at the London Metal Exchange, a worker in Norilsk feels it within a few months. A rapid fall on the non-ferrous metals in 2009 affected the market price of Norilsk Nickel, whose capitalization was 6 times less in 2009 comparing to 2008. The prices have been very instable since the recession, and the government finds it too risky for such a huge city.

That is why the Government of Russia has changed the mining law. Since 2008, the discovery doctrine saying that the discoverer of minerals has legal rights to use them, does not work anymore. It opens the market for other players. In most cases, a discoverer is a huge corporation operating in this area (for instance, Norilsk Nickel in Norilsk). This law does not say that Norilsk Nickel may not be the owner of the resources they have found, but if they do aspire to develop new objects, they have to win the competitive tender for these objects. They have failed twice since 2008 and lost Norilsk-1 and Chernogorskoe deposit. Nowadays, they are fighting for the Maslovskoye deposit against Russian Patinum.

Therefore, once those projects are implemented, Russia will have one more Norilsk industrial area. Thus, this is good for all the parts: for the budget, for the city, for the people and for Norilsk Nickel as well. Because if you have a good and strong competitor, then you are motivated to develop yourself.

Nevertheless, the changing of the mining law is not the only one and last step of the government for developing the Arctic part of Russia. In 2014, Ministry of Regional Development published a project of the Decree of the President on the formation of the Arctic zone of the Russian Federation. According to this law, the Arctic zone consists of Murmansk region, North parts of Arkhangelsk, Krasnoyarsk, Yakutia, Chukotka, Nenets and Yamalo-Nenets autonomous regions.

The Arctic zone will have preferential taxation, special investment environment, as well as a number of privileges in the socio-economic sphere for the local population. Infrastructure development will be an aim for the country. One more priority is the attraction of foreign investments in the Arctic zone of Russia.

All these changes are leading us to the new level of doing business in the Arctic zone of Russia. We confess that the monotown-system was working good in the Soviet Union, but it's time to modernize it, to help the Arctic region be steady. It has been a long history of co-operation between Russia and foreign countries (particularly, Finland) in Russia's Arctic zone in the past, and we will certainly write a new chapter of this history in the future. ■

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# The development of the Russian maritime sector – boosted by the growing interest to the Arctic

Russia can be considered a relatively young maritime nation as its naval and merchant fleets really started to develop only in the 18th century, during the reign of Tsar Peter I, also known as Peter the Great. The Russian navy had been practically non-existent before his time but afterwards, following a complete reorganization of the Russian industry and armed forces, the country became a successful naval power. A large shipbuilding industry was also established during the reign of Tsar Peter I. In the 20th century during the Soviet era, the Russian maritime industry was very vivid but largely guided by military interests and mostly focused on building military vessels and submarines.

However, due to the political and economic turmoil brought by the collapse of the Soviet Union, the Russian maritime industry experienced a deep financial and personnel crisis in the 1990s. The shipyards that had existed on state orders were not competitive in a commercial sense and the weight given to military production during the Soviet era had hindered the development of civil shipbuilding. The Russian navy fell into decay as well and pictures of nuclear submarines rusting away in docks caught the western media attention. Along with the new geopolitical situation, Russia lost a considerable number of shipbuilding and repair facilities, ports and naval bases because they were located in the territories of former Soviet states, such as in the Baltic

States and in the Ukrainian territory in the Black Sea area. The Soviet fleet was divided between the newly independent countries, as well, Russia receiving about half of the tonnage but partly in bad condition (Gritsenko 2013). However, the Russian maritime industry started to recover again in the early 2000s, boosted by the country's economic growth.

Recently, the Russian maritime industry has received increased political attention and funding and the industry can be considered to be experiencing a rebirth. The Russian government has even classified the shipbuilding industry to one of the strategic sectors of the economy and adopted an ambitious development programme which aims at quintupling Russia's shipbuilding output by 2030 with total state funding reaching RUB 1.3 trillion (Vorotnikov 2012). Particularly the growing interest in the Arctic hydrocarbon fields and sea routes as well as the continuous importance of energy exports for the Rus-

sian economy have boosted the development of the maritime sector. The Russian economy is highly dependent on the energy export revenues, oil and gas revenues constituting half of the budget and over 70% of the exports of goods in Russia (The Ministry of Foreign Affairs of Finland 2013). While energy production is increasingly shifting north to demanding Arctic conditions, the supporting maritime industry is also required to make considerable investments and produce completely new technological solutions for the needs of the energy industry. The Russian Arctic is estimated to hold more than half of the potential Arctic oil and gas resources (Ernst&Young 2013) and the development of these northern regions is gaining increas-

ing attention and investments from the state as well as businesses. Despite the strategic nature of the energy sector, Russia has also been inviting foreign energy companies to participate in the new large-scale energy projects in order to get the projects started with their technological expertise and capital. However, the economic sanctions imposed by the EU and the US are currently preventing EU- and US-based companies from participating in the Arctic oil exploration and production in Russia, which is now slowing down the development of the Russian Arctic energy projects.

Besides the desire to exploit Arctic energy resources, another interest guiding the Russian maritime policy is the development of the Northeast

Particularly the growing interest in the Arctic hydrocarbon fields and sea routes as well as the continuous importance of energy exports for the Russian economy have boosted the development of the maritime sector.

Passage, the Arctic sea route along the Eurasian northern coast, because it provides a shorter and thus cheaper alternative to the southern Suez Canal route to the growing Asian markets. However, the Northeast Passage is not expected to emerge as a large-scale international transport route in the near future because of the undeveloped infrastructure, the lack of adequate ice-going vessels and the emerging disputes over the waterway rights. Although the period during which the route is navigable is lengthening and number of ships passing it is increasing, large investments are still required in the Arctic port infrastructure, satellite coverage and rescue system, let alone the construction of new ice-capable LNG tankers and icebreakers necessary to escort their voyage. Moreover, the enforcement of safety and environmental protection in the Arctic has remained rather heated issue internationally, and for instance environmental organisations have campaigned against Arctic oil

exploration. Nevertheless, as a concrete attempt to both increase safety and protect the harsh environment in the waters surrounding the Arctic and Antarctic poles, the International Maritime Organization (IMO) has recently adopted the International Code for Ships Operating in Polar Waters – the Polar Code. The Polar Code is mandatory for ships operating in polar waters, covering the full range of design, construction, equipment, operational, training, search and rescue and environmental protection matters relevant to these ships (IMO 2014). Furthermore, Russia is also involved in the Arctic Council which is an intergovernmental forum for cooperation, coordination and interaction among the Arctic States, in particular related to issues of sustainable development and environmental protection in the Arctic (Arctic Council 2011).

Thus, the growing interest to the Arctic has, for its part, increased the significance of the maritime sector in Russia. However, despite its significant growth potential, the modernisation of the sector will certainly take time. The current Russian expertise is mostly restricted to military shipbuilding – or commercially to building hulls – and the industry is not export-oriented or even present at the international market. Thus, the Russian maritime industry has fallen behind other shipbuilding nations in terms of technologies and knowhow and is dependent on foreign expertise. The innovative capacity of the Russian maritime industry also remains at somewhat low level. Thus, considerable developments are needed in order for the Russian maritime industry to become able to truly participate in international competition. Engagement in international activities can be seen as a key for developing Russia's own maritime expertise and foreign companies have so far been very interested in entering the country's maritime business due to the huge market potential, particularly regarding the Arctic vessels and shipping. However, the current economic sanctions against Russia have restricted the business cooperation with EU- and US-based companies which has led Russia on the one hand to develop local production and on the other hand to seek alternative suppliers from China and South Korea. The escalation of the crisis in Ukraine has already surprised the policy makers and the business and research communities with its suddenness and seriousness. The unexpectedness of these recent developments illustrate how difficult it is to predict the future – and it also remains to be seen how they will affect the development of the Russian maritime sector in the long run. ■

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# The uncertain future of the global Arctic

The Arctic is rapidly warming up, and as a consequence, gradually losing its ice cover. This is expected to have two well-known economic consequences. First, Arctic sea routes are projected to become more easily accessible for maritime transport. Secondly, the Arctic is estimated to reveal substantial new sources of hydrocarbons and minerals. As an opening geopolitical frontier with exciting economic opportunities and serious environmental challenges, the Arctic is attracting an increasing amount of attention from a range of economic and political actors, both within and without the Arctic itself.

Although climate change is the key enabler in the process, it is the economy that plays – and will continue to play – the key role in the Arctic transformation. The economic potential in the region is undoubtedly huge. Indicative of this, recent estimates suggest that the Arctic area could witness investments ranging up to €225bn during the next decade, mostly related to the exploitation of non-renewable energy sources and related infrastructure construction. This process is further facilitated by technological innovations, including advances in ship, communication, satellite, drilling, and navigation technology. In reality, however, Arctic economic development faces severe challenges, stemming from both internal and external sources.

Regarding the Arctic maritime transport, the high expectations are often based on insufficient understanding of the Arctic conditions. With severe temperatures, long distances, drifting ice, and darkness, the Arctic is multi-dimensionally harsh operating environment which makes Arctic maritime operations challenging and costly. In addition to operational challenges, the Arctic maritime routes lack en route markets. Thus they are not suitable for container traffic that relies on just-in-time logistics and high load percentage while serving multiple ports. The increase in hydrocarbon and mining activities offer some possibilities, but these are primarily within specific regions (so called destination shipping). The developments in vessel design are moving towards ever bigger vessels in search of economies of scale, which makes the shallow and peripheral Arctic routes increasingly uncompetitive.

Moreover, if changes in the world market logic shift manufacturing south of Hong Kong in 20 years when production costs in China, for example, have risen too high, let alone if production is insourced back to Europe or North America due to technological advances (e.g. 3D printing) or viable domestic energy (unconventional gas and oil), the Arctic maritime routes might lose much of their economic viability.

China may be exemplary in another way: Chinese resource interests and investments (e.g. multi-billion investments in port facilities in Greece, Pakistan, Sri Lanka and elsewhere) are primarily along the southern maritime routes. The 71 transit passages through the Northern Sea Route (NSR) during the 2013 sailing season pale in comparison not only with the transport flows along the more traditional routes, such as the Suez Canal which sees the passage of up to 18,000 ships each year, but also with the amounts of shipping in the NSR itself in the past. In terms of volume, the 2012 figure amounted to only 60 per cent of the NSR maximum in 1987, illustrating the disparity between hyped popular images and empirical reality in the contemporary Arctic maritime domain.

Despite high expectations, Arctic oil and gas development also face significant challenges that need to be tackled if the region is ever going to be globally important and competitive in energy markets.

The bottom line is that implementing oil and gas development projects in the Arctic is complex. On top of the harsh operating environment, their feasibility depends to a large extent on the global supply and demand dynamics, namely the price of energy. From an economic perspective, the basic principle is that the selling price must exceed a certain relatively high threshold for Arctic oil and gas extraction to be profitable. For example, the production costs

Even if a year or two of sanctions does not necessarily threaten the projects in the long-term, the crisis in Ukraine will affect the Russian Arctic development by increasing the overall risk levels for international investors.

of Arctic oil can vary between \$40-100 per barrel, whereas the production of a barrel of oil in the Middle East costs between \$5-40. With current (and declining) oil price of \$85 per barrel, Arctic oil development is simply less attractive due to the high production costs and low or non-existent profit margins.

Arctic oil and natural gas extraction involves serious technical problems and requires huge investments. Perhaps most importantly, actors in the energy sector have to mitigate the risk of environmental accidents. The Arctic environment is fragile and hard to restore in the event of accidents. The liability issues – e.g. reputation loss and financial penalties – related to a potential environmental catastrophe pose major obstacles to resource extraction and hinder the development of potential projects. There is also the problem that the mitigation of global climate change and the extraction of new hydrocarbons in the Arctic is an equation that does not add up easily.

Arctic energy projects also tend to have long lead times. The time between the initial discovery and the actual production phase might be up to two decades or even beyond. This timeframe could see unpredictable global or regional developments, such as changes in

energy supply and demand, environmental accidents or political crises, which might have negative effects on the planned projects, either delaying them or resulting in them being cancelled altogether.

An enlightening example of the contingency of Arctic energy exploitation is the case of the Shtokman gas field project, situated in the Barents Sea. It was initially designed to supply Russian liquefied natural gas (LNG) to the US market. However, the project has been put on hold indefinitely by technological breakthroughs in shale gas extraction technology, which has saturated the US gas markets and consequently blocked the export of Shtokman LNG to the US.

As such, committing to these long, capital intensive projects is difficult because of the great uncertainty surrounding the Arctic development. Especially, there is a growing concern that assets in the Arctic could become stranded due to lowering price of fossil fuels brought about by increases in renewable production and improvements in energy efficiency, or due to increasing competitiveness of shale and deep-water development elsewhere in the globe.

Global politics plays another crucial role, as seen today in the context of the Ukraine crisis. The West has decided to prohibit the exportation of Western goods, services and technology for the development of Russian Arctic offshore oil prospects, and has restricted the access of the highly expensive Arctic megaprojects to Western capital. Even if a year or two of sanctions does not necessarily threaten the projects in the long-term, the crisis in Ukraine will affect the Russian Arctic development by increasing the overall risk levels for international investors, resulting in lack of capital and know-how for future investments. Moreover, Russia's on-going rebalancing to China, particularly now in the context of East-West tensions, may boost the development of East-Siberian resources at the expense of the Arctic. Also shale-oil development in Western Siberia may turn out to be the more attractive energy option in economic terms, given the existing infrastructure and easier operational environment.

Yet, it is vital to note that even if the Arctic economic prospects were not realized in full, there would most likely still be substantial investments in(to) the region. Barring state failure in Russia, this means that the Arctic is likely develop economically, even if the pace and extent of the economic developments will remain more moderate than what was expected still few years ago. Because of the above-mentioned factors, the future of the Arctic remains uncertain and there is a need to engage in a constant, comprehensive and risk-aware assessment of Arctic dynamics, among other things in order to make sustainable, timely and well-focused investment decisions. ■



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# The achieved high Arctic stability as an asset for the storms of international politics

The globalized, 'post' post-Cold War Arctic is facing a danger of a shift from high stability, based on an international, mostly multilateral, cooperation on environmental protection – here it represents 'cooperative security' – to the priority of economic activities and higher political tension, and correspondingly a decline of intergovernmental cooperation between the Arctic states.

Behind is on the one hand, that the Arctic and its resources, as well as options to them, have become a target of the growing interest of the region's states, as well as that of growing global interest much due to a better access to resources made possible by rapid climate change. This strategic position of these (energy) resources, together with new global sea routes may increase the mass-scale exploitation of resources, and economic competition between the Arctic states, as well as between them and non-Arctic states. On the other hand, the current state of international politics – much influenced by constant 'war on terror', and continuing regional warfare with international sanctions and counter-sanctions, as well as loud rhetoric full of rumours, propaganda, and mis-/disinformation and falsification with strange consequences, such as the Swedish Navy hunting for "something down there" in the archipelago of Stockholm – has its reflection and indirect impacts in the entire North.

Some might say, a bit misleadingly, that Geopolitics is back. All of this is clearly an indication of 'Realpolitik', but is not the whole picture, since Geopolitics has been there all the time, though taken over by Geo-economics and global financial liberalism. The situation is more complicated, and the scale is broader, simply global, and the international community, as well as the Arctic region, is facing bigger and unpredicted challenges and serious irrational violence: first, the threat presented by ISIS, the Khorasan group, and the exploding Middle East; second, world-wide epidemics, human catastrophes, e.g. the Ebola virus as a zoonotic disease; third, impacts of unavoidable climate change, e.g. loss of sea ice and that of glaciers, and the consequent conflict 'the climate vs. capitalism'; fourth, corresponding holistic environmental degradation accelerated by the Anthropocene, e.g. the Arctic paradox; fifth, a discourse shift of security from traditional to comprehensive, particularly human, security with the core question, "who are subjects of security"; and final, structural societal problems of the governing systems, and the possible ever-present 'irreversible collapse' due to growing inequality and the unsolved cumulative crises of Europe (from fiscal, economic, political to moral crisis).

The year 2014 has been difficult for the Arctic region and its, so-far smoothly run, international multidimensional cooperation: The Ukrainian crisis, and warfare there, has wrought tension between Russia and its Arctic neighbors casting a shadow over Arctic affairs, if not outright putting them into a danger. There has been a clear shift from environmental protection to economic development by Arctic states.

We even saw the first (ever) boycotting of Arctic Council meetings. Consequently, there is a growing and legitimate concern that due to this situation the current era of high political stability of the Arctic may be lost.

Briefly saying, in the 2010s the post-Cold War (in the Arctic) is over, and the achieved Northern order based on multilateral cooperation and common interests is in a test – first time since the end of the 1980s. At the same time, there in the Arctic are new dimensions and bigger challenges, which require local, regional and global political responses, and fresh, bold ideas. For example, according to the report *Russian Strategies in the Arctic: Avoiding a New Cold War*<sup>1</sup> the Arctic region, where the Russian Arctic consists a big part, faces both challenges and opportunities, and needs more transparent, predictable and consistent policies of Arctic states, and a kind of up-dated version of 'new thinking'. Also a paradigm shift 'from unipolar, national, military security to holistic approach' is badly needed – though might be too radical for most of the Arctic states, but supported by many local and regional non-state actors – not least due to the 'Arctic paradox', and that the 'Anthropocene' is already at play in the Arctic.

In this current unstable situation of international politics at the 2010s – with several continuing regional wars, aggression and attacks by violent non-state groups and constant fight on international terrorism, as well as 'from fiscal and economic crisis to political and moral one' – the stable and peaceful Arctic could, as well should, be taken (by policy-makers) as a human-made capital and immaterial value, as a contrast to the emphasize of material things, particularly energy resources.

The first geopolitical shift 'from confrontation to cooperation' for environmental protection and sustainable development was a real achievement – it could go into another direction. Here the Arctic states played, and still play, very important role. This was a conscious choice by them, and was much supported, even pushed, by the region's non-state actors in the Arctic, particularly indigenous peoples' organizations, environmental movements and scientific community. In their recent national strategies and policies the Arctic states recognize the value of Arctic stability and cooperation – indeed, stability is a useful means for national security and economy, and other state interests, as well as for state control over its territory.

This shift meant changes in premises of Arctic security, as well as Arctic governance: The region's stability is not any more threatened by the military presence and the deployed nuclear weapon systems, but more by a concern on a state of the fragile environment due to first, long-range air and water pollution and then rapid climate change

<sup>1</sup> The focus of the report is Russia's activities and interests in the Arctic, particularly in the Russian Arctic, and Russian recent policies in and dealing with the region. It was launched in October 2014 by the Russian think-tank Valdai DC at its annual meeting in Sochi.

with its environmental and socio-economic impacts. Consequently, the discourses of environmental and human security became more in focus, and peoples started to recognize something called 'every day's security' and slowly became subjects of (their own) security. If this was important when designing and maintaining the new Northern order, which replaced the confrontation of the Cold War period, the high stability and peacefulness still play an important role for Arctic governance and its further development. Therefore, it can, and should, be interpreted as a joint valuable asset (by the Arctic states) and a reserve for the future. The Arctic region with high political stability and willingness to find common interests, together with rich (natural) resources and human capital, could act as an example for the rest of the world, as well as a test ground to examine new and innovative ways of governance, economic development and human security. This goes beyond state sovereignty, the military and nationalistic ways of thinking, as do the above-mentioned challenges and threats. ■

*The article is based on my introduction in the international panel "Security of the Arctic" at the 2nd Arctic Circle, organized by the University of the Arctic's and the Northern Research Forum's Thematic Network on Geopolitics and Security. The panel – with four breakout sessions and 25 talent speakers – was rich in various security themes and broad approaches to security studies from the nexus of the environment, resource extraction, global economy, energy security, sovereignty, and global governance, and from the current military strategies to redefinition of further human / environmental / local security of the Arctic, as well as to the question of subjects of security.*

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**Further readings:**

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JUSSI HUOTARI

# Arctic Roulette – will economic sanctions open the door for Sino-Russian offshore operations in the High North

The former CEO and owner of Yukos Oil Co., Mikhail Khodorkovsky, compared “investing in Russian equities to gambling in Las Vegas” in a recent Council for Foreign Relations interview. From the point of view of the Arctic offshore operations, Khodorkovsky's comparison is not void of meaning. The stakes are high, since the melting sea-ice has revealed new options for the exploitation of oil and gas reserves as well as newly opened sea lanes. The promising estimations of fossil fuel resources are like honey to the bees. Different actors, from in and outside the Arctic region, are looking for ‘the full house’ in terms of economic profits.

The hand of the Russian Federation in the Arctic poker game is promising, as she is the largest state geographically, an important regional and global actor in energy markets, and has one of the most attractive northern sea lanes along her coastline. Even though it seems that Russia has aces in her hand, the game is not over yet. In order to utilize offshore energy resources Russia needs both financial and technological assistance from foreign players. During the past decade Russia and its SOEs have formed a number of strategic partnerships, particularly with big Western TNCs. These joint ventures are beneficial for both parties, as they open the door for TNCs to the Arctic treasure box and give Russian SOEs support to operate in extremely expensive and technologically demanding offshore operations.

For a long time players in the energy roulette seemed to calculate their odds well. Deeper economic interdependence and the need to satisfy the global hunger of energy motivated exploration in more severe conditions. However, the situation today is somewhat different. Firstly, new forms of unconventional oil and gas resources have become technologically and economically viable which has brought new players to the table. According to some estimations the United States will turn from a net importer of oil and gas to a net exporter in the next few years. Secondly, the global economic downturn and particularly the financial crisis in the EU have resulted in declining demand for energy in OECD countries. Third, tensions in international relations are at the highest levels since the Cold War. The ongoing crisis between Russia and Ukraine has altered the faith in economic interdependence as the guarantor of peace and stability. One of the consequences has been economic sanctions, laid by the EU and the USA, which ban the export of technology and prevent Russian companies from getting loans from the Western banks. The rationale behind these actions is to play out the aces from Russia's hand.

The third round of sanctions, which came into force in September 2014, forced Western companies to halt joint exploration projects with Russian partners in the Kara Sea. The new sanctions hit the American TNC Exxon the hardest, which is in a strategic partnership with Russian state-controlled Rosneft. For Exxon, Russia is the next mega-area where the resource potential is not yet fully seized. However, because of political relations vis-à-vis Russia and the West as well as economic sanctions, Exxon's heavy investments in Russia

are in great risk. Nevertheless this is not an easy situation for Russia, either, since its economy is so heavily dependent on the exports of fossil fuels. Furthermore, Russia needs new reserves to substitute for its maturing fields. In order to be successful in this foreign investments and modern technology are necessities, and this is something that the political and economic elite, in both Russia and the West, know. So, is the ‘energy game’ between Russia and the West as straightforward as it seems?

Even though there is a strong interdependence between Russia and the West in terms of energy trade, both sides are actively searching for diversification. For Russia, the new market is in the Far East, particularly in China. In Spring 2014, China and Russia signed a massive 30-year \$400 billion gas deal which is significant in many ways. On the one hand, it opens a new market for Russian gas and thus compensates the decline in demand in the EU. On the other hand, although exports to the European market have decreased, new reserves are needed. Chinese financial instruments and energy companies play a critical role in this, because they are not influenced by the economic embargo against Russia. Hence, the current political struggle between Russia and the West could give a stronger foothold for China in Arctic energy projects. Chinese firms like CNPC and CNOOC are already partners in energy projects, together with the Western and Russian companies in the Arctic.

The current situation regarding transforming the Arctic oil and gas resources into exploitable reserves is in a flux. The first option could be that the projects are on hold because of economic reasons i.e. a low market price of oil and gas, the growth of unconventional reserves as well as sanctions which prohibit Western TNCs and investments from operating in the Russian Arctic. The second option could be that if economic sanctions last for few years, the Western TNCs and investments would be replaced by Chinese counterparts. Although both Russian and Chinese companies do not have the capability nor the technology to safely operate in the harsh climate conditions and icy waters, the second scenario is possible, as Chinese and Russian companies have been collaborating with more experienced Western companies for a relatively long time. The joint projects, such as Universistkaya-1 in Kara Sea, must have taught something about offshore operations to Russian companies. So, when the next round is played, there might be only two players left: Russia and China. ■



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# After getting in – what comes next after China got the Observer Status?

In May 2013, the Arctic Council welcomed six new observers into the club, with China catching much of the media's attention. China has been engaging with scientific research and organizing expeditions to the Arctic since the 1990s. China was invited to participate in Arctic Council affairs in 2006, and applied Observer Status in the following year. It takes about seven years for China to get the Observer status. So, it is no surprise that the news of China's being accepted as an Observer was hailed by high level Chinese media.

## Why bother joining the club?

**First, the fast changing Arctic and its consequences are increasingly connected with China.** Everyone knows that the Arctic is changing. Global warming in the Arctic is two times faster than the rest of the world. For better or worse, the consequences of the changing Arctic offer opportunities and challenges. It is believed by some researchers that climate change in the Arctic has some influence on China's agricultural production, weather patterns, etc. To learn more about climate changes in the Arctic and its global impact, especially impacts on China, are the main tasks for China's Arctic research and expeditions. The potential economic opportunities offered by an opening Arctic is more salient in China's claims of its perceived interests in the Arctic. These include the Arctic passages, which is much shorter in distance than the current passages from Europe to Asia; the potential availability and exploitation of energy and resources in the Arctic, which offers new options to satisfy the growing demand for energy. These connections is dual dimensional. As one of the biggest emitter of green-house-gases, for better or worse, China is also contributing to the warming of the Arctic, and the increasing presence of Chinese companies in the Arctic is also influencing the Arctic.

**Second, being an Arctic Council Observer was perceived as being recognized as a legitimate stakeholder in the Arctic.** Though initially as an agenda-setting forum, the Arctic Council was perceived as the most influential body governing the Arctic, this is valid especially in the light of recent developments in the Arctic Council making more binding rules. Not an Arctic country geographically, non-Arctic countries, including China, cannot become a member of the Arctic Council. Following the governing rules of the Arctic Council, being an observer to the Arctic Council and thus joining the Arctic club is the only option for those interested non-Arctic states to forging the connection with the Arctic. With the increasing interest of China in the Arctic, some researchers have defined China as a "near-Arctic State" or an Arctic Stakeholder, which is also bought by high-level Chinese officials as shown in their speeches on formal occasions. By joining the Arctic Council as an observer, China can be invited to attend Arctic Council meetings and other activities, to observe the work of the Arctic Council, and make relevant contributions through the engagement of working groups, as elucidated in the *Arctic Council Observer Manual for Subsidiary Bodies*. This is a great leap-forward for China in future participation in the Arctic because it is more formal and institutionalized.

## A learning curve

The understanding of the Arctic by Chinese researchers in social sciences and the perception of China's intentions in the Arctic are experiencing a learning curve, in which both sides are more rational in observing and interpreting what's happening. Arctic affairs became a topical issue for Chinese social scientists and commentators

are less than 10 years. So the knowledge and understanding of the Arctic is scant for early researchers, thus it is no surprise for some of them to have radical arguments. This is the same for international commentators to exaggerate "the Chinese are coming" in the Arctic, and the threat and challenges that poses. Seeing "the dragon eyes the top of the world", some commentators even passionately argue to "stand up against China's increasing claim in the Arctic". With more interaction among researchers and commentators, enhanced mutual understanding follow suit. Less media attention and irrational interpretation of China's sixth Arctic Research Expedition appeared in 2014.

## What's next?

While applying the Observer Status to the Arctic Council, China promised to be a responsible stakeholder, and contribute to good governance of the Arctic, alongside with the Arctic countries and the international society. Capacity is the key for making the contribution, and China is boosting its Arctic research capacity by constructing the second icebreaker, conducting routing Arctic research expedition, and support more research projects on Arctic issues, thus to transform China from a big polar country into a strong polar country.

Polar strategy is part of China's strategy of building China into a strong maritime power, but there is no published yet. An Arctic policy paper should be issued to clarify China's plan and position in the Arctic, thus eliminating outsider suspicion, though the principles and main positions of China's engagement in the Arctic is elucidated in the talks by high-level Chinese officials when attending Arctic related conferences. Those principles include international cooperation on Arctic researches, good governance of the Arctic, being a responsible stakeholder, and make meaningful contribution to the Arctic, etc. The Observer Status can serve as a catalyst for China in formulating and issuing such a policy paper.

The connection between China and the Arctic also grows at the society level, more research institutes dedicated to Arctic studies are founded, especially salient in social science field, and more conferences and scholar exchanges are carried out with the China-Nordic Arctic Research Center as a pioneer. Eight Chinese institutions joined the University of the Arctic network in 2013, and more is joining in the coming years. The Observer Status boosted Chinese social scientists interest in Arctic researches.

China is also more realistic as being an Observer to the Arctic Council because there is basically only very limited room for observers to exercise power in shaping Arctic Council agendas. The Observers, including China, while engaging in the Arctic, they should accommodate their interests in line with Arctic states' interests, and paying special attention to the different needs among different Arctic groups. Only through this approach, the observers are welcomed in making meaningful contribution to good governance of the Arctic for the Arctic peoples, Arctic states, and the entire world. ■



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YOUNG KIL PARK

# The Arctic – South Korea's interests and challenges ahead

South Korea's interest in the Arctic has grown gradually with the acceleration of the Arctic sea ice melting. The interest reached its peak on May 15, 2013, when South Korea obtained observer status in the Arctic Council. Expecting that the Arctic would bring great profits to South Korea, newspapers and media wrote articles on the so-called "Arctic Ocean era" full of rosy prospects. Many seminars and expert interviews were conducted about the Arctic, while port cities on the east and south coasts of South Korea asserted that they would become the main beneficiaries of the Arctic Ocean era. Now just a year and half later, the media's and people's interests in the Arctic have waned considerably; they slowly became aware of the fact that the stories of huge profits from the Arctic are not happening in the immediate future. On the other hand, the situation can be "beneficial" for the government as they can now prepare mid- and long-term policies calmly and rationally. The author will discuss South Korea's main interests in the Arctic and the challenges ahead.

Above all, South Korea's interests in the Arctic begin from economic benefits. The opening of the Arctic sea routes in summer due to accelerated thawing in the Arctic earlier this century, combined with the U.S. Geological Survey's report that 13 percent of the world's oil reserves and 30 percent of its natural gas reserves are submerged in the Arctic, drew the attention of South Korea to the Arctic Ocean. South Korea's economic interests are focused largely on five main points.

First point is the Northern Sea Route (NSR). Current sea routes that connect South Korea to Northern Europe pass the Strait of Malacca and the Suez Canal. It is expected that NSR will decrease the transportation distance by about 40 percent (8,000 km), reducing fuel expenses by 25 percent and the time by about 10 days. It is, without doubt, highly advantageous compared to the existing sea routes. However, the use of NSR depends solely on the melting of the Arctic sea ice. Experts forecast that it will take at least 20-30 years to be able to navigate the ice-free Arctic without an icebreaker. While South Korea's first voyage across the NSR – from Ust-Luga Port of Russia to Gwangyang Port of South Korea – was successfully completed by the South Korean logistics company Hyundai Glovis in October 2013, the second voyage is still yet to happen. Currently, the main challenges include the costly ice-breaker and ice-pilot fees, securing the freights when ships go back to home ports, and difficulty of finding well-trained and experienced crew. Another obstacle is that due to the severe climate conditions in the Arctic, shipping through the NSR is still limited to bulk cargoes and oil, while regular container shipping remains not feasible.

Second, the opening of NSR is expected to vitalize South Korean ports. After South Korea earned observer status in the Arctic Council, local governments with major ports on the east and south coasts demanded much investment in preparation for the opening of the NSR. However, this was too hasty a move without any concrete evidence. South Korea's Busan Port currently ranks 5th in the world in terms

of container cargo volume. Unlike what many envisions, the benefits of utilizing NSR to the Busan Port are not as high as expected. The actual increase in traffic will be limited for the time being since container shipping through the NSR stills requires more time as aforementioned. Moreover, the NSR merely replaces existing sea routes, meaning that as the traffic from the Arctic increases, those from the Suez Canal will decrease just as much.

Third main focus is in the participation of Arctic oil and gas development. Majority of the oil and gas in the Arctic is reserved either on land or coast of Russia. The exploration is already under way in western Russia, where the environment is relatively easier to excavate. The global economic recession coupled with the decrease in oil prices due to shale gas growth are also other factors that hinder the energy development in the Arctic. Therefore, it is not likely that South Korea will enjoy the benefits of Arctic energy resource development in the near future. So far, The South Korea Gas Corporation (KOGAS) has only acquired 20 percent stake in the Umiak gas field in the Canadian Arctic in 2011.

Fourth point is the possibility that South Korea could participate in the development of the Russian ports. Modernization of old port facilities of Russia is crucial to navigate the NSR. South Korea is discussing its participation in the port renovation projects with Russia's federal and local governments, but the worsening financial situation due to Russia's economic recession is blocking the process.

Lastly, South Korea has an economic interest in the shipbuilding industry. Demand for special vessels, such as icebreakers and ships with icebreaking capability, is increasing as the NSR opens up. South Korean shipbuilders, including Hyundai Heavy Industries, Samsung Heavy Industries, and Daewoo Shipbuilding & Marine Engineering (DSME), are among the world's top manufacturers in terms of construction technology and the amount of contracts. DSME has signed with the Russian shipping companies, including the state-owned Sovcomflot, to build a total of 15 ice-class LNG carriers for the Yamal project, which will be delivered in 2016. However, the demand for such special vessels will decrease over time as the Arctic sea ice melting accelerates.

As identified above, despite South Korea's high interests in the Arctic, the actual financial benefits are exaggerated and limited in many aspects. In this regard, the Arctic Policy Master Plan by South Korea in December 2013 – which was the first among non-Arctic states – deems very realistic and practical. The Master Plan sets four main goals for the period of 2013-2017, each consisting of a detailed plan to attain these goals: (1) Strengthen International Cooperation; (2) Encourage Scientific and Technological Research Capacity; (3) Pursue Sustainable Arctic Businesses; and (4) Secure Institutional Foundation.

The detailed plans for each goal include actively participating in meetings of the Arctic Council and all activities of the Working Groups, creating strong and diverse relationships with research institutions affiliated with the Arctic in the Arctic States, supporting Arctic research

stations and establishment of the Arctic scientific research foundation, examining the feasibility of Arctic sea routes, supporting the development of Arctic related technology, and founding the Polar Information Service Center. It is a highly desirable effort that the South Korean government is pursuing more feasible policies for the mid- and long-term.

With respect to the Arctic, South Korea is facing at least three challenges. First is the relationship with Russia. Securing a solid partnership with Russia is of critical importance to maintain South Korea's economic interests in the Arctic. However, due to the current situation in Ukraine, Western countries are issuing political and economic sanctions against Russia, and South Korea cannot stand alone in such global action. Second is the harmonization of the NSR with trans-Siberia railway route, an initiative to connect Europe and South Korea via the Silk Road. It is important that the two routes

should have a complementary rather than a competitive relationship. Lastly, the South Korean government's Arctic policy has been gaining momentum since South Korea obtained observer status in the Arctic Council. South Korea should strive to maintain this momentum even though no tangible results may be achieved in the short term. ■

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ADRIAN BRAUN

# The relevance of Corporate Social Responsibility (CSR) reports in the framework of Arctic business operations

**W**hat is the Arctic? There are plenty of different perspectives in this regard and subsequently different answers to that question. In a geographical view, the Arctic is primarily ocean and in addition the most northern land territories of a few countries. For several reasons the development of the Arctic is increasingly dominated by human activities. Despite the fact that human activities have effects on the entire planet, the Arctic plays in that perspective a prominent role, often referred to the vulnerable Arctic ecosystem and the possible environmental damages within this ecosystem. Hence it is meaningful to consider which actors significantly influence the Arctic. Politicians, local communities, indigenous people, scientists, non-governmental organisations and enterprises which operate in the Arctic are some of the most influential actor groups. The latter group is of particular interest by considering the aforementioned human activities by reason that the Arctic has a vast amount of various natural resources. Major industrial sectors in that context are forestry, metal & mineral mining, oil & gas production and fishery.

