Baltic Rim Economies

Quarterly Review

Baltic Rim Economies

ISSUE NO. 4, 15 OCTOBER 2012

EXPERT ARTICLES:

László Andor: *Employment and social development in the EU and in particular in the Baltic Sea region* Page 1
Edgars Rinkēvičs: *Why Eastern Partnership still matters?* Page 2
Edit Herczog: *East-West pipelines – integrating Europe* Page 4
Marjo Matikainen-Kallström: *Controversial real estate ownership* Page 5
Christel Happach-Kasan: *A view on the German Presidency of the Council of the Baltic Sea States* Page 6
Mikaela Nylander: *Minorities around the Baltic Sea* Page 7
Kimmo Tiilikainen: *Building sustainable growth in the Baltic Sea region* Page 8
Walter Deffaa: *The EU strategy for the Baltic Sea region – the next phase of the strategy* Page 9
Pauliina Haijanen: *Updated European Union Strategy for the Baltic Sea region* Page 10
Jukka-Pekka Ujula: *The City of Porvoo in Baltic area cooperation* Page 11
Ricardo Carvalho Bruno Ferreira: *University business cooperation in education* Page 12
Philipp Schwartz: *Use the "today" to shape the "tomorrow" or the impact of 2007–2013 on 2014–2020* Page 13
Gabriel Alvarez: *Territorial cooperation in the Baltic Sea region and the supportive role of INTERACT Point Turku* Page 14
Kai Paananen: *Oil spill risks can be reduced through concrete cooperation* Page 15
Olli-Pekka Brunila: *Development of oil transportation in the Gulf of Finland* Page 16
Anders Åslund: *Russia's future reforms* Page 17
Kari Liuhto: *Russia after Putin?* Page 18
Mikhail Dmitriev and Svetlana Misikhina: *Good-bye, poverty – Russia's quiet social revolution* Page 19
Vesa Korhonen: *Russia's budget priorities shaped by the leadership, and the outcome by an uneven inflation landscape* Page 20
Tom Colbjørnsen: *BI Norwegian Business School and its activities in the Baltic Sea region* Page 21
Agata Wierzbowska-Miazga: *The limits of Eurasian integration* Page 22
Filip Hamro-Drotz: *The Baltic Sea region and business – a model for European macro regions?* Page 23

EXPERT ARTICLES CONTINUED ON NEXT PAGE

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

pan-european institute

Baltic Rim Economies

Quarterly Review

Baltic Rim Economies

ISSUE NO. 4, 15 OCTOBER 2012

EXPERT ARTICLES CONTINUED:

Jorma Alanne: *Pohjola's growing interest in the Baltic markets* Page 24

Keijo Koskinen: *Why some companies succeed* Page 25

Janne Tienpää: *Event sourcing: a new approach to destination marketing – case City of Turku, Finland* Page 26

Janne Hirvonen: *State-financed investment: the Achilles' heel of Russia's rents-addicted economy?* Page 27

Markku Sippola: *The impact of investment climate on the ease of investment – a comparison between Russia and the Baltic States* Page 29

Martin Hurt: *Nordic-Baltic defence cooperation: opportunities and challenges* Page 30

Jonas Grätz: *Unconventional resources and energy security in the Baltic Sea region* Page 31

Mikhail Grigoryev: *Euro-Arctic cross-border cooperation for development of the Russian Arctic offshore oil & gas reserves* Page 32

Eva Hjälmered: *The "small" actors are the major actors* Page 33

Eugenijus Uspuras and Vaclovas Miskinis: *Energy infrastructure projects in Lithuania* Page 34

Frederic Hauge: *Plans for Baltic nuclear power plant financially unviable and ecologically hazardous* Page 35

Marijuš Antonovič: *The political project of the Baltic nuclear power plant* Page 36

Bo Österlund: *A drastic change to be expected in the energy map of the Baltic region* Page 37

Vitaliy V. Yermakov: *Cold February of 2012 – European gas system passes test, but questions remain* Page 39

Kari Liuhto: *The revolution of gas logistics in the Baltic Sea region?* Page 41

Olli-Pekka Hilmola and Eugene Korovyakovsky: *Russian railway sector transformation – opportunity for larger Europe* Page 43

Vladas Sturys: *Baltic transport research agenda – a strong demand* Page 45

Ilya Shegelman and Pavel Shchukin: *Environmentally safe transportation and packaging unit for transportation and storage of spent nuclear fuel* Page 46

EXPERT ARTICLES CONTINUED ON NEXT PAGE

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

pan-european institute

Baltic Rim Economies

Quarterly Review

Baltic Rim Economies

ISSUE NO. 4, 15 OCTOBER 2012

EXPERT ARTICLES CONTINUED:

Egon G. Nordström: *Sustainable water management in the Baltic Sea region and the Kingisepp phosphorus case* Page 47

Anna Korppoo: *What next in Russia's climate policy?* Page 48

Tuomas Räsänen: *Environmental lessons from the past* Page 49

Vera Barinova: *Fostering innovation in Russia –time to set priorities* Page 50

Virpi Herranen: *Finland and Russia – how good partners may contribute in developing innovations* Page 51

Liliana Proskuryakova: *Science and innovation policy of the new Russian cabinet* Page 53

Natalya Volchkova: *Russia – an unattainable goal of diversification* Page 54

Triin Kask: *The real challenges of start-ups who want to make people's lives better* Page 55

Dovile Jakniunaite: *Baltic States – three states, but no region* Page 56

Ralph Tuchtenhagen: *The Baltic Sea Dimension at the Department of North European Studies, Humboldt University, Berlin, Germany* Page 57

Tatjana Muravska and Roswitha King: *Peripheral regional universities – what role within the Baltic Regional Forum?* Page 58

Markku Jokisipilä and Tarja Hyppönen: *BSRS – making sense of regional realities for 15 years* Page 59

Elżbieta Fonberg-Stokłuska: *The Warsaw School of Economics (SGH) and its collaboration within the Baltic Sea region (BSR)* Page 60

Tiina Tervaniemi: *Knowledge, networks and regional growth through best practices within the Baltic Sea region* Page 61

Regina Karvelienė: *Internationalisation process in high education – a practise of Šiauliai University* Page 62

Alyson JK Bailes: *Iceland facing the Artic – Baltic lessons?* Page 63

Aleksandra Kuźmińska-Haberla and Marcin Haberla: *EURO 2012 in Poland – was it worth it?* Page 64

Pauli Heikkilä: *Paneuropean and Baltic Estonian Diplomat* Page 65

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

pan-european institute

Employment and social development in the EU and in particular in the Baltic Sea region

By László Andor

From the employment and social cohesion viewpoint, the first point to note about the EU's member countries on the Baltic is the diversity of their employment and risk-of-poverty rates in this fifth year of the financial and economic crisis. This diversity must be measured against the ambitious headline targets that the European Union has set itself under the Europe 2020 Strategy for increasing employment and reducing poverty and social exclusion by 2020. Setting those targets in the midst of such a severe crisis may seem a wager, to be measured against the Member States' individual and collective sense of realism and determination.

Cohesion policy and the Structural Funds, and in particular the European Social Fund (ESF), are crucial to meeting the Europe 2020 targets of 75% employment and reducing the number of those at risk of poverty and social exclusion by 20 million. As access to employment is often seen as the best route out of poverty and social exclusion, support for employment, training and skills can help reduce disparities in prosperity and living standards across the Member States and regions and thus bolster economic and social cohesion. In the Baltic Sea region the ESF tackles unemployment and the social consequences of the crisis by promoting the inclusion of groups excluded from the job market, keeping employees in their jobs and promoting adaptability, lifelong learning and training, especially for young people.

