

The Future of the Baltic Sea Region in Europe – a View from Poland

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Ladies and Gentlemen,

I am very pleased to speak about the future of the Baltic Sea Region at a point in time which is by all means **unique for the building of a Baltic identity**. Until recently this perspective was lacking. There is no common Baltic identity comparable with the Mediterranean one. In a way, the Baltic identity existed in the times of Hansa league, between 13th and 17th century. But after the dissolution of Hansa, the centre of European trade and politics moved inland and to the extra-European territories, and so the specific Baltic perspective disappeared. At least until recently. The entry of Poland, Lithuania, Latvia and Estonia into the EU provides for a new opening, comparable to that of the Hansa times.

I have read a book about the Polish-Dutch relations over the summer, going back a thousand years. What is striking is that they would be reduced to a fraction of their intensity if it was not for the Baltic Sea. Trade, fishing and shipping are where they started. Dutch traders began to arrive in the Polish part of the Baltic coast around the year 1000 to buy the herring there, considered more tasty than the North Sea herring. In the times of the inquisition and the eighty year war, thousands of Dutch protestants settled in the delta of the Vistula river to form their Klein Holland, the small Holland. How can we make the Baltic Sea such a centre of gravity again? We have to substitute something for the herring...

For the time being, there are **several obstacles to the development of this region**. In nine Baltic countries eight different currencies are being used. The overall Baltic economy is weaker than the Californian one. Baltic shores belong to the least populated areas in the EU. By the Baltic Sea there are no big ports and no metropolis. But most of all, there is no regional perspective: e.g. Scandinavian companies prefer to trade with USA or China than with the region.

The EU Strategy for the Baltic Sea is an opportunity that no other region in the EU has had in the history of the European project. It is an experiment, for better or for worse. If it is successful, it will shape the future of EU governance in the next decade. It will have a strong

impact on the debate on the future of territorial cohesion in the EU or more broadly on the future of the EU cohesion policy.

The EU Baltic Sea Strategy is about the European smart power at its best. As such, its prospects depend on the appeal and commitment created in the process. For that reason, **governance of the Strategy will be one of its crucial components.** It is always a very ambitious objective to better coordinate actions which already take place by means of the established mechanisms. And this is exactly what the Baltic Sea Strategy aims to achieve.

The approach it initiates is very much **the missing link in the chain of the European process** which often does not sufficiently take into account the **diversity** of the political and economic situation on the continent. Sometimes this has led to suboptimal results as in the case of the Lisbon Strategy which relied excessively on a set of ambitious targets – as many as 38, from the employment level to expenditures on research and development with 195 sub-targets. Lack of differentiation has hurt implementation of the Lisbon Strategy and is a lesson-learned for our discussion in the Baltic context. The conclusion is that **we should look at our individual strengths in the first place and ways of building synergies on that basis,** rather than aim to achieve uniform results right from the start. Diversity is part-and-parcel of being European. In Europe, “the other has always lived within the eyesight or arm’s length”, Zygmunt Bauman rightly observes. “The other is your closest neighbor in Europe”. **Managing diversity will be decisive for the success of the Strategy.**

The level of identification with the Baltic Sea among the Polish people is quite high given the fact that Poland has not been engaged strongly in the region in the last years. Every fourth citizen of Poland feels strong ties to the Baltic Sea region while the level rises to 52 percent among the inhabitants of the three coastal regions. Over 80 percent of the Polish public believes as well that the successive governments have not taken the interests of the region sufficiently into account. Tourism, ecology and the environment and the economy are pointed to as the most important areas of cooperation in the Baltic Sea region.

The **Baltic Sea Region is increasingly on the radar screens** although change is taking place slowly because Poland has traditionally been oriented in many directions. Politically, the Weimar triangle with Germany and France was important at the time of the accession negotiations as was the Visegrad Group with the Czech Republic, Slovakia and Hungary. Having said that, the largely missed Baltic opportunity is now seen by the Pomorskie region around the city of Gdańsk as one of the key challenges to address in the future.

Part of the problem lies in the awareness of the distance which still separates Poland and the more advanced countries of the region. Finland is number one in the Global Competitiveness Report, Sweden number three and Poland number forty six. That may have changed now in the context of the financial crisis which has treated Poland mildly but the gap undoubtedly remains big. There is also low spending on R&D, 0.57 percent for the country as a whole and 0.52 percent for the Pomorskie region. Nevertheless, **new technologies are making strong inroads**. Infrapark in Police built around one of the biggest chemical plants in the country together with the local government and university of Szczecin is a good example. Cluster-type of organizations are growing but have not reached the critical mass. Enterprises are largely not convinced about the need for joint activities and are not interested in formalizing cooperation.