Consequently, large-scale enterprises related to these business sectors have a special role in this regard. Several multinational companies operate in the Arctic territories and affect the economy of the regions, the well-being of the local communities and the health of the Arctic ecosystem. In this respect the significance of considering Corporate Social Responsibility (CSR) in these corporations and subsequently the implementation of CSR policies and strategies within the corporate planning is continuously increasing. CSR is defined differently by diverse organisations due to the fact that no specific core theory of CSR has prevailed to this date. However, the vast majority of CSR guidelines and definitions have one thing in common, that a successful organisational CSR strategy is adequately based on the three dimensions environment, social and economy and a reasonable balance among these three dimensions.

One prominent solution to depict CSR efforts and create transparency of an organisation's sustainable practice is the frequent publication of a CSR report (also identified as sustainability report). These reports are often based or at least related to international reporting standards. The Sustainable Development Working Group of the Arctic Council for instance proposes the application of the Global Reporting Initiative guidelines (GRI) with its environmental, social and economic performance indicators, the OECD guidelines for multinational enterprises or the United Nations Global Compact standard. By looking at the large-scale enterprises with operations in the European Arctic and North America the differences to the most other global companies

are marginal. In Canada, Finland, Norway, Sweden and the United States the development approaches of CSR reports are very similar to the methods of large-scale-companies in the most other industrial countries, for example in Central Europe. Russian companies follow various reporting strategies. Some Russian companies (for instance a few notable oil and gas producers) use the international reporting frameworks to the same extent as their competitors from Western Europe and North America, others on the contrary follow a rather individual reporting strategy.

*Due to the fact that CSR is aligned to the three dimensions of sustainability, the relevance of CSR in the economy, environment and society of the Arctic is briefly outlined in the following:*

I.) *Economy:* The Arctic has plenty of natural resources that attract amongst others the industries of forestry, mining and oil & gas production. Forestry is a key business sector in Canada, Finland, Sweden and the Russian Federation. Moreover there are several mine locations in the Arctic which produce for example coal, copper, nickel, gold, chrome, zinc, lead and iron ores. Hence mining constitutes another pillar for the national economies of Arctic countries. Canada, Norway, the Russian Federation and the United States have the lucrative situation to have direct access to the Arctic Ocean and consequently to the oil and gas resources in the sea. That fact plays a crucial role with respect to the economic development of these countries. CSR reporting and implementation of CSR policies into the corporate strategies of companies in these industries could attract investors/shareholders who appreciate sustainable investments.

II.) *Environment:* In an environmental perspective, the Arctic is more than just a remote place with frozen water and a handful of polar bears. The Arctic ecosystem has an extraordinary flora and fauna with numerous species. Though the ecosystem is comparably vulnerable and the long-term survival of many species is nowadays dependant on sustainable practices of operating businesses in the Arctic. Hence industrial companies have to put emphasis on minimising their negative environmental impacts. The most influential of these impacts could be water, soil & air pollution, high levels of greenhouse gas emissions and the loss of biodiversity by disturbing or destroying the natural habitat (e.g. forests, swamps, lakes & rivers) of species. Some CSR reporting tools provide a specific framework to depict and report about every single of these possible impacts and the commitment and actions of an organisation to avoid or reduce damages.

III.) *Society:* The social dimension in the Arctic has diverse facets. Around four million people live in the Arctic and the majority of these people in the European Arctic territories. A new operation by a multi-

national company in these territories could increase the well-being of the local communities to a considerable extent. The creation of jobs, the development of the local infrastructure or compensation efforts for environmental damages lead to positive effects for communities in a monetary sense. On the other hand if compensations are inappropriate or insufficient, the effects could turn into the opposite direction. Various population groups in the European Arctic depend on two further business sectors that could be negatively influenced by the extractive industries. As well indigenous as non-indigenous people in the Arctic run businesses in reindeer herding and tourism. Reindeer herding requires wide areas of ecologically healthy landscapes. Land destruction of forestry and mining operations or long cuts in the landscape with gas pipelines disturb severely the livelihood of reindeers. Regarding the tourism sector, the businesses need a perceivable clean Arctic environment to provide a feeling of remoteness and untouched nature to attract eventually tourists. CSR reporting can be beneficial by localising and determining all the stakeholders of an organisation. Additionally, a contrast of positive and negative impacts on the society might reveal potentials for improvement of an organisation's social performance.

The extractive resources industries play essential roles in the Arctic and the CSR debate. Oil, gas, coal and diverse metals are non-renewable and the demand for these goods on the international markets will persist in the future decades. By facing in addition lots of social and environmental challenges today and in the future, the organisations that operating in the Arctic can benefit to a great extent from an implemented CSR strategy and the creation of sophisticated CSR reports. ■

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# Arctic Contaminants Action Program (ACAP) – practical projects to reduce contamination in the Arctic

**A** CAP is the Arctic Council's sixth permanent Working Group. Established in 2006, ACAP was founded to address Arctic pollution sources. It acts as a strengthening and supporting mechanism to encourage national actions to reduce emissions and releases of pollutants. Co-operative actions make an important and significant contribution to the overall international effort to reduce environmental damage on a global level.

ACAP's main objectives are to develop and demonstrate technical solutions to remediate pollution in the Arctic and to assist countries in meeting their commitments to international conventions such as the Stockholm Convention on Persistent Organic Pollutants (POPs), the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, and the recently negotiated Convention on Mercury.

ACAP carries out projects in seven thematic areas that impact the circumpolar region. Currently projects are focussed in the Northern regions of the Russian Federation. These include, the environmentally sound management of PCBs and obsolete pesticides, reduction of releases of atmospheric mercury, short-lived climate forcers, such as black carbon, dioxins and furans, and the development of a comprehensive hazardous waste management strategy for selected northern regions in Russia. Reduction of exposure to contaminants for circumpolar indigenous peoples' communities remains a priority for ACAP.

## Environmentally sound management of PCB contaminated waste

PCBs have been used in transformer oils, capacitors, sealants and paints since the 1930's. Their use and disposal has been strongly restricted in many countries for decades. Huge stockpiles of PCBs are housed in equipment and open-applications, like paints and sealants, which need to be properly managed as hazardous waste. ACAP carried out an inventory in Russia and has worked to facilitate the environmentally sound destruction of PCBs. However, this has not been possible due to the lack of environmentally sound destruction capacity in Russia and the inability to obtain operational licenses for construction of such a facility.

ACAP is closely following Russian decisions related to implementation of the Stockholm Convention. PCBs are one of the key issues addressed in the Russian National Implementation Plan.

## Environmentally sound management of obsolete pesticides

Russia has large stocks of obsolete pesticides, estimated at 40,000 tonnes, originating mostly from Soviet times. In 2001, ACAP initiated a project to improve management of obsolete pesticides stockpiles in 12 priority regions in Northern Russia.

To date, 7000 tons of obsolete pesticides have been discovered in ten regions in Northern Russian. Most of the stocks have been repackaged and transported to interim storage facilities to protect the environment and human health while awaiting environmentally sound destruction. As Russia is still lacking this capacity, the only option at the moment is safe interim storage. Due to the lack of final destruction capacity, landfilling hazardous waste in dumpsite "polygons" has been a common practice. It is unlikely that pesticides stored in this manner will ever be retrieved for final destruction.

Although the Russian Federation has reported development of destruction capacity, the environmental performance of these technologies has not been fully documented. Unfortunately, it may be a long time before environmentally sound destruction capacity is commercially available.

## Mercury

Mercury pollution is an ongoing concern in the Arctic. Like many persistent pollutants undergoing atmospheric transport, the Arctic serves as a sink for emissions of the Northern hemisphere. Mercury has been found throughout the Arctic, polluting the food chain. The concern over Mercury pollution has led to the creation of an international convention to reduce Mercury pollution. ACAP contributed to this process by developing an Arctic Mercury Releases Inventory in 2005, and the first inventory of atmospheric Mercury releases from the Russian Federation.

The ACAP Mercury Expert Group works to coordinate and facilitate demonstration projects that reduce the release of mercury, communicate results and coordinate synergies between projects. Projects are taking place in a number of sectors including, ferrous metals/zinc smelter mercury reduction, development of a coal-fired power plant sorbent technology for emission reduction, mercury reduction in industrial gold mining, a review of artisanal and small scale gold mining, and coordination on mercury-containing waste issues with relevant ACAP Expert Groups.

## Indigenous Peoples' Contaminant Action Project (IPCAP)

Industrial development of the Arctic has been accompanied by waste accumulation. This represents a growing threat to the health and safety of the Arctic people who, due to traditional subsistence lifestyles, are exposed to higher levels of contamination in the air, water, soil and food supply.

To address these issues in Arctic indigenous communities, the Permanent Participants of the Arctic Council proposed the Indigenous Peoples Community Action Initiative (IPCAP). The goal of IPCAP is to reduce the exposure and impact of contaminants on local communities. Currently, the Russian Arctic Indigenous Peoples Organization (RAIPON) and the Russian Federation, are developing a project ad-

addressing black carbon emissions in indigenous communities in the Aleutian Islands of Alaska and Chukotka.

#### **Short-lived Climate Forcer Contaminants (SLCFC)**

Black carbon is composed of fine particles that are produced from the incomplete combustion of fossil fuels, wood, crop waste and other biomass, and refuse. Fine particles, known as PM<sub>2.5</sub>, have well known and significant adverse impacts on human health. Many governments have taken action to reduce emissions on the grounds of health impact alone. Black carbon also has a significant impact on the environment, particularly in the Arctic. Other SLCFCs include substances such as hydrofluorocarbons (HFCs) and methane.

ACAP's SLCF Expert Group works to facilitate projects that focus on activities that reduce black carbon emissions transported and deposited in the Arctic. Projects addressing emissions from two different sources are under implementation. Project reports on reduction of black carbon emissions from residential wood burning (ACAPWOOD) and a project addressing emissions from diesel engines, widely used for energy production in remote areas, will be submitted to the Arctic Council Ministerial Meeting in 2015.

#### **Reduction/Elimination of dioxin and furan emissions**

Dioxins and furans are among the substances included in the original Stockholm Convention "dirty dozen". In 2005, ACAP facilitated development of an emissions inventory from sources in Arkhangelsk and Murmansk oblasts and the Republic of Komi using UNEP's *Standardized Toolkit for Identification of Dioxin and Furan Releases*. Subsequently, an analysis of gas releases for dioxins was carried out at the most significant sites to define experimental emission factors. In 2008, a feasibility study was undertaken to identify potential pilot projects, identifying the Vorkutinskiy Cement Plant as a potential site for further work. Funding for the final phase reduction activities is currently being explored.

#### **Integrated Hazardous Waste Management Strategy**

Managing hazardous waste has been a long standing priority of the Arctic Council. Many hazardous waste management projects have not been completed because of the lack of environmentally sound hazardous waste management capacity. ACAP's IHWMS Expert Group is developing an integrated strategy for environmentally sound management of all hazardous waste streams in selected regions in Northern Russia. The project is currently identifying the pilot regions where the work could be initiated.

#### **ACAP future**

ACAP will continue to implement and identify demonstration projects addressing contamination threats to the Arctic. ACAP will continue working with Russian authorities to identify and build environmentally sound destruction capacity for hazardous wastes. The current lack of this capacity for obsolete pesticides, PCBs and many other kinds of waste is preventing the completion of projects. An important tool in the future work of ACAP is the recent operationalization of the Arctic Council's Project Support Instrument (PSI), to speed up the implementation process by providing funding to projects reducing contamination of the Arctic. ■



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Chair  
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JUTTA WARK

# The human face of the Arctic – the Sustainable Development Working Group of the Arctic Council

The circumpolar world is experiencing fast-paced and far-reaching transformation. The observed climate and environmental changes in the Arctic exacerbate the ongoing challenges presented by resource demands, globalization, economic development, and changing demographics. Arctic communities are expected to respond to these socioeconomic, political and environmental realities while simultaneously seeking to benefit from the evolving opportunities. With more than four million circumpolar residents and indigenous peoples living in the Arctic region, it is necessary to consider the human dimension and support those who continue to pursue sustainable livelihoods, particularly in the context of ongoing international collaboration. The Arctic Council's Sustainable Development Working Group is at the forefront of this pan-Arctic work aiming to build the capacity of Arctic communities and support circumpolar peoples in their attainment of sustainable and prosperous ways of life.

Formally established by the Ottawa Declaration in 1996, the Arctic Council is a high-level intergovernmental forum that promotes cooperation and coordination among Arctic States, indigenous communities and Arctic inhabitants on common circumpolar issues through representation by eight Arctic States and six indigenous Permanent Participant organizations. A key achievement for Canada as the first Arctic Council Chair was the creation of the Sustainable Development Working Group (SDWG) in 1998 in Iqaluit, Canada. The SDWG was formally instituted to advance sustainable development in the Arctic, including opportunities to protect and enhance the environment, economies, culture and health of indigenous peoples and Arctic communities.

Projects and initiatives of the SDWG are carried out in six thematic areas: Arctic Human Health, Arctic Socio-Economic Issues, Adaptation to Climate Change, Energy and Arctic Communities, Management of Natural Resources, and Arctic Cultures and Languages. A guiding principle for the work of the SDWG is to pursue initiatives that provide practical knowledge and support the building of capacity of indigenous peoples and Arctic residents to respond to the challenges and benefit from the opportunities emerging in the Arctic. Of central importance to the SDWG is returning information to Arctic communities in order to enable them to evaluate and implement strategies informed by scientific, traditional, and local knowledge.

It is important to underline that the SDWG is a forum where topics and projects of particular importance to the Permanent Participants are advanced. Indigenous peoples, represented by six indigenous Permanent Participant organizations, have a strong voice in the SDWG and are integral to the success of projects. Permanent Par-

ticipants provide effective and extensive consultation with indigenous peoples and often take leadership roles in SDWG initiatives.

The work of the SDWG is informed by two subsidiary expert groups. The Arctic Human Health Expert Group (AHHEG) pursues efforts to increase awareness and visibility of health concerns of circumpolar residents in the fields of health research, and the expansion of health and education networks. The recently created Social, Economic and Cultural Expert Group (SECEG) provides access to research networks, subject-area expertise, and input into proposed and ongoing Arctic Council projects. It is recognized that challenges facing the circumpolar world cannot be addressed in isolation. For the SDWG, the two Expert Groups play a critical role of facilitating

and participating in work across other Arctic Council Working Groups. Additionally, the Expert Groups are innovative spaces for the development of strategies and act as gatekeepers to networks of knowledge and experience.

After completing a rotation of all Arctic States, Canada has once again assumed the Chairmanship of the Arctic Council for 2013-15. The overarching theme for the

Chairmanship is "development for the people of the North," with a focus on responsible Arctic resource development, safe Arctic shipping and sustainable circumpolar communities. These priorities placed considerable focus on the SDWG and its associated projects. Covering everything from climate change adaptation to reindeer herding, indigenous language promotion to the integration of Traditional and Local Knowledge into Arctic Council work, SDWG projects reflect the diverse challenges and opportunities of life for people in the Arctic.

It is undeniable that better and more effective results are achieved when Traditional and Local Knowledge is consistently integrated into projects and initiatives. In the Kiruna Declaration (2013), Ministers requested that the SDWG lead efforts to develop recommendations for the more consistent integration of Traditional and Local Knowledge into the work of the Arctic Council. To this end, two workshops were held in partnership with the Indigenous Peoples Secretariat (IPS), bringing together the Permanent Participant organizations as well as representatives from the Arctic Council Working Groups to explore how traditional and local knowledge, together with science, can enhance our understanding of the Arctic and better inform policy and decision making. This important work is intended to continue throughout future Chairmanships as the Arctic Council pursues deeper and fuller integration of Traditional and Local Knowledge into its work.

Another priority initiative of the SDWG pertains to the promotion of mental wellness. Many Arctic communities are successfully implementing approaches that enhance community resilience, therefore

The Arctic environment continues to change in ways that we are still trying to understand.

there is a need to know if successful programs developed by one community could be adapted and scaled into other communities. The SDWG is working on *The Evidence-Base for Promoting Mental Wellness and Resilience to Address Suicide in Circumpolar Communities* and supports two research teams in their exploration of mental wellness promotion measures around the circumpolar world in order to enable communities across Arctic States to develop initiatives to increase the resilience of circumpolar communities.

The Arctic environment continues to change in ways that we are still trying to understand; it is evident that increased temperatures, the reduction of sea ice, and other implications of environmental change will have vast effects on the livelihoods of circumpolar residents. The *Arctic Adaptation Exchange: Facilitating Adaptation to Climate Change* creates an online portal to be used in the enhancement of adaptive capacity of communities and foster innovative approaches to climate change adaptation. This centralized resource will allow communities and policy-makers to have access to shared knowledge, data and best practices upon which effective strategies can be developed.

It is with great anticipation that the SDWG awaits the publication of the *Arctic Human Development Report II*. This report will provide a ten-year update on the 2004 *Arctic Human Development Report* (2004) which presented a snapshot of human development in the circumpolar world. Covering diverse themes including culture and identities, resource governance, and human health – I anticipate that this report will be an important input into the work of the SDWG and go a long way in informing future work.

As the Arctic continues to experience vast transformation, continued collaboration among Arctic States, indigenous peoples and circumpolar communities will be central to sustainable development in this region. The SDWG is an important forum for the implementation of practical initiatives that enhance the capacity of circumpolar residents to meet the evolving challenges and opportunities associated with life in the Arctic. With continued support, the environment, economies, and cultures of the Arctic can be protected alongside the ongoing pursuit of prosperity of Arctic communities. ■

For more information on the work of the SDWG and ongoing projects, please visit [www.arctic-council.org/sdwg](http://www.arctic-council.org/sdwg).



**JUTTA WARK**

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AILEEN A. ESPÍRITU

# Futuring the Arctic

**T**he Arctic is hot! Not since the Arctic exploration and mapping expeditions that dominated the 19th and early 20th centuries has the Arctic garnered so much attention internationally. Issues of climate change, oil and gas production, and “carving up” the Arctic have driven the conversations regarding the status of this ostensibly remote region to the centre of political debate from Moscow, to Brussels, to Washington, DC, to Beijing. Indeed, the Arctic has and will continue to be significant in global politics for the foreseeable future. For those of us who live and work in the Arctic, while these political debates indeed do have resonance, what is clear is that, in the future, the Arctic will become, not just politicized, but also even more industrialised and urbanised. And as such, we will encounter challenges of mitigating the potential conflicts and problems these will bring to Northern residents who are more and more affected by both industrialization and urbanization in the High North. In short, I argue that the Arctic in the next 20 to 50 years will be characterized by industrialization, urbanization, and followed by intensified civil society engagement. These will be exacerbated by the world market demand for resources, by climate change, and by geopolitics.

Climate change has had a profound impact on the opening up of the Arctic and sub-Arctic regions to extractive industrialization. While it can be argued that mining and oil and gas development has existed for a century or more, especially if we look to the Russian example, opportunities and possibilities offered by a warming Arctic has increased such industrialization. Moreover even in highly developed mining sectors in the Russian Arctic, extractive industry activities have risen. In the Nordic countries, Canada, and Alaska, the mining industry, including oil and gas, have been reopened, intensified, or started where there was no mining before in order to meet world market demands.

All mining projects in the circumpolar Arctic are now also much more viable because of, at least until very recently, high prices for iron ore, gold, diamonds, coal, placer, uranium, quartz, oil & gas, and many more. Asia is the major consumer of such minerals and energy, but so are Europe, the United States, and Canada. Again, mining and extractive industries are driven by world market demands, and therefore, much of the investment, exploration, and extraction in the remote Arctic regions are often steered by international companies with head offices in Toronto, Moscow, or Sydney. Such predominance and influence of world markets in the remote North will have enduring impact on the economies, communities, and politics of Arctic regions. We already see the anticipation of this perceived eventuality

as the Arctic Council, the intergovernmental forum for governance in the Arctic, gave observer status to the Asian states of China, Japan, South Korea, Singapore, and India at its Ministerial meeting in May 2013. For Asia, the Arctic potentially represents a source of natural resources, a gateway to the European market with the potential for transshipment of goods from Asia through the Northeast passage, and not least, to continue and strengthen cooperation on scientific research on and in the Arctic.

Hand-in-hand with the rapid industrialization of the Arctic is urbanization. Today, seventy percent of those who live in the Arctic live in cities and urbanized spaces. With the exception of Russian urban centres in its Northern regions, cities in the other Arctic 8 states are increasing in population – a growth driven by extractive industry jobs and their spin-off businesses, labour migration, and the attendant services required to run municipal governments. Even in the Russian Arctic, population growth and shifts can be characterized by increasing labour migration with workers moving to the North to live and work, by fly-in-fly out workers, and by lateral moves from rural villages to larger centres in the North.

As with most of the world, whether industrialised or industrialising, over the next decade, most Arctic residents will live in cities – spaces of urban development that provide a core of centralized services expected by city-dwellers including but not limited to efficient and affordable public transportation, high-tech service options, diverse meeting spaces for social engagement, access to education, and health care, etc. By all accounts, as the Arctic becomes more industrialized and as populations from the global South migrate northwards and as Northerners themselves choose to live in central regions in the High North, it will also experience such dramatic shifts in population growth and development. Much of the movement between rural to urban will be driven by the shrinking of service provisions in the rural countryside, including postal, medical, education, and other public services. Thus, the next decade will mean exciting transformations and deep challenges for Arctic cities.

Extant are questions of how municipalities will provide jobs for in-migrants; how they will provide services for multicultural newcomers who may demand other cultural and religious provisions within a metropolitan framework. Moreover, how will cities answer citizens’ demands for sustainability, environmentally responsible practices, and energy efficiency even in the midst of growing resource extractive industries in Arctic regions? What are the strategies of cities to diversify economies to promote entrepreneurship and innovation in

In short, I argue that the Arctic in the next 20 to 50 years will be characterized by industrialization, urbanization, and followed by intensified civil society engagement.



order to attract and keep people dedicated to the development and success of the cities in which they live? How do mayors intend to make their cities attractive for both residents and visitors alike in order for communities, economies, and polities to thrive sustainably? These will be what concerns Arctic municipalities in the future as the world becomes more dependent on the Arctic for resources, and transport and logistics.

Population increase, demands for municipal services, and concerns over sustainability will demand more robust civil society engagement. Northern communities will no longer accept big industry, whether oil, gas, mining, or shipping, without having a say in how they operate and what benefits they can reap from them. We already see growing engagement from indigenous populations in the Arctic who have demanded that they be included in processes of decision-making regarding development. In Nunavut and the Northwest Territories in Canada, for example, the Inuit have demanded that a percentage of the workforce in the diamond mining industry should come from their communities. More recently, the Swedish Sami have protested mining operations in Northern Sweden, and Norwegian Sami have rejected gold mining in Kautokeino in Northern Norway. Strong protests of the development of oil and gas in the sensitive seas of Lofoten, Vesteraalen, and Senja in the Northwest of Norway have divided stakeholders. And even in Russia discourses about corporate social responsibility and trust regarding big industry is becoming more common. While protests and demands from local residents regarding economic development connote negative tones, we can also see it as a positive development for strengthening democracy by fostering debate and negotiation about land and sea use and the population's rights over them.

The future of the Arctic can be characterized by rapid and continued industrialization, urbanization, and the attendant challenges that both will pose. I argue that, as a result of these challenges, there will be a necessity for deep civil society engagement in Arctic communities. Moreover, as interest in the Arctic for its resources grows, and with continued climate change, we will only see these intensify in the future. ■

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SHINICHIRO TABATA

# Japan-Finland bilateral project on the socio-economic development of the Russian Far North

In this report, I introduce the project that we have just started with Finnish colleagues on the topic of the sustainable development of the Russian Far North. Its formal title is "Russia's final energy frontier – Sustainability challenges of the Russian Far North." This is a bilateral project between Japan and Finland, managed jointly by the author and Veli-Pekka Tynkkynen of the University of Helsinki and funded by the Japan Society for the Promotion of Science (JSPS) for the Japanese side and the Academy of Finland for the Finnish side. It started in September 2014 and will continue for two years.

The aim of this project is to examine sustainability of the development of the Russian Far North based on oil and gas development. It also aims to analyze the significance of the development of the Russian Far North for the development of the Russian economy as a whole, calculating costs and benefits of the development of the Russian arctic areas in a broader sense.

A few words about the definition of the Russian Far North. Russian Far Northern areas were defined in the Soviet time, in order to pay additional salaries and other benefits to the people working in these areas (USSR Cabinet Resolution No. 1029 of November 10, 1967). They include 16 regions (four Republics, three Krai, five Oblasts and four Autonomous Okrugs). On April 21, 2014, the State Program "Socio-economic development of the Arctic zone of the Russian Federation for the period until 2020" was adopted by Government Resolution No. 366. In this program, eight regions were listed as Arctic areas, including Murmansk Oblast, part of Archangelsk Oblast, Nenets Autonomous Okrug (AO), one region of Komi Republic, Yamalo-Nenets AO, part of Krasnoyarsk Krai, part of Sakha Republic and Chukotka AO. We will concentrate our attention on these eight regions in our project in its first stage.

Topics to be included in the project are broad. First, we investigate the role of energy in the socio-economic development of the Russian Far Northern areas, including the following sub-topics: 1) Budgetary relations between the center and these areas; 2) Demographic trends in these areas; 3) Social and environmental responsibility of the hydrocarbon sector; 4) Energy developments and rights of indigenous people in the Russian Far North; and 5) Future role of international companies in the development of the Russian Far North. Second, we analyze the effects of oil and gas development in the Russian Arctic and Far Northern areas on the following: 1) International politics and relations in the Arctic; 2) Future use of the NSR; 3) Environmental situation of the Russian Far North and the Arctic. In this context, we are interested in the implementation of the above-mentioned State Program "Socio-economic development of the Arctic zone of the Russian Federation for the period until 2020." We will examine the concrete measures taken by regional governments to implement this program.

Four features of our project should be mentioned. First, this project is characterized by its multidisciplinary approach. Members of the project are specialists in various disciplines of mostly social sciences, including economics, geology, political science, international relations and anthropology. Japanese members include not only researchers in Hokkaido, including Natsuhiko Otsuka, Masanori Goto and Tomoko

Tabata, but also specialists in other parts of Japan, including Masumi Motomura, Fujio Ohnishi, Masahiro Tokunaga and Kazuho Yokogawa. As for the Finnish side, members consist of scholars of the universities of Helsinki, Turku and Lapland, including Veli-Pekka Tynkkynen, Lassi Heininen, Kari Liuhto, Hanna Mäkinen, Eini Laaksonen and Nina Tynkkynen. Our intention is to implement this project from a viewpoint of various disciplines by top specialists in each field both in Japan and in Finland.

Second, we attach greater attention to field research. The timetable of the project includes four seminars in Helsinki (September 2014 and 2015), in Tokyo (January 2015) and Sapporo (July 2016) and field trips to the Russian High North in Murmansk and Arkhangelsk (September 2014) and Yamalo Peninsula (May-June 2015). We already held a seminar in Helsinki in September with the participation of Mr. Kenji Shinoda, Ambassador of Japan in Finland, and Dr. Hideo Akutsu, Director of the Stockholm Office of JSPS. Following this seminar, we had a fieldtrip to Murmansk and Arkhangelsk with 13 participants (seven Japanese, five Finns and one Chinese). We visited regional administrations, Northern (Arctic) Federal University, local offices of the Norwegian Barents Secretariat, Finnish Consulate in Murmansk, shipping and logistics companies and local associations of enterprises.

Third, we compare eastern and western parts of the Russian Far Northern areas. Japanese participants have good experiences in research in the Russian Far East and Eastern Siberia, some of which regions are included in the Far North. On the other hand, Finnish colleagues have more expertise on the north-western part of Russia. We expect some unique results from the exchanges or fusion of experiences and views between Japanese and Finnish colleagues.

Fourth, in our project we make full use of all available statistical materials. We analyze statistical data on national accounts, state budget, foreign economic relations, energy, demography etc. Our members include specialists of statistical analysis on the Russian data who have written a number of papers in international journals.

For successful implementation of the project, we need close cooperation with Russian colleagues, especially working in the Far Northern regions. We are ready to expand this project into a trilateral project between Japan, Finland and Russia. ■



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LARS ELENIOUS &amp; MATS-OLOV OLSSON

# A History Textbook and an Encyclopedia of the Barents Region

**T**wo forthcoming publications about the Barents Region in a north European context

*The Barents Region – a Transnational History of Sub-Arctic Northern Europe* is a textbook about the Barents Region dealing with the history of the sub-regions and nations of the Barents Region territory from around 800 AD until 2010.

*The Encyclopedia of the Barents Region* is a publication describing the conditions of life in the Barents Region with a focus on human activities in relation to the Sub-Arctic environment.

The long-existing historical relations between people living in these northern territories have been largely neglected in official nation-state oriented historical narratives. Thus, one of the objectives with the Barents history textbook and the Barents encyclopedia is to connect the past with the present dynamic development in the region. It will fill a gap in European history and, hopefully, in the process promoting the world's interest in the "Northern Dimension".

## Background

In the period 2002–2006, a network of historians working in academia all over the Barents Region was established with primary financial support from Riksbankens Jubileumsfond and the Nordic Council of Ministers. The network was initiated by Prof. Lars Elenius of Luleå University of Technology. During this project, called *The Modernization Process in the Barents Region*, three conferences were organized in Luleå, Arkhangelsk, and Petrozavodsk with participation of professional historians from all parts of the Barents Region. Through the conferences ongoing research at the universities was presented and critically reviewed. Presentations at the conferences were issued in several volumes of the series *Studies in North European Histories* published by Luleå University of Technology.

Networking activities continued in 2006 when Elenius together with a group of colleagues established a new project with the objective to produce a history textbook and an encyclopedia of the Barents Region.

Funding for the project was subsequently received in April 2009 from, amongst others, the counties of northern Sweden, Finland and Norway, the *Swedish Research Council*, the *Norwegian Research Council*, the *Swedish Institute*, the *Nordic Council of Ministers*, and the EU through its *Interreg IVA Nord programme*.

## The Barents Euro-Arctic Region – an innovative regional construct

The territory that is now called the Barents Region has a long and unique history of ethnic, cultural and commercial contacts between the people living around the Gulf of Bothnia and in the White Sea area and along the shores of the North Atlantic Ocean to the Ural Mountains. These historical contacts offered a natural foundation for the creative diplomatic process that was a decisive factor behind the 1993 decision to establish the Barents Region as a new trans-boundary regional entity.

However, history also produced significant differences in socio-economic development, not only between the various sub-regions constituting the current Barents Region, but also between the four nation states to which these sub-regions belong. The current globalization process exerts similar influence in all parts of the Barents Region, but capacities for adapting to, or counteracting, the effects of globalization differ between various sub-regions.

The Barents Region largely belongs to the Arctic. The last twenty years or so have brought an increasing international attention to Arctic issues, mainly because of the huge natural resources, such as oil, gas, minerals, timber, and fish, available in the area. The raising interest for the North is also due to the problematic consequences of global warming that are expected to dramatically change the natural prerequisites for all life forms on our planet. The Barents Region is probably the area of the Arctic that is most influenced by human industrial activity and therefore likely to have a great impact on global warming and regional environmental degradation. Thus, there is an urgent need to learn as much as possible about the interdependencies determining developments in the regional socio-economic system.

The trans-boundary interregional co-operation initiated through the 1993 Kirkenes agreement strives to promote a sustainable economic, cultural and social development all over the Barents Region. This is a new kind of macro region spanning the borders of four nation states, some of them belonging to, while others partly outside of, the European Union. The region consists of thirteen sub-regions characterized by their own distinctive socio-economic and cultural history. The Barents Region is the first region to cross the former boundaries of the Cold War. The history of this innovative regional construct is important for people residing inside as well as outside of the regional borders.

## The purpose of the project

The ultimate purpose of the project to produce a history textbook and an encyclopedia devoted to the Barents Region is to foster the collaboration within the region, especially between its Nordic and Russian parts. By producing these publications the project also responds to a commonly felt need in higher education of a comprehensive textbook. It will offer a compilation of facts that makes use of new knowledge gained through recent research. It gives an analysis of the establishment and further development of the Barents Region, which is expected to stimulate the collaboration between universities, their researchers and students. The two publications will foster mutual understanding of the varying existing conditions of life in the region. Such knowledge will stimulate the development of a common Barents identity and facilitate mutually beneficial collaboration between authorities, enterprises, and citizens in the whole region.

Authors contributing to the Barents history textbook and the Barents encyclopedia have been recruited among academics and social science writers in all parts of the Barents Region. The format and contents of the two volumes are outlined below.

The history textbook has eight chapters, each written by four authors, one from each of the four countries belonging to the Barents Region, and one concluding chapter. Prof. Lars Elenius is the Chief Editor of the Barents history textbook.

The encyclopedia contains 415 articles of varying length covering most aspects of life in the region, such as the history, demography, geography, economy, culture, and languages of the citizens living in the Barents Region. Dr. Mats-Olov Olsson is the Chief Editor of the Barents encyclopedia.

The Barents history textbook as well as the Barents encyclopedia are intended for a broad readership. Some six million people reside in the Barents Region. The two publications will present information that is of interest for students in higher education, for academics in various disciplines, for employees in enterprises and public authorities, as well as for the general public.

#### **The Barents History Book**

The history textbook will serve as course material for students of history in universities throughout the Barents Region, but it is also suitable for students in the social sciences. The textbook should also be useful for anyone interested in the history of north-western Russia and northern Fennoscandia. The book covers the time period from 800 to 2010, discussing the transformation from independent ethnic communities to integrated regions within nation states. The modernization process in the Barents Region during the 19th and 20th centuries provides a background for analyzing recent globalization and post-colonial phenomena. The choice of focus is determined by the belief that young people in the Barents Region want to know more about the complicated processes of nation state building, democracy, dictatorship, welfare society, cold war, ethnic revitalization and globalization and their impact on the region in which they live. It is also very important for the ongoing democratization process in the region.

The eight chapters of the book will cover the changes from the Napoleonic wars, over the Russian Revolution, the Second World War and the ensuing Cold War, to the disintegration of the Soviet Union and the subsequent establishment and development of the Barents Region as a new political body. The intention has been to compile the parallel histories of the different constituent sub-regions within each one of the four nation states represented in the Barents Region in order to produce a comparative regional history of northernmost Europe, a history that complements that of other trans-national regions in the world.

#### **The Encyclopedia of the Barents Region**

The Barents encyclopedia outlines the cultural values of the many peoples that inhabit the region, and describes their ethnic traditions and beliefs, their varying living conditions, and the prerequisites for their further socio-economic and cultural development.

A limited number of longer overview articles frame the contents of the encyclopedia. The topics of these articles are: the Barents Region project (BEAR); Environment – threats and policies; Geopolitics, security and globalization; History; Economic development; Minorities; Religion; and Education.

The overview articles are supplemented and supported by shorter entries covering a broad range of topics, such as, important places (counties, cities, towns, villages), individuals who have made an impact on developments in the Barents Region, historical events of special importance, the demographic characteristics and the languages of the region, its culture, architecture, politics, the economy and economic geography (emphasizing the development of infrastructure, economic structure, and natural resource extraction), the rich nature found in the region and environmental threats, effects of recent geopolitical developments, legal issues (e.g., regarding indigenous populations, natural resource extraction, sea borders and fishing rights), and the legacy of the Soviet era (problems related to the Russian transition to democracy and a market based economy, historical traumas, such as the political repression and its consequences for contemporary democratic and economic development).