The national employment targets set by the EU's Baltic Member States range from lows of 71% to 73% (in Latvia, Lithuania and Poland) to 76-78% (in Finland, Germany and Estonia) and to 80% (in Sweden and Denmark). Compared with the same quarter a year earlier, employment in the second quarter of 2012 was up in all the Baltic Member States, except Denmark.
Unemployment ranges from 5.5% in Germany (July 2012) to 15.9% in Latvia (June 2012), with the other Baltic member countries in intermediate positions, Sweden, Finland and Denmark being at the lower end (between 7.5% and 7.9%), with Poland and Estonia at around 10% and Lithuania at 13.0%. But the unemployment rate for the other member countries also shows great disparity: for the EU as a whole, it stands at 10.4%, with the Baltic Sea range being exceeded at the lower end solely by Austria and the Netherlands (at 4.5% and 5.3% respectively), and at the higher end, by Portugal (15.7%) and the two outliers Spain and Greece, at 25.1% and 24.4% (June 2012) respectively. It is worth noting that, compared with a year earlier, unemployment was down in 10 Member States, three of which are on the Baltic (Lithuania, Latvia and Estonia), which are also the countries where the gap between the target and estimated growth is widest.

Diversity is also a feature of the risk of poverty or social exclusion in the Baltic Member States: in 2010 it was 13.1% in Finland, 21.7% in Estonia, 38.1% in Latvia and 33.4% in Lithuania. The EU average was 23.4%, with around 116 million Europeans living either at risk of poverty or in social exclusion, i.e. in severe material deprivation or in very low work-intensity households.
The current crisis has had a severe impact on reducing standards of living and increasing the number of people at risk of poverty and exclusion. It has affected vulnerable groups disproportionately, with new sections of the population falling into poverty.

Under the European Semester arrangements for governance, policy coordination and guidance and reform commitments, national performances are monitored and country-specific recommendations issued. The July 2012 European Council's recommendations to the Member States covered the need for better targeting and greater efficiency of social transfers and better access to quality social services in Bulgaria, Estonia, Spain, Lithuania and Latvia; greater employability for certain vulnerable groups in Denmark, France, Hungary, Spain, Lithuania, the Netherlands, Sweden and the UK; and incentives to work and other activation measures in Lithuania and Latvia.

To encourage the Member States to improve their performances and stay on track to meeting their targets, the European Commission continues to adopt further policy proposals. In April 2012 it issued an Employment Package of proposals for a job-rich recovery. These look at the demand-side of job creation and include encouraging the Member States to shift tax from labour to other, less-growth-distortive sources of finance, bring wages into line with productivity developments, provide adequate training, removes obstacles to women's labour-market participation, extend working life and support business start-ups. They also point to the green economy, health services and ICT as the areas with the biggest job potential for the future.

In 2009 the Commission presented an EU Strategy for the Baltic Sea Region to assist the eight EU Baltic member countries in coping with common challenges in the areas of the economy, labour markets and population change. The first such macro-regional strategy in Europe, it seeks to safeguard the sea, connect the region and increase prosperity by coordinating action by the Member States, regions and municipalities, the EU, pan-Baltic organisations, financial institutions and NGOs for more effective development of the Region. The Strategy was reviewed in 2012, and the June 2012 General Affairs Council conclusions confirm the importance of bolstering prosperity in the Region.
Set up as part of the Action Plan of the Baltic Strategy during the Baltic Sea Labour Network conference, the Baltic Sea Labour Forum is an open tripartite platform that acts as a network for cooperation between employer and trade-union confederations, governmental and parliamentary institutions and organisations. It aims to promote cooperation, social dialogue and tripartite structures as crucial to sustainable economic growth and social development in the region, and to improve the management of common labour-market issues based on joint transnational strategies. The Forum pays due attention to population change and migration and focuses for 2012-13 on labour mobility and youth employment. Cooperation between public employment services, a flagship project of the EU Strategy for the Baltic Sea Region, involves improving information on job offers and working and residence conditions in the Region through better use of EURES, the European portal for job mobility[1].

The EU Baltic Sea Member States' success in coping with the challenges in the country-specific recommendations will depend on many factors, including strong political determination and decisive action, but the quality of their human resources, their organisational capacity and the vigour of their economies give every reason for optimism. The European Commission will continue to follow and monitor the situation closely, in particular through the European Semester.

László Andor

Commissioner

European Commission

[1] http://ec.europa.eu/eures/home.jsp.

Why Eastern Partnership still matters?

By Edgars Rinkēvičs

For several decades Europe remained separated by "the iron curtain", which, however, was not able to erase hopes that one day Europe would be united again. Europe "whole and free", without dividing lines was an ideal for the oppressed nations of Central and Eastern Europe during the Cold war. And these hopes became reality. Twenty years have passed and we should be proud of Europe and ourselves, of what has been accomplished during these two decades. Namely, Poland, the Czech Republic, Hungary, Slovakia, the Baltic States and other countries have returned to where they always belonged.

The process of European integration is gradually embracing the Balkans. I am confident that the membership of Croatia in the European Union will serve as a strong impulse for other applicant countries – Albania, Montenegro, Serbia, FYROM, Kosovo, Turkey, and Bosnia and Herzegovina to put more efforts into achieving membership in the European Union. With these countries included in the system of European values and co-operation, one might say that we have come to a "natural goal" of Europe "whole and free". But is it really so?

EU eastern neighbours

The saying goes that neighbours are not chosen, they are just there by God's will. The European Union has two natural neighbouring areas – in the East and in the South. While these regions clearly differ in terms of culture, mentality and religion, there is one striking similarity: both areas are in need of reforms and both regions, while presenting a number of opportunities for the EU, present also numerous challenges. And the challenges are multifaceted – migration risks, unstable economies, unemployment, poverty, weak state and civil institutions etc. So it is only natural that the priority of the European Union should be the strengthening of links with these adjacent areas in order to ensure stability along its borders.

Looking in the direction of eastern neighbours or the Eastern Partnership, we see six states – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – which:

- All are former parts of the Soviet Union and have experienced the totalitarian past.
- All are geographically a part of Europe, five of them, except Belarus, being members of the Council of Europe.
- All six are willing to have relationship with the European Union, ranging from a membership perspective for Georgia and Moldova to "strategic partnership" in case of Azerbaijan.
- All are part of the same EU policy, called Eastern Partnership, which remains the only instrument of structured co-operation between the European Union and the six countries in question.
- All of them to a bigger or lesser degree experience problems with state-building and observance of democratic and human rights.

Why these six countries matter?

The history of Europe clearly shows that areas of instability in our continent have usually appeared in those regions which have been situated in the "backyard" of the continent. The conflicting interests of superpowers in the Balkans sparked World War One. The collapse of Yugoslavia revived these negative memories once again and still serves us as a bitter reminder of the first genocide in Europe carried out after the World War Two, namely, Srebrenica. And today you will not find many analysts who would counter the argument that the only realistic long-term peace perspective for some of the Balkan states lies exclusively within the project of European integration.

If we are clear about the Balkans, what about the six countries situated in the even more distant periphery?

These countries clearly matter because:

- They are neighbouring the EU with physical borders, thus being important economic partners to the European Union. For example, around 40% of Ukrainian trade is linked with the EU, and trade figures for other partners are even higher.
- People-to-people contacts with neighbours, especially in case of Belarus, Ukraine and Moldova, are being actively developed.
- These countries are either important energy producers (Azerbaijan) or transit countries (Belarus, Georgia, Ukraine).
- Four frozen conflicts are located in the area, with the potential of thawing, in the Caucasus in particular.