The Baltic Sea Strategy has already gone beyond its originally conceived purpose and design. When the European Council asked the Commission to table its proposal, it spoke primarily of a strategy meant to help in addressing urgent environmental issues of the Baltic Sea. Following an intensive **consultation process which I would single out as exemplary** in the European process, four pillars of the Strategy were considered by the Commission as essential. In the Polish perspective, it is important for these pillars to be treated with an equal degree of attention. It is in the synergy of actions in different policy fields that we should look for the real value-added of the strategy. **The future of governance will generally have to do with the points of intersection of the different policy agendas.** This has already been recognized in the EU energy and climate policy where energy security and climate security are seen as the other sides of the same coin. It will need to be recognized at the global level where the trade, climate and investment agendas will have to converge if the multilateral international order is to have flesh on the bones. This has not always been the case. The phenomenon is fresh and the Baltic Sea Strategy is one of the testing grounds for crossing the boundaries of policy fiefdoms.

Poland sees the strategy as primarily an initiative which helps to foster efficiency of the implementation of European policies such as the cohesion policy, transport policy, environment policy, innovation policy and not a forum for generating new initiatives leading to a deeper cooperation among countries of the region. The strategy should consolidate the internal market and its cohesion. Hence any activities which would risk fragmentation of the internal market will be seen as necessary to avoid.

If the strategy is to be attractive for countries like Poland, it has to do with more than the environmental dimension. The cost consciousness of the environmental policy remains pronounced given the modernization agenda which takes priority and remains an ongoing process. Hence **Poland will surely continue to argue for the equilibrium** between the different pillars of the strategy to be maintained. It will also seek the different financial instruments to be used to bring about the objectives of the Strategy which would include not only the cohesion policy but also the programme for competitiveness and innovation, 7th framework programme in the area of research, technological development or the budgetary line supporting the development of trans-European transport network. Weak institutional ties between regions of the objective one and two of cohesion policy will substantially increase the risk of failure in the financing of crossborder projects in the area. This means the European Commission needs to undertake the role of a leader in the process and has to aim at the working out of uniform guidelines for engaging financial resources for the purpose of implementing the Strategy.

Cities have rightly been identified as potential poles of growth given their dynamism and intellectual capital. Accessibility is an attractive proposition. Just as the communication routes in the northern Scandinavia may be scarce, the same is true about the quality of roads in Poland and the Baltic states. Intermodal transport is a must. Better access to markets in all countries of the region and to the EU internal market will only be possible when the potential of all ports in the Baltic Sea states is better used.

When it comes to the **question of the governance of the strategy** which is one of the prerequisites of its success, there is still more work to be done. The Commission's role should be strengthened in the area of coordination, monitoring and reporting to enable strategic leadership in the entire process. A high level group would be an appropriate forum to support the European Commission in formulating recommendations. Monitoring of the Strategy needs to be enhanced given the fact that it will be implemented on the basis of both the existing financial instruments, regulatory activities and by means of **flagship projects**.

The latter could well become instrumental for the success of the Strategy. They will be highly visible. They will have the potential to enhance cooperation among several partner countries. However, flagship projects need to be genuinely flagship projects. At the moment, it seems that the number of projects suggested is such that they cease to have the flagship character as they stretch from sustainable rural development to removing remaining barriers to the internal market which are often long-term processes, difficult to express in terms of

the clear-cut and successful outcome. **Periodical reviews of the Strategy are a very good idea. A review during the Polish EU presidency in 2011** will strengthen the country's commitment to the process.

One of the best ideas in the Baltic Sea Strategy is the **proposal to create a joint innovation strategy** for all countries of the region. Creating a programme for innovation, clusters and SMEs networks, a fund for the development of innovation and research as well as the strategy for innovation in the services sector are all very important. This has to do as well with supporting sustainable production and promoting green public procurement. Initiatives which aim at spreading information and exchange of good practices in the area can bring an important stimulus to the development of the technology market and the market of environmentally-friendly goods.