The two publications will be published by Pax Forlag, Oslo. The Barents history textbook will be issued at the end of 2014, while the encyclopedia will appear in the fall of 2015. ■

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EINI LAAKSONEN

# Concluding remarks on the Special Issue on the future of the Arctic – from researcher's perspective

There is no denying that the Arctic is an extremely interesting and multidimensional area for many kinds of actors, activities, opportunities and concerns.

Many of the articles point towards the business prospects in the Arctic, for instance in energy, offshore, maritime, and mining sector. In all these sectors, increased international cooperation is welcome – not only within business actors but also other stakeholders. This special issue highlights the opportunities for foreign businesses particularly in Norway, and touches also upon the considerable needs for foreign expertise in Russia. The economies surrounding the Arctic are highly interconnected, but in terms of business, there is still clearly potential for higher international interaction. As an interesting note, the economies in the Arctic share lots of similarities but are still quite heterogeneous with different economic structures and development interests. For the research community, these different economies around the common region provide an interesting context for studies on foreign direct investment dynamics, international business, innovation systems, and corporate social responsibility, for instance. Discovering new ways for international cooperation could be an important way to promote sustainable economic development around the region.

However, even though talks on the Arctic business opportunities have been going on for a decade, many of those still wait to be materialised. Of particular interest have been the large-scale energy projects which, however, have encountered delays – firstly due to the revolutionising energy sector, and more recently due to the economic sanctions related to the crisis in Ukraine. The well-started international cooperation in business as well as in politics towards solving (or at least agreeing on the way to proceed with) many of the challenging issues concerning the developments in the Arctic region are now threatened by the crisis and the resulted freezing of the relations between Russia and the West. A couple of years ago, discussion started concerning the "race towards the Arctic", with experts more or less seriously foreseeing severe conflicts between nations over the natural resources hidden in the Arctic. However, in the midst of peaceful cooperation for years and the recent achievements particularly in the EU-Russia relations, it was hard to imagine this kind of problems on the horizon. As the crisis in Ukraine nevertheless escalated quite suddenly, the research community, among other stakeholder groups, has been forced to admit that we still cannot always understand (let alone integrate or coordinate) the objectives of different states, not even within Europe.

As was noted in several articles, the political tensions that have increased along with the crisis have had their effect also on the cooperation activities in the Arctic, and it is hard to predict the way things

will develop forward. In addition to the Arctic states, several countries outside the region, such as China and South Korea, are increasingly interested in the developments in the Arctic, which further increases the future potential for the clash of competing interests in the region. For long the Arctic was overlooked, and now it has become the object of global interests. The Arctic keeps "heating up", and for now we can only guess what kind of a future it will see.

Despite the political conflicts, it is, however, highly important that different stakeholders continue international cooperation in terms of environmental issues and promote responsibility and sustainability in all activities. We cannot prevent the resource extractions, industrialisation and urbanisation from taking place in the Arctic, and therefore all efforts must be put in finding the least harmful ways and solutions for these processes. Fortunately, we can see that for instance under the Arctic Council a lot of valuable cooperative work is being done for these issues. Further research should innovatively seek for new ways of integrating these various activities and stakeholder interests.

All in all, the Arctic provides a perfect setup for highly multidisciplinary research. In fact, that is also required because – as can be seen from the interlinks between the articles presented in this Special Issue – the developments in the region within society, environment, or different fields of industry are all tightly connected. Of utmost importance is also international research cooperation. Particularly at the time of political conflicts, it is not only active business relations but also scientific cooperation that is important in continuing international dialogue and hence improving understanding on the viewpoints of different parties. Moreover, eventually, it can be said that dealing with many of the problems in the Arctic, such as climatic, environmental and societal issues, really requires international collaboration.

Of great importance is also international student exchange. Most of the expectations heating up now will materialise only in the future, and in addition to doing our best now for guaranteeing sustainable and peaceful development in the region through various agreements and institutions, we must focus on the young who will have to handle those changes eventually. For instance, the Northeast Passage is not going to transform into a new Suez Canal overnight but instead we might witness considerable increases in the arctic shipping in two or three decades. The best preparation is to support the international networking of students within the region. Their fellow students of today will be their business partners and policy-maker colleagues of tomorrow. Of great importance is also triggering their interest towards the Arctic and related issues – the political and economic aspects, the environmental and societal concerns, and also the opportunities that could be derived from the changing world if dealt with in a sustainable manner.



As a researcher today, I could say that this region offers a great multitude of complex phenomena and challenging problems for the research community. And as the Arctic keeps “heating up”, times will only get more interesting. More understanding and sustainable foresight is needed in order to support the better outcomes for international relations, economy, society, and environment in the Arctic.

Personally, I doubt I will ever find another research context this multidimensional and intriguing. ■

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*The Pan-European Institute (PEI) is actively engaging in Arctic research, particularly related to different aspects of international business. For instance, PEI is involved in the project called “Russia’s final energy frontier – Sustainability challenges of the Russian Far North” co-financed by the Academy of Finland and the Japan Society for the Promotion of Science. Simultaneously, PEI is involved in researcher exchange with Russian and Norwegian research institutions. Moreover, students are considered as a priority for the future of the Arctic, and therefore we have been actively developing international student exchange to and from Russia, for instance. In addition, in the Spring 2014, PEI commenced a specific master’s level course in Turku School of Economics called “Business Prospects in the Arctic” in order to increase the students’ awareness on the Arctic issues and to encourage them to further look into those along their studies and later in their working life. For further information on PEI, please visit [www.utu.fi/pei](http://www.utu.fi/pei).*

Pan-European Institute

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LENITA TOIVAKKA

# The benefits and doubts of TTIP

**L**iberalising trade increases growth, reduces poverty and strengthens employment. For a small, export-oriented country like Finland opening new markets is vital.

Trade liberalization has been done mostly through the GATT and WTO trade rounds. As the conclusion of the Doha Development Round remains still unclear, regional and bilateral trade agreements are needed to sustain economic growth. The European Union and the United States have tied several free trade agreements with third countries. Also other countries and regional organizations are currently negotiating trade and investment arrangements.

Consequently, a trade agreement between two of the world's largest economies is a natural development of this global trend.

The Transatlantic Trade and Investment Partnership (TTIP) is one of the most important agreements in defining the future landscape of global trade. The EU is the largest economy in the world with over 500 million citizens and the United States the second largest with over 300 million. Together these two account for around half the world GDP and for nearly a third of global trade flows. The agreement is not only about trade. It will also enhance the strategic partnership of the EU and the United States.

For Finland the United States is an important trading partner and source of foreign direct investments. The USA is our third largest export destination in goods, and the largest in services trade outside the EU.

The European Commission has raised TTIP as one of its priorities. At the end of September the seventh round of negotiations was concluded. Our goal is to speed up the negotiations after elections on both sides of the Atlantic in order to finalize the agreement by the end of 2015.

It is essential that special attention is paid to openness and transparency in the negotiations. The Ministry for Foreign Affairs (MFA) of Finland has arranged regular public hearings on TTIP. In addition the MFA's and the Commission's websites provide essential information and updates on the topic. Our experts regularly engage in the public debate to provide most updated information.

The Commission ordered an independent report from the Centre for Economic Policy Research (CEPR). The study found that an ambitious deal would increase the European exports to United States by 28 % and add an annual economic gain of 119 billion euros to whole EU. Naturally, at this stage these are rough estimations but the direction of the impact is revealing.

TTIP offers a much needed boost to economy in many EU Member States where growth is very modest or nonexistent. Similarly, European and American consumers would enjoy lower prices with broader selection of goods. For example the EU-South Korea free Trade Agreement concluded in 2011 increased the European exports to South-Korea by 32 %. Finnish exports to South Korea increased by 31 %.

TTIP is an ample opportunity for the EU and the United States to set high rules and standards in global trade for other countries to follow in order to gain benefits in return.

While, there are many benefits on TTIP, it is clear that many doubts still remain. Unfortunately those are often based on misleading information. Usually we come across three concerns.

Firstly, TTIP and especially ISDS will narrow the national right to regulate and compromise democracy.

It is worth noting that the right to regulate will remain solely in democratic hands after TTIP. The European Parliament, the national parliaments and stakeholders are very much involved in the whole process.

ISDS has been raised often as a source of worry. However, Finland already has over sixty bilateral investment treaties, and all of these have an investment settlement dispute mechanism. Finnish companies have profited from these treaties greatly over 35 years. The commission is currently analyzing the results of a public hearing on TTIP. The results will define the possible need to revise it.

Secondly, TTIP will only benefit large multinational companies.

Trade barriers place a comparatively heavier burden on small firms, as those have less resource to comply with regulations.

With TTIP we can help SMEs by reducing regulatory burden. Closer regulatory cooperation between the USA and the EU has the potential to generate significant cost savings.

This makes sense; in the EU and the USA, over 99 % of all businesses are SMEs. In the EU, two thirds of all jobs are in SMEs. In the USA, the figure is over 50 %.

Thirdly, the high European standards in environmental protection, employer rights, or consumer safety will be lowered.

Gladly, the agreement will not lower the current levels of protection for the environment, health, labor neither for the consumers. This can be clearly read from the public negotiation mandate itself. By completing TTIP high and sophisticated transatlantic standards will raise the level of environmental, health and safety standards around the world. ■

The Transatlantic Trade and Investment Partnership (TTIP) is one of the most important agreements in defining the future landscape of global trade.



**LENITA TOIVAKKA**  
Minister for European Affairs  
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Finland

LINAS LINKEVIČIUS

# Road from Vilnius to Riga – mounting challenges for the EU Eastern Partnership

**C**ountdown – 6 months left to the Eastern Partnership Riga Summit. Under normal circumstances, today we would be just reviewing expected deliverables and taking the remaining steps towards them. However, the current circumstances are not normal anymore. Russia is challenging the fundamentals of Eastern Partnership policy. It is questioning the right of Eastern European states to freely choose their foreign policy orientation, as well as the level of ambition and the final goals they wish to achieve in their relations with the EU. A variety of tools is being used to achieve that – from political and economic pressure to using leverage of energy, massive propaganda and even military intervention. We have found ourselves in the different security environment, first of all.

Moscow is trying to show to the international community that it has a legitimate right to decide on everything that is happening or should (not) happen in the neighbouring countries and beyond, treating these countries simply as a territory that used to belong and still belongs to Russia. As a territory, where no European values, no democracy nor rule of law, no reforms, and no market economy is welcome. Because the ultimate goal is not just to reestablish the geopolitical empire, encircling Russia with loyal semi-sovereign authoritarian countries. The ultimate goal is to challenge the world order, its rules and the international security system, established after the end of the 2nd World War.

The means to achieve that is to consolidate and promote the alternative system of conservative authoritarian and protectionist norms, rules and standards, where openness, trade and integration into the global system are perceived as a threat, bringing damage, and where fundamental principles of international law are treated as a non-necessary rudiment. The main tactics with regard to the West is to weaken the Western institutions and their policies, and ultimately make the West acknowledge the existence of the spheres of influence as well as the logic behind. Because might (power) and determination are the only characteristics that matter in the mythical Eurasian world Russia is aiming to create. This is precisely why impact of conflict in Eastern Ukraine goes far beyond Ukraine, or even far beyond the region of Central and Eastern Europe - Ukraine today is the frontline of liberal democracy and market economy. The challenge is a global one; the way we will deal with it or fail to deal with it today will shape Europe, and the world, tomorrow.

Even if main targets of Russia's current actions are our neighbours and especially our associated partners, their main target audience is in the West. Russia wants us to drop our joint (agreed upon by the EU and six partner countries) Eastern partnership policy, as well as to stop supporting our partners in their ambition to undertake serious reforms and modernize their countries. Russia challenges values and principles behind our policy of political association and economic integration; the same values and principles upon which the very project of the European integration is based. Giving Russia a say in the EU internal policies might be perceived by some as a way to accommodate it by giving recognition it wants. But history shows, that this would only provide them with a new platform to push the line of compromise even further.

This strategy is not without success – we do hear different voices in our own societies, admiring strong willed Putin and stating that it is the West that is to be blamed for what's going on in Ukraine; or those whispering that Eastern Partnership as a policy has failed, it only irritates Russia and damages our strategic relationship with it, and therefore needs to be seriously revamped if not dropped at all. Such thinking is exactly what Russia wants to achieve. But such a scenario would dramatically weaken our regional - and global - influence. It will also mean the end to any ambition of having a Common Foreign and Security Policy of the EU.

Let me be clear – it's not our Eastern Partnership policy, but our Russia policy, which has failed. Engagement strategies have not brought any tangible result.

Persistence, unity and solidarity is the only way "out". We need to stick to our policies, principles, norms and standards. Riga summit is of crucial importance in terms of re-confirming our joint commitment to the Eastern Partnership policy and its objectives. These should not be just words - we should be ready and well equipped for standing by our Eastern partners on their uneasy road of pursuing a major transformation against the backdrop of heavy external pressure. The three Association agreements, negotiated, signed and under implementation now, are the most ambitious agreements the EU has ever concluded with the third countries. Our forces should now be united – more than ever – in order to help partners implement these agreements fully and effectively. What we need, is an elaborated toolbox to help partners deal with these enormous twin challenges (covering financial, trade, technical assistance, strategic communication tracks).

After Vilnius summit stated for the first time that our partners have a sovereign right to choose their policy ambition, an elaborated toolbox to help them exercise this right should become a legacy of Riga. These countries have already paid a huge price for their European choice, - we now need to enable fulfillment of their aspirations. We need a smart revision of the policy, enabling achievement of a goal to transform and modernize the region, its states and economies. Most importantly, we have to clearly demonstrate benefits of the European choice to the people of our Eastern partners. So that the vision of 'Europe whole and free' will finally come into reality. ■



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Minister of Foreign Affairs  
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SIRPA PIETIKÄINEN

# Baltic Sea area as the key player in blue growth

Throughout the history, the seas have played an important role in the success of the European continent. Instead of dividing areas, they have connected peoples and cultures surrounding the seas. This significant role of the seas was recognised officially at the European Union level through Marine Strategy Framework Directive that was adopted in 2008.

The main target of the Directive is to achieve Good Environmental Status (GES) by 2020 for four European marine regions: the Baltic Sea, the North-east Atlantic Ocean, the Mediterranean Sea and the Black Sea. Based on their differing characteristics, each of these marine areas also got a specific policy area they focus on. Neighbourhood policy and conflict prevention for the Black Sea, migration policies for the Mediterranean and environmental protection for the marine area that was most polluted - the Baltic Sea.

Already before this milestone, the state of the Baltic Sea raised worries among the Members of the European Parliament. Baltic Sea Intergroup was established in the European Parliament in 2004 to advocate for the launch of the Baltic Sea Strategy and later to monitor its enforcement. This group of MEPs is still active in the Parliament, having diverse pool of topics around which the co-operation takes place.

The environmental concern however remains the most prominent one. Due to its nature being small and land-locked, the Baltic Sea is susceptible to environmental impacts. Maritime transport, agricultural and industrial emissions, other environmental waste and overfishing keep burdening the marine area at a pace that exceeds sustainable limits.

Achieving Good Environmental Status for the Baltic Sea is not about missing scientific evidence. HELCOM - Helsinki Commission for Baltic Marine Environment Protection - has gathered scientific information on the state of the sea and set recommendations for policy makers already from the 1980s.

For example in the area of transport alternative fuels and technological development of the machinery and equipment should be deployed. In the area of aquaculture, the commission has recommended sustainable measure to be taken on board in fish cultivation.

In addition to scientific knowledge, there is also a diverse group of actors to work towards more sustainable Baltic Sea area. Baltic Sea foundations, municipalities and other actors at the local level do extremely valuable work that needs to be secured also in the future.

To my opinion, no new strategies or plans are needed for the Baltic Sea area. Neither further fragmentation of activities contributes to the protection measures.

Targets are met by more effective actions and implementation. Special focus needs to be on the reduction of the nutrient emissions from the intensive farming of all coastal countries. Additional measures need to be taken towards the reduction of industrial and domestic waste waters by Poland. The protection of the Baltic Sea needs also firmer commitments from Russia. Notwithstanding the current political situation, the EU and the local actors need to actively involve our eastern neighbour in protection measures.

Earlier this year, the Commission concluded in its report on the implementation of the Marine Strategy Framework Directive that the Baltic Sea area is lagging behind from its GES-targets and thus the Member States should step up their efforts to deliver. In addition to the recommendations to the Member States - and something that I directly asked from the Commission earlier this spring- the EU should include the recommendations of HELCOM in its legislation that affect the state of the Baltic Sea, such as the Urban Waste Water Treatment Directive, the Water Framework Directive and the Nitrates Directive.

Money always helps. The funding base from the EU and the Member States needs to be solid also in the future. For the financial period of 2014-2020, a large pool of funding is available for activities around the Baltic Sea from the European Regional Development Fund and from the research fund. In view of budgetary constraints at all levels of administrations, more attention needs be paid on coordination of activities.

Environmental protection of the Baltic Sea goes hand in hand with the economic development of the area. Already now, the countries around the sea champion the development of new, cleaner transport methods with, inter alia, LNG-solutions and more efficient ship designs. The prospects for cleantech innovations are bright not only in Europe but also globally. Developing economies, China in the forefront, begin to face massive environmental problems which will force them to green their economies in the future.

Forward looking innovations will ensure the vitality of the area. After all, it is only a sustainably healthy sea that can connect us around it. ■

**SIRPA PIETIKÄINEN**Member of the European Parliament  
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INESE VAIDERE

# EU sanctions against Russia – the high price of indecisiveness

**T**wenty five years after the fall of the Berlin Wall, the European security order was shattered when Russia forcefully annexed Crimea. This was a breach of numerous international treaties Russia had signed to and the provisions of the 1994 Budapest Memorandum by which Russia, the United Kingdom and the United States were supposed to guarantee Ukraine's security. The EU reacted by applying sanctions against Russia hoping that Moscow would renounce from its aggressive policy. Unfortunately, Russia's belligerence has not diminished, so the sanctions must remain in place.

In the meantime, we should not be complacent about EU's reaction to the Russian aggression. If the 28 Member States would have acted faster and more strictly, the escalation of the conflict and the economic sanctions could have been avoided. The key was to target the Russian elite, fond of going to Europe for holidays, shopping and studying. Immediately after Russian annexation of Crimea, I initiated a letter to Herman Van Rompuy and Catherine Ashton co-signed by Members of the European Parliament from several member states where we demanded that EU's sanctions should include Russian president's administration, members of Russian Duma and, which is particularly important, their families. Besides the asset freeze and travel ban that would affect the ruling elite, we also asked for an arms embargo. Unfortunately, the Member States opted for a much more gradual approach which had next to non-existent impact on Russia's policy. The first set of restrictive measures in March 2014 was largely symbolic - a "mosquito bite", as described by the Ukrainian ambassador at that time.

It took 298 lives of innocent travellers on Malaysia Airlines flight on 17 July 2014 to convince the EU leaders to take a more decisive step towards economic sanctions. Russia, on its turn, has not only implemented counter-sanctions, but also taken the EU Council to the European Court of Justice. The EU sanctions, together with the measures adopted by the US, are felt hard by Russian companies and banks which, excluded from the western capital markets, have to refinance more than 130 bn USD of foreign debt by the end of 2015. Besides a massive exodus of foreign capital, the Russian Central Bank has spent more than 30 billion USD in October alone in order to save the rouble from collapsing. With the currency reserves estimated around 450 billion USD, Russia has limited manoeuvring space. The state of Russian economy is in such a dire state that President Putin might even deliberately provoke the West in order to blame the EU and the US for all the afflictions Russian people are forced to endure.

While the economic pain inflicted by the sanctions is felt also in the EU, it is much less affected than Russia. For the EU as a whole the share of exports to Russia is only 6,8%, which corresponds to 1,2% of EU GDP. Contrary to the popular belief, even Germany exports just 3,4% of its goods to Russia. The total amount of economic impact

will not reach these numbers, because such a worst-case scenario would require a total shutdown of our trade relations with Russia and no redirection towards other markets. The most exposed in terms of exports to Russia is not the high-tech manufacturing sector but food products (fruits and nuts made 32% of EU exports to Russia in 2013; vegetables - 25,3%; meat - 19,8%). The EU has been able to help the affected industries with a financial support (125 million EUR) and by offering to provide help with surplus storage.

While the impact on the EU as a whole might not be dramatic, the situation is worrisome in the countries bordering Russia. Latvia, Estonia and Finland remain fully dependent on Russia as the only source of gas supply. The new LNG terminal in Lithuania will allow some diversification of its gas supplies, yet its capacity will be limited in the beginning. All three Baltic countries are affected by the trade restrictions (19,8% of Lithuanian exports, 16,2% of Latvian and 11,4% of Estonian exports went to Russia in 2013). In the case of Finland, 9,6% of exports were destined to Russia. To remedy the disproportionate consequences, a strong and sustained action is needed at the EU level to share the cost through the EU Solidarity Fund.

With the momentum lost in the beginning of the conflict, the EU now finds itself with limited options. The sanctions must be maintained to force the aggressor to renounce from its destructive actions. They should be even strengthened and applied to families of Russian president and members of Duma. A strict arms embargo should be applied to end the Mistral helicopter carrier deal and other arms contracts. In the meantime, the EU should coordinate its own policies in order to mitigate the impact of the sanctions on Member States' economies. The most important is to reduce the dependency on energy imports from Russia and to help the EU companies reorient their business towards new markets. ■



INESE VAIDERE

Professor  
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TIBOR SZANYI

# Possible effects of the Russian embargo on food taxes

The immediate effects of the Russian embargo on the EU's agricultural sector are obvious. On the short run the European producers have been partly compensated by the quick response of the European Commission. The disturbance is understandable, as Russia represents an important export market for the EU's fruit and vegetables production, buying about one third of our fresh fruit exports (EUR 1225 million in 2013). Similar proportions can be seen with regard to other products as well: one thirds of the cheese- and the beef-exports, while a quarter of the butter-exports go to Russia. Besides these, the ban has been affecting a wide range of products this year, while there is no guarantee that this situation will ever be over completely. Whatever future brings, one thing is certain: such interactions have a long-term impact on the markets in terms of mutual confidence. This situation – inflicted by a foreign policy decision and not by market disturbances – results in large scale surpluses on the market. Finding new markets is a difficult and complex issue, and alternatives can also be found in the internal market.

Meanwhile, in the European Union more than 120 million people – among whom more than 25 million younger than 18 – live in poverty, or around the minimum living standard. These people are deprived of sufficient food at a reasonable and affordable price. The EU spends billions of euros on supporting agriculture; nevertheless, there is no sufficient food available at a reasonable price fulfilling certain quality requirements. This means in fact that the Common Agricultural Policy fails one of its most important objectives, with malnutrition continuing to deteriorate, even in some EU member countries. In addition, governments of certain Member States are overtaxing food products. Various VAT rates apply to food in different Member States, varying from 0 to 27%. In certain countries we see VAT-exemption, or levying 0% VAT on certain categories of food articles. As we have been able to lessen the tax burdens on medicines (the VAT on medicines is below 10% in most of the EU Member States), would it not be fair to act similarly with regard to articles which represent a sheer necessity to ensure human dignity and a fair standard of life?

There is a simple solution to solve this conflict, which could consequently address several problems at the same time: the EU should introduce minimum taxes as a result of a 'No Tax on Food' initiative in each of the Member States.

There are already known evidences showing that lower VAT on certain categories will have positive effects on social welfare and on the market positions of the producers and farmers, while offering an EU-wide solution to widespread VAT fraud. Fraud groups sought to avoid VAT charges by making articles travel through borders and importing non-European countries, moreover there are also governmental officials in certain cases who are allegedly involved in the fraud scheme. In Hungary only there is an estimated central budget loss of 1 billion euros a year as a result of food VAT fraud. The fraud schemes

with the VAT all over the EU inflict damages to the countries' financial balances and economic health, including their farming industries and their food sectors. The main solution recommended by different experts is to reduce the lucrativeness of VAT fraud by reducing VAT to less than 10%.

I would go even further. Elimination of VAT and other fiscal burdens on food would result in a drop of food prices, which could develop to the capability to absorb surpluses caused by the embargo. It could address certain fiscal sources of poverty related malnutrition, particularly among children, sadly present in most of the EU Member States. Criticism may arise, saying this is not conform with current EU VAT regulation. If so, the European Parliament is just the right place for such initiatives aiming to change outdated legislation! This initiative requires of course thorough preparation, involving academic research, political and social reconciliation, targeting a fair tax system to enable us to provide food at reasonable prices.

Therefore I shall remain determined to keep the issue, in one way or another, on the EU's political, social and legislative agenda, and to facilitate the future dialogue. ■



TIBOR SZANYI

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CHRISTOFER FJELLNER

# EU's perpetual dance with Belarus

In a tense geopolitical environment, many issues are at stake, also in our own neighbourhood. Russia is increasing the pressure on the former Soviet buffer zone. The most recent expression of the new expansionist impulse is the Russian annexation of Crimea and the military violation of Ukraine's territorial integrity. In this setting, it would be unfortunate if the situation in Belarus is forgotten. As Putin appears to want to reassemble the Soviet Union, turning Belarus towards the West is perhaps more important now than ever.

Belarus has for a long time tried to perform a balancing act between East and West, ignoring the two sides' declarations that it cannot have it both ways. Where Europe demands democratic reforms, market economy and respect for human rights as conditions for support, Russia portrays itself to have less demands, but more to offer. Russia demands loyalty, and offers a steady and cheap supply of energy, preferential access to the Russian market and favourable loan conditions, which keeps the Belarusian economy afloat.

Unfortunately, the EU's lack of strategic policy goals has caused a stagnation in the relations between the two parties. To a great extent, the strategy of the EU has been to balance the carrot and the stick: to tighten the sanctions when needed, and to ease them when the regime attempts to make progress as regards reforms and human rights. In diplomatic terms, the EU is committed to a policy of critical engagement.

As an unintended consequence, the pursued policy gave Putin the opportunity to take a closer look at what countries he could count as allies and those he could not. For Russia, the strategic value of the relations with Belarus has increased after other Eastern European states have turned towards the West. Preservation of the Russian sphere of interest is clearly the main driving force for the Kremlin. The realisation that the European strategy is not delivering is even more worrying in a time when Russia is on an expansive path.

Our relations with Belarus must be based on long term strategic considerations. The long term objective must be to get Belarus to subscribe to the core European Neighbourhood principles. To this end, the EU must continue to send clear messages to those feeding the current regimes, and continue reviewing and amending the visa blacklists for supporters of the regime, and for individuals who violate fundamental human rights. However, whether or not the list is extended is irrelevant. What matters most is that the blacklist is not seen as a relic of the past, but as an ongoing process that is constantly on the agenda to monitor its enforcement. When the EU restricts nationals from doing business in the EU, but allows the same individuals to go on vacation in the Alps, the sanctions lose credibility.

The people of Belarus will have a hard time turning towards Europe as long as Russia controls its energy supply. Due to the geopolitical importance of energy security, Belarus and other countries stuck between the EU and Russia should to a larger extent be subject to the European energy security strategy.

But as the people of Belarus are the first victims of the isolation imposed by its authorities, they will also be the first to reap the benefits of a democratic Belarus. Thus, we have to engage with those that can bring an organic change from within Belarusian society. A first step of such an approach is to liberalise movement for ordinary

citizens in order to facilitate the exchange of ideas and democratic values. Today, travelling into the Schengen area is easier for Russian nationals than for Belarusians.

Business also has an important role to play. Improving trade relations with the country can help improve economic growth and job creation. Isolation will only benefit the regime. However, we have to be aware of the fact that Belarus is not a democratic country, and we should not do business with companies tied to the regime.

In the same spirit, European universities have an important role to play in spreading ideas and democratic values. Institutions around the EU could accept students from Belarus. Such an initiative could easily be administered by the current EU student exchange programmes, such as Tempus and Erasmus, but could be combined with scholarships designed for Belarusian students.

Europe was very slow to recognise and respond to the seriousness of the Russian threat to Ukraine. Still today, there is a lack of common strategy towards the increasing tensions in the region. But change will come, also in Belarus, in one way or another. Historians have been acutely incapable of predicting the greatest changes in history. The EU has to be aware of what it knows, but also what it does not know. Sooner or later, change will come to Belarus. A divided Europe will accomplish nothing but legitimise Russia's actions. When the time comes, the EU must make the most of this opportunity, and must prepare a common foreign policy in order to embrace Belarus, if the country chooses deeper relations with the EU. ■



CHRISTOFER FJELLNER

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HEIKKI AUTTO

# The European bio-economy grows from the North

**T**he decline of European markets since 2008 has been a massive issue to tackle to Finland and other small countries that are economically deeply dependent on their exports. As Europe's weak economic growth has stretched to last longer than expected it has directly affected and caused troubles to provincial businesses all over the continent.

In the North the so called forest-economy is also in a turning point. For many decades printing paper exports have been in great importance for Finland's economy. Unfortunately, the current narrative in the age of digitalization has been more about the decline of numerous paper producing factories and loss of relevant jobs. But there is still hope.

Despite the rough ride that the paper industry has gone through during the last decade the utilization of Finland's forests has stayed on a high volume. And thanks to the good forest management the sustainable logging volume could actually be significantly higher although the high volume has kept on. And for example the common European goal for the use of renewable energy sources does in its own part open new possibilities for a new growing bio-economic sector.

I am very happy that the EU member states have finally decided to take the cost efficiency into account in the future share of climate action burden between the states along with the GDP-criteria. It makes more sense to apply more emission reductions where it is more cost effective. This also indirectly gives more leeway and market dynamics for the important potential growth of the clean tech sector in the areas where the conditions are met best. This in turn makes great sense considering the European and Nordic economic growth. These decisions can truly be argued to gaze to the future.

The EU's aim for the use of renewables has a noble cause and any environment-aware person can easily support it. But the danger is not in the aim, but in the execution, which if badly managed can cause the member states to miss the goal altogether and lose important factors for bio-economic growth. In essence, the EU is in danger of stumbling on its own feet if it either accidentally or purposely thwarts the livelihood of areas in its peripheries.

The chain of value for bio-economy starts from the provinces and notably the wood industry is a vital part of this chain. If there is no lucrative forestry industry there will not be a thriving bio-economy. That's why EU must keep the emphasis to underpin and strengthen the livelihood of provinces.

Arctic regions thrive from their nature and as a parliamentary representative of Finnish Lapland I know of the vast history, economic successes and more importantly of the large potential that is absorbed in to our woods and nature. The arctic bio-economy that extends itself to education and high tech research is potentially one of the key factors in pulling Europe back on its innovative feet.

For Finland it has always been an important principle that sustainable and profitable forestry can be practiced in all parts of the country. But it seems that EU policies can cause unpredictable problems as there is a plan to terminate the subsidies for the forest renewal. This is an actual part of the plans for the reformation of the Finnish law for the "financing of sustainable forestry", which follows the guidelines given by the EU commission. Forest renewal is an important part of the lifespan of arctic forest and an important tool in the sustainable forestry management. So sometimes it feels that the EU should better observe the differences in the climate and natural conditions of its vastly diverse areas.

The future role of the forestry sector as a dynamo for low emission products, materials, services and energy is essential. The industry that is based on high value know-how is in the brink of forming all new businesses based on nature's intangible value and ecosystem services, along with nature tourism which works hand in hand with the rest of the sector. The new bio-industry grows not only from the big scale investments but also from the small and middle sized businesses.

The advanced liquid biofuels are already compatible with the current European auto base and fuel distribution network and therefore the usage and continuing development of them is the most viable and cost efficient way to reduce transport emissions. The best news for both the Europe and the North is that the know-how of the development and production of sustainable biofuels already exist in Finland. Now it is only matter of will that we start to utilize all the possibilities.

I know that Finland has the expertise and the will to take the bio-industry to new heights. One could also claim that Finland is already many considerably ahead of other EU-countries when it comes to the business in question. There should not be a single viable reason to put shackles on the innovations that are about to grow from the North. ■

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ESKO LOTVONEN

# Rovaniemi – the Arctic capital of Finland

The city of Rovaniemi is crossed by the Arctic Circle, so that most part of surface area is above it. Today the city is a dynamic, growing city by population and business. The number of inhabitants is about 61,600. Rovaniemi is fifth biggest arctic city globally. The science and applied sciences Universities of Lapland are major educational institutes with almost 10,000 students. The city is also home to the units of the main national research institutes of natural resources. These form strong base for research and development activities in many issues related to knowhow of arctic conditions. So it is not only the location on Arctic Circle that makes the status of Arctic Capital.

Rovaniemi is most probably best known globally as the Official Hometown of Santa Claus, which is recognized by EU, USA, Russia, China and Japan among other countries. Nowadays Rovaniemi is often highly ranked as one of the top winter tourism destinations worldwide in the lists of CNN, Lonely Planet, Huffington Post and many others. We have been steadily growing to attractive international tourism destination with large scale of services trough out the year. Most of the tourists come from abroad.

Rovaniemi attracts not only tourists but also important politicians and heads of states. During recent decades the City of Rovaniemi has hosted the visits of many kings, presidents, prime and other ministers. Their agendas have varied somewhat but usually they have taken time to meet Santa Claus. During recent years the agenda has been strongly focused on arctic development and the ongoing work to enhance it. Strong interest is seen from Asian countries. In this decade, we have had visits from three of today's five top ranked Chinese politicians, starting with the President Xi Jinping. The most recent visit was by a delegation of the President of India. Delegations are benchmarking arctic information and competence, cultural heritage, clean technology, tourist attractions and arctic policy related to changing logistical perspectives created by climate change and the opening of North East Passage.

The city of Rovaniemi feels an obligation to be active partner in arctic development. Today's existing arctic cooperation under the Arctic Council started in Rovaniemi in 1991 with the signing of the Arctic Environment Protection Strategy. The commencement of the cooperation, the Rovaniemi Process, led to the establishment of Arctic Council in 1996 in Ottawa. To continue the tradition, every second year we arrange an arctic conference in the Spirit of Rovaniemi Process. Next one will be in November 2015 and hopefully the Arctic Summit by head of states will take place in 2017, when Finland will be chairing Arctic Council and celebrating 100 years of independence. Rovaniemi is member of World Winter Cities Association of Mayors and through this network shares experiences between cities in order to create better living conditions for residents.

Arctic Center research institute was opened in 1992. It plays a major role in arctic research network globally. According to plans, it will be the host institute of EU's Arctic Information Center, to be establish in next year. The University of Lapland also hosts the Secretariat of the University of the Arctic. UArctic covers a wide network of educational and research units worldwide.

Located in arctic area Rovaniemi is a good natural laboratory for the development of cold climate know-how and products. Mainly for tourism purposes made ice and snow constructions are attractive and practical service solutions. In Rovaniemi, we have also four sites serving different kind of testing. The majority of clients are car manufacturers or tire, snow scooter and all-terrain vehicle producers. With the cleanest and freshest air quality, the area offers good and aromatic wild natural products such as berries, herbs, mushrooms, fish and reindeer meat. Arctic business is a growing and, with the goal of supporting this development, the Lapland Chamber of Commerce arranges annual Arctic Business Forum in Rovaniemi. The sixth Forum will take place in March 2015.

One of the new sectors of innovation is Arctic Design. Since 2009 the city of Rovaniemi and University of Lapland have organized annual Arctic Design Week. The week has grown to an important international event with participants from 32 countries. Arctic Design is a natural step for Rovaniemi due to the presence of the faculty of Art and Design in the university. It is not just about industrial design but also service design and city planning. Designers form a good national network with Aalto University and Lahti Design Institute. Arctic Design is a new and exciting concept that can play an important international role for Finland in the future.