What should be the EU approach?

Stable and secure borders

The European Union should clearly wish for stability and predictability along our eastern borders, which indirectly implies our support to political and economic reforms in the six countries by facilitating the creation of viable political and economic systems.

Common values

The European Union has always been clear that the level of dialogue between the partners and the European Union depends on how the former are observing those principles which are important to every citizen of Europe. The more partners with the same understanding of values, the better for Europe.

Economic links

The European Union as one of the most important global economic players is constantly looking for new markets and new opportunities worldwide. It has long been acknowledged by economic theorists that neighbours usually tend to trade with each other more intensively. And the Eastern Partnership is again the area where we should strive for the development of those principles we are observing in our intra-European trade, based on the rule of law, fight against corruption and free trade without impediments. I am absolutely sure that the creation of a free trade area in a longer perspective with the countries of Eastern Partnership would greatly benefit the European Union, as much as a visa free regime with these countries. More trade and people-to-people contacts better for Europe.

Reliable energy sources

The European Union is interested in predictable and transparent global energy trade rules. The countries of the Eastern Partnership have a lot to offer in this regard. Azerbaijan has already emerged as a reliable source of energy for the European Union, willing to expand the existing

co-operation. Georgia and Ukraine serve as important transit countries of energy resources.

Partners in the international arena

The Eastern partners have developed a high level of expertise on regional issues, which might be of interest for the European Union. The Caucasian countries are situated in the region close to Iran and the Middle East. It is important for us to have these partners on board and use their experience when developing our own positions.

Instruments at our disposal

Latvia has always stood for the cause of further strengthening of our relationship with the Eastern partners; however, not at the expense of our southern neighbours. More than that, Latvia has always firmly believed that the European Union should be interested in fostering dialogue with those countries if they are willing to reciprocate, willing to observe the same values and standards shared by the European Union. But strict conditionality is a prerequisite for the enhancement of the dialogue.

There are currently two major issues standing out – free trade and free travel. Latvia is clearly in favour of moving towards fulfilment of these aims if the partners are ready to work in these directions.

Individual approach

It is important to note that all six partners of the European Union are different when it comes to their historical memories, levels of political and economic development, and human rights records. It is difficult to impose upon, and demand the same observance of conditions from every partner. And equally not all the six countries share the same level of ambition with regard to the European Union. Moldova and Georgia have long been recognised as "champions of the European cause". Azerbaijan would rather stick to strong partnership with the European Union with a particular emphasis on energy co-operation. Belarus is still falling behind even the most elementary principles of democracy and human rights. And signing of the Association Agreement with Ukraine is still pending due to the imprisonment of the former Prime Minister Yulia Timoshenko.

The European Union should take into account these differences and develop an individual strategy with every individual partner. *More for more*, i.e., more progress in every partner state means closer relations with the European Union, – this should be our guiding principle.

What could we expect and what should we do?

Belarus – the relationship between the European Union and Belarus has been passive for the last 15 years and will remain so as long as the Government of Belarus does not change its approach with regard to democratic values and human rights. The situation over there has not been changing and it is not showing any signs of change. The growing integration of Belarus with Russia might mean that Belarus will not be seeking membership within the European Union and will prefer some kind of partnership.

The European Union should stand ready to increase the frequency of contacts and upgrade the level of relationship as soon as Belarus is ready to take into account EU concerns in the field of human rights.

Armenia, Azerbaijan – both countries have not been successful in carrying through meaningful democratic reforms. The conflict of Nagorno Karabakh will be demanding maximum efforts on both sides in the coming years. The recent release by Hungarian authorities of Azerbaijani officer Ramil Safarov who was convicted for the murder of an Armenian officer and the subsequent response in the two countries reveal once again the complexity and the emotional background of the issue.

There will be an interest in developing partnership with the European Union, with Azerbaijan favouring closer ties in the field of energy co-operation.

The European Union should base its relationship with Armenia and Azerbaijan on clear Action plans aimed at strengthening the bilateral dialogue as long as the two partners are willing to work in the directions set jointly by the European Union and Armenia and Azerbaijan.

Georgia, Moldova – both countries are having better human rights records but still considerable work is to be done. The two strategically have announced their aim to join the European Union in foreseeable future. We might expect the fulfilment of the Action Plans with the European Union and moving towards closer partnership with Georgia and Moldova.

If the current Action Plans are fulfilled, the European Union should offer new benefits and opportunities for Georgia and Moldova in the form of new contractual relationship, aimed at cementing domestic progress in Georgia and Moldova and building closer ties between the EU and the two partners.

Ukraine – the country will remain the key actor in the Eastern Partnership due to its size, population and geographical location. Ukraine has historically found itself squeezed in between its neighbours, between East and West, which has hampered its development as a nation state. Ukraine is facing challenging times and the agenda point of European integration we might have reached by now – the signing of the Association Agreement – is still on hold. Ukraine is moving towards "making a choice", and this is not a choice about geopolitics, this is the choice about values and where Ukraine sees itself. One part of the history of Europe has taught us many times that in case of choices you must play it wisely; the dark side of the European history has equally taught us that by making the wrong choice, there is no choice any more at one moment.

The European Union should closely watch the domestic situation in Ukraine and sign the Association Agreement with Ukraine as soon as the country fully observes European norms, principles and practices. Notwithstanding the difficulties Ukraine currently is facing the European Union should continue its level of engagement with the country at different levels with special emphasis on people-to-people contacts.

Conclusion

The European Union must have an ambitious and strategically guided policy towards its Eastern neighbours. We must have a fresh look at the six with an aim of further stabilizing and democratizing this area. By neglecting or ignoring our closest neighbours the European Union might find itself in a situation when we will be facing much greater challenges. And these challenges could be of political and economic nature. By pursuing relationship and partnership with the six we would greatly enhance the global position of the European Union, stability and predictability with our Eastern neighbours, prosperity for both the EU and the Eastern Partnership countries.

Edgars Rinkēvičs

Minister of Foreign Affairs

Latvia

East-West pipelines – integrating Europe

By Edit Herczog

There are certain foreseeable challenges in the field of energy security, as the global population is expected to reach nine billion by 2050 and the global energy demand will be doubled by then. Although the EU Member States are energy producers, the produced sources are only enough to cover 40% of their consumption. Moreover, Member States are inhomogeneous regarding both their needs in energy consumption and their capacities in energy production, especially in the Central- and Eastern-European region. The EU already spends 400 billion euro annually on energy import. Becoming increasingly dependent on imports makes the EU vulnerable to external suppliers and transit countries.

Safe, secure and competitive supply of energy is, therefore, a priority of the EU, in order to decrease its 60% dependence on imported oil and 40% dependence on imported gas. Moreover, in the process of building a digital economy in Europe, it is inevitable to secure constant and affordable energy supply to the whole region. In addition, the satisfaction of the energy demand has a strong social dimension as well. In Central- and Eastern-Europe the increasing costs of energy can easily create an "eating or heating" situation. As a result, there are two crucial questions to be solved: how to provide the energy and how to keep the prices down. I wish to lay emphasis here on the fact that by intensifying integration and by promoting diversification of energy sources, this seemingly desperate situation could be turned into the advantage of the region, for instance, by acting on our considerable power as a major purchaser on global energy markets.