The Baltic Region is the test ground for Europe's potential to lead in the new technologically advanced, low carbon economy. One of the key tests will lie in the region's ability to adjust to the shifting goalposts of the new global competition. When the EU Lisbon Strategy was created, it set itself the objective of becoming the most competitive economy in the world. Today, comparing oneself to the United States is no longer sufficient because the point of reference has changed and there are new economic powers which have taken over as leaders in many areas. Not long ago Germany was the leader in solar panel production. Now China is firmly ahead. Comparisons do not always make sense. For structural reasons, the European firms spend less on research and development because they specialize in sectors which do not always require such investments to grow.

Making innovation the Baltic trade mark should start from **basic economic education** which is poor, even here on top of Europe. The crisis in the world would not be as severe if people knew what adjustable rate mortgages mean. Instead, as a Danske Bank poll found that 44 percent of Finnish parents do not know the concept of interest rate¹. Improving economic literacy in the EU could be an important prerequisite of future success.

One crucial issue to know and understand better is the **character of the economy which is emerging from the crisis**. Certainly, it will be an economy which will oil its cogs by creating new expectations and fulfilling them. Industry will remain in Europe but as a result of the

¹ Zapera.com, Market Research Study on Financial Literacy with 18-19 year-olds and their parents (2008) quoted in Ann Mettler, "From Why to How. Reflections on the Lisbon Agenda Post-2010", e-brief, Issue 01/2008, The Lisbon Council

current crisis, it will be a much more productive industry. More jobs will be created in the high quality services market than in industry. Design will become more important, even in the area of medical products, where at first sight it is not the most critical matter. The entire strategy of Philips in the area is aimed at improving the design of medical devices. The creative sector will be much bigger than it at the moment.

There are more **systemic challenges** which need to form the basis of any future economic strategy in the Baltic Region. They result in the **imperatives of building a low emission economy, addressing the demographic problem and making innovation a systemic feature.**

A zero-carbon energy and transport systems, which are required by 2050, will be about reconfiguring of the entire global economy. Innovation has to drive that process. At the EU level, creating a low carbon economy would have to mean removing market barriers in low carbon sectors, encouraging greater resource efficiency and energy savings, transformation of infrastructure, investing in skills, developing rules for low carbon procurement, encouraging consumer and business demand for low carbon goods and services, encouraging low carbon innovation, identifying areas where the EU has the potential to play a leading global role and supporting innovative start-ups and growing low carbon projects.

Innovation has to become a systemic characteristic of the Baltic economy. One could spend a lot on research but still fail to score economically without a proper level of innovation.

Sweden was once the leading country in the world on research and development of radios based on vacuum tubes. But all the resources that went into the process became useless when the Americans invented the transistor radio... Applied research matters just as much as the basic research does². Clearly innovation systems need to be tailored towards making the most out of the Baltic research.

There is a **change in the philosophy of economic policy** taking place as well. Removing barriers has been one of the most important tasks in the previous years. Today it is encouraging people to be active and change. Entire groups of people nowadays create new ideas outside of business (eg. Wikipedia) while business integrates them and puts them to use. But different incentives are needed for these processes to run their course.

The requirements of the post-crisis economy and demographic pressures will lead to **major**

² Speech by Tobias Krantz, Swedish Minister for Higher Education and Research, Lund University, 12 August 2009

strains for health and social welfare services across the EU. This means that the **efficiency of the public sector and public expenditure** should become a major priority of the new Strategy. The main features of that process will have to do with increasing productivity in the public sector and promoting a culture of innovation inside the sector. In the health area itself, there has to be more focus on improving the health condition of the ageing population which is key to increasing the working age. Pension reform is a must.

The environmental dimension is rightly seen as a key issue in the Baltic Strategy. This is really about caring about the most common resource we share between ourselves, the Baltic Sea itself. **The key problems are well-known and have to do with the impact of excess nutrients leading to eutrophication and algal blooms and the ecological balance in the Baltic Sea,** the damage to which primarily results from overfishing and agricultural pollution.

When it comes to the first set of challenges, the **Baltic Sea is lucky to have HELCOM** with its Baltic Sea Action Plan and detailed guidelines for the states of the region. The problem with HELCOM targets, which the EU Baltic Sea Strategy should help to address, is to make them central points of reference for governments' water policy. Poland placed a reservation when the Baltic Sea Action Plan (BSAP) was agreed and ensured, with the support of Russia, that HELCOM targets are binding only when it comes to the overall quantity of nutrient input reductions. The specific targets relating to the phosphorus content are contained in the HELCOM Recommendation 28E/5 on Municipal Wastewater Treatment which is considered a soft policy measure. Meeting the obligations of the EU Framework Water Directive is seen as the key task in Poland on which the resources should be concentrated. The assumption is that by implementing the water directive, one will implement the objectives of the Baltic Sea Action Plan. Preparing the national programmes envisaged by the BSAP should become an avenue for adopting the more ambitious objectives.