Global interest to Arctic has raised the role of Rovaniemi in national and international context. With good accessibility, infrastructure and capability with regard to arctic and cold climate issues, Rovaniemi is open to cooperation with national and international partners. Let's keep in touch! ■



**ESKO LOTVONEN**  
Mayor  
City of Rovaniemi  
Finland

FELIX H. TSCHUDI

# The Arctic Corridor – Arctic infrastructure as catalyst for Nordic resource development

**V**isions are important not only for people, but also for countries and regions. The Arctic Corridor ([www.arcticcorridor.fi](http://www.arcticcorridor.fi)) initiative's call for an Arctic railway connecting the Baltic and the Barents Sea could create a vision of vital importance for the Nordic and even Baltic countries.

It is difficult to measure the indirect impact of large-scale industrial investments before they happen. Tschudi Shipping's experiences in the northern Norwegian town of Kirkenes is an example of this. In 2006, before the decision to reopen the iron ore mine Sydvaranger, many of Kirkenes' inhabitants felt left behind in the offshore development of the Barents Sea. The main local debate was about the proposed closure of the local hospital which described the town's prior decline. Today, seven years later, a new hospital is under construction, the population of the municipality is increasing, and the optimism has returned to the region. What brought about this change?

The completion of the NOK 2.5 billion mining project meant activity. Activity creates more activity and expertise. After extensive work during the reconstruction phase of the mine, local Kirkenes subcontractors are now prepared to serve the expected oil and gas developments in the Eastern Barents Sea. Due to the common Nordic labour market in a region where the language and cultural barriers are low, the reconstruction of the Sydvaranger mine was able to draw on experienced workers and management from Norway's northern neighbours. Kirkenes now has the port expansion plans, skills and capacity required to succeed. In sum, Kirkenes' outlook radically changed over the course of eight years due to the Sydvaranger industrial investment. The development of the North must start with an attitude change within and towards the region. Real results need to be realised for negative trends to be broken – Kirkenes is a good example of such a transformation.

"Where gas meets ore" could be the motto of the Barents Region. The Fennoscandian geological shield covers the Kola peninsula, northern Sweden and Finland. It is one of the largest and richest mineral provinces in the world. Its deposits are similar to the world-class ore deposits in the Canadian, Western Australian and Southern American shields. At the same time, large oil and gas fields have been discovered in the Barents Sea. Clearly, the combination of large deposits of both minerals and natural gas are opening up for unprecedented industrial and technological developments. Natural gas can be used as feedstock for the processing of the minerals and metals of the region. The resulting semi-processed materials are environmentally beneficial due to reduced transportation needs and industrial emissions. By combining the metallurgical, natural gas and offshore know-how of Finland, Sweden and Norway, the Nordic countries could develop a new technological frontier together. This joint project has the potential for large regional and environmental benefits – a real vision for the future.

The Barents Sea South East is a new oil and gas province close to the newly defined sea border between Russia and Norway in the Barents Sea. Since 2011 seismic surveying has been ongoing in this area. The 23rd round of offshore licensing, which covers parts of this seabed, has gathered the interest of more than 40 oil companies. Although the offshore developments were initially hugely popular, the sentiment has lately turned negative as the local population do not believe they will benefit as much as expected without landing the oil and gas ashore. These issues could be overcome through creating onshore value with offshore gas. Applications for oil exploration licenses should be given preferential treatment if they include plans for onshore gas and mineral processing. Such preferential treatment would spur the oil and gas companies to become catalysts for new industrial thinking in cooperation with the mineral and metal processing industry. Due to the scale of investments required, only very large gas fields will be developed independently. Every oil field, however, contains associated gas that is normally reinjected into the field. If such stranded gas could form the feedstock for industrial projects, all parties would have incentives to find joint solutions. In the future requirements for CO<sub>2</sub> capture onshore should be included. For example, returning captured CO<sub>2</sub> as pressure support to the oil fields could become the norm. It could be technically feasible to use the same shuttle gas carriers for transporting the CO<sub>2</sub> back offshore which are transporting the compressed natural gas ashore.

Such a development would require a holistic approach, which creates incentives for trans-national collaboration. Such initiatives are already starting. In the Ironman project in Norway, Statoil, LKAB and Høganäs of Sweden jointly investigated the possibility of a Direct Reduced Iron (DRI) plant at Tjeldbergodden, a gas-receiving terminal on the Norwegian coast close to Trondheim. A key challenge for such projects to be realised, however, is the volatility of gas prices which is a key challenge for any large scale industrial projects employing natural gas. A number of studies have already been made by Norwegian research institutions into the use of natural gas for industrial purposes. Examples are the Gasmat – gas to materials – and Geonor projects undertaken by SINTEF, Trondheim and several studies (Gas-smaks, Geogass and others) by NORUT (the Northern Research Institute, Narvik) into building industrial clusters around gas-mineral processes.

This kind of collaboration will not happen by itself. It will have to be nudged into realisation through political will. The coming 24th licensing round could be the first opportunity to include such new criteria for licensing.

The Arctic Railway initiative connecting Rovaniemi with Kirkenes is stretching the imagination. It will be the single most important factor for realising the long-term vision of the Arctic Corridor. It will require enormous investments, long debates about environmental impact



and cost/benefit analysis. Ultimately though, it could create a unified economic North with its own industrial logic and momentum. The Arctic Railway would transport raw materials and goods to the North for shipment either via the Northern Sea Route to the Far East during the ice-free season, or to the Atlantic. For example, the ice free deep water port of Kirkenes can today load vessels up to 100 000 dead weight tons (dwt), and there are plans to increase this to 170 000 dwt vessels. This would offer considerable economies of scale for shippers of bulk cargoes. Like the previous Petsamo corridor it would connect Finland to the Barents Sea and be a gateway for exports and imports that could provide Finnish industry with an opportunity to serve the growing offshore activity in the Barents Sea. Importing LNG by specialised tankrail cars could also be important for Finland and the Baltic countries seeking to diversify their energy supplies. This "rolling LNG pipeline" could be run on LNG itself and would enable energy generation and processing at remote mine sites in northern Finland and Sweden. This would make industrial developments possible almost anywhere, and at the same time be environmentally friendly, save transportation cost and create jobs and value locally.

The main supply of LNG to Europe via the Arctic Corridor to Finland, Sweden and the Baltic countries will come from new LNG plants envisioned in Finnmark on the Norwegian Barents Sea coast. In the future when Russia again will become a natural partner in these developments, the LNG from the Yamal LNG project could also be sold and transported along this route. The Arctic Corridor would add flexibility, save cost as well as create a new supply route for Norwegian and possibly Russian LNG to a gas hungry Europe.

As mentioned earlier, historically large infrastructure projects are difficult to evaluate. Bergensbanen, between Oslo and Bergen, and Malmabanen, from Kiruna to Narvik, at the beginning of the 20th century are examples of large infrastructure investments which were controversial at the time due to the enormous capital required, but which have benefited society greatly in the long run. The positive impact of these projects would be impossible to justify with today's stringent financial NPV calculations based on relatively short project lives. For example, a direct consequence of Malmabanen's existence was the prospecting, discovery and subsequent development of further ore deposits which would not have been economically justifiable without the existing railway. The Arctic Railway is likely to have similar effects. If such indirect long-term effects are not taken into the decision-making process, then the value of infrastructure as a transformational tool is lost.

The industrial development involving natural gas as feedstock will probably first develop along the northern coast of Norway, possibly involving the expertise of Finnish or Swedish companies and scientific institutions. In parallel with these industrial initiatives the time consuming preparations for planning, approving and financing the Arctic Railway should be started. The end destination of this journey should not be the Arctic Corridor alone but a new Arctic Industrial Corridor of sustainable developments benefiting the people and the region!

In his book "The New North – the world in 2050" professor Laurence Smith of UCLA describes a demographic and economic shift northwards caused by rising temperatures, melting ice covers and rapidly increasing populations in low-lying or drought affected areas. Resources such as space and water will become scarce, and these are resources of which the North has plenty. Maybe the possible development described in this article could be the forerunner for that trend.

The Arctic Corridor is a grand vision - a bridge to the future for the Nordic countries. It is environmentally friendly and economically beneficial, but it requires our political leaders' understanding, determination and courage to be realised! ■



**FELIX H. TSCHUDI**

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ERJA TIKKA

# EU Strategy for the Baltic Sea Region, more commitment and focus for better results

During the first 6 months of this year I had the honor of chairing the National Contact Points (NCP) of the EU Strategy for the Baltic Sea Region. The adoption of a rotating chair of the NCPs reflected the discussion on more ownership of the macro regional strategies by the Member States. Estonia, as present CBSS Presidency, took over as NCP-chair after Finland and will be followed by Latvia and Poland in 2015.

The main topics during my chair were the discussion on governance, leadership and better implementation of the EUSBSR, embedding it into the ESIF- and other financing programs and the needs for updating the EUSBSR Action Plan.

A Commission report on the added value of macro regional strategies in June 2013 noted that they are an important innovation in territorial cooperation and cohesion, but this approach has to be judged by results. The implementation is challenging. Stronger leadership, reinforcing ownership in the regions concerned, clear decision-making and greater visibility are needed. On this basis the EU Council asked the Commission to prepare a report on better governance of the macro regional strategies.

The report was published in May 2014 and the Council conclusions were adopted on October 21. The Council recalled that the delivery of results of macro-regional strategies relies on an effective governance model and efficient procedures for the implementation, stressing though that governance is not a "one size fits all" model. The Council did not endorse the Commission's proposal of a rotating presidency on ministerial level and called to refrain from setting up additional EU formal structures. Instead, better exploitation of the existing ones was encouraged. This was the view of most BSR Member States, as there already are so many cooperation formats in the Baltic Sea region.

The Member States are invited to reinforce the political leadership and ownership of the macro-regional strategies and maintain their political commitment in the long term. The conclusions also underline the role of relevant ministries in implementing the macro-regional strategies and their responsibility for driving progress in their thematic areas. Although the EUSBSR 5 years ago was a forerunner of EU macro regional strategies, we still have a lot to do in our countries in this respect. The sectorial ministries should work much closer together in answering the common regional challenges, shaping policies, planning tangible projects and utilizing the financial instruments.

According to the Council conclusions, priority should be given to issues of coherence and strategic relevance for the macro-regions concerned, providing genuine value-added in relation to horizontal community policies, in particular to the Europe 2020 Strategy and to result-orientation. The need to focus on a limited number of challenges and opportunities is also pointed out.

The Action Plan of the EU Strategy for the Baltic Sea Region will be updated by the beginning of 2015. The main goals of the Strategy, *Save the Sea*, *Connect the Region* and *Increase Prosperity*, will remain. But as these goals are now implemented in as many as 17 priority areas and 5 horizontal actions, the need to focus is vi-

tal. The Commission interviewed the Priority Area Coordinators and Horizontal Action Leaders last winter. The following report concluded that most priority areas under *Save the Sea* are delivering results, the *Prosperity* priorities do relatively well but need attention and the priorities under *Connect the Region* need improvement and proper focus. We should also concentrate on issues that bring real value-added to the region.

*Save the Sea* is certainly the goal, were we need to deliver – or the Strategy will lose its credibility in people's eyes. Reducing nutrients, working for sustainable agriculture and ensuring maritime safety are the main priorities of the Finnish Government in this respect. And the necessary cooperation with neighboring non-EU countries must not be interrupted in spite of the tensed political situation.

*Connecting the Region* is likewise crucial. The priority areas Transport and Energy need a new approach and more attention and ideas from the Member States. Business representatives attending the 5th Annual Forum in Turku last June wanted the Strategy work to concentrate more on promoting transport connections and growth corridors.

Under the goal *Increase Prosperity* there are 7 priority areas, e.g. separately for SMEs, innovations and internal market. They could well be clustered or merged. In this field we should also define a focus that would bring more regional value-added, such as "going green" were the Baltic Sea region has promising prospects for growth.

The review of the EUSBSR Action Plan is timely and should be finalized quickly. The goals of the Strategy have now been embedded in the main EU financial instruments for the region and the first calls for projects will open soon. This program period will prove our capability to deliver. ■



ERJA TIKKA

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HELENA LINDBERG

# Meeting the challenges of trans-boundary flows through macro-regional cooperation

In 2009, during the Swedish EU Presidency, the European Union launched its Strategy for the Baltic Sea Region (EUSBSR). The strategy and its action plans have provided a common direction and purpose to the cooperation in the region. The EUSBSR is currently composed of a number of thematic Priority Areas (PA:s), where concrete expert level cooperation is carried out. As of February 2013, the Council of the Baltic Sea States (CBSS) Secretariat and the Swedish Civil Contingencies Agency (MSB) serve as Coordinators of PA Secure – Protection from emergencies and accidents on land.

The PA Secure is aimed at coordinating and enhancing macro-regional efforts in the protection from emergencies and accidents on land. It was a natural outgrowth of the Swedish government mandate for MSB to accept to coordinate the activities of PA Secure. MSB has broad responsibilities in the area of societal security. The work covers a wide spectrum of risks and threats – ranging from IT-incidents to health threats, extreme weather events and CBRN security. The agency is also active in all phases of contingency management – before, during and after – and operates both nationally and internationally. MSB is also the national point of contact for the European civil protection mechanism and for the European cooperation in the area of critical infrastructure protection (EPCIP).

Today most major risk scenarios involve critical flows of different kinds - flows that reach both across sectors and across national borders - flows of energy, essential goods, finances, information and people - “good flows” that we want to protect and develop. But we also find undesirables flowing across our borders, like viruses – both human and digital – extreme weather conditions, illegal and hazardous substances, criminality and conflicts.

One of the important objectives for our work within PA Secure will be to explore these flows and to see how we can strengthen the interoperability of civil protection authorities in the region. This is a multidimensional task with a foundation in technology but with even greater obstacles in organizational rigidities, professional prisons legacies and human mind-sets.

We want to establish a better understanding of existing and needed arrangements, continue to map and assess macro-regional risk scenarios, identify shared vulnerabilities and close gaps in common capacities.

In order to advance our work within PA Secure we will need to work closely with other EUSBSR priority areas, such as “Safe”, “Crime”, “Agri” and “Health”.

We have much in common in the region, but there are also differences to address openly. Our perceptions of risks and threats are not the same, our national systems are organized differently and we use

different approaches, terminologies and skill-sets. This variation can give rise to some “healthy friction” in our deliberations about the work ahead.

An important tool to overcome some of these deeply engrained obstacles and to find common platforms for action is joint training - at many different levels.

One flagship initiative for priority area “Secure” is the launch in 2014 of a “Baltic Leadership Programme”, focused on societal security.<sup>1</sup>

This programme - which is funded by the Swedish Institute - will target future leaders in civil protection and address “intercultural aspects” of cross-border cooperation. I am convinced that this joint training initiative can serve as a model for other Priority Areas and for

emerging macro-regions in Europe.

The purpose is to equip the next generation of high level policy makers with the tools and perspectives needed to manage cross-border collaborations among diverse organizations in an intercultural context. The leaders of tomorrow need to be better connected and will gain new and lasting networks that can strengthen regional cooperation in civil protection.

Carefully selected individuals with high promise for the future will work for four days with colleagues in their profession. The focus is on challenges with clear implications for policy makers at the strategic level and not on operational or tactical concerns. Other courses cover those important topics.

Issues to be addressed in an interactive format include: How can we put safety and security issues at the top of the regional political agenda? What are the risks and the vulnerabilities? What capacities are needed to improve trans-boundary co-operation? How can we communicate about present and future risks and offer meaning to the public during crises? What can we learn from each other?

<sup>1</sup> The Leadership Programme for Societal Security builds on the experiences of other similar training initiatives focused on inter-cultural exchange between project leaders in the region.

The challenges related to the increased intensity of maritime traffic, and the potentially very serious impacts of large oil spills, provide concrete examples of areas where we need to mobilise regional efforts [...]

Some issues will be taken further in a flagship EU-funded project "From Gaps to Caps", which is led by the Fire and Rescue Department under the Lithuanian Ministry of the Interior. The project covers Risk Management Capability Assessment Methodology and Evaluations of Emergencies and Exercises. The aim is to increase cross-border preparedness for complex hazards and emergencies.

Another flagship project, underpinning the cooperation in PA Secure, is the BaltPrevResilience project. MSB is Lead Partner for this EU-funded project which started in 2014. The ambition is to establish a platform for sharing statistics, experiences and best lessons to enhance daily practices regarding accidents and emergencies.

The challenges related to the increased intensity of maritime traffic, and the potentially very serious impacts of large oil spills, provide concrete examples of areas where we need to mobilise regional efforts, based on the 1992 Helsinki Convention (HELCOM). The Baltic Sea is becoming cleaner and safer, but it is still a vulnerable sea, unable to cope with a significant rise in oil spillage and pollution. It is essential to maintain a standard of responsible shipping in the region. For PA Secure it is an important mission to support the current development within HELCOM towards a broadening cooperation, including also response on the shore.

Once again, we see the added value of macro-regional cooperation when the countries around the Baltic Sea are able to join efforts for a common goal – safety and security in critical flows at sea and on land. In order to meet the many challenges ahead, we should seek to exploit the tight web of mutually reinforcing, cross-border relationships, that provide a rather unique foundation for future resilience in the region. ■

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## BALTIC RIM ECONOMIES

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ASTA MACKEVICIUTE

# Solidarity – a burden, privilege or natural state?

As one of the overarching values on which the EU was built, solidarity has been at the core of its integration, both driving the Union forward and keeping it together. The principle of solidarity found its explicit place in the Lisbon Treaty under the obligation for the Union and its Member States to assist in case of a terrorist attack and a man-made or natural disaster. This is the area where we find many beautiful expressions of solidarity between our Member States as well as with third countries.

Solidarity does not come without responsibility. EU legislation requires Member States to assess their risks and to prepare at best of their capacity. States carry primary responsibility to respond to disasters and to protect their population and environment. However, the EU also recognises that disasters – even the more predictable ones – sometimes take unprecedented proportions and can overwhelm national response capabilities. In these cases we need to be able to reach out and help each other.

Much of this mutual assistance has developed spontaneously, and has sometimes led to closer and more structural co-operation among neighbouring countries or in entire regions. Regional sea conventions for co-operation against marine pollution, like the Helsinki Convention in the Baltics, are very good examples of such engagement for coordinated preparedness and assistance. For decades countries around the regional seas practice joint alert systems and emergency response arrangements, co-operate in surveillance, share good practice and exercise within impressive international fleets. As an extra layer of support the EU has also played an increasingly important role in assisting its Member States to respond to marine pollution. It started with an action programme against hydrocarbon pollution in 1978 and developed into the establishment of the European Maritime Safety Agency in 2002 with a network of stand-by oil spill response vessels along the entire European coastline, satellite based oil spill and vessel detection and monitoring, information service in case of chemical spills at sea and a lot more.

The EU's involvement in solidarity among Member States with additional services and funding has not been limited to marine pollution. In 2001, the Civil Protection Mechanism was established to facilitate coordination among national civil protection authorities for better prevention, preparedness and response to all types of natural and man-made disasters. It already brings together EU Member States, Iceland, Norway and the former Yugoslav Republic of Macedonia but remains open to all candidate and potential candidate countries and we expect to soon welcome Montenegro and Serbia. The operational heart of this Mechanism is the Emergency Response Coordination Centre in Brussels. Although primarily focused to support Member States, it has been designed to extend European solidarity on a global scale and to provide aid wherever it is requested. Since its creation the Mechanism has been activated over 300 times, swiftly pooling in-kind assistance, specialised equipment and expertise available throughout its Participating States and transporting them with the EU co-financing to alleviate human suffering or environmental damage. Those cases include major disasters that hit the world in the past decades, like the earthquake in Haiti (2010), cascading disaster in Japan (2011), typhoon Haiyan in the Philippines (2013) but also numerous forest fires and floods in Europe. The latest example of such Euro-

pean solidarity in the north of Europe was demonstrated in summer 2014 when four fire-fighting planes from Italy and France, supported by a French surveillance plane, performed 1500 water drops (equivalent of around 7500 tonnes) over the burning areas in Sweden. Assistance is usually provided free of charge except for marine pollution cases where the polluter bears the cost.

For such solidarity operations to be professional, timely, effective and blending smoothly into a national response, there is a need for specialised knowledge and preparation. The Mechanism provides the necessary framework to gain international training, to exercise among and within multinational teams and to have a secure real time communication system that connects all relevant authorities.

In times when we experience various natural phenomena that lead to catastrophic events, when unrest in its many forms comes ever closer to the Union's borders and when national economies are under strain, the EU is maintaining solidarity in disaster management in the forefront of its activities. The implementation of the recently revised civil protection legislation providing for more robust arrangements on disaster prevention, preparedness and response, and a strong focus on sharing and pooling of response capacities, is a common effort of the Member States and the European Commission to face the growing complexity of events and increasing expectations of citizens.

The future of solidarity will depend on the attitude that will prevail in our families and societies, in our countries, regions and in the EU as a whole. Now, when it is enshrined in the Lisbon Treaty and has developed into a sophisticated mechanism that demands engagement for assistance, will solidarity be perceived as a burden on individual Member States, will our countries race to be among the first to help those in need or will we simply find it natural to keep growing together in a spirit of genuine solidarity? This is not a mere moral question. As we are developing together, we are actually learning that solidarity and close cooperation in the area of disaster management is having a major impact not only on national resilience but even on growth and jobs across the EU. With more focus on prevention and preparedness, the industry is seeing opportunities and governments are creating a safer environment for people and for investment. Perhaps this prime example of how closer EU cooperation benefits us all could be more prominent in the current policy debates on the Union. ■

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BO HARALD TILLBERG

# Belarusian language and national identity – old challenges, new paradox

Anyone wandering around the Belarusian capital of Minsk this autumn will soon notice the large posters featuring a happy, smiling young girl. This is not an advertisement. The text with the picture reads in Belarusian: My first word in my native language – love. And there is also a question aimed at the viewer: What will be your first word in your native language? The posters are part of a government campaign to promote the nation's titular language, Belarusian. This message is initially confusing, as it seems to imply that the population is only now going to start speaking its native language. However, in the Belarusian context, "native language" does not normally refer to the first language spoken by a particular individual, but instead to the official language of the nation in which they grew up. The native language mentioned in the campaign is thus not the language the audience actually learned during early childhood, but the language they are assumed to identify with.

Interest in learning and using the Belarusian language is increasing. Several civic initiatives are offering free language courses. Perhaps more remarkable is the fact that the Belarusian President, Alexander Lukashenko, has spoken in Belarusian at several public events in recent times, and has emphasized the importance of the language for the nation. This is a significant change in a president who had previously refrained from speaking Belarusian in public and had also spoken disparagingly of the language. After Lukashenko came to power 20 years ago, and in the wake of the referendum on language that followed, Belarus has had two official languages. Of these, Russian has been dominant. Those who consistently prefer to speak Belarusian have encountered major practical difficulties. In censuses, the majority of the population has indicated Belarusian as their native language, but sociological studies show that only a quarter of the population actually speaks the language, and only a few per cent use it on a daily basis. But even though the language is not used to a great extent, it is present in other ways. It has a prominent role in public events with an emphasis on Belarusian culture or when the intention is to express loyalty to the Belarusian nation.

Most political parties – and even the Francišak Skaryna Belarusian Language Society – have abandoned the demand for Belarusian to be the only official language. There is now an understanding that an altered linguistic situation requires both patience and an understanding of the needs of the population. However, efforts to promote the use of Belarusian must above all be seen in the context of the need to strengthen the national identity. This process involves finding symbols of national identity regarding which there is a broad consensus and which can be effective boundary markers against more powerful neighbors. The regional crisis and the perceived threat to the republic's very existence have reinforced these efforts. So is this new found linguistic interest demonstrated by the President and the political elite just opportunistic? And how has this interest been received by those who have long fought for a stronger national identity? Many feel that this is too little, too late. The role of language as an indicator of a position of opposition also makes it difficult for many to unite with the President on the issue. However, there is criticism of this attitude.

One example is the political analyst Artiom Shraibman, who recently argued in an article on tut.by, the leading Belarusian internet news portal, that it is not only an opportunity to exploit the regime's interest in what the opposition has been striving to achieve for 20 years, but also a necessity. The Ukraine has been at its most unstable in regions where Russian speakers are in the majority. To that extent, says Shraibman, the whole of Belarus is exposed, and the government's change in attitude should be exploited, regardless of whether this is primarily driven by self-interest.

For the political opposition, the language has long been a component in a political vision intended to constitute an alternative to the policies carried out by the current government. Quite unexpectedly, this component now appears to have become part of the current regime's survival strategy. The situation is thus both complex and, in some respects, hopeful. Opportunities to promote the Belarusian language – both as a means of communication and as an element in a clearer national identity – seem to be greater than they have been at any time since the early 1990s. However, with the forthcoming presidential election and the likely continued uncertainty in terms of the economy and regional security issues, priorities may quickly change. It therefore remains to be seen whether the increased interest by the population in the language becomes permanent and whether the President's promises regarding an altered language policy will actually become reality. ■



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# Nordregio in the Baltic Sea Region

**E**stablished by the Nordic Council of Ministers in 1997, Nordregio is a research institute mainly within social sciences. We are working with international comparative research and are active in European scientific networks and programmes, including ESPON, Horizon 2020 and Territorial Cooperation Programmes such as the Baltic Sea Region programme. With a diverse setting, including researchers from 12 countries, Nordregio is well suited to consider a range of perspectives on the implications of post carbon cities in Nordic, European and global settings. Research at Nordregio follows the three broad categories of Territorial Development, Governance, and Society & the Environment.

Nordregio specializes in international comparative and collaborative research. Using leading-edge skills, quantitative and qualitative analyses is carried out on a range of geographic scales. Urban resource efficiency – from the building to regional scale – governance, regional development, spatial planning, innovation and entrepreneurship, green growth, global climate change and local adaptation are among our major areas of interest. Our research competencies include the production of high-quality maps and the development of state of the art statistical databases.

The Baltic Sea Region (BSR) has always been an interesting geographic space for Nordregio. Three Nordic countries, namely Sweden, Finland and Denmark as well as the autonomous region of Åland are part and member states of the BSR. Since its establishment Nordregio has done policy relevant research in the BSR that has especially been interesting in terms of spatial development due to the political changes and the enlargement of the European Union. Between 2007 and 2008 Nordregio was involved in the East-West Window project and produced the report “Exploring the Baltic Sea Region – On territorial capital and spatial integration”. In 2014 Nordregio finalized an ESPON project on territorial monitoring for the Baltic Sea Region (ESPON TeMo).

Furthermore Nordregio has a proven track record in projects funded by the Baltic Sea Region and Central Baltic programmes supporting regions in addressing challenges by integrating EU policy goals into spatial planning processes. To give some examples during the last programming period Nordregio worked with the concept of quality of life and rural urban interaction (NEW BRIDGES 2008-2011), adaptation to climate change (BaltCICA 2008-2011), labour mobility (Centralbaltic Job Ferry 2011-2013) and flexible working arrangements (FLEX 2010-2011). As a research partner Nordregio supported the analytical work as well as facilitated transnational learning among project partners. Project reports and policy recommendations are usually products produced and disseminated by Nordregio.

Focusing on spatial planning processes Nordregio has interestingly been observing the development of the Baltic Sea Region as EU's first macro-region since the European Strategy for the Baltic Sea Region (EUSBSR) was launched in 2009. The same year Nordregio produced a scoping study on EU macro-regions and macro-regional strategies as well as started analyzing the potential added value of developing a climate change adaptation strategy at macro-regional level from a territorial governance perspective.

Besides cooperating with e.g. regional planning authorities, research institutes and NGO's in projects, Nordregio also cooperates closely with pan-Baltic organizations such as the Union of the Baltic



Baltic Sea Region (BSR) with regional boundaries: Cooperation Area. Map layout: Linus Rispling, Nordregio

Cities (in the NEW BRIDGES project), VASAB: Vision and Strategies around the Baltic Sea 2010 (in the East-West Window project) and the Council of the Baltic Sea States (CBSS). Nordregio is a member in CBSS Expert Group on Sustainable Development – Baltic 21 and provided a background paper that is envisioned as a main source of input for the formulation of the Strategic Action Plan for 2010-to 2015 on climate change.

In different kinds of projects and initiatives Nordregio will continue providing policy relevant research results in the broad field of regional studies and supporting policy- and decision makers in cities and regions across the BSR to achieve regional, national and EU policy goals. The Europe 2020 Strategy and the EU Strategy for the Baltic Sea Region (EUSBSR) are two central policy documents influencing regional development and planning as well as the upcoming programming period 2014-2020. ■

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KÅRE STORVIK

# Nordic branding

**O**n the Seas of the World, Norway has always been large. In 1868 our national poet Bjørnstjerne Bjørnson wrote about how white sails had earned us our power and glory. Until then, and for a hundred years to come, this power and glory was associated with ocean hunting, fishing, shipping, marine research and polar expeditions.

A new era in Norway's maritime history was initiated in 1968, when hydrocarbons were found in the Cod field in the Norwegian North Sea. The discovery was made by United States Petroleum Company Phillips. Together with my colleague, Peter W. Smith, I stood some time later for a spectacular and successful marketing of engineering works for the Cod field development by Kvaerner Engineering. I was the project manager for the implementation of the same works, in collaboration with a number of Norwegian and foreign consultancy firms. Many Norwegian engineers debuted then in the offshore sector.

With this, and later discoveries, good Norwegian sailors and shipping companies, engineers, professionals and industries, and last, but not least, politicians and bureaucrats, had new sea-oriented disciplines to master, such as Offshore prospecting, production, and landing of petroleum in sustainable ways. Until then, it was a profession dominated by the US, French, Dutch and British.

The Norwegians took the challenge and opened the continental shelf for foreigners with hard, but predictable conditions which among other things contained strong rewards for technology transfer to the Norwegians. We did not need to be asked twice to take part in the challenge, and eventually to take over.

We concentrated on being able to crawl before getting on our feet. The initial fields were in areas with reasonable depths, good bottom conditions, moderate weather and climate conditions and solid and predictable reservoirs. On the road towards more difficult conditions in all these parameters the brave Norwegians used their continental shelf as a laboratory for further technology development. Ultimately, on this road, some of our process systems ended up on the bottom of the sea, as subsea installations. Now we have a hegemony to defend. Norwegian oil technology has a good market share on all continental shelves around the world.

At home we are facing a relocation of the centre of gravity of the petroleum industry towards the North, in Norway and Russia, with new challenges. Dark, poor visibility, snow, cold, unpredictable and rapid weather changes due to polar low pressures, ice and icing. On top of all this; extended communication, life-and health-related and social infrastructure, all in a very vulnerable ecosystem that needs to be protected and preserved. However, this is where the major resources are located, with the welfare of the world depending on their utilization, sooner or later, and we will handle the challenges.

Our society has a high level of welfare and a similarly high cost levels. Benefits that many of us, in line with our social democratic values, would like to share with the rest of the world. We believe that there are tasks and opportunities for all, but at the same time we want to be more proficient and lead the way in the development of products and services which we have so far concentrated on and have had special conditions for. We have put into use knowledge, skills, traditions and technology to help us in being competitive. We concentrate on doing things right the first time. We implement practical quality assurance, and we make extensive use of automation and robotics.

In the very recent past we have been threatened by the placement of big contracts in low-cost countries in far-away lands. It has not been successful. We are experiencing large cost and time overruns and quality failure. We want to take these tasks back home in order to make them more successful and more affordable but most of all because we want, and need, to be the players and not the audience. We do not get to keep our hegemony if we leave the implementation of complex tasks to others.

At the same time, we see that the needs for expertise, capacity and competitiveness can exceed what Norway can provide, at which point it is natural to see how we can work together with our good industrial neighbours.

We have in the first instance investigated carefully what we can find in Finland and we are impressed with their expertise, capacity and competitiveness. Finland's Arctic experience is highly needed in the North. Further, Finland's excellent educational system is known as well as their IT expertise. We also find advanced production technology and a number of companies with a broad technology spectrum.

Additionally we are confident that if we look to Sweden, Iceland and Denmark we will find more than we can use: Nordic cooperation, 25 million heads and twice as many hands to bet on. Unbeatable.

Various historic assumptions have led to the fact that the Nordic countries have chosen or have to choose different Associations relative to the rest of the world. However, I see nothing that stands in the way of an increased Nordic cooperation on many fronts. Let the maritime industrial sectors work together to be a rose in an ever more beautiful and larger Nordic collaboration bouquet. ■



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ANNAMARI ARRAKOSKI-ENGARDT

# Summer 2014 – a tale of two seas

**L**ast summer broke records – both in a good and in a bad way. In the east, i.e. in the Gulf of Finland, waters were as clear as ever witnessed, whereas west of Hanko we had miles long blooms of blue-green algae. The main reasons for the water clarity in the Gulf of Finland were the effective measures taken in waste water treatment of St. Petersburg and mitigation of phosphorus discharges from the Phosphorit factory in Kingisepp. At the same time, the disaster in the Archipelago and Åland seas was caused by the great phosphorus reserve, collected over time in the depths of the Baltic Proper some of which was released by strong winter storms and transported into the Finnish waters.

The exceptionally hot summer was a veritable acid test for the condition of the Gulf of Finland. Still, the waters remained clear. Two individual actions have had the greatest impact on the unprecedented clarity of the Gulf of Finland: improved nutrient removal from the wastewaters of St. Petersburg, and the cessation of phosphorus discharges from the Kingisepp gypsum pile. Together, they have decreased the annual phosphorus load of the Gulf of Finland by an amazing 60%. According to the Finnish Environment Institute (SYKE), in July – August average chlorophyll levels – which correspond to the volumes of algal blooms – were lower than at any other time in the 2000s at the eastern observation sites of the Gulf of Finland.

This proves that the recent water protection co-operation between Russian and Finnish public and private organisations – water utility of St. Petersburg; EuroChem, the owner of the Kingisepp fertilizer factory; John Nurminen Foundation; and the Finnish government – is bearing fruit, which both ordinary citizens and research institutes can witness in the form of clear waters. Despite this, we cannot become complacent as regards the Gulf of Finland, thinking that the good situation of this summer would be permanent. The oxygen status and phosphorus concentration of the Gulf are strongly influenced by the sporadic currents from the deep waters of the Baltic Sea's main basin far into the eastern areas of the Gulf of Finland. What will next winter bring?

Although we cannot influence sea currents and winter storms, a lot can be done to reduce external loading to the Baltic Proper. The fastest and most efficient way is to cut the discharges from the main point load sources in the catchment area.

As an example of effective means to reduce nutrient load to the Baltic Proper, the EU part-financed PRESTO project invested in improving the efficiency of nutrient removal in the three Belarusian cities of Grodno, Vitebsk, and Molodechno. The Foundation was responsible for technical plans and investments related to improved nutrient removal, which reduced the annual phosphorus load from these sources with hundreds of tonnes.

The Foundation is also working actively with Russian organizations in the Leningrad oblast to even further reduce discharges to the Gulf of Finland. After the project in St. Petersburg, completed in 2011, enhanced phosphorus removal will be started in the waste water treatment plants of Vyborg and Gatchina. In addition to municipal projects, the Foundation has a project dealing with manure leakages from the Udarnik poultry farm, situated in the village of Pobeda some 50 kilometres from Vyborg.

The Foundation is currently working on a number of new projects which aim at reducing the nutrient load of the Sea by improving wastewater treatment especially in Poland, the Baltic countries, Belarus, Kaliningrad and Leningrad regions in Russia.