Diversification is the key

Not only does the EU depend on energy import, but also its dependence of certain suppliers might indicate concerns. Russian gas accounts for 24% of gas consumed EU-wide, but it accounts for between 48% and 100% in 12 of the 27 Member States. Additionally, the balance between Russia and the Eastern Partners of the EU is constantly fragile, enough to remember the gas crisis in 2009 or the Russian threat to Moldova in September 2012. Consequently, it is not enough to diversify the routes of energy supply, but the sources of energy must be also multiplied. For these reasons, the Nabucco project would constitute strategic importance for the EU, as it would be able to reduce the dependence on Russian gas sources by transporting gas from the Caspian Sea to Europe.

However, Nabucco is not the only new infrastructural investment that could be brought to life, since Russia has declared its will to build alternative routes (South Stream and North Stream) to satisfy gas demands within Europe.

Although North Stream and South Stream could be solutions for the diversification of supply routes, it would not be able to serve the need for diversifying the sources of gas, so the dependence on Russian import would not decline. In order to diversify both suppliers and routes, EU decision-making should take into account the priority energy infrastructure corridors, especially those aimed at creating a real competitive market for gas. The creation of new transit corridors (Southern Corridor and the Mediterranean Basin) should be accelerated and supplemented with the reinforcement of existing corridors (Eastern Corridor) and with the increase of EU's share of LNG. This way real competition could be created among sources of gas supply.

The diversification of energy sources might also be increased by opening the EU market globally and improving overseas connections by reaching out to new and remote suppliers (e.g. oil sands and shale gas from Canada, the United States, Australia, Qatar, Brazil and Argentina, energy exploration in the Arctic region, and further exploitations in Iraq, Venezuela and Africa).

How deep integration is needed in the energy market of Europe?

The Lisbon Treaty laid emphasis on the energy policy by constituting a chapter for it, however, the energy policy within the EU is still far from being a common policy. For this reason, the provisions applied for the internal market, competition and environmental policies are crucial in the field of energy, although, these provisions are not able to represent entirely the interests of the energy sector.

As Member States are becoming increasingly interconnected, the efforts to ensure security of supply exclusively at national level have proved to be unable to safeguard the long-term interests of all Member States. As a result, political coordination among Member States in negotiating with powerful energy suppliers in third countries is essential. The creation and connection of cross-border energy infrastructure within the Union also require strong coordination between Member States' policies and solidarity in the field of external energy policy and energy security.

Consequently, it is high time for the EU to define itself in this regard and act as a real union (instead of acting as 27 individual actors), as great infrastructural investments such as Nabucco could not be accomplished without the strong and undivided support of all the Member States. It must be also mentioned that in order to achieve the necessary infrastructural developments, investments are much needed both from the public and the private sector and both at the level of the EU and Member States. In this regard the Multiannual Financial Framework and the Connecting Europe Facility could serve as significant sources for the Member States, not to mention the proposed new financial instrument, project bonds that could encourage private investments.

Connecting the routes of the energy supplies is, however, useless without creating a binding regulatory framework for the region, which would set common rules, regarding competition, export and import, third parties' access, unbundling and information share between Member States. The proper functioning of the internal market requires that the energy imported into the Union, once on EU territory, is fully governed by internal energy market rules. The EU should also aim for regulatory convergence with neighbour countries willing to embrace its internal energy market rules; in this regard the role of the Energy Community is inevitable.

To summarize, it must be emphasised that dependence on imported energy source should be decreased by the diversification of supply routes and sources, supplemented with an enhanced integration of the European energy market.

Edit Herczog

Member of the European Parliament

Controversial real estate ownership

By Marjo Matikainen-Kallström

Since the end of the wars between Finland and Russia, the ownership of real estates in the area of the ceded Karelia has been under discussion. The related legislation has changed on both sides of the border during these years, so have the attitudes. Along the years there have been fierce debates and more friendly talks. Also the expertise of those involved in the discussion has varied largely.

Russia has not in general restricted foreign real estate ownership with new regulations. Foreigners are allowed to own real estates in almost every other area besides the border zone. In Russia, the border zone is very wide compared to other countries. The state has a land border of more than 14,000 kilometres and the width of the border zone varies from 5 to 50 kilometres, depending on the area.

The legislation on restricting the land ownership by foreigners on the long border zone of the country entered into force on 25 October 2001. Ten years later, on 9 January 2011, President of the Russian Federation Dmitri Medvedev accepted a decree containing an exact list of areas in which foreigners are not allowed to own land.

The Finns have actively commented on the decree since its entry into force and tried to have an influence on that the Finns could buy real estates in Russia, also in the entire territory of the ceded Karelia. Our former president Tarja Halonen repeatedly brought the issue forward in talks with the Russian leaders.

According to the above list of areas, only the districts of Käkisalmi (Priozersk), Pitkäranta, Terijoki (Zelenogorsk) and a part of the district of Sortavala in the ceded Karelia are outside the border zone. In all other areas the land ownership has become unlawful and it has to be renounced. The final date for voluntary renouncement was 9 January 2012, one year after the decree was given.

After the above date, the land property may be sold by compulsory auction or expropriated by the state. In both cases the sales price is forwarded to the owner. If a foreigner owns buildings on those lands, he or she has the right to lease the land property on which the buildings stand, with certain exceptions.

Thus the right to lease land on the border zone is still possible. Russia has however strict regulations on land use. For example, land intended for agriculture may not be used for other purposes. Forests are owned by the state and cannot be bought at all.

Reciprocity

In Finland, discussions on the issue have often brought forward the idea of reciprocity between the countries. Either the Russian land ownership in Finland should be prohibited or the Finns should be given the right to buy land in the area of the ceded Karelia. The basic principles are the same: a foreigner may purchase land in both countries. The mismatch concerns the border zone areas, which is problematic for the Finns.

In Finland the border zone is much narrower than in Russia: in Southern Finland it is only a few hundred metres and in Northern Finland only a few kilometres. There are no restrictions of real estate purchase on the border zone. There is however restrictions of movement and construction applied to every person in that area.

Since 1 January 2000, foreigners have been entitled to buy and own real estates freely in Finland. The present estimation of the Russian-owned real estates in Finland is from 5,000 to 7,000. It covers about 0.2 per cent of all the estates and plots of land in our country. The Finns, for their part, own only a few dozens of real estates behind the eastern border. In Russia, there is a register on foreign land owning, but it is not public and the exact number is hard to estimate.

For facilitating the communication, it has been proposed that a real estate agency system be created for foreign real estate owners in Finland. It means that all the foreign real estate owners should have an agent who would be in charge of managing all the payments and other obligations relating to the real estate. It has however been considered so far that the system would not be of great assistance as to the availability of the owner, which is one of the problems. The system would also get quite expensive for the state, because not all the costs could be collected from its users.

The way forward

At present it seems evident that no amendments will be made in the Russian legislation on land owning. The only factor having an effect on the lands in the area of ceded Karelia is the width of the area defined as a border zone in Russia. Now the width of it against the Finnish border is dozens of kilometres.

The recently elected President of Finland Sauli Niinistö and President of the Russian Federation Vladimir Putin discussed the land owning problem, of which the Finns are concerned, during their first meeting. President Putin stated that the Finns, just like any other foreigners, may purchase land in Russia freely; it is prohibited only in the border zone. He promised however to find out what could be done with the issue.

The land ownership was also discussed with Russian Foreign Minister Sergei Lavrov, who visited Finland in August. The state leaders talked about the land trade of the Finns in Russia, too. Foreign Minister Lavrov said that one of the issues was whether the border zone against Finland could be narrower in future. This was considered as good continuation to the talks between the Presidents in future.

Co-operation between the Finns and the Russians living in the area of Karelia has significantly improved during the past decades. There are also several co-operation projects underway at the moment involving both local and Finnish actors. Co-operation between individuals and associations is active.