There is in addition the problem of limited resources where again **expenditures related to the EU water directive often take precedence.** There is room therefore for aligning the BSAP measures with those of the EU legislation and the Baltic Sea Strategy should be the right platform for that objective. There is, however, **more and more progress on the ground.** There is on-going work on the national programme, envisaged in the BSAP, to design the required reductions and the process of identifying agricultural hotspots. Similarly, consultations with poli-phosphorus producers (two key ones in Poland) and producers of detergents have taken place with the conclusion that the use of phosphorous can be phased

out within a 5-year horizon. Future “coalitions of the willing” will need to include city authorities and utility companies owning water purification plants. What is also a challenge in the case of Poland is the lack of the principle of local self-government’s responsibility for commitments undertaken by the state. This burdens the process of implementing both the EU and HELCOM commitments. If it faces a stark choice, local government prefers to build a road rather than modernize a water treatment plant.

There is undoubtedly the question of **political leadership and clear ownership of the process**. It is very often the question of identifying politicians who could lead on the issue and forming groups of media representatives with an interest in the Baltic Sea issues as well as establishing stakeholders’ platform involving the key governmental players and the city authorities in a series of discussions about the meeting and financing of phosphorous removal.

As far as the **ecological balance** is concerned, one of the key issues to address is to manage responsibly the cod stocks given the fundamental role of cod in the ecosystem of the Baltic Sea. The latest scientific advice offers a glimmer of hope that the stocks are being replenished.

For the Polish fishermen, this is a serious matter. In fact **fishermen are among the very few professional groups in the country who have not benefited from EU membership**. On the contrary, the Polish fishing fleet has reduced by 40 percent. The West coast fishermen have found it easier to adjust and often change jobs as a result. The Gdańsk region fishermen took it much harder because they have been fishermen for generations as opposed to the Szczecin region ones who largely arrived in the area after the war.

The key issue at the moment is to **maintain reasonable fish quotas in the next couple of years**, so as to complete the process of replenishing the stocks. Poland will surely argue for higher quotas during the upcoming negotiations but not to the degree which would distinguish her from the other member states. Poland is in favour of regionalization, also in the sense that the regional Council of Ministers should be in charge of the attribution of quotas in the Baltic with the participation of the interested countries only. Similar approach should be adopted for other reservoirs. The fisheries reform should lead to the rights-based management system and transition to individual transferable rights (ITRs). Privatization of the fishery sector is an attractive option under which the fishermen would receive rights to quotas in percentage points and strong property rights. They would then find it advantageous to think in terms of the long-term.

In any case, this is not only the question of the sustainability of the Baltic ecosystem, but also of an example that Europe could and should give to other regions in the world. As the Baltic Sea 2020 report “The Role of Cod in the Baltic Sea” rightly observes, “The Baltic Sea is a region with modern, relatively well working democratic institutions, in a geographically well-defined area. (...) If we can’t make it here, where will we then be able to turn the tide on the negative trend evident for many of the worlds’ fish stocks?”

The question of **energy** will dominate the political discourse in the next decade. One aspect of the issue has to do with energy security where the Plan of the Baltic Interconnectors is essential as are the infrastructural investments undertaken as part of the European recovery programme. The respective Baltic countries specialize in different sustainable energy technologies: Sweden in biomass, Denmark in wind power while Poland is beginning to specialize in clean coal. Together it will be easier to become leaders in new eco-technologies.

Overall, the EU Baltic Sea Strategy will have impact which can be seen on **three levels**: *national, macro-regional and communitarian*. **For the individual countries**, it is a question of economies of scale, best practices and specialization. **From the macro-regional perspective**, it is a question of identity, flagging out common interests and enhancing existing EU policies, thus fostering the development of countries in a given region and - in a positive sense - increasing their interdependence. Finally, **from the perspective of the EU**, it is the question of more effective governance and the channeling of leadership. Completing the European market will only materialize once regional markets use their full potential.

Throughout the history, **large water areas have been a connecting factor** – from the ancient and modern Mediterranean, through the Baltic Sea in times of the Hansa League to the Atlantic Ocean in modern times. The Baltic Sea is about to return to that category while opening to new influences and ideas. It is a fascinating period ahead.

Thank you for your attention.