One initiative under preparation is the EU-funded **BEST (Better Efficiency for Sewage Treatment)**, where the main partner is City of Helsinki Environment Centre. Other key partners include the City of Warsaw and a number of water utilities and authorities in Poland and the Baltic countries. The goal is to improve waste water treatment in the new EU member countries to match the HELCOM recommended treatment level and to improve co-treatment of municipal and industrial waste waters in the whole Baltic Sea region. The project has been nominated as a potential flagship project of the EU Baltic Sea Strategy.

Another new initiative of the Foundation, also a potential flagship project of the EU Baltic Sea Strategy, is the **NutriTrade** project. Nutrient trading has for long been considered as a promising way to cost-effectively reduce the nutrient load of the Baltic Sea. The goal is to launch the first nutrient trading scheme and marketplace across the Baltic Sea.

The battle against eutrophication continues. We will continue our efforts towards a cleaner Baltic Sea. There are no miracle cures, but this summer was enough to prove that with effective and fast measures focused on largest pollution sources, we can achieve a visible improvement in the condition of the sea already during our lifetime. ■



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Secretary General  
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VINCENT F. VALENTINE

# Maritime transport in the Baltic Sea from a global perspective

All countries whether they are developed, developing, littoral, landlocked or small island developing states depend almost exclusively on maritime transport to carry their international trade. With 80% of international merchandise trade by volume and over two-thirds by value carried by sea, maritime transport has for millennia been the backbone of international trade. The volumes carried and the distance travelled by maritime transport continue to grow. In 2013, world seaborne trade volumes grew by 3.8% to reach nearly 9.6 billion tons and measured in distance this amounted to some 50,000 billion ton-miles.

The Baltic Sea region is important for trade in commodities such as oil, wood, minerals and grain, as well as in importing and exporting finished and semi-finished goods carried in containers. UNCTAD estimates that container port throughput for the Baltic Sea region in 2013 stood at around 10.1 million TEU up from 9.8 million TEU in the previous year. This equates to growth at 3.4% which is below the world average growth of 5.6% for the same period. The growth gap between the regional average and the world average means that the Baltic Sea region's share of world container throughput declined from 1.59% in 2012 to about 1.56% in 2013.

The significance of the Baltic Sea region in international trade with the rest of the world should however not be underestimated. UNCTAD's Liner Shipping Connectivity Index, a tool measuring how pairs of countries are connected by container liners services, shows that of the 10 countries in the Baltic Sea region half (Germany, Sweden, Denmark Poland and the Russian Federation) have significantly increased their connectivity to other countries within the last decade. The most notable gain is that of Poland which moved from being ranked the 90th most connected maritime country in 2004 to 24th position in 2014. Favourable geographical positioning close to a large prosperous population with access to emerging neighbouring markets as well as infrastructure developments such as the Deepwater Container Terminal in Gdańsk have all contributed to this meteoric rise.

Today the region has been offered an opportunity to engage in developing best practices and experiences in implementing new standards on ship's emissions. The latest IMO regulations (Reg. 14 - Annex VI - MARPOL) which is due to come into force on 1st January 2015 aims to improve air quality by limiting sulphur emissions from ships in Emission Control Areas (ECA) such as the Baltic Sea region to 0.10% m/m. To do this, Shipowners may have to retrofit existing vessels with scrubbers or order new fully compliant vessels from shipyards. This comes at a time when other areas outside the ECA are subject to the less stringent regulations where emissions are capped at 3.50% m/m until 2020. Yet, it is important to remember that within the ECA there will be a level playing-field and sooner or later that playing field is likely to be extended globally. Thus what is happening in the Baltic Sea region today could become a global standard tomorrow.

Looking at the bigger picture, the IMO regulations are part of general UN wide drive to push sustainability onto the global agenda. Indeed, in 2015 the United Nations is expected to adopt Sustainable Development Goals (SDGs) to build upon the Millennium Development Goals (MDGs). Having gone through a series of consultations

with numerous international experts at the Open Working Group, these SDGs are expected to be finalized for adoption at the United Nations General Assembly in New York in September 2015. The new goals will take into consideration the outcome of the Rio+20 conference in 2012 by addressing a multitude of issues on sustainable development, not least how to achieve continued development with the least impact upon the environment. Shipping emissions have lagged behind other transport modes emissions because the pollution occurred largely at sea and unseen. Ship emissions were until very recently 1400 times more polluting than the average diesel car and therefore it was only a matter of time before change was due.

The Baltic Sea region, along with other ECA has a role to play in shaping how the rest of the world handles the consequences of increase volumes of international trade and the corresponding impact upon the environment. The new IMO regulations should be seen in a positive light. By being amongst the first to adopt measures which will make shipping more efficient there could be first to market advantages. This may lead to new opportunities for market leaders to generate new revenue streams. However, sustainability in transport is not just about the environment but includes economic and social aspects such as the need to achieve economic efficiency and viability while providing safe and secure infrastructures and services. Importantly, improvements in one area are likely to lead to improvements in other areas which when combined can lead to a better safer and cleaner world for all. ■

Disclaimer: The views in this article are those of the author and not necessarily those of UNCTAD or its member states.



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# Baltic Sea – the sea of information?

**D**uring the last decades it has been often stated that we are drowning in a rising sea of information. Not many of us would challenge this argument when thinking of the surge of e-mails, reports, analysis, news, etc. pouring in to our daily life. Never has it been so easy to obtain information on almost anything you can think of. At the same time a variety of information needed for e.g. ensuring safe and environmentally friendly sea transport system is still not available. We are in the process of understanding our present and future information needs but we are struggling with the means to achieve it. And while trying to make the most of the information available we note that the information is meaningless without a way to locate, filter, organize and summarize it.

Major trends shaping our world are globalization, digitalization and deregulation. Of these digitalization enables the further development of globalization and deregulation and is often seen, together with the possibilities created with deregulation, as the solutions to Finland's urgent need for economic revival.

Transport authorities are working to facilitate digitalization and deregulation. Realization of both requires readily available quality information. In search of the new, more effective and less manpower consuming modus operandi the fundamental role of information has been acknowledged and, to show its rightful status, information has now been recognized as the fifth transport mode. The aims of increased safety and efficiency for maritime or any other transport mode can no longer be achieved without comprehensive availability of relevant information.

One of the drivers for more information intensive authority work is the fact that traditional safety by rule compliance has not ensured desired level of safety. It is time to move towards safety performance thinking where preventive safety consciousness and risk informed approach is an integral part of each action taken onboard. To enable this more and more reliable information is needed. All this is needed to realize a new risk informed decision and rule making regime amongst authorities. It can be argued that all efforts to improve safety are based on information and analyses of it. It is, therefore, safe to say that information forms the foundation of the efforts to improve safety, carried out by all parties, including the shipping industry and the authorities. Unfortunately, obtaining comprehensive and reliable information still remains difficult, or impossible even. By international comparison, however, Finland is one of the leading countries in maritime data exchange between maritime safety authorities. Despite this, the majority of information required for safety work is only available at the production source, or is not stored for further use. On that note, in recent years information, storage, management and sharing have become one of the performance development targets in national, EU-wide and international forums.

On a European level the SafeSeaNet (SSN) system is an example of successful information sharing among the maritime transport sector. An important phase in the development of SSN will be reached when the national centralized single windows will be connected to SafeSeaNet in June 2015, enabling even wider collection and exchange of maritime transport related data. Another important

EU-driven initiative is the Common Information Sharing Environment (CISE) development. In Baltic Rim Economic 2014 issue no. 4 Minister of Defence Carl Haglund raised the importance of this initiative. The objective of CISE is to create situational awareness that supports effective decision making among authority functions related to maritime safety and security, coast guard services, marine environment, fisheries control, as well as law enforcement and national defence activities in general. The main difference compared to SSN is the more comprehensive approach entailing all maritime and marine authority functions. The authorities themselves have a significant role in this initiative but the development work should strongly strive to take into account the public sector objectives concerning the open access to and reusability of digital datasets. This objective has also been incorporated into the Maritime Transport Strategy for Finland, published in the spring of 2014, and into the background materials of the future outlook report by the Ministry of Transport and Communications. Information and digitalization are also useful ways of gaining a competitive edge. With this in mind, the future outlook report states that clear goals and timetables should be set for the opening up of public data resources and the related interfaces, as well as creating common management policies for information sharing and integration.

Decision and rule making should always be based on latest knowledge and state-of-the-art analysis combined with the societal facts and, to a certain degree, to political ambitions. T trafi has chosen the production of information and information-sharing environments as one of its strategic projects and is implementing the measures required for ensuring the availability of information described in the above-mentioned EU- and national initiatives and strategies. One step to this direction is the new maritime information storing and sharing environment 'PURKKI' built by T trafi since 2012. Another important project is the management of occurrence and hazardous situation reporting. With these projects and continuous data analysis T trafi wants to ensure that information is available through standardized interfaces 24/7 for all marine stakeholders according to their personalized rights by means of machine readable coding.

Information is a source of safety and new services. That being said, T trafi will continue its efforts to ensure the comprehensive availability and exploitation of data, information and knowledge. Though we are developing the safety and the efficiency of the transport system, information is not only an asset inside a system. Smart seas can do more, better and cheaper. ■

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KIMMO MÄKI

# Port of Helsinki on the move

The Port of Helsinki enjoys its position as the capital port of the country. Especially in current times, as the Finnish and the world economy are stumbling, the Port of Helsinki is standing out. Goods still have to move but Finnish export and import traffic handlers seem to be reconsidering their routes. The Finnish economic situation is strongly expressed by the success of Finnish ports. They mirror the state of the country. One has to remember to look at total port traffic figures, not just the success of one port in order to get the big picture. Helsinki's figures are growing. It would be somewhat vainglorious to boast that those figures are always good, but luckily they often are. Throughout this year Helsinki's figures have been on the positive side. Traffic flow seems to have a tendency to concentrate when there is less to deliver.

Nevertheless, the present good situation does not give us reason for complacency. The competition is getting tougher and solutions to carry on business with customers need to be found. Flexibility is one of the keys. The Port of Helsinki is eager to find new ways to work with customers and also the surrounding areas' operators and stakeholders, such as residents. The location itself needs to be earned by the port in a quite outspoken way.

West harbour is the biggest and ultimately most important development area for the Port of Helsinki. The challenge is a demanding one as the harbour lies in the very heart of a housing and office area and the traffic cannot be moved away for the construction period. As the housing area is being built simultaneously the new residents are alert and the passengers' travelling comfort endangered. The aim is to develop the port activities, their efficiency and the smooth flow of traffic. All this is to be done with the residents' interests heard taken into account. This is a show case of how to integrate the surroundings in a development work. It also expresses the split role of a port to work for the good of a shipping company and at the same time that of the residents. They may coincide at times.

Being the number one port in Finland, Helsinki has the right and responsibility to lead the way in port business. This means that we also fight in the first line. New demands, challenges, hopefully also opportunities need our attention. The solutions have to meet the expectations and the standards we ourselves are setting. Come e.g. the ever tightening environmental regulations as the soon – as of Jan. 1 2015 – to be SECA regulation. One challenge is that there are many ways to reduce the amount of sulphur in the fuel. Shipping companies have different solutions, such as LNG, MGO, scrubbers, and ports need to have a way of handling all these if there is a serious will to remain in the business. Earth powers and its delivery are another issue.

It would be easy to say that the regulations limit the creativity of business, but they can also nourish it. As the price of the fuel is most likely changing, it will most probably affect the logistic structure of the Baltic Sea. Helsinki and Tallinn ports have started a cooperation to increase the smoothness of travelling and to enable the growing number of passenger and cargo to pass through the centrally located ports. The passenger number is nearly 8 M already and the figure is expected to grow, not just of holidaymakers but also of business travellers and commuters. West harbour is an important node for shuttling between Helsinki and Tallinn, enriching the economic life and commerce on both ends.

The EU originated law to privatize publicly owned organisations operating in the market economy has been passed in Finland. Due to this Port of Helsinki will become a limited company as of 1st January 2015. Port of Helsinki wants to use this opportunity to reconsider its brand at the same time when some of the duties related to city ownership are being redefined and there is a strong will to make the company even more market oriented. This has meant some inner activities in addition to the actual administrative effort the process demands. The aim and expectations are high.

Even though times are tough, some light is at the end of our tunnel. A letter of intent has been signed to take care of pulp export in the future for Metsä Fibre Oy. This will, as it becomes efficient, increase the Finnish economy and not the least our traffic by up to 10 % on a yearly basis. The final decision to make the investment will take place this coming spring. It also needs some adjustments in the infrastructure. But it does have an employing and definitely enlivening effect. This is a major development in a good direction. ■



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JOHANNA BOIJER-SVAHNSTRÖM

# Viking Line's commitment to environmental work

The first genuine Baltic Sea car ferry, the s/s Viking was placed in traffic between the Finnish mainland, the Åland islands and Sweden in 1959. Many people viewed these new ferry ventures with scepticism, but they later realized that this was the first phase of an almost revolutionary expansion in ferry communications.

Today, over 50 years later, ferry services provide a vital link between mainland and islands and play an essential role in transportation of goods and passengers. The services also include devoting great attention to environmentally friendly solutions. Through a long-term, active commitment to the environment, Viking Line has developed environmental work that extends beyond what is stipulated on the Baltic Sea. The company's head office, all vessels and subsidiary Viking Line Buss Ab are certified according to the ISO 14001 environmental standard. Viking Line's organisation and all vessels are certified in accordance with the ISM code (International Safety Management).

## Minimizing atmospheric emissions

Viking Line's environmental work focuses on its vessel operations, where the largest gains can be made when it comes to safeguarding our environment. The European Union's new sulphur directive, which will get into effect in January 2015, lowers the threshold for Baltic Sea maritime services to 0.1 per cent sulphur by weight. Six of Viking Line's seven vessels will use low sulphur fuel with a sulphur content of less than 0.1 per cent by weight, in order to reduce sulphur oxide (SOx) emissions. The new Viking Grace operates on liquefied natural gas (LNG) whereas sulphur emissions are virtually eliminated.

Two of the Company's vessels operate using a land based electricity supply while they are docked during the daytime in Helsinki and in Stockholm. Using land based electricity decreases emissions of air pollution and engine noise in ports and their vicinity.

Viking Line has also an internal programme to reduce exhaust gas emissions. In this programme, vessel operating staff and the Company's technical department are working to introduce fuel efficient methods of manoeuvring vessels.

## No discharges into the sea

Two main types of wastewater are mainly formed on the vessels: grey water and black water. Black water is wastewater from toilets, and grey water comes from showers and other washing activity. Bilge water, which contains oil, originates in the engine rooms of vessels. Viking Line vessels discharge neither wastewater nor bilge water into the sea. In order not to burden the Baltic Sea, the Company's vessels pump all their wastewater ashore.

## All waste is taken care of, bio waste to production of biogas

All solid wastes generated aboard Viking Line vessels are brought ashore for subsequent recycling, reuse, combustion, depositing in landfills, composting or other waste management by an approved recipient. On the Viking XPRS and the Viking Grace, equipment has been installed to make efficient sorting and collection of bio wastes possible. On the Mariella, all bio waste is collected in receptacles. The bio waste is then transported to a digestion plant for production of biogas.

## Environmental thinking is also visible in Viking Line's shipboard customer services

Viking Line chooses organically grown coffee as one element of its efforts to practice environmentally conscious procurement. When purchasing the seafood that is served on board its vessels, Viking Line follows the Swedish Environmental Management Council's list of sustainable fish and shellfish stocks. The Food Garden restaurants on Viking Line vessels no longer sell table water in plastic bottles. Instead they serve specially purified water poured directly from the tap into an environmentally themed reusable glass bottle.

## Divers clean the bottoms of vessels

Instead of using environmentally hazardous paints on the bottoms of vessels, their hulls are brushed by divers several times each year. In May 2013 this work was demonstrated to the media in Helsinki. Starting in the summer of 2013, Viking Line has used an upgraded brushing method that was developed and patented by the DG-Diving Group. The upgrade involves collecting all growths loosened from the bottoms of vessels during brushing into a separate container, which is then brought ashore for further treatment.

## The Viking Grace

The Viking Grace is the world's first passenger vessel in its size class that can run on liquefied natural gas (LNG). Natural gas creates substantially less hazardous emissions. Nitrogen emissions and hazardous particulates are reduced by 85 per cent and greenhouse gases by 15 per cent. Sulphur emissions are virtually eliminated. The vessel's hydrodynamically optimized hull design and highly efficient drive technology results in major energy savings. Efficient ventilation units, whose air flow varies in response to the prevailing external and internal circumstances, lead to further savings. Other factors that result in high energy efficiency are the heat recovered from the air conditioning system and the engine cooling water, the advanced galley energy management system, the high insulation resistance of the windows and the vessel's light structures. The lighting on board largely consists of LED technology. This technology is used in all entertainment and in 90 per cent of the vessel's public areas. ■



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MAREK GRZYBOWSKI

# Knowledge transfer and international co-operation – Polish Maritime Cluster and Gdynia Maritime University experience

**T**he Polish maritime economy with about 12 000 enterprises is the important part of the blue sector in the Baltic Sea Region. With more than 2 bln zł total investment every year blue economy is the most innovative sector in Polish economy. Polish maritime sector is the area of innovation and sustainable growth. Maritime sector had 88 100 posts of employment in 2012 and generates 27325,7 mln zł revenues from total activity. Polish Maritime Cluster has a strong position in Baltic Sea Region and EU blue economy.

## Baltic Sea Region cooperation

During the participation in StarDust/Marchain project, Gdynia Maritime University (GMU) and Polish Maritime Cluster (PMC) took part in several international initiatives, established cooperation with many interested parties from the BSR and represented the region on the annual meeting of European Network of Maritime Clusters. What is more, they organized a conference for Marchain partners in Gdynia and prepared two projects, which might be realized in the future.

Marchain Project partners have met in Gdynia, Poland in order to exchange the experience and knowledge connected with conducting maritime projects and to set path for further cooperation, including the development of potential projects. In the beginning participants enjoyed a study-visit to the harbor. On the second day meeting was held at Economy Faculty of Gdańsk University in Sopot in connection with the InfoGlobMar conference organized in cooperation of Gdańsk University and GMU. The aim of the Conference was to provide the answers on the questions concerning the possibilities of development for maritime related enterprises in global environment.

During the summer 2014 GUM and PMC prepared two project applications for the Seed Money Programme. The former is called "BSR-COR" and is related to the intermodal shift and transport issues and was submitted for the Transport Priority Area. The latter – "Baltic Promise" aims at strengthening the overall image of the BSR by promoting common CSR code in regional SME's. It was submitted under the PROMO Horizontal Action and support from the HA coordinators was already received from the Seed Money Office.

## European Maritime Clusters Network

Gdynia Maritime University and Polish Maritime Cluster represented BSR and Marchain on Yearly European Network of Maritime Clusters in Lisbon (2013) and Sofia (2014). During the meeting that gathered the representatives of the European Commission and some of the most active maritime clusters from the European Union several important issues was discussed concerning the EU maritime policy formulation and further developments in cluster networks and EU maritime economy. Thanks to semi-formal talks with EU Commission representative, Polish Maritime Cluster gained support for realizing maritime cluster projects in the BSR and advice on obtaining the possible funding.

## European Maritime Day 2014 in Bremen

The programme of EMD 2014 was opened by the workshop entitled: "Bridging education and maritime economy in the Baltic Sea Region" organized by the employees of Gdynia Maritime University (Economy and Management Department) and the board of Polish Maritime Cluster. The workshop covered the issues of education and business in the maritime economy. Referring to more than 90 years of experience of Gdynia Maritime University and the Polish Maritime Cluster, the author, using the examples from Poland, presented the ways of knowledge transfer between universities and enterprises (especially from Pomerania maritime economy). The most common activities include: internships and meetings of various scientific circles and individual students in enterprises with managers of companies, promoting preparation of engineering, master's and doctoral dissertation closely related to the business practice, organizing seminars with the participation of representatives of the government, business and science, and conducting joint research projects. ■



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# Cooperation in marine environmental monitoring in the Baltic to support future policy needs

**M**arine environmental monitoring in the Baltic Sea is carried out by the Member States, some aspects being further regionally coordinated than others. HELCOM, The Baltic Marine Environment Protection Commission, has a long history for coordinated monitoring between the nine Baltic Sea coastal states for hydrography, nutrients, hazardous substances, radioactive compounds, phytoplankton and zoobenthos through the COMBINE, PLC and MORS programmes, and partly coordinating monitoring of seals, zooplankton, phytobenthos and coastal fish. However, further coordinated monitoring efforts will be needed especially for seabirds, non-indigenous species, marine litter and underwater noise to support policy needs in the future.

The EU Marine Strategy Framework Directive (MSFD) provides legally-binding requirements for EU Member States to take the necessary measures to achieve or maintain Good Environmental Status (GES) by the year 2020. For this purpose, Member States must regularly assess the environmental status, define GES according to 11 descriptors, and set environmental targets for their seas. Member States are also required to establish and implement coordinated monitoring programmes for assessing the environmental status of their marine waters and to do so in a regionally coordinated manner. Member States were asked to report their monitoring programmes (Article 11) to the European Commission by October 2014.

Current monitoring in the Baltic covers monitoring for the Regional Sea Conventions, such as HELCOM COMBINE, PLC and MORS programmes, as well as monitoring for the EU Water Framework Directive, the Environmental Quality Standards Directive, the Habitats and Birds Directives and the Common Fisheries policy. Further monitoring programmes will, however, need to be developed, since not all biotic and abiotic elements and pressures are covered by existing monitoring. The future monitoring programmes should be able to provide data for the calculation of indicators in order to assess if GES has been achieved and to assess the effectiveness of measures.

As the coordination platform for regional implementation of the MSFD in the Baltic Sea, through the HELCOM GEAR working group, HELCOM is the fora where coordination and comparability in relation to monitoring and data products can be ensured. Regional coordination should ensure that similar sampling, analysis and data storing methods are being used by several countries within a marine region. In order to enhance further coordination in monitoring for MSFD and the Baltic Sea Action Plan (BSAP), HELCOM with support from the EU co-financed Baltic Sea Pilot Project: Testing new concepts for integrated environmental monitoring of the Baltic Sea (BALSAM), published an online HELCOM Monitoring Manual in October 2014, which gives an overview of current environmental monitoring in the Baltic, and can also be used by EU Member States in their MSFD Article 11 reporting.

The BALSAM project (2013-2015), specifically focusing on improving coordinated monitoring in the Baltic to support MSFD and BSAP needs, is proposing monitoring guidelines for seals, seabirds and benthic habitats, which have been identified as gaps in HELCOM monitoring. The project is also developing regional databases for seal abundance and distribution data as well as a metadatabase for seabird monitoring to improve data sharing in the future. Data management and infrastructure are also being evaluated and further cooperation in the use of research vessels and access rights are being studied with proposals for improvement. These upcoming results will be presented to the Member States and HELCOM working groups and can offer a step forward in coordinated, comparable and more cost-effective monitoring efforts. ■

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DESISLAVA DIKOVA

# Entry mode choices of MNCs in the Baltic Sea region

Foreign capital has been of great importance for economic development in the Baltic region. This explains the abundance of analyses focused on various aspects of foreign direct investment (FDI) such as stocks of FDI, types of FDI (vertical or horizontal), origin of FDI and factors that attract foreign investors (for example political stability, control of corruption, advanced infrastructure and skilled labor among many others). What has received far less attention is the issue concerning the type of foreign-market entry, or entry modes, used by foreign investors to establish their presence in the Baltic countries. As a result there is relatively little discussion about how investors choose their entry mode and whether these entry modes bring different types of benefits.

There are two basic entry modes, an acquisition and a greenfield. Establishing a foreign subsidiary via an acquisition entails a corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. The alternative mode choice, a greenfield is the investment in a new manufacturing, office, or other commerce-related facility from the ground up. The decision to create an effective subsidiary unit through greenfield or acquisition is of critical importance because it is difficult and costly to reverse and has a significant impact on overall firm performance. So, are there any benefits for investors to use a particular mode of entry in the Baltic region? There is no conclusive evidence that acquisitions outperform greenfields or vice versa. However, acquisitions tend to be preferred by multinationals investing the Baltic region because of certain characteristics greenfields do not possess.

First, acquisitions are much faster means to establish presence in a foreign market. Despite the small market size, the strategic geographic positioning of the Baltic states makes them attractive to non-European multinationals which can establish both a European presence, serve the Nordic market and get access to a much larger Russian market. In Estonia for example, where 28% of total FDI originates from Sweden and over 23% from Finland, acquisitions were a means for Nordic multinationals to gain first-mover advantages and quickly establish dominance as regional players. Second, an important driver of cross-border acquisitions is industry structure. Industries like banking, insurance, food and beverages (beer), among many others, require significant adaptation of products and/or services to local market specificities. This implies profound understanding of customers' preferences, gaining customers' trust or simply getting access through established distribution systems to a large number of customers. In such multidomestic industries (as opposed to global industries such as electronics), investments in the Baltic region were

mostly acquisitions. Third, acquisitions were very popular in the early 1990s when the Baltic countries either opted for privatization through direct sales (like Estonia) or used a mix of vouchers and direct sales (like Latvia and Lithuania) to attract FDI. Although privatization-driven acquisitions accounted for a small fraction of total FDI inflows (in Estonia only 17% and in Latvia 25%), they generated further interest in local acquisitions as a way of getting access to cheaper but skilled labor. Finally, investors with little or no local experience prefer to acquire firms because this allows them to procure complementary capabilities (local knowledge) and negate the liability-of-foreignness effect.

Greenfields have been rare in the Baltic region. However, increasing the number of greenfield projects is seen as a way of boosting economic development. For example, the Lithuanian Development Agency (LDA), county administrations and municipalities, promote greenfield investments by providing suitable assistance, technical documentation and training. According to fDiMarkets.com, the largest share — 76% — of foreign investments in Lithuania in the first ten months of 2012 were new greenfield investments. So what caused the change-of-heart in policy-makers who now exceedingly promote greenfields? For one obvious reason greenfields, unlike acquisitions, generate new jobs which can be extremely appealing in the aftermath of a severe economic crisis. Second, in industries with small number of potential targets, which is the case in all Baltic states, acquisitions are more difficult to negotiate so greenfields are a good investment alternative. Third, studies reveal that greenfields are less likely to be divested than acquisitions hence policymakers may consider greenfields a more solid commitment to the local market. Finally, greenfield projects allow investors to start small before expanding further. This, in addition to the local government support, reduces initial market uncertainty and provides opportunities for a gradual but sustainable growth. ■



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# New conditions, new motives and new modes of operations of Western MNCs in Russia

In the years ahead, there will be difficult challenges for multinational corporations (MNCs) currently operating in Russia, as their major motives for operating there are quickly evaporating. Most Western MNCs entered Russia under one of two motives: resource-seeking (getting access to Russia's abundant energy resources) or market-seeking (getting access to Russia's rapidly evolving consumer markets, broadly understood as markets related to a population's needs, including medical diagnostic equipment or rolling stock for suburban commuting. Access to natural resources was already restricted, but in the next few years, it will be further restricted because of growing Russian government suspicion towards Western corporations, preferred access to energy resources being granted to corporations from new "friendly states" (namely, China), and Western sanctions imposed on Western technology providers whose products and services help explore natural resources. Most Russian consumer markets are now experiencing either stagnation or a decline because of double-digit consumer inflation, recent and expected local currency devaluation, and fiscal austerity.

In such a situation, other previously hidden motives for Russian investment by MNCs become manifest, namely, efficiency-seeking and knowledge-seeking. Efficiency may be reached as an amalgamation of cost efficiency due to local currency devaluation and technical efficiency. Several Western corporations have been wise enough to install production capacity in Russia to serve both local and foreign markets. For example, ROCKWOOL's plant in Vyborg supplies insulation materials to both Russia and Finland. A 30% local currency devaluation also makes imports less competitive, strengthening the position of Russia-based manufacturers against the flow of finished and intermediate goods from China. Besides sudden advantages in unit costs due to devaluation, superior technical efficiency is another part of the overall efficiency of Russia-based MNC manufacturing operations. Since many of the recent manufacturing facilities in Russia were greenfield investments, several MNCs (like Peugeot-Citroen) used such opportunities to build the most technically advanced facilities.

The knowledge motive may be profitably explored and exploited in two ways: intensive reverse-transfer of accumulated know-who and know-why from existing Russian subsidiaries and installation of Russian R&D solution networks using new opportunities offered by rapidly evolving local technical universities. There were only 5 Russian universities in the QS World University Rankings in 2006 and 21 in 2014. Local technical universities produce packs of "hungry young wolves," that is, graduate students and PhDs eager to crack down on technical problems at low cost, without regard for their own patent rights and without the "NASDAQ-perspective" of a start-up. To explore new opportunities for R&D offshoring in Russia, new organizational forms are needed. Large R&D projects should be divided into smaller problems, which can be solved by local networks. The partial solutions generated by these local networks can then be re-assembled at corporate R&D centers.

MNCs that operate in Russia based on efficiency and knowledge motives face higher risks, but potentially higher returns. Not all companies currently active in Russian markets will dare to remain. MNCs with activist shareholders attentive to quarterly earnings and a board of directors prone to risk aversion will explore ways to exit Russian markets. At the same time, corporations with higher risk tolerance and a long-term orientation—especially family-owned Western European firms not preoccupied with the 10-Q and other SEC forms—will benefit greatly from treating their Russian subsidiaries as "hidden manufacturing champions" and "backyard R&D centers." ■



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# Consequences of travelers' alcohol traffic between Finland and Estonia

The largest part of travelers' alcohol traffic between Finland and Estonia is made up of Finnish alcohol purchases, both from mainland Estonia and from the ferries plying between the capital cities of Helsinki and Tallinn. But also Estonian citizens living and working in Finland are bringing alcohol with them when entering Finland, and they have also began to buy alcoholic beverages, especially beer from the ferries when traveling to Estonia.

The main reason for private alcohol trade is that alcoholic beverages are clearly cheaper in Estonia and on the ferries than in Finland. For instance, the price of vodka in Finland is twice the Estonian price. Another explanation for this trade is the proximity of Finland to Estonia, as a ferry ride from Tallinn to Helsinki only takes two hours and there are many daily connections for this route. After the collapse of the Soviet Union in 1991 travelling to and from Estonia became much easier, and is nowadays practically friction-free as both Finland and Estonia are parts of the European Union (EU) and the Schengen area. The possibilities for private alcohol imports increased tremendously in 2004 when Finland abandoned the quantitative quotas on travelers' alcohol imports from other EU-countries in January and Estonia became an EU member state in May.

In Finland changes in unrecorded alcohol consumption and travelers' alcohol imports as a part of it have been followed on the basis of survey data from the late 1960s. Since Estonia joined the EU survey data on travelers' alcohol imports have been collected round the year on weekly basis. The survey data shows that Finnish travelers' alcohol imports doubled just after the Estonian inclusion in EU. In 2005 Finnish alcohol imports were estimated to be 1.8 liters of 100 per cent alcohol per capita, or 17 per cent of the Finnish total alcohol consumption. After 2005 travelers' alcohol imports decreased about a quarter, only to increase with some 20 per cent again after 2007. However, thus far it has remained at a lower level than it was in 2005.

Estonia and the ferries plying between Helsinki and Tallinn are clearly the most important places for alcohol purchases among Finnish travelers. With regard to distilled spirits and wine some 60 per cent of all travelers' alcohol purchases are made on travels from Estonia. With regard to beer, cider and long drinks this share is even higher, about 75 per cent.

As there are 5.3 million Finns and 1.3 million Estonians the amount of Finnish alcohol purchases affect heavily the Estonian alcohol sales figures. For instance in 2013 Finnish travelers' alcohol imports from Estonia was estimated to be 1.1 liters in terms 100 per cent alcohol per capita. These 1.1 liters alcohol per Finnish inhabitant that Finns purchased in Estonia equals 4.5 liters alcohol sold in Estonia per Estonian inhabitant. After deducting these 4.5 liters from the Estonian sales based alcohol consumption figure the average per capita alcohol consumption in Estonia drops from 14.5 liters to 10 liters.

There are no tax free sales in the traffic between EU member states. Consequently, also prices on alcohol sold on ferries plying between Finland and Estonia include excise duties. They are counted according to Estonian tax rates and are also collected by the Estonian state. It has been estimated that about one third of all alcohol sold and taxed in Estonia are purchased by Finns. This means that also about one third of all Estonian tax incomes from alcohol are paid by Finns. In 2013 Estonian state collected 203 million euro in alcohol excise duties.

A figure of 300 million euro is often mentioned as the amount of money the Finnish state loses because of travelers' alcohol imports. It is however calculated on the bases of travelers' total alcohol imports, not only imports from Estonia. Furthermore in this calculation it is assumed that all these alcoholic beverages would have been purchased in Finland with prices including the Finnish excise duty rates and Finnish value added taxes. Therefore the estimated loss of 300 million euro is far too high because in a counterfactual world where travelers' alcohol imports would be totally stopped Finnish citizens would not buy the same amount of alcoholic beverages in Finland which they are importing from abroad.

Decreases in Finnish alcohol taxes have often offered as solution to cut the high alcohol imports. In 2004 when Estonia joined the EU and travelers' tax free quotas were abandoned Finland tried to keep the tax base of alcoholic beverages in Finland by lowering alcohol excise duty rates on the average by one third. From 2003 to 2005 domestic alcohol sales rose by some 6 per cent but still the Finnish state lost about 400 million euro or nearly 30 per cent of those alcohol tax incomes the state collected in 2003. After 2007 five alcohol tax increases have raised state alcohol incomes to the level prevailing in 2003. ■



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# The Baltic World – 25 years from the revolutions of 1989

For the past two and half decades, the Baltic Sea Region has been a hub bustling with commercial activity. The region is made of dynamic economies, which have experienced rapid structural change and growth. The Baltic Sea is a major outlet of trade flowing in and out of the region. Many of the countries along the Baltic shores are also significant players in European politics and global affairs.

Seen in a historical perspective, this state of affairs is hardly unusual. Given the size and weight of the major Baltic powers such as Germany and Russia, the 'Baltic World', to borrow a term from the British historian David Kirby, over time accrued more importance than its mere geographic position in Europe's northern periphery would have warranted.

In the Cold War the Baltic Sea Region, however, was one of its many frozen fronts. While it would be wrong to say that traditional links and forms of commercial and societal interaction ceased there altogether, the levels fell far below what the historical record and the inherent potential of the Baltic World would have suggested.

Then came 1989, the annus mirabilis in recent European history. The year of the opening of the Berlin Wall, the end of real existing socialism in Europe and the final, closing acts of the Cold War that had plagued international relations since the 1940s.

By 1992 the face of Europe had changed almost beyond recognition. The two Germanies were again united in one, powerful state. The Soviet Union had fallen apart, with the Russian Federation succeeding what remained of it, and the three Baltic Republics had regained their independence.

As a mirror image of eastern disintegration was western integration. The European Community's internal market project took leaps ahead with the so called 1992 agenda, and the community itself was transformed into the European Union established in the Treaty of Maastricht that year. The first post-Cold War enlargement with Austria, Sweden and Finland lined up for membership, was by 1992 well underway.

Given the constellation of the stars lighting the Baltic World after 1989, it was natural to have high expectations of the future. To a large extent these expectations were fulfilled in the following two decades. Economically, the boom of the 2000s was nearly unprecedented, fuelled by rapid growth in Russia, in Poland and the Baltic states, and also in the more established economies of Germany and Sweden. Denmark and Finland also experienced high growth.

Politically, the older, western democracies of the Baltic World remained constant. After the somewhat uncertain first steps of the 1990s, the political systems of Poland and the Baltic states stabilized remarkably, and became functioning democracies with effective governments.