Now that Russia is a member of WTO - which is supposed to benefit the Finnish companies in the form of lower customs fees and gradual stabilisation of the entrepreneurial climate - it is hoped that business activities across the border will also increase. Negotiations on visa free entry with the EU, development projects of the border crossing points and eventual starting of passenger railway traffic from Petrozavodsk to Oulu and Joensuu are also projects that make our eastern border lower than before. Narrowing the border zone and allowing the foreign land ownership in the area of the ceded Karelia would be important to the Finns. The process will continue.

Marjo Matikainen-Kallström

DI, eMBA, Member of Parliament
Parliament of Finland

Chairperson
Finnish Karelian League
Finland

A view on the German Presidency of the Council of the Baltic Sea States

By Christel Happach-Kasan

Ever since the time of the Hanseatic League, the history of Northern Germany is strongly interconnected with the Baltic Sea States. Although during the last centuries the region lost its global importance, the interest for its political development is still outstanding. Until the time of the Perestroika in the Soviet Union, the Baltic Sea was divided by the Iron Curtain and threatened because of the Cold War. Therefore, with the fall of the Berlin Wall and the German Reunification, the political situation for the Baltic Sea States changed drastically. The next major step was the so-called "Singing Revolution" in the three Baltic States, which led the three nations to regain their independence by establishing a parliamentarian democracy. In 1991 Germany took up diplomatic connections to the Baltic States and in 2004 Poland and the Baltic States became members of the EU and the NATO.

The German Bundestag maintains contact with members of democratically elected parliaments worldwide, and has formed 54 friendship groups. The German-Baltic friendship group was founded in 1991. From its very beginning, it has attracted many members of the Bundestag, which underlines our concern for this region and its development. Our friendship with the members of the three Baltic parliaments is marked by mutual cordiality.

This year, the Council of the Baltic Sea States (CBSS) has celebrated its 20th anniversary. In 1992, together with his Danish counterpart Uffe Ellemann-Jensen, the German Minister for Foreign Affaires Hans-Dietrich Genscher, who is often called "the architect of the German Reunification", founded the Council. Having witnessed the effects of the Cold War, their common goal was now "to create a genuine democratic community around the Baltic Sea". Today, all of the eleven immanent neighboring countries are member states of the CBSS, and ten more have observer status. In 2011/2012, Germany has had the presidency of the Council of the Baltic Sea States for the second time. During the German presidency, the friendship groups of Scandinavia, Poland, Russia and the Baltic States organized a meeting of parliamentarians, in which the goals of the German Presidency were discussed with our colleagues and with different NGOs from the region of the Baltic Sea.

In order to ensure the development of the Baltic Sea States, the CBSS has signed a contract, stating its long-term goals, focusing on five major issues: economic development, environment, energy, civil security and the human dimension, as well as education and culture. Already in 1974, seven coastal Baltic Sea States had signed the Helsinki Convention, which came into effect in 1980. The new political situation led to the foundation of the Helsinki Commission, short HELCOM, which works to achieve a balanced, ecologically healthy ecosystem in the Baltic Sea. Although there is still much to be done, for example in waste water clarification especially in the new EU member States and Russia, it can be said that the states have been quite successful. The Baltic Sea, which is by nature in a difficult ecological situation due to its exceptionally low salt concentration, has had a positive development regarding biodiversity and habitats.

During his presidency in 2011/2012, the German Minister for Foreign Affaires, Dr. Guido Westerwelle, has strived to continue this legacy by adding two more vital points to the agenda: energy security and the initiative for a common Baltic Sea History Book. The importance of the latter initiative became obvious in the discussions between parliamentarians and members of different NGOs. Also, during our last delegation´s journey of the German-Baltic friendship group this year to Estonia and Latvia, we learned that there is a demand for a common view on our common history. We met Estonian and Russian students who had formed a group called "Open Republic" and whose goal is to support a better mutual understanding. Talking to these young people was very impressive. Their experience had been that for the process of integration of Russians in Estonia, the different views on their common history were a higher obstacle than the different languages they spoke. Thus, these students made a point why a common history book for the Baltic Sea States is so important for its future. Knowing where we come from will help us to decide where we want to go. The work on the book will open the eyes for different views on the history, help strengthen the multilateral cooperation and build a common identity. In a globalized world it is important that people feel connected to the area in which they live. Together with France and Poland, Germany has already worked on common history books as one requirement to build a common future. The European Union has welcomed this initiative and guaranteed to support the history book for the Baltic Sea states with 134.000 €. The educational institution Academia Baltica e.V. in Lübeck will coordinate this project.

Looking back on its history and development today, the "genuine democratic community around the Baltic Sea", intended and initiated by Genscher and Ellemann-Jensen, has advanced well. Due to its progress, the Baltic Sea States is now considered a model region in the EU.

Christel Happach-Kasan

Dr. MP

Chairwoman of the German-Baltic Friendship Group

The German Bundestag

Germany

Minorities around the Baltic Sea

By Mikaela Nylander

The Baltic Sea is a natural border between the countries surrounding it, but over the centuries it has also been an element connecting and linking the countries to each other. The most prominent example of this is probably the Hanseatic League, the trade- and defence union established in the 13th century between the port cities along the cost of the Baltic Sea. During the centuries the peoples of the different countries have intermingled and intermixed, and the movement across the sea resulted in colonies or communities of people settling down in foreign countries. These communities make up most part of the so called national minorities in the countries in the Baltic Sea region. Of course there was movement across land borders as well, but the sea has still been an important way of connecting with each other and a main origin of the minorities of today.

The different countries have different stances on the issue of national minorities and minority languages. In Finland, for example, the Swedish-speaking minority has very far-stretched rights while language minorities in e.g. the Baltic states are less fortunate regarding the possibility to use their own language when contacting the authorities. Even if the minority policies are varying between the countries around the Baltic Sea, and even within a country depending on which minority is in question, the countries have a few things in common: First of all, all of the countries (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia and Sweden) have ratified the European Framework Convention for the Protection of National Minorities, and it has entered into force in all ten countries. Also, all countries but Denmark have multiple national minority groups of different sizes, ranging from 0,03 % of the population (like the Sámi-speakers in Finland) to nearly 30 % of the population (as the Russian minority in Latvia).

Some of the minorities are considered autochthonous (a people native to a region, a distinct community that has been settled in the area for many generations) while others are not, and the legislation considering both the national language(s) and the minority languages differ a great deal between the countries. It appears obvious that a collective policy for minorities for all ten countries is out of the question. That is, however, still the goal we should aim for. It is clear that it is not realistic to think the goal could be achieved any time soon, but in the long run we would all benefit from a coordination of the minority policies and the policies regarding minority languages between the Baltic Sea states. This should nevertheless be a progress of many stages. First and foremost all countries should strive to fulfil their international obligations under the European Framework Convention for the Protection of National Minorities.

Secondly, there needs to be a common understanding of which the national minorities considered are. Some countries have stated very clearly which minorities are considered to be national minorities or which minorities are covered by the European Framework Convention for the Protection of National Minorities. An example of this is Denmark, which decided that the Framework Convention is only applicable to the German minority in South Jutland. Other countries, like Lithuania, have not drawn any guidelines, which has been interpreted in the way that the Framework Convention is applicable to all minorities.

As it becomes clear above, the level of the minority policies is different from country to country. I still believe that we could, and should, honour our common cultural history and the connection the Baltic Sea brought and still brings us. If a common policy is to be made, there needs to be a uniform understanding of at least a minimum of rights for the minority languages. This could perhaps be a task for the already existing cooperation between the Baltic Sea states. There needs to be a discussion about the signing and ratifying the European Charter for Regional or Minority Languages, which is not in force in all Baltic Sea countries. There are very complicated historical issues behind the Baltic states' unwillingness towards signing the Charter, and this is not the forum to go deeper into that and I am not going to take a clear stance on the issue. Nevertheless, there needs to be an enhanced dialogue on the matter. No matter how difficult a question, we should still be able to talk about it.

I do believe all countries around the Baltic Sea have something to gain from working together to defend and strengthen the multitude of languages and cultures along our shores.

Mikaela Nylander

Member of Parliament

Parliament of Finland

Finland

Building sustainable growth in the Baltic Sea region

By Kimmo Tiilikainen

One of the favorite sentences repeated by the politicians is: "We have to build sustainable growth".

It sounds safe but what does it mean? What is the purpose of that sentence? Does it refer to growth that is going on year after year? Or does it really mean that the growth must be ecologically sustainable as well?

For some years I thought that many politicians meant the ecological sustainability. World leaders were worried about the global warming and it all was to be tackled in Copenhagen. The purpose of the meeting was to build a global agreement to mitigate the climate change and help all the countries to adapt to the changes in front of us.

That did not succeed. Since then we have taken only minor steps towards the target. One of the reasons was money. It was estimated that we would need about 100 billion annual investments in mitigation and adaptation to keep the warming within two degrees. That amount accounted for both public and private investments added together worldwide.

After Copenhagen the economic crisis attacked Europe. To restrict it, we have spent more than 100 billion euros each year, just to maintain the stability of the euro zone.

So, 100 billion a year was too much to save the world for future generations but it has not been too much to spend to keep a single country along in the common currency. I admit that the comparison is somehow unfair, but it clearly tells about the values of the political system; money talks. Shame for us, politicians.

I have studied both economics and ecology at the university. Which one is stronger science? Is it economy that is drawing the limits to ecology or is it ecology that is drawing the limits to economy?

In my opinion, ecology is stronger than economy. The amount of natural resources and annual yield of renewable resources are finally setting the limits of human economies. Even now we are exceeding the annual yield in many ways. How about tomorrow when the world´s population is growing? Besides of the economic debt crisis we have an ecological debt crisis at the same time.

Is there anything we can do? We cannot create a new globe; this is the only one we have. Should we cut the standard of living? Oh yes, if someone else is carrying the load. Debt crisis has shown how difficult it is to cut salaries, pensions, other benefits or public services in order to balance state budgets. Would it be easier for nature's sake? Perhaps not.

The only solution is that we have to be smarter than today, much smarter.

The things you can measure can be improved. It is impossible to say which is the exact level of environmental load that the nature can sustainably carry, but it is easy to determine whether our performance is better or worse compared to previous year or decade.

Decoupling of economic growth and environmental load is a necessity. The success in decoupling is something that can be measured, too.

We have four indicators of ecologically sustainable growth. First one is cutting emissions and effluents, even at times when the economy is growing. Second is material efficiency. Third is energy efficiency. Fourth and the most important indicator of all is biodiversity.

The global speed of losing the biodiversity is shocking. The estimated loss of species before the end of this century is about 30 percent. That means that globally one third of all living species will disappear forever during your grandchildren's lifetime. That tells us how far from sustainable development we really are.

The Baltic Sea region could be an excellent laboratory of sustainable growth.

The average welfare around the Baltic Sea is at the top level in the world. We have democracy. We have high class education and scientific level. We have good technological level to improve material and energy efficiency. And not just improve a little; during the next decades we will have to take some serious measures.

We are rich in renewable resources around the Baltic Sea and the production potential of biomass is even growing. We have good opportunities to convert our fossil-based economy to a real bioeconomy.

In November 2007 all the countries around the Baltic Sea adopted a Warsaw Helcom Baltic Sea Action Plan, BSAP. The main goal was to return the good ecological state of the Baltic Sea. Besides just objectives, we have agreed on the means as well. The implementation is going on in each country and is regularly followed up and reported in Helcom meetings.

Eutrophication is the main problem of our common sea. After BSAP agreement we have taken good steps forward in waste water management. The effects of radically improved phosphorous cleaning in St. Petersburg's waste water plant are already visible in the Gulf of Finland. Unfortunately we have also seen backward steps, such as the huge phosphorous load of fertilizer plant that showed up recently. Luckily, it seems that these newly shown up effluents can be controlled.

Other means to improve the condition of the Baltic Sea are cutting down toxic chemical effluents and decreasing hazard of oil spills and improving the capacity of potential oil spill treatment.

The biodiversity of the Baltic Sea needs some special measures, but is also the final indicator that shows our performance in the implementation of BSAP.

We have to succeed in returning the good ecological state of the Baltic Sea. The world needs encouraging examples. If we are unable to give those examples at our own doorstep, how can we believe that sustainable growth could succeed elsewhere in the world?

Kimmo Tiilikainen

Chairman

The Finnish Centre Party Parliamentary Group

Member of Parliament

Parliament of Finland

Finland

The EU strategy for the Baltic Sea region – the next phase of the strategy

By Walter Deffaa

The EU Member States reached a consensus in calling for a strategy for the Baltic Sea region in 2009 and adopted the strategy on the basis of Commission's proposal. This was the first macro-regional strategy of EU, followed two years later by the EU Strategy for the Danube Region. Preparation of the strategy brought together many, if not most, of the stakeholders in the region, who could point to on-going activities or gaps where action was urgently needed.

As a result of this wide consultation, the strategy identified four main pillars of actions dealing with environmental issues, prosperity and attractiveness, accessibility, safety and security. These reflect the common challenges of the eight EU countries that make up the Baltic Sea Region (Sweden, Denmark, Estonia, Finland, Germany, Latvia, Lithuania and Poland).

However, an even broader cooperation with neighbouring countries is needed to take up these challenges. The Northern Dimension, a common policy of the EU, Russia, Norway and Iceland, (as well as the Council of Baltic Sea States (CBSS) which becomes more and more active in this process) provides the basis for external cooperation on the Strategy.

The lessons we have learnt from this first phase include the realization of the enormous interest in a common approach, the existence of serious challenges but also the potential of the people in the region to meet those challenges. The Commission stepped into a field ripe to bring together the good will to overcome environmental problems of the Baltic Sea, to connect better the region and its people and to use the existing potential to increase prosperity.

Fast forward to 2012, and the strategy has been set on a new strategic foundation, outlining clearly the three main objectives of the strategy:

1) to Save the Sea

2) to Connect the Region, and

3) to Increase Prosperity

This new foundation is now translated into a renewed Action Plan clearly specifying indicators and targets for each objective and the Commission intends to use these agreed targets to discuss with Member States how to deploy the 2014-2020 EU funding to ensure results. While the policy objectives have been agreed, the Commission now wants to see Member States contributing substantive resources to achieving the common goals. The strategy does not have a wallet of its own, its aim is to bring together financing from all possible sources, be they EU, national, regional or private. We have already identified over a hundred different funding instruments active in the region and only a few of them are actively used for the EU Strategy for the Baltic Sea Region. We think therefore that rather than looking for an additional budget line, the existing sources could be better employed for the purposes of the Strategy.

This has a lot to do with improved communication and information dissemination which is another cross-cutting area of work. Better communication tools, better access to information already available, better possibilities to network and exchange of information will empower the stakeholders in the region to push forward with their projects.