The Baltic World, in many ways was and has been a beacon of success, and maybe the best example of a post-Cold War transition that has fulfilled the promises of 1989. The euro-zone memberships of Estonia and Latvia in 2011 and 2014 respectively have only proven the point.

The current perspective, none the less, is less bright than that of the celebrations of the 20th anniversary of the fall of the wall in 2009. Economic growth rests on less solid foundations than it seemed still some years ago. The Baltic World's ability to breathe a new life into their economies has not disappeared, but they are gasping. While this condition is a symptom of wider changes in the European and global economies, the Baltic World, as it appears, has entered a new era.

Much of this change has to do with developments in Russia. Already before the political crisis with Ukraine blew into a military confrontation, Russia's economy had turned to a downward cycle. This is unlikely to be a passing phase. With the EU-economy in trouble as a whole, and little help to be expected from the outside, the inner dynamism of the Baltic World is not enough to pull it from its current problems.

Rising military tension, witnessed by incidents and activity involving Russian craft in air and at sea, does not help to alleviate the situation. The Baltic Sea has once again become a spot, where different worlds meet, and this meeting is not without difficulties.

It is not also the first time the Baltic World has seen reversals of fortunes and internal power shifts. The dynamism of the remaining members of the region is still there, and recent events in Russia and Ukraine, has only served to increase their interaction and consolidate the political, economic and military bonds between them.

The Baltic World continues to unify, and in the future will prosper too. In this way it still fulfills the promise of 1989. But with Russia absent from this communion, there is cloud with a dark lining hovering over it. The inhabitants of the Baltic World will do wisely, if they will pay the attention to it, it deserves. ■

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# Casimir Ehrnrooth – the Finn who made history

**C**asimir Ehrnrooth (Johan Casimir Ehrnrooth) is an unfamiliar name to most Finns. It seems surprising because he played a noticeable role in the history of Finland, and other countries, namely Russia and Bulgaria. He was among the most prominent descendants of the Ehrnrooth family which has given seven generals, politicians, businessmen, bankers, scholars, writers, philanthropists, etc. Ehrnrooth was born in 1833 in Seesta, Southern Finland. He carved out a brilliant military career at the time when Finland was a part of the Russian Empire. In 1868, at 35-year of age, he was promoted to General. Ehrnrooth participated in a few Russia's military campaigns, including the Russo-Turkish War of 1877-1878 in which he was a Division Commander.

On 5/17 April 1880 Ehrnrooth was appointed as Bulgaria's Military Minister. In 1881 he took an active part in the establishing of the so called Regime of Powers (in fact a personal rule of the then Bulgarian monarch - Prince Alexander I of Battenberg), when the application of the existing Constitution was temporarily suspended. For 65 days (27.IV/9.V.-1/13.VII.1881) Ehrnrooth was Prime Minister and Minister of Interior. In the same year he fulfilled also the duties of Acting Minister of Foreign Affairs and Religious denominations.

Most historians assess the Regime of Powers as unconstitutional. They claim that Ehrnrooth acted in Bulgaria as a dictator. Is this assessment true?

In Bulgaria Ehrnrooth was a proponent of Russia's imperial policy. Nevertheless, he contributed a lot to the build-up of the Army and the upholding of the territorial integrity of Bulgaria. In 1880 he was given extraordinary powers by the National Assembly to cope with the existing brigandage on Northeastern Bulgaria and he successfully carried out this task. In 1881 Ehrnrooth did not take part in a coup d'état, but in a political change which did not violated the constitution and was supported by the majority of the Bulgarian people, Russia, the European powers and even the Ottoman Empire. His understanding was that the Regime of Powers was necessary because of the existing weak national institutions, internal instability, party confrontation and lack of political culture among most Bulgarians following the five-century long Ottoman rule.

As Prime Minister he acted firmly but strictly in accordance with the laws. He did not approve a single death sentence of any even most extremist political opponents to the government. He contributed to the consolidation of the newly liberated Bulgarian state and the upholding of its integrity and the sovereignty in the relations with the Ottoman Empire and other states. Ehrnrooth is among the founders of the modern Bulgarian diplomacy.

In the course of time Ehrnrooth's role in Bulgaria's history was positively reassessed. In November 2013 a memorial slab of Ehrnrooth was unveiled in the town of Targovishte. A street was renamed after Ehrnrooth and a commemorative plaque of him was placed in Sofia. His name is considered as a historic symbol in the relations between Finland and Bulgaria.

The climax of Ehrnrooth's professional career was his appointment by the Emperor Alexander III as Assistant (1882-1888) and lately as Minister State Secretary for Finland (1888-1891). In the last years of his professional career he was also Chairman of the Committee on Finnish Affairs and Chancellor of the University of Helsinki (then Imperial Alexander University). At that time Ehrnrooth was the highest-ranking Finn in Russia's state administration.

Unlike most Finnish liberals headed by Leo Mechelin, who wanted to speed up as much as possible the consolidation of Finland's autonomy, Ehrnrooth expressed more moderate views. Nevertheless he supported and contributed to the extension of Finland's autonomy status. He played an important role on a number of issues - the equal use of the Finnish language, codification of the basic laws in Finland, granting the Diet the right of legislative initiative, the build-up of the Finnish Army, etc.

As a statesman Ehrnrooth demonstrated to the utmost his professional and moral qualities – phenomenal working capacity, extraordinary intellectual and expert capabilities, remarkable diplomatic skills, adherence to principles, realism, pragmatism, honesty, determination and consistency. He was highly erudite personality – he knew perfectly six languages and had profound knowledge in the field of philosophy, history, mathematics, religion, military matters, etc. He lead a simple life, he was a stranger to the glory and job hunting, he strictly respected the laws, he was uncompromising opponent to the abuse of power, the intrigues and unscrupulous political bargaining.

Ehrnrooth was convinced that under the existing historic conditions it was not possible for Finland to transform its autonomous status within the Russian Empire into a separate independent state. His views became a subject of an increasing criticism by the Finnish liberals. In fact, although Ehrnrooth remained a loyal civil servant of Russia's Emperor, he did not want to take part in the highly unpopular among the Finns policy of Russification of Finland. In 1891 he resigned and until the end of his life he lived in seclusion in Seesta. He died in 1913 just a few years before the proclamation of Finland's independence.

Ehrnrooth's philosophy as a statesman is synthesized in the following thought of his: "Prosperous are those nations which do not what they want to do but what they must do and not when they like it but when it is necessary". He was a new type of statesman and a staunch patriot who took into account the political realities and the real possibilities to enhance Finland's autonomy. Unfortunately his activity was not properly recognised both by his contemporaries and most of the historians.

In fact Ehrnrooth is among the prominent figures in the history of three countries – Finland, Bulgaria and Russia. He himself made history and was a statesman of European magnitude. The Finns should be proud of Ehrnrooth as every nation would do so. ■

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# “Investing in children” – a political slogan or a serious challenge for European societies?

“Investing in children” became in recent years very popular expression used in scientific accounts and political declarations. In fact, it is nothing new in the belief that the value attached to children in societies is high. In dangerous times of war children and women are protected first to provide physical existence of a given society or community. Conventional wisdom says that children enable a society to continue collective cultural identity across history. It is also obvious that children’s rearing is expensive. Parents spend time and money to satisfy needs of their kids who presumably will sometimes re-pay for this.

Therefore, what happened that suddenly in 21st century influential political bodies, including European Commission, attached attention to investing in children? The reason for political interest in children is demography and future consequences of demographic changes. Population of Europeans is continuously shrinking while people wish to have more children. The process of aging advanced, and the dependency ratio is in increase. The go-and-pay retirement programmes are in debts. Children are needed to fulfill intergenerational contract backing above mentioned retirement programmes. But at the same time awareness arose that children are more than future supporters for elderly, that they are citizens in contemporary societies.

At the turn of centuries, Innocenti Research Centre in Report Card No 1 provided evidence that in European countries it is children who suffer most from poverty. In numerous EU member states, the poverty rate for children outranked that for adults. Jens Qvertrup formulated the thesis that childhood is a segment of macrostructure that is underprivileged in relation to adults. Intensive studies on brain development proved that childhood is a critical phase in the process and that growing up in poverty restricts emotional and cognitive possibilities of individuals. Scholars in economics started to calculate costs paid by societies resulting from child poverty. Very prominent ones, like James Heckman, Nobel Prize winner, provided evidence that investment in children, particularly in small children, is much more profitable than investment in adults to re-locate them on the labour market. When economists included children in the field of scientific interest the matter of investing in children converted from moral obligation towards financial benefit for society as a whole. Therefore, not only parents and charities but also governments should contribute to material well-being and actions enabling development of children. Nonetheless, the problem remains who should be supported by government and how: families (parents) or children themselves? There is a question arising what are children: dependent members of the family or independent agents in society. Should investing in children be provided in the form of generous child credit available to parents (all of them or only low-income ones?) or in the form of free of charge services aimed at children or leisure time activities? Should children be perceived as members of society living here and now or rather as future workers and taxpayers?

The European Commission Recommendation on “Investing in children: breaking the cycle of disadvantage” applies to the EU member states to base policies on the child rights foundation. Investing in children is regarded a measure to prevent poverty in the future and to improve children well-being nowadays.

The Great Recession destroyed hope to improve well-being of children in the whole European Union. In many member states children became victims of austerity measures despite desperate efforts of international non for profit organizations like Eurochild, European Anti-Poverty Network and others to put child poverty and children well-being on the top of national political agendas. Innocenti Research Card No 12 provides evidence that in years 2008-2012 in 11 EU member states child poverty (anchored in 2008) increased. Among them are following countries ranked in increasing order: Hungary, France, Estonia, Italy, Luxemburg, Spain, Lithuania, Ireland, Croatia, Latvia, Greece. According to the Report, years will be needed to compensate losses in income of families with children in these countries. However, 7 EU member states performed relatively well in terms of hindering child poverty. There are following countries ranked from the best performer: Poland, Slovakia, Finland, Romania, Belgium, Sweden, Austria. We should bear in mind that even in these countries there are groups of children and geographic areas (like in post-industrial towns in Poland) where children well-being deteriorated. Therefore, investing in children remains a challenge for European countries. ■



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# Ukraine crisis accelerates rouble's move into free float

**T**he Ukraine crisis is having a large impact on the Russian economy through deteriorating sentiment, shrinking foreign direct investments, financial sector sanctions, accelerated capital outflows and inflation as the rouble has weakened significantly. However, Russia's central bank has accelerated its decision to move the rouble into free float, which should mitigate negative shocks on the Russian economy in the future.

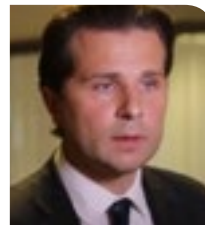
As the crisis escalated in summer 2014, the EU and the US announced sectoral sanctions against Russia. Norway has declared that it aims to follow the EU's new sanctions. According to the EU, 15 companies are subject to the sectoral sanctions. The list includes oil industry giants such as Gazprom Neft, Rosneft and Transneft and several companies engaged in the military industry. Oil companies' access to new funds in western capital markets and new oil technologies is likely to be limited. The EU has tightened access to western capital markets for sanctioned Russian banks. According to the US Department of the Treasury, in addition to the EU list, the following energy companies are subject to the new sanctions: Lukoil, Gazprom, Surgutneftegas and Novatek. Among large 'newcomers' is Eastern Europe's biggest bank, Russian Sberbank. Other banks sanctioned by the US include Bank Moskv, Gazprombank, Rosselkhozbank, VEB and VTB. The military industry's companies are also on the sanctions list.

As the rouble declined significantly following summer 2014, in November 2014 Russia's central bank Bank Rossii revoked the rouble corridor, under which the Russian currency moved against the dual currency basket, moving towards a free-floating rouble. At the same time, the regular intervention of a maximum USD350m per day was abolished. However, Bank Rossii has kept the right to intervene at any time 'in case of financial stability threats'. The change was necessary to protect FX and gold reserves, as the central bank's previous actions have done nothing to stop the rouble's rapid devaluation. As the Brent price sank under USD100/bl in early September 2014 and local banks continued to buy FX fearing a new squeeze in supply on new financial sanctions, the Russian rouble has been the worst performer among 24 emerging market currencies, losing almost 40% against the US dollar and more than 30% against the euro in January to November 2014.

The rouble's worst fall began in late October 2014 as geopolitical risks resurfaced. Despite Bank Rossii's unexpected 150 basis point increase in the key rate to 9.50% per annum on 31 October, the devaluation of the rouble against the dual currency basket accelerated. In addition to the rate hike, Bank Rossii sold billions of dollars in a few days in an attempt to stop the decline but it did not succeed. Blaming speculators who sold the rouble on Bank Rossii's intervention rule, the central bank eliminated the rule on 5 November, introducing a maximum USD350m per day intervention rule no matter what the spot rate.

As the central bank could do nothing about the oil price, it has decided to influence the rouble through better FX availability. On 5 November, it introduced another 'bazooka' – a 12-month FX repo to facilitate the FX squeeze after Russia's major banks lost access to Western capital markets on financial sector sanctions. The amount promised by the central bank is USD50bn until the end of 2016 and 'in case of need this amount may be raised'. The sum sounds reasonable to cover the most urgent needs of Russian corporations regarding their external debt payments. Yet, it remains the tool of last resort, as available collateral may be the problem for local banks and the price is high. However, neither the previously described tools with verbal interventions nor the FX interventions that have drained Russia's international reserves by 13% since the Ukraine crisis started in late February 2014 have helped the rouble.

In our view, Bank Rossii's earlier-than-planned move towards free float was a wise decision, as in the long run it will be supportive for the Russian economy, offsetting external shocks, especially oil price shocks. The oil price risk is high and the geopolitical environment is more than challenging. There are no major improvements in Russian macro, as inflation is accelerating and fixed investments are shrinking. ■



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# Russia and European security

In the Baltic Rim region, there is an increasing feeling that Europe's security is passing through a process of transformation. Indeed, after the Russian invasion of Ukraine, there is a growing sentiment of insecurity. In Northern Europe, mostly in the Baltic States and Finland, and in Eastern Europe, especially in Poland, the idea of a revisionist Russia is worrying. However, there are three additional issues. First, a radicalized Islam. Second, the rise of economic and social inequality. Third, the asymmetric perceptions of threats by individual European countries, resulting in a fragmented security strategy.

For the Russian military, NATO and, specially, the United States are Russia's main geopolitical enemy. The promotion of democracy and human rights would be an excuse to force the country into submission to foreign interests, mainly to tame nationalist internal politics, thus facilitating the depletion of the country by American and European companies. Thus, Russia's natural destiny would be to accept being a junior partner in the international system, a submissive one. Rephrasing a popular motto in 1960's Brazil, "what is good for the United States is good for Russia."<sup>1</sup> Although for the West this can sound absurd, in short this view has been turning increasingly popular within Putin's inner circle and the military. As Yevgeny Bazhanov, rector of the Russia's Diplomatic Academy, recently stated, "people in power did not object to or even greeted the Western efforts to plant democratic values in Russia and teach the nation how to live in a "free state." Today, this looks like an effort to weaken power in Russia and to "force it to its knees."" (Bazhanov 2013, p. 23).

It follows that Russia should be prepared for three possible scenarios for military conflict. First a major war with NATO and Japan. Second, a regional-border conflict scenario, i.e. disputed territories. Third, an internal military conflict as a result of terrorism. It is not to believe that a direct military conflict with NATO in the short term is to expect. However, Russia has been facing severe pressure with the infringement of its strategic national interests. NATO has wiped out both politically and militarily most of Russia's natural potential allies. This can be exemplified by NATO's expansion into the former Warsaw Pact space. The monetarist economic ideology imposed by the International Monetary Fund, the World Bank, and other multilateral organizations, not only had the objective to weaken the Russian society overall, but resulted in underfunding the Armed Forces thus in operational degradation (Nagorny & Shurygin 2013).

The Kremlin is also unable to consider that countries may freely choose and the possibility that people might be tired of living under corrupt and authoritarian regimes. That they may revolt, even without foreign stimulus or help. It is clear that Putin has been trying to make Ukraine to fit the "Color Revolution supported by the West" narrative, without considering that Russia is the foreign power trying to prevent legal and legitimate national forces to reestablish peace and order. Russia will use this narrative to (re)assure its influence always when necessary. As a result, any genuine process of democratization can be considered an attack from NATO against Russia.

<sup>1</sup> The original is "What is good for the USA is good for Brazil." The phrase was coined by the first Brazilian ambassador to the United States during the military dictatorship (1964-1985), General Juracy Magalhães.

Russia is the greatest risk for European security at this moment. Although it considers an expanding NATO the biggest threat for its security, it has been pursuing a series of provocative military actions against Finland, Sweden, and the Baltic States. One of the Ukrainian terrorist leaders said their objective was to reach the Romanian border. With such provocations, NATO has been increasing its presence in the Russian border. Plans to contain Russia have been discussed. The risk is a self-fulfilling false prophecy. The Russian military might consider that NATO is getting ready to attack.

There are two possible interpretations. One, the Russians are really preparing for war against NATO. Their provocations have the objective of creating the justification for it. Other, they want to use the false NATO's threat to legitimize the current internal politics. This is the most probable.

In both cases, the West must develop a more pragmatic approach towards Russia, at the same time being ready for increasing instability in Europe's borders. That is why it is urgent to increase the presence of NATO in border states such as the Baltics. Also to continue engaging in diplomatic talks with Russia, including disarmament and banning nuclear weapons, especially as response to conventional aggression. ■

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# Impact of the Russian economic sanctions on Lithuania

The Western countries and Russia after beginning of the Ukrainian crisis in 2014 imposed broad scope of the economic and other sanctions against each other, but the most sensitive for Lithuania is Moscow decision in August, 2014 to stop the import of almost all agricultural products from EU, US, Canada and Norway.

In November 2014 Russia imposed country specific sanctions against Lithuanian road carriers (introduction of the particularly harsh and exceptionally slow custom checks for the trucks with Lithuanian number plates. Such sanctions are also imposed on the trucks, registered in other countries, but carrying the freights, which paperwork was carried out in Lithuania). Russian officials stated, that sanctions are imposed because of the widespread smuggling and the counterfeiting of the custom documents. But it is clear, that this is Moscow revenge for the active Lithuanian foreign policy after the beginning of the Ukrainian crisis (including the active support for the introduction of the economic sanctions against Russia, aims to increase NATO military presence in the Baltic Sea region etc).

It is also worth to mention, that politically motivated Russian economic sanctions against Lithuania is not a new phenomena for the Lithuanian companies. In the last several years Russia at least twice imposed country specific and politically motivated economic sanctions against Lithuania. In both cases (in 2009 and in 2013 during the Lithuanian EU Council presidency) Russia hit Lithuanian milk products exports and road carriers. But this time impact from the sanctions could be more harmful, because the sanctions are imposed not only on Lithuania, but also on most Western countries. It means, that because of the higher competition it could be much more difficult to substitute Russian market with the export markets of the EU or third countries.

Despite limited statistical data available at the moment of the writing it is worth to estimate the possible impact of the Russian sanctions on the Lithuanian economy. Some international experts, including EUROMONITOR, predicted that Lithuania will be most hardly hit by the sanctions and could lose up to 2,5 percent of the GDP annually. In November 2014, Prime Minister of Lithuania A. Butkevičius stated, that in absolute worst scenario of total abolishment of any economic ties with Russia, Lithuania could lose up to 4 percent of its annual GDP, but at the same time he expressed the opinion that such negative scenario is pretty unrealistic. In November 2014, the Ministry of Finance predicted that in 2015, despite the sanctions, Lithuanian GDP will grow by 3,4 percent. Leading economists are more cautious and predict the more moderate 2,0-2,5 percent annual growth in 2015.

From the first sight Lithuanian economy seems very dependent on trade with Russia. In 2013 Lithuanian export to Russia amounted 4,8 billion EUR (19,6 percent of the total export), import – 7,37 billion EUR (28 percent of total import). But only 14,6 percent of Lithuanian

export to Russia constituted of the goods of Lithuanian origin (85,4 percent of the export is reexport from third countries – both EU and non EU), which is only 2 percent of the Lithuanian GDP. At the same time Lithuania is pretty important player in the goods reexport to Russia. For example, in 2013 Lithuanian export of vegetables (almost all – reexport) to Russia was 340 mln. EUR (total EU export to Russia – 780 million. EUR), fruits – 309 mln. EUR (EU – 1259 mln. EUR, Poland – 339 mln. EUR).

Lithuanian road carriers have around 10-12 percent share of the Russia–EU road transportation market. In 2013, total export of Lithuanian transportation and other logistical services to Russia was higher than the amount of export of the goods of Lithuanian origin and amounted 1,27 billion EUR (3,6 percent of GDP). These numbers

perfectly illustrate susceptibility of the Lithuanian transportation and logistics sector to the Russian sanctions.

Another sector, which already suffers considerable consequences is agriculture and food processing (particularly exporters of milk products). In 2013 Lithuania was the third largest exporter of milk products to Russia in the EU. Its milk products export (almost all of Lithuanian origin) in 2013 was 160 million EUR (Finland – 250 million EUR, Germany – 182 mln. EUR, Poland – 141 mln. EUR). Russian market was so profitable to milk producers (particularly for cheese exports), that they did not want to withdraw from

this market even after two rounds of Russian sanctions in 2009 and 2013. The introduction of the new sanctions in August 2014 led to a steep drop in raw milk prices (they were lowered by 1/3), because the milk product producers are trying to relieve the burden of the potential losses on the expense of farmers.

Increased competition from the other EU producers in the Lithuanian home market is visibly lowering the prices of the groceries, but at the same time putting serious pressure on the producers.

In the 3rd quarter of 2014, export of the goods of Lithuanian origin to Russia was 8,3 percent lower than in the same quarter of 2013. The export of milk and other food products almost stopped. It is clear that in the results of the 4th quarter will be even worse, because the 3rd quarter included only 1,5 month of the sanctions.

At the same time Lithuanian exporters of goods and services are actively working in order to tackle consequences of the Russian sanctions. Food producers are trying to enter other markets such as Middle East and China. There are also some indicators, which show that the part of the direct deliveries to the Russian market could be substituted by reexport (with partial processing) through Belarus.

For the Lithuanian transportation and logistics sector (including reexport business) it is much more difficult to substitute Russian market, because this sector was for many years developed taking into consideration preferential Lithuanian geographic position between Russia and EU.

Some international experts [...] predicted that Lithuania will be most hardly hit by the sanctions and could lose up to 2,5 percent of the GDP annually.

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Besides the direct sanctions, considerable worsening of the Russia macroeconomic situation (because of the Western sanctions, and particularly rapid decrease of the oil price) is beginning to negatively affect Lithuania. Devaluation of the rouble leads to the decrease of the purchasing power of the Russian consumers, meaning less opportunities for the goods and services export, smaller tourist inflow from Russia to Lithuania (Lithuanian state tourism department predicts that the number of Russian tourists who visit Lithuania will shrink in 2014 by 10 percent) and economic difficulties in important export partner countries for Lithuania, such as Belarus.

To sum it up, economic impact of the Russian economic sanctions is painful for the Lithuanian economy, but it provides the opportunity to diversify the geography of export (including China and Gulf countries) and to increase competitiveness of the Lithuanian companies. The extent of the losses will heavily depend on the duration and the future character of the sanctions. ■

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# BALTIC RIM ECONOMIES

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# Russian sanctions and Russian confidence

The United States and Western Europe imposed successive rounds of economic sanctions against Russia in response to Russian government policy toward Ukraine. Initially, these sanctions were targeted against individuals close to Russian President Vladimir Putin. Over time, however, they have expanded to touch on key firms in critical sectors of the Russian economy – banking and energy first and foremost. Putin's regime responded by banning the import of European foodstuffs as part of a wider array of retaliatory measures. And while the Russian government has shown some signs of engagement with the government in Ukraine, there is mounting evidence that the underlying Russian policy remains unchanged. Hence pressure is building in the West for further strengthening of the sanctions.

The challenge is to understand why the Putin regime has not conceded more to Western pressure and whether (and when) the pain of sanctions will be enough to induce a policy change. The answer often provided in the media focuses on public opinion polling data. Such data show that Putin's domestic popularity has soared during the Ukraine crisis. He had a 78 percent public approval rating in early August, soon after the European Union imposed its sector-specific sanctions. More recent polling by Levada shows not only that this approval rating has strengthened but that 68 percent of respondents would not support ending Russian assistance to separatist groups in eastern Ukraine and 79 percent would reject any attempt to return Crimea. These same polling respondents are largely indifferent to Western sanctions; small wonder, therefore, that Putin would choose to ignore them.

The difficulty with arguments based on polling data is that they confuse pride and confidence. Russians may back Putin's policy toward Ukraine but that tells us very little about their perceptions of future prospects. Meanwhile, data for consumption, investment, and capital flows tell a very different story. As the World Bank noted in its October 2014 'Country Program Snapshot', 'the Russian economy is stagnating' as a result of rapidly decelerating consumption growth and contracting rates of fixed capital investment. Such factors are the result of broader geopolitical uncertainty surrounding both the Ukraine crisis and the turbulence in world energy markets. They also coincide with a stagnation in the growth of real disposable income, a slowdown in the growth of credit to households, a rise in the household share of non-performing loans, and a surge in net household purchases of foreign currency.

Russian households lack confidence. So do Russian banks, energy firms, and macroeconomic policymakers. This is where sanctions become more important. Russian banks can access sufficient liquidity to roll over foreign currency liabilities for the rest of 2014 but they will begin to face liquidity constraints in the new year. Energy firms have ramped up production but they will soon suffer from the draw down in maintenance and new investments that should be supported by western firms. And while Russian macroeconomic policymakers can fill in a few of the gaps in both the financial and real economies, they will struggle to balance revenues and expenditures or to dampen the volatility in the external value of the rouble – particularly if energy prices continue to stagnate.

This lack of confidence is self-reinforcing and therefore non-linear. The more Russian households and firms lack faith in their future economic prospects, the more they will retrench in the present and so the more likely it becomes that their fears will come to pass. This dynamic is hardly unique to Russia and it is evident in many countries of the euro area. Ultimately, moreover, it will prove unsustainable.

At some point, the Putin government will have to look for some external source of economic dynamism to arrest the negative spiral. Despite the recent big energy deals and the promise of easier trade financing, China is an unlikely source of salvation. The Chinese leadership has economic challenges of its own and it simply does not have the financial infrastructure or extractive technology to replace what has been lost due to sanctions.

The Putin government will have to make a deal with the governments of the United States and Europe not for lack of Russian pride but because of the lack of economic confidence. Moreover, the effect of sanctions will be less important than the influence of more psychological factors. The more President Putin tries to bolster his policy toward Ukraine by appealing to national patriotism, the harder it will be for him to make the necessary concessions to western governments and so the deeper the damage that Russian households, banks and firms will do to themselves and to each other as they tighten their belts to prepare for an uncertain future. ■



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# Baltic security and NATO membership after Ukraine

The Baltic security environment has changed considerably over the past year. In late 2013 Lithuania was still enthusiastically preparing for the Eastern Partnership Summit in Vilnius, a landmark event of its EU Council Presidency. Back then, a war in the EU neighbourhood was not on the cards. A year later, however, Latvia's preparations for its own first EU Presidency in the first half of 2015 are marked by concerns over the fragile security environment in Eastern Europe. What is at stake today is no longer whether Ukraine, Georgia, and Moldova will gravitate towards the EU, but the security of the Baltic States themselves. None of the Baltic States borders Ukraine and the geographical distance between, for example, Riga and Donetsk is more than 1500 kilometres. However, the psychological distance is much less. Events in Ukraine have deeply shaken Estonia, Latvia, and Lithuania. The following paragraphs look at the domestic steps the three Baltic States have made to adapt to the changing security environment in Europe as well as NATO measures aimed at reassuring Estonia, Latvia, and Lithuania.

The Baltic States have viewed their NATO membership as insurance against the possibility that a resurgent Russia may at some point pose a military threat. This insurance was activated after Russia's annexation of Crimea. Baltic concerns were also heightened because Russia's military presence near the Baltic States has been far more pronounced in 2014 than ever before. The origins of the Crimean crisis and the war in eastern Ukraine are still debated, and the question whether Russia is a status quo state, a limited aims revisionist state, or an unlimited revisionist state is at the heart of the current debate about Russia's intentions in Ukraine and beyond. However, for Estonia, Latvia, and Lithuania, the Ukrainian crisis has revealed their continuing vulnerability to the same Russian military tactics used against Ukraine. NATO had to take specific measures to reassure publics in the Baltic States.

This effort had two key elements: domestic measures and collective NATO efforts. First, the Baltic States have strengthened their defence capabilities. In terms of defence spending, Lithuania and Latvia have been laggards, and their defence allocations fell under 1% of GDP during the economic crisis. Estonia, in contrast, has been one of the frontrunners and is among the few NATO member states that spend 2% of GDP on defence. To remedy this situation, Lithuania and Latvia had already pledged to increase defence spending before 2014 due to strong criticism from other NATO members, most notably the US. The crisis in Ukraine added urgency to these efforts. Thus, Latvia and Lithuania have already allocated additional financing to strengthen their defence capabilities in 2014. The key element of this effort has been procurement of anti-tank systems, but it is clear that the security needs of the Baltic States extend well beyond these initial steps. In addition to strengthening their military capabilities, they must also reinforce the police, border guard, and secret services.

Second, NATO has taken a number of practical steps to reassure the Baltics. In the wake of the annexation of Crimea, NATO adopted a series of measures aimed at establishing a more marked presence in the Baltics. Steps taken included strengthening of the Baltic air policing mission, ensuring NATO naval presence in the Baltic Sea, as well as temporary placement of a limited number of "boots on the ground" in the Baltic States and Poland. In addition, the Baltic States will host more military exercises in the future. Although these are not permanent measures, they are likely to remain in place until the security environment improves.

These steps have improved the defence capabilities of the Baltic States. If Latvia and Lithuania keep their promise to hike defence spending, the military capabilities of the Baltic States are likely to improve in the coming years. There is also little doubt that the collective efforts of NATO member states have succeeded in reassuring the Baltics. It remains to be seen, however, if these measures that were aimed at reassurance will also be successful in deterring Russia from destabilizing the Baltics. It is too early to tell whether Russia indeed harbours such aims, but the Baltics and their allies should be prepared for such contingencies. The Baltics will have to invest more in their military capabilities and hope that it will be a sufficient deterrent. However, they should also keep in mind that tough times do not last, but tough people do. With appropriate help from their NATO allies, the Baltic States can make it through the tough times. ■



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# Russian military activity against Sweden – short and long term perspective

On 14 November the Swedish Chief of Defence confirmed in a press conference that in October a foreign submarine violated Swedish territorial waters. The statements were a follow-up of the intelligence operation against 'foreign underwater activities' the Swedish Armed Forces were conducting from 17 to 24 October in Stockholm archipelago. Since no conclusive evidence was presented about the country of origin of the submarine, no foreign state was named. However, most Swedish experts are convinced that Russia was behind these activities. They fit into a pattern of increased Russian military activity in the Baltic Sea and the Arctic which has been observed since 2008, and has seriously intensified in 2014 – either in the form of larger and more frequent military; of violations of the airspace of the countries in the region; or of aggressive actions against military aircraft and vessels of these countries in international airspace or in international waters. Swedish military representatives openly state that the security environment in the region has been, with the negative trends intensifying in 2014. They indicate also that incidents against Sweden have been taking place more often in 2014 and in previous years that it is known to the public. There have been several recent Russian provocative actions covered by the media: violation of the Swedish airspace near the island of Öland (September); aggressive manoeuvres towards a Swedish signals intelligence aircraft in international airspace (October); military exercises simulating an attack on military targets in Sweden (March 2013). Questions arise about the goals of the Russian actions.

In the short term, Russian military actions against Sweden, of which the 'underwater activities' are probably a part, are aimed at checking the combat readiness of the Swedish Armed Forces and their actual ability to respond to such incidents, as well as testing the Swedish signal intelligence. It is also a demonstration of Russia's capabilities to conduct military actions against Sweden. It also serves to demonstrate the Swedish Armed Forces' limited capabilities in territorial defence, which were drastically reduced after the end of the Cold War, especially over the last decade during which the Swedish military switched to participating in crisis management operations abroad.

In the long term, Russia is seeking to 'neutralize' Sweden in the political and military sense. Due to its geographical position, Sweden is important for planning and conducting of military operations both for NATO and Russia. Sweden may allow or deny access to its airspace and territorial waters for the conduct of NATO operations, which may decide on the outcome of possible Russian military actions against the Baltic countries, and whether (or not) NATO would be able to meet its commitments on collective defence. Not only Sweden's potential NATO membership matters - the current Social-Democratic/Green coalition has officially ruled out the possibility. Russia's multi-dimensional actions – political, economic, military, propaganda – are intended to ensure that Sweden refrains from far-reaching co-oper-

ation with NATO (for example, by implementing the recently signed Host Nation Support agreement). Moreover, in the event of crises or conflicts in the Baltic Sea region, Russia wants Sweden to refrain from approving the movement and stationing of NATO forces in Sweden. However, the main goal of Russia is not to bring about the worst-case scenario – which in the case of an armed attack on the Baltic states would most likely also include: sabotage or attack on Swedish air and sea bases that might be used by NATO during the conflict; taking control of the shipping lanes near Sweden; and taking over key points on Swedish territory, such as the island of Gotland. Such a scenario should not be fully excluded; however Russia's main goal is to convince the Baltic states, Sweden and Finland and NATO that it is able to execute such a plan and has the military capabilities to do so. This, in turn, is intended to act as a deterrent to NATO and the countries of the region, and translate into a reluctance to meet the Alliance's obligations. As a result, this would lead to a weakening of faith in NATO's Article 5 and thus undermine the credibility of the Alliance, which is the overarching goal of Russian foreign and security policy. The Russian military activity against Sweden and throughout the region is therefore today mainly an element of psychological warfare. It is being used to demonstrate its superior military potential and to highlight the glaring gaps in Sweden's defence system, and thus intimidating the public and influencing decision-makers in Sweden and the Baltic countries. ■



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# Will economic sanctions fulfil Baltic expectations in terms of Ukraine and Russia?

The economic sanctions imposed during the Russian-Ukrainian crisis in 2014 have clearly brought the escalation of political tensions between Russia and the West. The Baltic States have taken a pro-active role at the European level and showed their strong support for Ukraine and decisiveness against Russia. What makes this truly remarkable is the fact that among the EU member states Estonia, Latvia and Lithuania are most vulnerable to the economic risks arising from the sanctions as well as being exposed to a heightened security risks. The Baltic States are also among those EU member states who are most interested in the effectiveness of the economic and political measures. But do the sanctions have a real potential to contribute to solving the crisis in Ukraine? What would be the positive outcome of the sanctions for the Baltic States and is it in the best interest of the West?

Although most of the relevant theoretical and empirical studies are convinced that sanctions do not work, can we expect that the traditional logic "more pain/more gain" will work in this case? First, sanctions are hardly successful if their aims are too broad or remain unclear. Second, in successful cases countries imposing sanctions have tended to be both larger and economically/militarily more powerful than the target countries. In this case the conflicting parties are of relatively equal political power and sanctions are imposed mutually. Third, previous experience of the EU over the past 20 years also shows that sanctions have been used in 30 cases and none of them could be regarded as a success.