It can be said that the exciting days for launching the Strategy are over, we are now in a long phase of working daily on projects, planning and funding issues. Without this, there would be no big achievements to report to our heads of government. Nevertheless, political, high-level support will be still very necessary to ensure the projects that support the objectives of the Strategy get financed and carried out. Without support on all levels, important projects such as Rail Baltic would not be able to proceed.

The end of this year and next year will be crucial to discuss and adjust the priorities of the Baltic Sea Region Member-States' policies for the next programming period, in accordance with the priorities and objectives of the Baltic Sea Strategy, so that both can reinforce mutually and be supported by European, national and regional programmes and instruments.

It will be the responsibility of the Member-States to make sure that the overall political framework that has been agreed delivers results. The Commission can help ensure coherence and facilitate a smooth implementation of those priorities.

The Commission will draw on its experiences with implementing the EU Strategy for the Baltic Sea Region when drafting the evaluation of the macro-regional approach requested by the European Council for June 2013. In this sense, the Region is playing a unique role as a pioneer for the wider EU.

Walter Deffaa

Director-General
Regional Policy DG

European Commission

Updated European Union Strategy for the Baltic Sea region

By Pauliina Haijanen

The implementation of the European Union Strategy for the Baltic Sea Region has been ongoing for three years. The member states, regional and local actors and various communities have been actively involved in forging a common purpose and political will across the countries around the Baltic Sea to promote sustainable development, prosperity and accessibility of the region and to increase its attractiveness and security. The EU Strategy for the Baltic Sea Region is a piloting strategy serving as a model for a new kind of macro-regional cooperation, emphasising the commitment of players at different levels of government, and coordinated action.

The measures to update the EU Strategy for the Baltic Sea Region, proposed in the Commission's communication submitted last March, constitute a step in the right direction. Improvements to the strategic focus, alignment of policies and funding, clarification of responsibilities of different actors and better communication all support the implementation of the Strategy. Still, financing of the actions is one of the most crucial questions of effective implementation of the strategy.

Three important aspects should be highlighted: first, the linking of the EU Strategy for the Baltic Sea Region to the implementation of the Europe 2020 Strategy; second, the growing importance of the Strategy's external dimension; and third, the pivotal role of local and regional levels in the advancement of the Strategy's objectives. The three objectives for cooperation in the Baltic Sea Region set out in the communication — to save the sea, to connect the region and to increase prosperity — are in line with the objectives of the Europe 2020 Strategy. For the achievement of the goals of smart, sustainable and inclusive growth, it is of fundamental importance to step up cooperation in the area of innovation in the Baltic Sea region. An effective way to accomplish this is to promote regional smart specialisation through network cooperation between research institutes and universities, and authorities and citizens throughout the large Baltic Sea region.

In addition to smart growth, it is important to promote inclusive growth in order to reduce disparities between parts of the Baltic Sea region. The improvement of environmental status and sustainable growth will be the central themes also in the future. It is also essential to provide industry and enterprises with opportunities to participate more actively in the strategy work, as economic competitiveness depends on strong links between research, innovations and actors in industry.

The EU Strategy for the Baltic Sea Region has offered new opportunities for the member states and local and regional authorities to strengthen the region's competitiveness, innovation and smart specialisation especially by means of European regional cooperation and its financial instruments. The Strategy has also increased the interest of local and regional actors in, and their commitment to, cooperation in the Baltic Sea region.

While the Strategy for the Baltic Sea Region is internal to the EU, it is widely acknowledged that cooperation with countries outside the EU, especially with Russia, is very important for the Strategy's success. In the conclusions it adopted in June 2012, the Council of Europe welcomed the progress in cooperation with Russia and emphasised the need to further strengthen cooperation. It is interesting to see, how the presidency of the Council of the Baltic Sea States, which Russia has for the moment, will advance cooperation in the Baltic Sea Region.

The role of local and regional communities is paramount in the implementation of the Strategy's external dimension. The European Union and other actors in the region should look for ways to reinforce the Strategy's external dimension to make the implementation of the Baltic Sea Strategy more effective. A good example of such bottom up activity is what is known as the Turku Process, a shared initiative launched by the city of Turku and the Regional Council of Southwest Finland in 2010. The idea was that the European Union Strategy for the Baltic Sea Region cannot be implemented effectively without the involvement of Russia, and that the cooperation needs to be informal and practical. Such cooperation was naturally based on the long term, close relationships between the cities of Turku and St. Petersburg and the city of Hamburg. The European Commission has given its support to this Process from the very beginning. The participants of the Process include chambers of commerce and industry, universities, research institutes, water utilities and civic organisations as well as local and regional authorities. The Process is now reaching a practical phase through joint projects, which for the moment are being prepared under different (environment, work force, education, innovation) working groups. Under discussions is the widening of the Process to the Baltic countries, and the different possibilities to finance the projects. It would be of great importance if also Moscow would commit to the financing of the strategy.

Another good example of the commitment displayed by local and regional actors to regional cooperation and to the implementation of the Baltic Sea Strategy is the Baltic Sea Region InnoReg project in 2009 – 2011. Altogether 18 local and regional authorities and development organisations from six countries in the Baltic Sea region participated in it. The main themes of the project were open and user-driven innovations, innovative financial instruments and promotion of creativity. The project raised regional decision-makers' awareness about the possibilities offered by innovative cooperation in the Baltic Sea region and about ways to target resources regionally so as to maintain and strengthen the region's competitiveness in the long run. Therefore, it is necessary to continue to secure broad commitment from local and regional level actors to the implementation of the Strategy for the Baltic Sea Region.

Pauliina Haijanen

Member of the Committee of The Regions

Member of the Board of The Regional Council of Southwest Finland

Finland

**This article is based on the opening speech held Mrs. Haijanen in July in Brussels at the meeting of Committee of the Regions, Commission for Territorial Cohesion (COTER).*

The City of Porvoo in Baltic area cooperation

By Jukka-Pekka Ujula

The second oldest city in Finland, Porvoo is located on the Baltic coast 50 km east of Helsinki. Besides its Old Town dating back to the Middle Ages, the city is characterised by a wide-ranging archipelago and the largest concentration of chemical industries in the Nordic countries with extensive docks. The Baltic Sea and its influence have shaped the history, culture and economy of the city for centuries and the Baltic is thus also an important element in the future of Porvoo.

In recent years the Baltic area has become one of the most important oil transport routes in the world. The sea serves as the major maritime export route for Russian oil, with annual oil shipments reaching approximately 150 million tonnes last year.

As part of Baltic area cooperation, the Eastern-Uusimaa Regional Emercency Services, part of the City of Porvoo, has been involved in developing readiness for oil pollution control, working with the various authorities in the Baltic area and companies operating in the field of oil spill prevention. This widespread cooperation between the different authorities and companies originated in the need to improve the preparedness of authorities and various actors in the event of a large-scale oil disaster.

In order to improve national oil spill prevention and preparedness on the part of emergency services, the Eastern-Uusimaa Regional Emercency Services, HAAGA-HELIA University of Applied Sciences, Lamor Corporation Ab, a company that offers solutions for optimal oil spill response and recovery around the world, and Neste Oil Oy Ab, an international refining company with a production focus on premium-quality, lower-emission traffic fuels, launched a training project, on the initiative of the Eastern-Uusimaa Regional Emercency Services, which over the past three years has trained approximately 120 oil spill prevention experts. Those attending the training are from various authorities and companies in the sector. This training was funded by the Finnish Ministry of the Environment's Oil Pollution Compensation Fund.