As has been stipulated by politicians, the purpose of the EU sanctions "is not to punish Russia but to make clear that it must stop destabilizing Ukraine". Thus, the sanctions have not been imposed to cause the target country economic harm, but to send a signal that these actions are not tolerated. In practice, however, the Russian economy is facing economic recession, weaker direct investment, and rouble loosing 25% value in dollars within half a year, soaring capital flight and high inflation rates since the second quarter of 2014. Nevertheless, both the reasons of the current recession in Russia and the overall economic outcome of the sanctions stay rather unclear. The recession could be said to have been caused by a combination of sanctions, global stagnation trend, etc. Due to the weakening of the Russian rouble, also the economic outcome of the sanctions for Russia is ambivalent. Whereas banks and energy companies are mainly loosing from the sanctions and the depreciation of the rouble, steel companies have profited, as weak rouble combined with weak competition from overseas have compensated for lower domestic demand in Russia. The Russian budgetary spending has been increasing constantly since 2008, the defence costs have remained stable at the level of 3.5% of GDP, and the country's gold reserves have tripled since 2005. Over the longer term, the technological backwardness of Russia will increase, but despite this oil will still be extracted and nuclear warheads will be produced in Russia. What is most important, despite the economic pressure in Russia, no remarkable success to solve the crisis in Ukraine could be seen.

Additionally, some of the EU member states are economically highly dependent on Russia. Austrian banks have extensive business relations with Russia, Poland is concerned about the food export, Finland and the Baltic countries are almost completely dependent on Russian gas supplies and account for the highest share of export to Russia among the EU member states, etc. It is another crucial question whether it is in the best interest of the West, including the Baltic countries, to bring Russia economically down and to throw the country into a potentially serious crisis.

Paradoxically, the West, the Baltic countries and even Russia seem to be to some extent satisfied with the bipolar re-confrontation. On the one hand, Europe has called that "the current situation is not accepted", but is still continuing to import gas from Russia. Also, there is a lack of stronger coherence among the EU countries, as support for further sanctions against Russia and public sympathy as regards the parties to the Russian-Ukrainian conflict varies remarkably. On the other hand, as a result of the sanctions the Russian political elite enjoys high public support.

Hence, the Russian-Ukrainian crisis provides the international community with a valuable experience about the efficiency of sanctions against one of the Great Powers. There are some lessons already evident. First, sanctions alone are hardly successful if their aims are broad and results are expected in a relatively short period, which is exactly the case during the Russian-Ukrainian conflict. Second, the trade sanctions have proved to be relatively inefficient, as in a globalised world the substitute sources of supply could easily be found. Third, to avoid "endless sanctions against each other", the focus of sanctions should be on high level political persons directly responsible for the situation as well as preferring measures causing lags in technological development. ■



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# Regional approach in Russian policy towards Estonia in the times of sanctions

It is déjà vu, at first glance. On May 18, 2005, Russian Foreign Minister Sergey Lavrov and Estonian Foreign Minister Urmas Paet signed bilateral Treaties on the Russian-Estonian border and on delimitation of the sea in the Gulfs of Finland and Narva. However, on September 6, 2005, Lavrov withdrew his signature from the Treaties citing details of ratification legislation passed by the Riigikogu, Estonian parliament, as the reason. Negotiations restarted in 2012 only. On February 18, 2014, Lavrov and Paet signed the renewed Treaties. However, the Treaties failed to come into force any soon. On February 21, 2014, President Viktor Yanukovich of Ukraine was removed from his post as a result of what Russia pronounced to be a coup, while the U.S. and the EU pronounced to be a legitimate transition of power. Since then, Russia and the West have been quickly spiraling into probably the worst crisis in mutual relations in 25 years, a result of which, among other things, including that Russia and the West imposed economic sanctions on each other, was that ratification of Border Treaties between Russia and Estonia was postponed again.

Despite the seeming similarities between the events of 2005 and 2014, the approach of Russian elite to Estonia significantly changed within the decade. In short, in 2005, despite Estonia was already a member of both NATO and the EU, majority of Russian elite did not consider Estonia a part of Europe. In 2014, they did. In the near future, when the current crisis in the relations between Russia and the West is over, that change will play an important role in bilateral relations, because despite postcolonial scholars of international relations have frequently warned national leaders and their fellow scholars against making judgments about countries and peoples on the basis of which region of the world they come from, both leaders and scholars still do so. Moreover, those judgments affect their action concerning countries and peoples in various regions of the world. Thus, when leaders and scholars stop considering a country a part of one region and start considering it a part of another region, their action towards the country in questions changes. Hypocrisy in treatment of countries belonging to different regions of the world bears the name of regional approach.

Recent foreign policy practice and international relations scholarship provide with numerous examples of regional approach. President George W. Bush of the U.S. during his first term in office made several under-calculated decisions concerning Europe, but tended to calculate decisions concerning Middle East twice, which resulted in a crisis in transatlantic relations, though did not save him from miscalculations in Iraq. Ten years ago Prime Minister Tony Blair of the United Kingdom was confident about assumed relationship between then Iraq President Saddam Hussein and Al-Qaida leader Osama Bin Laden, mostly because he viewed both leaders as negative personalities with background in the same region, Middle East, despite Western intelligence services lacked evidence to confirm the relationship. President Vladimir Putin of Russia in 2000s tended to be tough on his partners among Middle Eastern leaders, because he expected them

to consider his invitations to cooperation as sign of Russia's weakness and invitation to exploit, instead of reciprocating; recently he undertook steps to cure the harm caused by such approach, including new nuclear deal with Iran.

Ten years ago Russian elite considered Estonia a part of post-Soviet space and applied corresponding approach to foreign policy decisions concerning the country. The reasons were their memories about Russia's and Estonia's shared experience in the Soviet Union and Estonia's treatment of its Russophone minority, which did not correspond to their views of European standards in treatment of minorities. That approach changed in a decade. Today, though Russian elite is far from considering Estonia an important stakeholder in EU decision-making, it considers Estonia an insider in EU affairs. While optimistic part of Russian elite expects mutual sanctions to be removed already next year, moderate part of Russian elite has noted the words of Estonian Ambassador to the EU Matti Maasikas, revealed by Estonian daily Postimees on July 29, 2014, that the latter had calculated the harm to be caused by sanctions in 2015 through 2017. Whether Maasikas' calculations were based on true expectations of the sanctions to be removed in 2017 or not, and whether those expectations will prove true in 2017 or not, by that time even greater part of Russian elite will be considering Estonia a part of Europe. That will influence bilateral relations, to the good or to the bad, of which ratification of Russian-Estonian Border Treaties will be a sign. ■

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# Future growth of the Russian economy?

Russia experienced high growth in the 2000s up to the economic crisis in 2009 when GDP contracted by almost eight per cent. The economy recovered in 2010-2011, with yearly growth rates of over four per cent, but in 2012 growth declined to 3.4 per cent and in 2013 to 1.3 per cent. For 2014 the forecasted GDP growth was revised downwards from 3-4 per cent to 1-2 per cent during the year. Finally, in October 2014, IMF predicted growth of only 0.2 per cent in 2014 and 0.5 per cent in 2015. What lies behind the dramatic decline in Russia's growth and can the trend be turned around?

The stagnation of global demand for Russian commodities is part of the explanation of Russia's slowing growth as is the confidence crisis following Russia's annexation of Crimea in March 2014 and its continuing aggression towards Ukraine. The ongoing Western sanctions and Russian counter sanctions also hurt the economy. However, I would argue that the main reasons behind the decline of the growth rate are found in deeper systemic and structural elements that have characterized the economy under President Vladimir Putin.

First it needs to be said that the exceptional growth in the 2000s took place after a decade of radical economic reforms transferring the Soviet command system into the Russian market economy. This market economy was not perfect but it became possible to start and develop businesses and small and medium sized enterprises were established and grew. The economy was opened to competition, prices and trade were liberalized and consumer markets expanded making services and goods available that had been rationed, if at all existent, in the old shortage economy. Sectors like trade, private services, construction and IT flourished. Large Soviet state enterprises were privatized, sometimes in a manner that led to higher efficiency and increased competitiveness, sometimes in a way that led to continued state influence and continued politically motivated subsidies.

Despite these shortcomings, dramatic structural change took place and the economy that had been profoundly dominated by defence and heavy industry became more consumer friendly since markets transferred the power from central party bureaucrats and state producers to the citizens-consumers and profit seeking entrepreneurs. When oil prices started to rise again, the government could stabilize public finance and create a stable and credible macroeconomic framework supporting growth.

The lack of further market reforms since the mid-2000s and the backlash in form of more state intervention, less democracy and the return to Soviet priorities for defence and large state led investment projects are fundamental factors behind the declining growth today. Putin consolidated the reforms of the 1990s during his first period in

office, but since 2004 the policy changed. During Putin's second period the siloviki (security sector officials) clearly got a stronger hold of policy and governance efficiency and rule of law started to deteriorate while state corruption surged. Because of high oil revenues, the loss-making, often privatized but with state shares, Soviet-type enterprises could be increasingly subsidised, and all the allocative inefficiencies typical for the Soviet economic system were preserved. Strong public

finance allowed Russia to embark on a military reform with increasing military spending and a new huge armament programme that benefits the defence industry. Prioritized defence companies have been let to operate under soft budget constraints and soft credits, something that might have been affordable as long as growth was 6-7 per cent, but today it has a huge alternative cost. However, the present political leadership prefers political loyalty and support, which these defence

companies supply, to economic efficiency.

Accordingly, the market reforms never completely overcame the Soviet heritage that is still embedded in Russia's industrial structure. Both formal and informal behaviour of the socialist system have survived and this explains the difficulties of formal institutions in Russia. New institutions have been established but informal institutions and networks remain and this has undercut the development of real, efficient market institutions. To restore growth the institutional framework need to be renewed and finally become what it was meant to be: the common rules of the game in economic Russia.

Sadly strengthen institutions will be a hard option because some economic actors are better off with informal procedures, where they have special influence and direct access to the political leadership. Moreover, privileged groups will fight back if their position and income are at risk. Entrepreneurs that would profit from strong institutions and common rules lack the influence, as does the civil society in general, after all the imposed restrictions on civic liberties. Restoring growth through addressing structural factors and market institutions would therefore be difficult to achieve as long as Vladimir Putin remains in power. ■



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To restore growth the institutional framework need to be renewed and finally become what it was meant to be: the common rules of the game in economic Russia.

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# Moscow as an International Financial Center (IFC)

In 2010 the Russian government launched the Moscow International Financial Centre (MIFC) project and sought international assistance, including from TheCityUK (the self-described “representative voice of Financial Services in the UK”). A Memorandum of Understanding between the MIFC Taskforce, TheCityUK and Vnesheconombank was signed in Moscow in 2011 in the presence of President Dmitri Medvedev and Prime Minister David Cameron.

Subsequently a number of reports were produced, mainly by TheCityUK and the IBRD.

Right from the beginning there were fundamental delusions. An early 2011 survey of “260 participants from leading Russian and foreign entities active in the Russian financial market” reported such views as Moscow as a “regional financial centre for CIS”, and “Moscow is where East meets West. It is a blend of different cultures and nationalities. It will be easy for everyone to come to do business”.

The idea that Moscow could be a “regional financial centre for CIS” was doubtful even before the recent events involving the Ukraine. As for “East meets West”, I know from my own experience working in Russia that European orientated Muscovites generally have little knowledge of the “East” (apart from Central Asia).

While Moscow may have time-zone advantages, they are only partial because of competition from places like Dubai.

The IBRD and TheCityUK reports highlighted a considerable number of problems with Moscow’s aspirations.

Russia’s large state-owned banks have the advantage both of existing economies of scale and preferential treatment from the state (although it is never easy for foreign banks to enter a market and compete with established, even if initially less efficient, local retail banks).

The IBRD identified corruption, poor law enforcement, and a bad reputation as “major obstacles”.

It also reported that “the current legal environment makes it difficult to create new types of securities because only those types specifically enumerated are permitted. Every innovation, therefore, requires enabling legislation. Nor is a single law sufficient: in each case, amendments must be made to the Civil Code, the Tax Code, the law on Joint Stock Companies, the law on Securities Markets, the law on Insolvency (Bankruptcy), the law on Foreign Currency Regulation, and the law on Banks and Banking Activity. The creation of a separate legal environment for the financial markets would make innovation much easier.”

One option mentioned by the IBRD for Moscow was to take the Dubai path of essentially importing a “common law” legal framework for its IFC. “The Dubai IFC is an independent jurisdiction under the UAE Constitution, and has its own independent civil and commercial laws, which are written in English and which default to English law. It also has its own courts, with judges taken from the common law world including England, Singapore and HK.”

But Moscow was never going to take this totally top-down approach (any more than Shanghai will) because it makes little sense if the IFC must also serve a large domestic market. Moscow’s own top-down ideas seemed to center on a new suburb to house the IFC, and not enough was done on the basic reforms included in a Dubai-type package.

In any case, Dubai is an exception. Today’s top IFCs have generally been created organically and over a considerable period of time. New York got there because of its huge domestic markets. London initially got there for the same reason, but was also lucky because the UK’s direct successor as an economic power-house (ie the US) had a common language and similar legal system; and then London followed this up with sure-footedness. Hong Kong and Singapore got there through a combination of being international trade hubs, luck (ie much the same luck that London had) and sure-footedness.

In reality, the idea of Moscow as an IFC was almost dead from the start, and the 2014 events in the Ukraine should have completely killed it.

However, this may not be totally the case.

In November, I surveyed via email a significant group of Russians who reported that they spend “about 50% or more” of their work-time thinking about financial issues. Over 40% thought that “Moscow will become an ‘international’ financial center (for example, like London, New York, Tokyo, Singapore, Dubai) by 2020”.

And, both China and continental Europe were strongly favoured over the US and the UK as places with which Russia should have close financial relations; with over 90% saying that Russia should have closer financial relations with China.

It seems clear that US-lead sanctions are adversely affecting the view of educated financial workers in Russia about the UK and the US. But they may also be leading to a revival of the idea of Moscow as an IFC, in order to in some way make Russia more financially independent.

But, rightly or wrongly, President Putin’s Russia now has such a bad image that there is, in my view, no possibility of Moscow becoming an IFC by 2020. ■



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# Eurasian Economic Union – a union of conflicting political interests

**T**he Customs Union (CU) of Russia, Belarus and Kazakhstan that came into force in July 2010 was quickly replaced by the Common Economic Area (CEA) since January 2012, and the latter, in its turn, is planned to be replaced with the Eurasian Economic Union (EAEU) since January 2015. Is there any reason for this name-changing of the only successful integration project at the post-Soviet space?

The succession of names hints at the purely economic nature of integration starting with the unified customs tariffs and rules and continuing well into the plans for common markets of goods and services, labour and capital as well as common economic policies in a wide range of spheres. The economic nature of the new union was particularly stressed by Presidents Nazarbaev and Lukashenko in May 2014 when the EAEU agreement was signed. However, a more careful analysis suggests that the union is inherently political with all parties pursuing their own goals.

Kazakhstan seems to be the party winning the least economically, judging by the fact that its full participation in the common market of goods has been much delayed by the technical regulations within the CU. Tariffs, rules and regulations of the CU were based mostly on those of Russia, and while Belarus and Russia had a long story of a Union State (since 2000) and time for adjustment, Kazakhstan was much less integrated with either of the other two countries. Being oil and gas exporter, Kazakhstan had no troubles in attracting foreign investments, achieving macroeconomic stability and balancing the budget. No immediate economic gains were visible when the CU has been discussed, and yet Kazakhstan opted to join in. The reasons can be found in political spectrum. Regionally Kazakhstan is more and more dominated by China whose influence in the Central Asia increases, while competing with Uzbekistan for the place of the local dominant power. It was President Nazarbaev who voiced the idea of the Eurasian Union back in mid-1990s, and he continues to support the idea while lobbying the interests of Kazakhstan's businessmen in the union.

Belarus seems to be the only true winner in this integration project, both economically and politically. Economically it enjoys special prices for gas and oil shipped from Russia earning profit on sales of processed oil products on the European market. Politically it has a certain degree of carefully measured autonomy from Moscow, as the recent role of Minsk in the Ukrainian crisis has demonstrated. President Lukashenko maneuvers between open criticism of Russia's actions and getting support from Russia in the form of cheap oil and gas and supporting credits. Loyalty has the price in this case.

Russia is not losing so much economically as Kazakhstan, but this is only at a first glance. Its losses are related not only to price reduction and foregone revenue from oil and gas sales to Belarus (expected to be reduced soon), but also to the upkeep of the union bureaucracy. According to the EAEU agreement, the budget of the union is formed from fees paid by the member-countries in proportion to the import duty distribution, meaning that Russia pays almost 90% of the budget. The distribution of the import duty was decided when the CU was formed. In the CU Russia enjoyed 57% of the votes in the CU Commission, but Russian dominance in decision-making process has ended with the CEA creation: now each member of the union has

equal voting power. Hence, Belarus and Kazakhstan have the means to outvote Russia in case they cooperate as this was demonstrated just before the EAEU agreement had been signed when Belarus and Kazakhstan expressed their concerns about Russia's dominance in certain areas and insisted on removing any politically sensible issues reducing the new agreement to purely economic by nature of issues it encompasses.

For Russia keeping and developing the EAEU is a matter of political image and status. Addition of Armenia to the EAEU and expected joining of Kyrgyzstan imply economic support to these new member-states, and the burden of providing this support will fall mostly on Russia. In return Russian might hope to get new loyal allies within the union. Indicators such as business cycles synchronization give no support to the common macroeconomic policy envisioned in the EAEU agreement, suggesting that further steps of economic integration either would be postponed to the unknown future or would result in destabilizing the union, especially accounting for the bleak prospects of Russia in the next few years.

In spite of being called 'economic', EAEU is primarily a political union, in which each member-state pursues own political and economic interests with very few of them shared by all members. The differences in economic structure of the member-countries further aggravates prospective stability of the union and suggests that few steps beyond the current CU implementation will be taken in the near future. ■



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# Russian double-headed eagle – what will it bring to its Western partners and neighbors

**M**ain Russian symbol is double-headed eagle that is symbolizing many sides of Russian public and political life. On the map one head looks to the West and another to the East. During last year Russia turned to Asia seriously and, if for some experts this changes in foreign policy activities has been visible during last years, for many regular partners that move surprised and confused about the future relations.

Russia has been European country during all its times, from the moment of getting the heritage, religion and culture from Constantinople, as well as the eagle symbol. Historically and naturally Russian always developed East and West as before as in its modern foreign policy.

The fast growth ended in 2008 and the search for growth became a slogan of today for many governments around the world. In spite of that the search for growth has not become a slogan for common international work that is looking for something else.

Year 2013 gave the belief for new economic development on the European continent that have been changed and sold in a favor of the new political game that is probably located out of the interest range of many European countries. Europe turned into the new extra round of economic recession, supporting itself by sanctions and internal mistrust between the members.

As Europe, Russia was forced to exist in the new economical surroundings with changed currency situation, new oil prices and a conflict developed straight at its borders.

The falling activity on European direction has forced Russian Government to raise the activity in Asian and Pacific region, where the structural and political work has been actively running during last 5 years. During the last years many experts inside of Russia has been advising on the stronger cooperation work on Eastern direction, but many pro-western liberals were avoiding Russia from that partnership. Today Russia develops its cooperation to Asian partners mainly without limitations and has main target to raise the economic and technical development on the mutual basis.

Asian partnership of Russia includes not only China, but also the whole region, including also Malaysia, South Korea, Vietnam and other countries.

Despite of other myth, the cooperation spreading more far then just energy sector and include scientific and technological cooperation, cooperation in the field of transport, communications and information technology, cooperation in the field of nuclear energy and space, financial cooperation, cooperation in the field of environment, cooperation in the field of civil aviation.

Today many Russian companies went to Asia and spending time in search for new partnerships as for export as for import activities. These companies introduce all possible sectors of economy from companies of retail market to innovation developers. Products of industry and engineering, heavy industry products has already important role in Russian export to countries of Asian and Pacific region.

The special interest for Russia and countries of the Asian and Pacific region is in the sphere of high technologies - all partners has enough high-tech experience to share with each other, to provide the further economic growth.

High-tech growth is located as in sectors traditional for high-tech technologies as in conventional industries such as shipbuilding. The creation of common projects in shipbuilding industry will rise up the global competence and competitiveness of participating partners. At the same time shipbuilding is one of the fields where Russia has good like with Western partners. Russian shipbuilders will unlikely to stop that cooperation. The only situation is possible in case of escalation of sanctions policy or own decision of European partners to stop the cooperation.

Minor part of export from China and countries of the region is made by joint venture companies. So, the coexistence of all partners in common shipbuilding projects is very possible.

The start of sanctions policy forced a number of European producers to leave the market. Empty places have been already occupied by national producers and partly by new suppliers. More time will pass, the stronger position new local and foreign players will get, especially after setting up the new logistic chains.

The cooperation in logistics and the establishment of new logistics chains to Far East transportation infrastructure became the significant part of current and future work. This work is already taken to account in the new Government strategy on transport for next 5 years. And here the creation of new transport corridors in Russia together with European partners is highly possible, especially in such areas as Arctic region.

«Weak» Russian ruble became another destabilizing factor in Russian European affairs. But the weakness of the ruble still should be evaluated clearly as well as its influence on the local production and competitiveness according to foreign products and markets.

The reports about overestimated levels of Russian currency according to Euro and US dollar have been presented to the Russian government already in previous years. The first attempts to make new estimation for Ruble have been made during last winter and were linked to escalation of crisis on Ukraine. Instead of precise economic analyses, many Western experts declared the fall of Russian economy. The reaction was reasonable, as it was part of informational battle and was also covering own local mistakes and falling interest of Russia for Western products, like tourism.

Today Russian ruble has taken the place somewhere near to its true position. Of course the currency has an extra pressure by changed oil prices and local banking speculations on the currency market.

Current level is opening broader possibilities for Russian local producers in the national and international market as raising its price competitiveness. Foreign producers not only losing the Russian local market, but also getting higher competi-

tion on international ones on the number of products made in Russia.

Foreign capitals vice versa may have interesting deals from now and has no barriers for investments to Russia; new currency levels provided reasonably discounted prices on assets in Russia.

Another factor of current global economy is price for oil that has negative dynamics nowadays. But the fall is impossible to happen as deep and as long as in 80s. First, there is a bigger choice of consumers; secondly, the cost of oil production is higher than before. In US, almost 40% of current oil production is made by unconventional methods that has cost for barrel around 70-80 dollars. And the US is the main player today trying to push the oil prices down by using its special market instrument - price interventions - by placing the big volumes of a single product to the market at one time.

Russian Asian cooperation will lead to creation of new trade, industrial and logistics partnerships, new global competitive players and financial centers. And in that work there is a space for relations, developed during last 20 years on the other Russian foreign policy direction, in Europe.

The belief of Western companies in Russian crisis and falling ruble will lead them to loss of traditional markets and decreased global competitiveness. On the other side, common work and common business and economic targets will bring the benefits for all.

The global development is always running by circles. And economic development is not only based on growth, but also on the way how you survive the recession times and start to act during the new development wave, to reserve the place on the top of the new hill. ■

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# BALTIC RIM ECONOMIES

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ALEXANDER SOKOLOV, OLEG KARASEV &amp; KONSTANTIN VISHNEVSKIY

# Foresight in Russia

The beginning of the 21st century is marked by accelerating pace of technological progress and emergence of new grand challenges such as environmental issues, global political changes, technological breakthroughs, demand for new skills and many others. Foresight has been increasingly used as a tool to cope with these new economic circumstances in both developed and developing economies. It gives the government an opportunity to concentrate limited resources on the most promising areas to support. The growing interest to forward-looking activities – at different levels of strategic planning – federal, regional, sectoral and corporate – has been also demonstrated in Russia in the last decade, in particular after the economic crisis of 2009-2010.

The most important Foresight study was the Russian Science and Technology Foresight: 2030 approved by Russian Prime-Minister in January 2014. This large-scale fully-fledged study covered seven priority areas: ICT, medicine and health, biotechnology, new materials and nanotechnology, rational use of natural resources, transport and space systems, energy efficiency. More than 2000 leading Russian and international experts were engaged in identification of global and national challenges, emerging markets, innovation products and services, promising S&T fields.

The S&T Foresight 2030 has been used as a background for revision of national S&T priority areas and the list of critical technologies (to be approved by President of the Russian Federation). The priority setting included comprehensive analysis of relevant country-specific problems highlighted by official strategic documents, their discussions with government agencies followed by formulation of detailed S&T related tasks targeting particular economic and social goals. The draft list of critical technologies identified in the framework of wide expert discussions covers key research areas in a wide range of disciplines: biomedicine, ICT, advanced manufacturing et al. There were also assessed possible impact of technologies on economy and society, required resources, risks and barriers.

The new Federal law "On strategic planning in the Russian Federation" adopted in 2014 envisages regular multi-level Foresight activities aimed at establishing long-term development goals at the national, sectoral and regional levels. Coupled with the activity of newly established Interdepartmental Commission on Technology Foresight the law elevates the consideration of Foresight studies at unprecedentedly high decision-making level in the post-Soviet Russia. The introduction of special government programmes strengthened attention to Foresight as a tool for their designing and regular revision. Forward-looking activities became the basis for the development of both the National S&T Programme and sectoral programmes with a large S&T component – on aircraft engineering, shipbuilding, space et al.

Industrial Foresight in Russia meets the traditional tasks such as an assessment of available S&T capacities, identifying key technological trends. In addition, it allows combining the factors of S&T supply and the expected demand for innovative solutions thereby mixing market pull and technology push approaches. The important role in this respect is played by the recently established network of sectoral Foresight centres on the basis of leading universities and research institutes

Foresight has been also widely used by the corporate sector. The largest Russian state-owned companies elaborated corporate innovation development programmes aimed at fostering creation and introduction of innovation products and services. Relevant

technology roadmaps were elaborated at Gazprom, Rosneft, Aeroflot and many other companies. These documents are used by the corporations for strategy building on innovation products commercialization reflecting the whole technological chain «R&D – technology – product – market», communication between companies' divisions and establishing external links for technology transfer.

Regional Foresight is a rather new phenomenon in the Russian regional S&T and innovation policy and regional development, nevertheless a number of regions have already undertaken such studies. Foresight studies were implemented in such regions as Samara, Tula, Tomsk for establishing regional strategies of socio-economic development. Each of them included building integrated roadmaps describing the factors that affect the construction of alternative scenarios of regional development, clusters and areas in which changes may occur, as well as activities to promote socio-economic development of relevant regions in the long-run. The recent trend in regional Foresight in Russia is an elaboration of roadmaps for innovation clusters to improve economic performance at selected territories with high potential.

The developing of forward-looking activities in Russia, establishing and further elaboration of a multilayer Foresight system integrating national, sectoral, regional and corporate long-term future studies, involvement of increasingly wide range of participants (including citizens), absorption and development of more sophisticated Foresight methodologies create a solid background for building a more sustainable strategic planning. ■



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# Economic cooperation of Turku region and St. Petersburg

## The beginning of the story

The City of Turku, Finland, and the City of St. Petersburg, Russia, have been twin-cities since 1953 and have had economic cooperation from that time onwards. The economic relationship received stronger input at the end of the 1990s and since then it has discovered new forms and developed and expanded. The mutual business cooperation has taken changes in the business and financial world into consideration.

At first, economic empowerment came about by using a variety of ways to finance different projects. By the late 2000s, economic cooperation with Russia was being written into budget financing. Furthermore, at roughly the same time, a contract was signed with St. Petersburg concerning mutual economic cooperation. This meant the continuation of the policy of encouraging mutual business operations between Finnish and Russian companies, including investment in both directions.

One of the strengths behind the successful economic cooperation we have forged has been the far-reaching networks of public and private actors in Finland and Russia, covering all levels of economic life. Another has been providing extensive knowledge of both the business cultures and the business environments, and, of course, both languages.

By the end of this century's first decade, the Turku region had become one of the leaders in Finland's economic cooperation with Russia. The region's best practices were adopted and copied by other Finnish actors offering services for companies wishing to enter the Russian or Finnish markets.

The Turku region is also one of the rare places in the world where St. Petersburg has opened an official business information representative office to disseminate information on businesses and business opportunities for companies.

## Entrepreneurs first

The economic collaboration between the Turku region and St. Petersburg strives to increase international cooperation for small and medium sized enterprises while also supporting their growth. Large companies and their chains of subcontractors are involved as well. The actions taken are based on the needs of the entrepreneurs and the need to develop better business environments for the implementation of their international business.

Together the Turku region and St. Petersburg have provided extensive information services and help for the internationalisation of companies. Over the years there have been hundreds of mutual business events and business missions, thousands of business meetings and projects of all sizes on business and governmental levels, while also keeping in mind the local aspects. Some events and projects have focused on different industrial or service sectors, such as the maritime industry, metal, construction, logistics, the environment, biotechnology, ICT, and so on, but always aiming to support prosperous development. The basic principle is to provide services for all companies irrespective of their industry – an approach that has yielded excellent results.

Together we enable Finnish and Russian companies to grow, become international and to create their success stories either on their own or in cooperation with others.

## The future

Economic cooperation is the equivalent of long distance running, so we do not make too much noise about the ups and downs of economic life because that is ever present. Our cooperation is also about taking the world's changing economic climates into consideration and helping businesses work through them or exploit them.

The future of our economic cooperation rests on supporting the needs of entrepreneurs on both sides of the border and on developing business environments that assist the better implementation of international business.

Together with St. Petersburg we will keep on encouraging our economic organisations and business communities to be more active and to develop their own initiatives. Some have already started to organise their own events with their cross border counterparts. This offers a base to increase their mutual cooperation, which could also have an impact on their members. This activity needs to be encouraged and is the right direction to move in.

We will also continue to cooperate with other parts of Russia in accordance with the needs of entrepreneurs on both sides. Nevertheless, St. Petersburg will always hold a special place in the heart of the Turku region.

Finland, and especially the Turku region, has an opportunity to increase its position as a gateway for European companies seeking to trade with Russia and vice-versa. The location of our region has already been of great benefit to many companies and this advantage will likely increase in the future.

Finally, the Turku region also is a part of Team Finland, a national network for promoting Finland and Finnish interests abroad, for example: the internationalisation of Finnish enterprises, investments in Finland and Finland as a brand. In Team Finland's South-West team we provide extensive knowledge about Russian businesses across a wide network in Finland and Russia.

The future holds great potential for us – we are excited to see what opportunities it will bring. ■



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# Russian cooperation of the City of Helsinki

Russia, the St Petersburg area in particular, has always been a very important partner to Helsinki in many ways, and one of the key reasons behind this close cooperation is, of course, the proximity of St Petersburg. St Petersburg and Helsinki are both major economic areas, and large economic areas naturally have extensive spheres of influence. Over the years, St Petersburg and Helsinki have only grown closer, for even though the physical distance between the two cities remains unchanged, in today's world distances are not measured in kilometres, but rather in time. Today, a trip from St Petersburg to Helsinki or vice versa takes as little as 3.5 hours, and in the future this is set to shorten further. Nowadays a convenient day journey from one metropolis to the other is a reality, and we can safely say that on economic level the two cities are within each other's sphere of influence.

Even though the political situation in regard to Russian relations is currently difficult, we are not planning to decrease the cooperation between Helsinki and St Petersburg. After all, we should keep in mind that cooperation is being carried out on multiple levels and that the activities between two cities are different from those between two countries or companies. We are closely monitoring the development of the situation, and currently the sanctions imposed on Russia concern areas in which Helsinki does not operate nor has operated in the past. However, it would be disingenuous to claim that the current political and economic climate does not also impact the cooperation between the two cities. In particular, the bleak economic outlook of Russia, the instability of the rouble, the legislative changes that make it more difficult for foreigners to operate in Russia and possible further sanctions are all directly or indirectly reflected on Helsinki as well. For example, possible changes in the EU's financing programmes or the disappearance of financing opportunities on the Russian side would significantly hinder cooperation in areas that are important and beneficial to both sides, such as environmental and cultural activities. The protection of the Baltic Sea in particular is an issue that affects the well-being of us all regardless of the situation. In Helsinki, the current situation is reflected most concretely in the fact that tourism from Russia has collapsed and exports and imports have stalled. We must keep in mind that every percentage point in the statistics represents actual jobs on the personal level and tax income on the city level.

Because of this, Helsinki is prepared to do what it can to calm down the situation. The only way to resolve the situation is to maintain dialogue and to understand the reasons behind the actions, even if not approving them, which is why increased cooperation and discussion can help us find solutions faster. It is this kind of long-term cooperation that has spread Russia operations throughout the organisation of Helsinki, and it has been a joy to observe that friendships have also been forged on the personal level. The authenticity of such cooperation is measured during difficult times, and Helsinki has long been an international centre of Russian expertise, a fact that could also be more effectively utilised on the EU level. In addition to the city organisation, there are also numerous other parties operating in Helsinki that specialise in Russian issues, such as ministries, research institutions and other public and private operators. For example, Helsinki is home to some of the best libraries specialising in Russian research in the world. This is a significant asset that we aim to make clearer through improved coordination in order to promote more effective utilisation, especially in the area of economic development.

However, the centre for Russian expertise should work both ways. Unfortunately there is currently a massive disparity between Finland and Russia in regard to placement operations and investments, as investments from Finland to Russia greatly outnumber those from Russia to Finland. Finland is well-known, close by and has long placed among the top countries in the world in various business and investment environment surveys, but even so Russian investments have not found their way here. This indicates that there are still many challenges to overcome on many levels, starting from inadequate placement mechanisms and the inflexibility of the system and ending in pure prejudice. However, we believe that there are many innovations and products in Russia for which there would be demand in the EU market and for which Helsinki could serve as a good launch platform. After all, we have well-developed start-up and business development ecosystems and networks, which can provide genuine added value to businesses and help raise them to a new level. As a result, we believe that there is great potential in this area, and not just for Helsinki either, which is why we intend to continue investing in the development of similar activities in cooperation with national and regional operators.

Helsinki also has a physical presence in St Petersburg along with other partner cities in the form of the Helsinki Centre, which greatly facilitates operations between the two cities. The Helsinki Centre is a city representative office that operates out of Suomi-talo (Finland House) in the St Petersburg city centre, home to nearly all national and many regional operators. The Helsinki Centre helps us maintain local relations and operations with the city of St Petersburg, interest groups and the media. Even though it is a city representative office, the operations of the Helsinki Centre have constantly developed towards the support of economic development, and the aim is to further increase this focus going forward.

In the future, the international operations of the City of Helsinki will increasingly focus on economic development, which means, for example, closer cooperation with companies and the introduction of an economic development perspective to all operations. The Smart and Clean City and the Open Data projects in particular are areas which are currently being strongly developed in Helsinki and in which cooperation with other cities could greatly benefit all parties involved. Helsinki has a great deal to offer in these areas of expertise, and on the other hand we are constantly seeking solutions for making urban everyday life more convenient, improving the pleasantness of the city and environmental questions. In these kinds of operations, the greatest developments often come from companies! ■



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# Office real estate market in St. Petersburg, Russia in 2014

**D**espite the negative macroeconomic trends in Russia, St. Petersburg office real estate market was more active in H1 2014 compared to same time period in 2013. This is reflected in the growth of high-quality office real estate that amounted to 2% during H1 2014. Over than half of the new supply (58%), belongs to Class A office space. In addition there has been growth in the take-up (take-up represents floor space acquired within a market for occupation) of high-quality office space in St. Petersburg. In the first half-year of 2014 the growth has been 1.9 times more compared to H1 in 2013. Most of the growth took place in the business districts of "Petrogradsky" and "Moskovsky Ave" which are attractive areas for tenants due to good subway connections.

The positive trend in the office market of St. Petersburg is also reflected in vacancy rates (The Vacancy Rate represents immediately vacant office floor space). There has been a drop in vacancy rates of Class A business centers by 3.9 p. p. compared to the end of 2013. However, one of the biggest reasons behind this increase was a lease deal conducted between the real estate company GHP Group and the Gazprom Company. This lease deal was the biggest transaction in the past six months. Despite of a drop in vacancy rate of Class A office center segment, a small growth was seen in vacancy rates of Class B office center segment. The growth was 0.6 p. p. in H1 2014 compared to the same period year 2013. This suggests that some of the tenants changed their former Class B offices to higher quality Class A offices. An interesting fact is that the average lease rates have remained stable in the high-quality office real estate in St. Petersburg despite of the difficult financial situation in Russia.

The Q3 period in 2014 showed that the active office market development, which was seen during H1, continued even in Q3. Total of 64,760 square meters were put into operation consisting of seven quality office buildings. This means an increase of 38% compared the same period 2013. The greatest demand in Q3 was seen in office spaces of 100-500 square meters which represents over half of the total number of transactions. Generally speaking this indicates that St. Petersburg office market attracted especially small and medium-sized companies during Q3.

As a result of completion of new office space, the vacancy rate increased in Q3 compared to the first half year of 2014 and is also slightly higher compared to the end of 2013. In addition the rental rates (in roubles) increased by 3-4% in high-quality office space compared to H1 2014. This can be a result of new quality office buildings put into operation in Q3 and the depreciation of rouble.

An interesting detail is that the amount of short-term lease agreements is decreasing. Most of the foreign companies as well as medium and large Russian companies are chasing for long-term lease agreements. This development in lease terms can be seen as a result of the active and positive development in the office market in St. Petersburg. The companies want to take advantage of the favorable situation now at this rental level in high-quality office space.

One of the trends in St. Petersburg office space deals is that the amount of oil and gas companies has increased heavily and this trend is also expected to continue in the future. However, one of the main reasons for this market development is Gazprom's move from Moscow to St. Petersburg. About 40% in the total volume of absorption is caused by Gazprom companies and its structures. From this perspective can be concluded that the office market is unbalanced in terms of demand and that the market is highly dependent on Gazprom and its affiliates.

Despite of the positive development in St. Petersburg office real estate market in H1 and Q3 2014, it can be expected that the difficult economic situation as well as political uncertainty in Russia will affect negatively to the market. If the EU sanctions against Russia will not be lifted before the end of the year – which at the moment seems more than likely – the impacts on the commercial real estate market in Russia can be more severe. In general, companies tend to postpone expanding of their office space or relocating operations until the overall political and economic situation is more stable. Due to uncertainty of the market the vacancy rate in new office buildings reaches even 50% by the delivery date in Q3.

On the other side if the market situation stabilizes, the office market in St. Petersburg can continue its positive development even faster than expected. ■



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# Foreign investments in commercial real estate in St. Petersburg – trick or treat?

## Investment situation in the beginning of 2014

Real estate investment market in Russia is known to be highly centralized – majority of foreign investments is made in Moscow. However, there is one real estate sector where Saint Petersburg holds the leading position in terms of volume of real estate stock per number of inhabitants – retail real estate. Such investors as, for instance, Finnish retailers K-Group and S Group, German OBI Tengelmann Group and Metro Group, French Auchan Group have been present at the market and some of them have announced development expansion plans for the future.

This evidence created interest to discover which specific factors made Saint Petersburg retail real estate market attractive for foreign real estate investors. Topic became a background for research within author's Master Thesis. Empirical data was taken from the interviews with real estate consultants acting at the market. For the interviewing all major consultants were approached and final response rate amounted to 81% which made result of interviews highly justified and reliable. Moreover, broad approach of interviews made it possible to extend some results and conclusions to all stock of commercial real estate.

According to the interview respondents, foreign investments in Saint Petersburg retail real estate market were driven by several reasons: higher profitability and shorter term of return of investments (compared to investors' national markets), growth of consumers' wealth and purchasing abilities, demand for new goods and products, financial possibilities from abroad financing. Special accent was made on attractive location of Saint Petersburg – direct access to the Baltic Sea, 170 km from Russian-Finnish border Nuijamaa and 350 km from Helsinki made Saint Petersburg a successful hub for different ways of transportation, and city was regarded as European gateway of Russia. Location seemed to become one of the main reasons for European retail investors to enter the Russian market by establishing their entities in Saint Petersburg. Already mentioned "investment centralization" in Russia reflected in the research results – most of the interviewees compared real estate markets in Saint Petersburg and Moscow. Based on this comparison, Saint Petersburg outperforms Moscow in terms of level of prices (land, construction, infrastructure, personnel and maintenance costs), market transparency and availability of land for development.

Therefore, investment situation at the moment of research (February 2014) seemed to be favorable and promising. However, political situation in Ukraine which took place in the following months and is still in force, added to the investment agenda news factors to consider.

## Investment situation in the end of 2014 and further: threats and opportunities

Political circumstances and tense opposition between Russia, EU and USA affected significantly economy of Russia at macro- and microeconomic levels. GDP didn't reach 1% by the end of third quarter 2014, inflation rate, on the other side, inclined to 7% and official economic forecasts for 2015-2016 were reviewed. Investment market and especially market of foreign real estate investments is known to be highly sensitive to political and economic factors. Continuous weakening of Russian ruble worsened financial results of foreign investors who report their profit in currencies other than ruble. Earlier announced development plans were mostly put on hold by the existing investors and launch of new investments projects has been postponed or even cancelled.

Nevertheless, recent market reports give reasons and hopes for positive in the future. For example, Trade barometer published by SVKK (Suomalais-Venäläinen kauppakamari) in the end of October 2014 indicated that Finnish investors continue to consider Russian market as potential and profitable in long-term perspective. Real estate investors are usually recommended to focus on two main issues during periods of crisis – to secure existing investments and to track potential investment opportunities. Both aspects can be justified by financial reasons – sale of asset in period of volatility and instability is likely to cause a drop in price and, vice versa, there is a possibility to make a purchase with good discount.

It should be highlighted that in challenging business environment all the market players need to pay most possible care and attention to their current activity and specific actions. Risk management is an efficient and useful procedure in crisis periods. Keeping eyes open and being sufficiently and extensively informed about market situation enable investors to remain stable, professional, safe and, as a result, successful. ■



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# Development of Kaliningrad region – modification scenario

For the last decade the Kaliningrad region in Russia has overcome drastic changes. Although some researchers state that Kaliningrad's geographical position is not being used by Russia as an asset, some facts demonstrate otherwise. Presently, the Kaliningrad region is one of Russia's best performing regional economies, strengthened by a number of elements: strong population growth (due to the migration program, lower death rate, higher birth rate, and Baltic federal university), status of Special Economics Zone, implementation of major infrastructure projects, development of industrial areas, ice-free ports, world's largest amber deposits. Moreover, according to the National rating agency, Kaliningrad region rates as a region with high investment attractiveness and ranks within the same category as Moscow, Saint Petersburg. As of "Forbes" evaluation Kaliningrad considered the best city in Russia in terms of availability of skilled labor, lower administrative pressure, and development of infrastructure. Yet, talking about Russia in general, main obstacles outlined by "Forbes" are a lack of skilled labor, a lack of access to financial resources, poor infrastructure, tax, and administrative burdens. Implementations of Federal Target Program, Federal Targeted Investment Program are efficient instruments to realize the state economic and social policy for long-term tasks and realizing large infrastructure projects. In line with these Programs Ministry of Economy of the Russian Federation evaluated the state program "Socio-economic development of the Kaliningrad region 2020" as the best and ranked first in the rating published in 2013.

Nevertheless, the political factor plays a vital role in general investment climate and directly influences investment flows. Current embargo on food imports fosters a totally new scenario of the development of the Kaliningrad region. The isolated Kaliningrad region depends more on European imports than any other Russian region. Thus, the situation with the embargo on import from European countries can negatively affect the general economic condition of the region. Still, the effect of foreign sanctions is twofold: short-term and long-term. There is no doubt that entry of foreign sanctions interrupts businesses and affects local economy negatively in terms of wage cut, unemployment rise (due to some industries output decrease), and business bankruptcies, especially those, which are dependent on imported resources. According to official data, 40 percent of total food products consumed in Russia are being imported from other countries. In the Kaliningrad region, the share of imported products from the European Union reaches 80 percent. 16 percent of goods fall under the Russian embargo imported to Kaliningrad. On the other side, the regional government has prepared a regionally significant program of import substitution and rapid doubling of agricultural production in the local plants. At the moment, it all depends on the amount of funds that will be directed to the field of agriculture and the priorities of development within the industry. Priorities for the investments have already been stated, which is the development of import-substituting industries: greenhouses for growing vegetables, horticulture, land reclamation, cattle breeding, poultry farming. Thus, looking at the long-term scenario embargo on import can only open opportunities for the region's development in a number of different fields, such as vegetable and fruit cultivation etc. So the majority of these products can be either substituted by the suppliers from countries that are not targeted by the embargo or that can be replaced by Kaliningrad manufacturers.

The Kaliningrad region has long been vulnerable to food supply security as an exclave. Hence this is the time to not only consider, but also take certain actions towards developing local agricultural production, building its own storage locations to hold reserves of vegetables and fruits, and not to be dependent on the suppliers of neighboring countries. Food embargo in this sense can definitely positively affect the agricultural industry and replace foreign competitors by the local products. Additionally, local producers can increase part of sales market.

The situation of the Kaliningrad region though should be carefully considered on a federal level in terms of boosting the investment. Taken the sanctioned condition, it is more likely that number of foreign investments will continue falling. Therefore, the development of the region will depend on the investments of small and medium enterprises. Without public investment, it is less likely that number of private investors can grow, especially under current political conditions.

Local municipalities of the Kaliningrad region should play a vital role in stimulating investment. The key factor to increasing the investment attractiveness and stimulating the growth of assets is actively developing and implementing investment policies within the region and municipalities. Creation of different investment programs and their practical realization in the regions and municipalities is already an ongoing process. There is a number of programs, projects in the field of public-private partnership, state support for boosting the investment and it seems this number will only grow in line with the changing political and economical situation.

Finally, development of agricultural sector may be the priority at the moment, but it is definitely not the only sector with greater development possibilities for the long-term. Such sectors as shipping industry, IT segment, amber industry, biotechnology, energy sector and tourism offer great potential for development and growth in the near future. Thus, improvement of investment conditions and creation of favorable environment for investors remains as a general target for the Government and local municipalities. ■



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# Finland's future position as a hub of Russian tourism

- Russians spent over USD50bln on traveling abroad in 2013 – ranked 4th in the world after Chinese, U.S. and German travelers
- Russia's share app 40% of Finland's tourism revenue - EUR1.4bln in 2013
- 1/8 of the Russians' visits abroad to Finland (H1 2014)
- Russians' share of foreign hotel accommodation in Finland was 28% in 2013 (decreased by 13% in H1 2014)

Figures above show that Russian tourism has an important role even in the global league – and especially in Finland. It is also a fact that the volume of Russian tourism has dropped down this year as a result of weakened ruble and geopolitical tension. Instead of current situation, a focus of this article is to look forward and review actions in a longer run. The assumptions are that competition for Russian tourism will increase, marketing improve towards more customized solutions and Finland's position become challenged. Finland may need innovative new actions to improve and secure its future position.

Have we done enough to customize our service offer or should we do even more to secure our position? Are we active and innovative enough in our marketing efforts? Key part of a good business is to make sure you don't lose the clients you already have. It is traditionally easier to sell more to customers that know you well than to someone you don't have a relationship at all.

## Selected threats of Finland

- Increasing future competition for Russian tourism – customization, tailoring etc.
- Improving international travel infra and connections from St Petersburg – i.e. new airport facilities, future entry of low-cost carriers, new direct flights
- Desire of new experiences and travel destinations – e.g. self-made internet travel plans etc.

Estonia is a good benchmark of effective development actions taken to boost the Russian tourism. It was not more than few years ago in 2007, when political tension almost froze both business and tourism flows between the countries. Within the last few years Estonians have started to implement actions to improve the situation. As an example the online reservation system for border crossing by car is minimizing the waiting time to cross the border (meaning some minutes instead of few hours in the Finnish border at weekend time). Also the holiday resorts built to North-Eastern Estonia are customized for Russians and providing Russian service, customized activities, tax-free shopping etc. The latest rumors also say that Estonian Consulates would start to deliver 3-5 years' Schengen visas (instead of normal 1-year).

As another example of development, new and modern airport was finally opened in St Petersburg this year. There are also investment plans for airport train connection from the city center. Basically there are no international low-cost airlines operating from St Petersburg yet, but some negotiations were started already some years ago. Both airport train and low-cost airlines will probably become available by the Soccer World Cup in 2018. Modern infrastructure and cheap flights to European capitals may also challenge Allegro train and Finland.

## Selected opportunities of Finland

- Strong country brand – especially in the North-Western Russia
- Further customization of the services to match with Russians' needs, language, consumption culture and preferences
- Improvement of both public promotion programs and physical presence, as well as private sector marketing – a mix of traditional and digital tools, social media channels etc.
- New attractive service offers and tourism destinations inside the Finland
- Effective border system – sufficient human resources and e-solutions to minimize border crossing time

North-Western Russia is a unique spot if we measure the country brand of Finland. Finland's reputation as a country of quality is strong. For example in St Petersburg, leading Finnish construction companies sell "Finnish homes" and Finnish food products are a synonym for a high quality. This is a good base to build on Finland's tourism brand, but further actions are needed to secure the future position. An international competition for Russian tourists will get tougher and Finland needs to better customize its products to match with the segment's desires. To do this we need more understanding of Russian consumer behavior and culture, as well as how to sell our services. Currently only smaller companies next to eastern border, department store Stockmann in Helsinki and some others are examples of carefully customized solutions for Russians. Russians are willing to invest in quality when they celebrate something or simply enjoy the holidays, and we must be capable to actively provide right things with the right timing. As an example of public sector actions, Finland's tourism promotion agency Visit Finland could review presence (existing in many other destinations) and increased activity in St Petersburg.

To be repeated, the key of good business is to make sure you don't lose the clients you already have. ■

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# Tourism development between border regions: Kaliningrad (Russia) and Warmia–Mazury (Poland)

**T**he Kaliningrad region has a unique exclave geopolitical location: it is located in the center of the European continent, bordered by the Republic of Poland and Lithuanian Republic. Tourism is one of the priority and fast evolving sectors of economy, which has not lost its appeal even after the 2008 crisis. The pace of industrial growth (4% per year) predicts a gradual increase in the rate of development of the tourism industry. The current structure of tourism in the region is dominated by domestic tourists (86%), but it is expected that in the near future there will be changes.

Ratification of the 2012 agreement on small border traffic (SBT), significantly increased the possibility of crossing the border, both for citizens of Russia and Poland. It had an impact on the frequency of the state border crossings and export (import) of the capital in the neighboring state. In the Kaliningrad region at the present time, there is a common practice for foreign citizens (from Poland and Lithuania) to cross the border repeatedly (3-5 times a day) for buying excise goods (cigarettes, alcoholic beverages, gasoline).

Based on government statistics of Kaliningrad District, in 2013, the number of tourists visiting Kaliningrad District increased by 15%. With SBT increased the number of border crossings from 2.5 million to 6.2 million. Based on the statistics of the airport Khrabrovo, in 2013, number of passengers increased by 10.5%, including more than four times the increase in the number of people using a discount airline ticket airfare subsidy program majoring in Kaliningrad. Number of tourism businesses in the Kaliningrad District in 2013 increased by 24%, an increase in employment in the tourism sector by 15%. An investment in the hospitality, the sphere of public catering and tourism conference amounted to 4.5 billion rubles; increase in the number of hotel rooms by 18%.

According to statistics, from January to May 2014 in the framework of the border, SBT has crossed 1.5 million people. 980,000 of them are Polish, and 520,000 Russians. According to data from Polish sources, in the same period, according to SBT, up to 1.4 million people crossed the border. It is 250,000 more people than in the same period of 2013. For the first nine months of 2014 the total number of intersections was 5.5 million.

The construction of tourism project on the Baltic coast. It was decided to extend the recreational area outside the city Svetlogorsk and Zelenograd, which does not really fit in with this objective in view of the existing buildings. The extension of the zone concerns Kulikov area where it will be a complex of hotels, a spa and health resorts with a small cluster of games. Moreover, in the region of Kulikov is planning to build a medical center mineral waters as Baden-Baden. The building area of 600 hectares is calculated on a minimum of 10 years. However, due to FIFA World Cup in 2018. Part of the building along with the seaside pedestrian streets will be open.

However, the crisis of relations between the Russian Federation and Poland had a big impact on tourism. From May 2014 has significantly decreased the number of Russian tourists traveling to Poland. Such a situation there has been due to negative expectations and fears on the part of tourists and economic reasons: the rate of growth of currency (euro and Polish zloty) in relation to the ruble. At the same time the leaders of both the Kaliningrad region and the Warmia and Mazury support positions to expand the further development of bilateral cooperation and visa-free travel for tourists that will develop tourism and related industries.

Currently Kaliningrad is in fourth place in the ranking of the best tourist destinations in Russia. Sustaining economic relations including cooperation in the development of tourism is extremely important in view of the organization of FIFA World Cup in 2018. Kaliningrad is one of the cities and the organizers will try to attract tourists from around the world. ■

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# “Main Stream” agency

Our agency is situated in the Russian city of St. Petersburg. This city was created by tsar Peter I in 1703 on the bank of the Neva River, which connects St. Petersburg with the Baltic Sea. St. Petersburg is a great port with its own naval history. But when the ships of many countries come to our city, it becomes not St. Petersburg, but Interburg on the Neva. In 2007-2008, we worked with the TV program called “Interburg on the Neva”.

So St. Petersburg is not only a great port – it is a great museum. We love our historical ships – the “Aurora” and the “Krasin”. The “Aurora” is a department of Central Naval Museum. It is a well-known ship, which divided Russian history into two parts in 1917. But it also took part in the Russian-Japanese War of 1904-1905 and today many descendants of participants of this war come to “Aurora” on May 27 and tell each other about their forefathers and their work with archives, dedicated to them.

The second ship – an ice-breaker “Krasin” also has its own naval history. It took part in rescuing operation of Italian expedition of Umberto Nobile in 1928 and many other rescuing operations. During the Days of Finland in St. Petersburg on the board of the “Krasin” we met participants of postwar (World War II) trawl operation of the Baltic Sea. Their memoirs were very interesting.

The ecology of the Baltic Sea is one of the important themes of Union of the Baltic Cities Commission of Environment. We met representatives of WWF (World Wild Fund for Nature) and had an interview about the life of whales and Baltic seals, how their life depends on the climate change and we also had an interview with a oil and gas environmental policy officer about ecological expertise and necessary information on monitoring of pollution.

We participated in the EU-Russia Innovation Forum, where issues of ecology of the Baltic Sea were discussed as one of the most significant problems today. One of the programs was dedicated to innovations in education, cooperation between Russian and Finnish schools.

The plots of our TV programs were dedicated to St. Petersburg, as a port, as a museum and also as a great Theatre: this year the 24 International Theatre Festival called “Baltic House” took place in St. Petersburg. As one of the most significant European theatrical forums, this festival has become an integral part of both St. Petersburg and European cultural life.

The “Baltic Star” prizes are annually awarded in the field of culture (for working in the Baltic countries towards the establishment of relations between cultures). This year (2014) our agency participated in two Forums of Young Leaders “Bridge” in Turku and in St. Petersburg and in the II International Congress of Eurasian maritime history.

One of the themes, which connects Russian and Finnish historians was exploration of region of Hango battle in 1714 with the purpose of localization the place of the battle. One of the interesting reports, delivered on this theme, was “Main Results of Study of Gangut Battle & Research Tasks at the Modern stage” (St. Petersburg State University). The II International Congress of maritime Eurasian history has brought together many scientists, historians and opinion leaders, clearly showing the high quality of international communication and opinion exchange on maritime studies, science and engineering.

This year III Forum of Young Leaders “Bridge” (between Turku and St. Petersburg) took place in Turku during the 16th Baltic Development Forum. All the participants of the Young Leaders Forum were divided into groups to visit industrial companies of Turku such as bioengineering, architecture, jewellery, food companies and also the Concert Hall of Turku.

The second part of “Bridge” IV (2014) was in St. Petersburg. Here the visitors were acquainted with the business incubator “Ingria”. We visited also the Innovation Forum in Lenexpo. In the review on History of the “Bridge” Forum we can see, that St. Petersburg and Turku have been sister cities for 60 years. Currently numerous partnerships have been installed between Turku and St. Petersburg. In the future, both cities want to expand cooperation between the active young leaders in business, politics and culture, who are interested in the development of bilateral ties.

The second branch of our work is booking of foreign artists and DJ's of different styles of music. Our agency has already worked with some popular world stars of the music scene.

Our agency has an informative website with our events. So you can use our portal for advertising your news related to science, culture, business, sport and other topics. [www.mainstream-agency.com](http://www.mainstream-agency.com). ■

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# Russian second home owner – friend or foe?

**R**ussian second home ownership has been a subject of heated debates both in the media and in the Finnish parliament. Over the last 14 years there have been 17 written interrogatories by Members of Parliament concerning foreign property ownership, and three legislative initiatives to restrict land ownership to non-EEA citizens in Finland. While the peak years of Russian purchases are already in the past, the debates around the phenomenon are far from calming. The most recent concerns in the media have been about Russian property purchases next to strategic objects. Studies show that the debates around Russian property ownership in Finland are by many accounts based on prejudices and fears, as well as on the general lack of knowledge about Russian purchases and Russians. One of the biggest concerns that has been expressed in the press and in the written interrogatories from parliament is the character of the Russian owner. A Russian second home owner is often portrayed as a rich businessman who comes with big money to purchase overpriced properties from the shores of Lake Saimaa. In many accounts money laundering has been linked to the image of Russian second home tourists.

To make the picture more precise, the total number of Russian property purchases in Finland comprises 4043 properties (2000-2013) according to the National Land Survey of Finland, which is about 70% of all foreign property purchases during the same period. In comparison to domestic property purchases foreigners barely comprise one percent. Property purchases here refer to transactions involving plots of land with or without a building on it. Who are these Russians and why have they decided to buy their recreational property in Finland – this is one of the basic questions that I ask in my doctoral thesis.

During my fieldwork in the Savonlinna region in summer 2010 I conducted 25 interviews with Russian second home owners. Half of the interviews took place directly in the second homes, which gave me the opportunity to see the Russian leisure environment. Russian second homes vary in size and amenities, including 'granny cottages' without running water and newly-built designer homes suitable for year-round use. The majority of cottages are, however, well-equipped and winterised.

The Russian second home owners interviewed were predominantly couples over 40 years old; only five couples among my informants were younger. Most of the respondents had families with children or grandchildren, and two couples already were retired. The majority of the respondents were from St. Petersburg, while one-third were from Moscow and one family was from Petrozavodsk. In terms of professional background, the Russians comprised a very diverse group, including individuals in construction, law, accountancy, business, tourism, and other fields.

The main purpose of second home purchases by Russians is for recreation. They look for a calm and safe environment where they can spend their free time with their family. Finland has the image of a safe destination both in terms of personal safety and safety of investment. In addition Russians get the possibility to own a second home in pristine nature with personal lakeshore access. Lakeshore ownership is restricted in Russia by law, thus such an opportunity in Finland attracts Russians. In general, Russians want to escape the

hectic and busy city life and spend their free time in the countryside. In this regard they do not differ much from an average second home owner from Finland. Due to the distance they cover, including the time spent on border formalities, they prefer to have comfortable cottages with modern facilities. Second home ownership in Finland is also an escape from the insecure lifestyle and leisure conditions in Russia.

In comparison to other European countries, Russian owners do not reap the benefits of, e.g. residence permits or social security benefits in Finland. Yet these are the things that a modern Russian second home tourist considers before investing in a leisure property abroad. At the same time that social and legislative pressures on Russian second home ownership in Finland are intensifying, bringing potential future risks for owners, Russians are still purchasing second homes in Finland indicating that they are choosing the quality of leisure over certain benefits.

Since the peak year of 2008, Russian property purchases have been decreasing and last year (2013) purchases comprised about half of those of 2008. In comparison to purchases from 2012 the decline was 15%. Due to the current political climate and the volatility of the exchange rate of the ruble with its drastic recent decline, Russian investments will continue to drop. In case Finland wants to keep Russian second home investments, Finns must relatively quickly decide whether they perceive Russian owners as friends or foes. ■

Lakeshore ownership  
is restricted in Russia  
by law, thus such an  
opportunity in Finland  
attracts Russians.



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# On the socio-economic situation in the Republic of Karelia

The figures' dynamics for the nine months of the current year's performance reveals a slowdown in the real sector of the economy. Reduction of real money incomes of the population, decline in the consolidated budget revenues, dependence of the republican economy on the world prices conjuncture for export goods, domestic demand constriction, reduction of the investment and consumer demand, and a number of other issues determine largely instability of the economic system. Investment projects on modernization of existing and creation of new industrial plants and agricultural facilities go on implementing in the Republic. In comparison with low figures in the industrial production sector for the last year (index 89%), volumes of production in the manufacturing industry increased in 2014. In January-September 2014, volumes of production in wood-processing industry increased by 6.9%, in pulp and paper industry - by 1.5 times, in manufacturing of machinery and equipment - by 8.1%.

Negative dynamics of the production volume is marked in the food processing industry, chemical and metal manufacture. Index of industrial production in the Republic of Karelia made 105.1% in January-September.

Index of industrial production in mining sector amounted to 101.2%. Further growth of the mining enterprises production is connected with introduction of new industrial sites. Thus, since the beginning of 2014, there have been put into operation talc-chlorides and basalts block quarries in Medvezhiegorsk region, a crushed stone quarry in Lahdenpohja region.

In the current year, the positive dynamics retains in the activity of logging companies. Production of raw timber made 110%.

The leading wood processing companies are functioning stable this year. The promising development projects in the Republic in the sphere of woodworking industry include the implementation of the second stage of the investment project Woodworking plant "Kalevala" Ltd. for production of wood-based panels from the oriented shavings OSB; expanding of the woodworking production company "Setles" Ltd. Index by type of economic activity: production of cellulose, wood pulp, paper, cardboard and some goods produced from them made 148%, what is above the national average figure (106%). Paper production volume increased 1.6 times in comparison with the corresponding period of 2013.

Index of agricultural production in comparable prices in all categories of farms amounted to 98.5%. The consumer price index made 105%.

In the ranking of the Russian Federation constituencies concerning the growth of prices for socially insured food products Karelia occupies the 39th place. Share of profitable organizations made 54%, what is by 1.2% less than last year.

Debts payable and receivable of large and medium-sized enterprises have increased. The largest share in the budget spending structure for the Republic of Karelia makes socio-cultural spending, which accounts for 73% of total expenses, including insurance of 32%, 22% for social policy, 16% for public health care and sport.

As of July 1, the number of unemployed people, registered at the employment agency, decreased by 1.6. The registered unemployment rate made 1.9% of the economically active population.

Measures undertaken by the Government of the Republic are aimed at the support of the existing production modernization, investment and innovation. Particular attention is paid to solving problems of company towns, unemployment issues, social support.

In September 2014, the Government of the Republic of Karelia discussed the main features of the draft regional budget for 2015 and the planning period of 2016 and 2017.

The budget expenditures in 2015 will remain their social orientation and are expected to reach 26.7 billion Rubles. The total revenues of the Republican treasury for 2015 amount to 24 billion Rubles. The deficit thus amounted to 2.7 billion Rubles. The receipt of tax and non-tax revenues of the budget in 2015 is estimated at \$ 177 billion Rubles. The total amount of gratuitous receipts is forecasted to make total \$ 6.9 billion Rubles.

Some problems of the 2014 budget revenues formation remain for 2015 as well.

The Government of Karelia and its head pay much attention to the preparation of the federal target program (FTP) for the development of the Republic for the period up to 2020. The FTP is regarded to be a strategic priority for the Government of Karelia. In case the FTP is approved on a federal level Karelia will get a great incentive for its development.

The FTP is regarded as an exceptional attention of the country's leadership to the problems of the region. One may sufficiently note that the Federal Target Programmes have been developed and approved just for four constituencies.

The FTP has been reviewed by 17 federal executive power bodies. According to the request of the officials from the Government of Karelia the total planned volume of funding makes up to 600 billion Rubles for the period up to 2020. The most ambitious project, which was proposed to be included in the draft Programs, is the project "Pudozhsky megaproject". Several deposits of titanium-magnetic ores located in the eastern part of the Republic and construction of three mining and processing plants are supposed to be developed in the frameworks of this project. The total cost of the mega-projects is estimated as trillion Rubles, the FTP is supposed to include the first stage associated with the construction of infrastructure for the future cluster.

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A considerable amount of FTP major objects concerning production, infrastructure and social sphere will be implemented on conditions of public-private partnership and project financing mechanisms. In conclusion, it should be noted that the economy of the Republic will continue developing depending on the growth rate of the country economy. ■

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# Clusters in the economy of a cross-border region and Finnish experience

Improvement of the investment and entrepreneurship climate and establishment of the infrastructure for innovations are urgent for cross-border regions of Russia, Republic of Karelia being one of them. It is important to solve the issues, as the pace of reviving the economy of the region is slow, growth of real expendable income and real salaries of people is slowing down and there are some other factors influencing competitiveness of the republic and its preparedness for implementing large-scale investment projects.

We consider the cooperation in the field of atomic energy very promising, which is confirmed by the visit of the Head of the Republic of Karelia A. Hudilainen on the meeting in Oulu on 16 October 2014 where he said that great amount of components for atomic station in Finland can be produced in Petrozavodsk on LLC "PZM".

Karelian science organizations are interested in cross-border cooperation in this area. For example, Petrozavodsk State University in cooperation with LLC "PZM" and "AEM-Technology" realizes project of development of high-tech manufacture of stamp-welded slide and wedge gate valves for atomic, heat-power and gas-and-oil industries which is implemented with the financial support of the Ministry of Education and Science under the contract 02.G25.31.0031.

To turn the tide, it is necessary to secure effective use of resource potential and the advantages of geographic location. In this case it seems natural and feasible to use the experience of Finland, the closest neighbor of Russian Karelia. With the account for permanent changing trends in the world's economy, this country has been successfully using a cluster approach as the key tool of industrial and investment policy. Besides, in our opinion, by using the cluster approach, the innovation system of Finland acquired high capabilities for adaptation that provide for continuous structural transformations in the economy by meeting the challenges of the global economic situation.

Our research identified the following clusters in Karelian economy that have major potential for the development of the region:

1. forest industry cluster;
2. mineral raw materials cluster;
3. bioenergy cluster as part of energy cluster of Karelia;
4. recreation and balneological cluster including tourism as a sub cluster;
5. R&D and educational cluster.

In our opinion, R&D and educational cluster - resting upon the potential of Karelian research and training units in close cooperation with Finnish research and training facilities - should be the catalyst for the processes of establishing clusters in the economy of the republic. In turn, Petrozavodsk State University should have the leading role in the educational cluster of the Republic of Karelia. The University has vast R&D and educational potential and long-term experience of cooperation with Finnish universities, research facilities and enterprises.

An urgent need of establishing bioenergy cluster has arrived. The key bioenergy resources in Karelia are peat and fuel wood, i.e. logging and timber processing wastes and firewood. Peat can be extracted from the deposits that have already been investigated and approved, but there even more peat fields that have not been surveyed. Municipal utilities' energy generation facilities are natural consumers of those resources. However, the share of biofuel in the balance-sheet of energy fuel consumption in Karelia makes only 19,5%, despite the fact that a network of boiler houses in Karelia is the key source of heat energy for people. This sector has wide opportunities for transferring technologies and innovations.

The approach in question will allow Russia and Finland to advance from export trade stage to long-term innovative production cooperation and joint implementation of large research and production projects. It will also contribute to establishing new production facilities, enhancing social and economic infrastructure, and gaining stability in financial and budget spheres. It will improve the quality of goods and services, level of diversification and institutional maturity of Karelian economy.

In our opinion, there are prerequisites for such a scenario in strengthening contacts at all levels between the Republic of Karelia and Finland, which has taken place after A. Hudilainen was appointed the Head of the Republic of Karelia. ■

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# Development of high-technology manufacture of stamp-welded slide and wedge gate valves for atomic, heat-power and gas-and-oil industries

The Petrozavodsk State University in cooperation with engineering company ZAO «AEM-technology» and with the financial support of the Ministry of Education and Science of Russia develops a complex project. The purpose of this project is to acquire in Russia the manufacture of isolation valves for heat-power, atomic and gas-and-oil industries to complete satisfaction of demands in stamp-welded slide and wedge gate valves on domestic and foreign markets.

The need of this project is also determined by the growing demands in developed net of long-distance pipelines and new atomic power stations and new power units for them.

There are plans in Russia for constructing new and extend capacity of existing oil pipelines. In the period from 2012 to 2020 there will be demand in construction of 1500 kilometers of oil pipelines, 43 oil pumping station, 800 000 cubic meters of oil reservoirs. This will make possible to increase oil receiving possibilities from oil pumping stations by 70 percents with ensuring transport volume of 54,5 millions tons of oil by 2020. The extending of oil-products system includes projects: construction of pipeline «Syzran - Saratov - Volgograd - Novorossiysk» (project «South»), increasing capacity of pipeline «Kirish - Primorsk» (project «North»), construction of pipeline «Kstovo – Nagornays (Moscow)».

Also the construction of new power units for atomic power stations (APS) till 2025 will result in demand in 300000 block valves of different implementation types, including stamp-welded design. At the present time several APS power units are built: power units № 3 and № 4 at Rostov APS, power units № 1 and № 2 at Novovoronezh APS, power units № 1 and № 2 at Leningrad APS, power units № 1 and № 2 at Baltic APS. The construction of about 40 different power units till 2025 planned by Rosatom. Acquiring of slide and wedge gate valves manufacture will improve position of ZAO «AEM-technology» on the market of pipeline block valves for atomic, heat-power and gas-and-oil industries.

The development programme of valve manufacture was worked out on the basis of General Scheme of oil industry development up to 2020 and sanctioned on the long period programmes of ZAO «AEM-technology» including: Programme of complex diagnostic, technical rearmament, reconstruction and capital repair on the period up to 2017, Programme of innovational development of «AK «Transneft» on the period up to 2017, Programme of energy preservation and advance energy efficiency of «AK «Transneft» on the period up to 2015, sanctioned by Rosatom Road-map of Atomic Power Station construction in Russia.

The main project goals are to:

- Acquire new technological processes of stamping, welding and nanopatterned coverage applying;
- Form technical and technological solutions in the area of construction, exploitation and production of stamp-welded slide and wedge gate valves for atomic, heat-power and gas-and-oil industries;
- Achieve anticorrosive characteristics of pipeline valves body parts;
- Creating of new high-technology manufacture of stamp-welded armature;

The developed slide, block, back flow and back pressure valves will be used in the function of locking devices for work fluid low stoppage in oil-and-gas pipelines and pipelines of new power units for APS.

The slide valves of high of advanced reliability and technical safety are developed for installation on highly hazardous line sections of mainstream pipelines to increase their defense level from severe accidents with regional, national and global social, economic and ecologic aftermaths.

The block and back flow valves are developed for work fluid control in the pipelines of reactor systems of APS, also including systems of 4 level of safety (NP-001-97);

The back pressure valves are developed for installation on the gas pipelines as devices for preventing back flow of natural, oil and synthetic hydrocarbon gas in the areas of its producing and storage in inward and outward devices of explosion-dangerous zones.

The important part of the project is the implementation of nanotechnology in the manufacture of armature for atomic, heat-power and gas-and-oil industries. The positive experience of developing and appliance of nanopatterned coverages will be used for further developing of new materials with nano components for other equipment, produced by Rosatom plants.

This project is implemented with the financial support of the Ministry of Education and Science under the contract 02.G25.31.0031.

The specific information about the project of development of high-tech manufacture of stamp-welded slide and wedge gate valves for atomic, heat-power and gas-and-oil industries is presented in authors publications. ■

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