Expanding cooperation to the authorities of neighbouring countries and to all those bodies responsible for organising oil spill prevention in their own areas was brought up in the context of national oil spill prevention leadership training. As part of international cooperation on oil pollution control, the Eastern-Uusimaa Regional Emercency Services and the Committee of Nature Use, Environmental Protection and Ecological Safety – City of St. Petersburg agreed on mutual cooperation in 2007 and through the Committee, this partnership has also been joined by the bodies active in environmental protection in the area: SUE "PILARN", SUE "ECOSTROY" and the body responsible for emergency services in the area: EMERCOM.

Cooperation on oil spill prevention has also been entered into with the equivalent Swedish body, the Swedish Civil Contingencies Agency (MSB) and with the body responsible for the Estonian emergency services, the Estonian Rescue Board. The goal of the authorities participating in this cooperation is to forge relationships between all the different parties, to draw on each other's know-how and best practice and to practise working together in the event of a major oil spill incident in the Gulf of Finland and the Baltic Sea.

At a practical level this cooperation has been carried out in the context of EU projects. The currently running "EnSaCo Oil Spill" EU project has the goal of developing forms of cooperation between different authorities in the event of a major cross-border oil spill. This project also supports the aims of the Helsinki Commission in developing oil spill prevention capabilities on or in the vicinity of the coast. This project's partners are the bodies responsible for oil spill prevention in Finland, Sweden and Estonia, with representatives of the Committee of Nature Use, Environmental Protection and Ecological Safety – City of St. Petersburg as a separate additional partner.

Oil spill prevention and work towards it bind the countries and cities of the Baltic coast together. For its part, the City of Porvoo aims to further this cooperation while also seeking to identify new forms of cooperation wherever possible.

Jukka-Pekka Ujula

Mayor

City of Porvoo

Finland

University business cooperation in education

By Ricardo Carvalho Bruno Ferreira

Universities[1] and Businesses should be natural partners in providing education. The former provide qualifications. These should correspond to competences that the later demand in the graduates they employ. If Businesses are the end users of the Universities' product, the graduates, it is of the most common sense they should shape it closely together!

Normally seen as research oriented, University Business Cooperation (UBC) should occur at least as naturally in education related aspects. On the one side by a better coordination towards defining the competences that graduates should possess. On the other side, by coordinating activities towards delivery of such competences. Such coordination will lead to more fluid knowledge exchanges in both directions. Ultimately this will allow not only for graduates more in line with the needs of a highly competitive world businesses, but also for trigging new innovation practices in both ends.

A recent study[2] ordered by the European Commission allowed for a characterization of the state of the art of the University Business Cooperation in Europe, as seen from academia. In it a massive survey to Higher Education Institutions took place for mapping the existing elements of cooperation. The authors propose a classification of this cooperation into eight categories. To understand those is probably the first step to comprehend how UBC may allow both ends tackling with some of their problems while trigging new innovation processes. Those not research oriented are the following:

- **Mobility of academics:**
  These should be understood as mobility of staff. Two individuals, one in the academia and the other in business, though working on the same discipline and tackling similar or complimentary problems from two different perspectives, do not speak the same language. Not only the jargon is different but their views on the same problem are also different due to their different perspectives. Why don't we exchange the professor with the engineer for a few months?
  Mobility may take several forms. In one or in both directions; to assume the tasks normally associated with the new role or to assume new tasks clearly associated to the mobility project itself. But the simple fact of having one temporarily viewing things from the other glasses would allow both institutions to understand two different faces of the same issues.
  Furthermore, mobility of people leads to new personal relations. With time it allows for a greater openness of institutions to frequent cooperation with each other.

- **Mobility of students:**
  Students will become graduates and will work in businesses. To ensure their employability they should grasp the business environment. By having students directly involved with/in companies their competences increase in what concerns understanding the business perspective. Furthermore, their comprehension of the subjects learnt in an academic environment also increase for experiencing the applicability of different concepts and knowledge.

- **Curriculum development and delivery:**
  The definition of curricula should be done with the involvement of business representatives, without ever jeopardising quality and excellence. This should allow for a better matching of the learning outcomes with the competences required for employability. Furthermore this could lead to a faster adaptability of universities to a fast changing world.
  Also in the processes of delivering curricula much positive examples of UBC may be found. Cooperation of business people in classes; problem based learning; classes held within the business are good examples. On top of this apprenticeships included in the curricula are also an important way of embedding two different perspectives of the same problems.

- **Lifelong Learning (LLL):**
  In an evermore globalised world obsolescence of some knowledge and competences individuals acquire in their initial education is frequent. All types of businesses need to update their staff's with lifelong learning. However, it is too frequent that they do not search universities as source for such type of training. This seems incoherent. Being HEI by nature the source of new knowledge they should be the firsts to be asked by businesses for upgrading competences.

- **Entrepreneurship:**
  This quite large expression includes ability to create new business but also to take the initiative and innovate in old businesses or institutions. If graduates are coming out of universities with the most up-to-date sets of knowledge they should be capable to identify and implement new solutions or products with value added for the markets. The capacity to implement those requires a business orientation that can be promoted with UBC.

- **Governance:**
  In general terms UBC depends on strategically approaches from one set of institutions to the other. Involvement of individuals from business in universities management bodies and vice-versa is one of the strong ways to ensure that orientation towards the other becomes natural.

It is also interesting to note for the readers that among the good practices currently listed in Education and Culture's webpage within the Europa portal[3] we can find the cases of *The Baltic University* and of *The University of Turku*.

Ricardo Carvalho Bruno Ferreira

Policy Officer

European Commission – DG Education and Culture

[1] Throughout this article, the term '*Universities'* refers to all types of Higher Education Institutions.
[2] http://ec.europa.eu/education/higher-education/doc/studies/munster_en.pdf
[3] http://ec.europa.eu/education/higher-education/business_studies_en.htm

Use the "today" to shape the "tomorrow" or the impact of 2007– 2013 on 2014 – 2020

By Philipp Schwartz

On and around 21 September 2012, for the first time ever, the so-called European Cooperation Day was celebrated joining a vast number of funding programmes in the EU to celebrate and promote the benefits of territorial cooperation – territorial cooperation as a full-fledged objective (the third one) of Cohesion Policy. The Central Baltic INTERREG IV A Programme 2007-2013 is one of these funding programmes having used this unique opportunity to show what projects co-financed by this programme are bringing to our region through cross-border activities. And there is more to show in the coming years. But, to ask provocatively, why to look back at what has been achieved? Why not rather look forward with the next programme period 2014-2020 starting in a bit more than one year from now?

With the discussions ongoing on the upcoming programme period 2014-2020 one gets easily carried away from the present reality. It is of course understandable that everyone concerned is very much interested in shaping the future. And it is high time now to do it on the various levels. But at the same time, one should not forget that the present programme period is still lasting for at least one year and with closing projects and programmes it will still take at least until 2015. To some extent, one could say that we are just half-way-through as only now a relevant mass of co-financed projects are reaching the critical mass of results. Meaning, in fact only this and the coming one to two years, one can really evaluate if this programme period was really a success. At the same time, it is now that future programmes are shaped.

If one wants the future to be built on the presence and present achievements respectively, it is now time to show what has been so far achieved. And this is a task for all stakeholders involved. Let it be the cooperators (projects) themselves, but also those who provide financial or organizational support by lifting project results on a bigger stage, enabling them to share their experiences beyond their own cooperation partnership and area. For funding programmes like the Central Baltic INTERREG IV A Programme 2007-2013, this is a crucial task realized this year with various events like the Central Baltic Project Open Days during which from 17 September until 14 October more than 20 projects organised some event for the public in Estonia, Finland, Sweden, Latvia and on Åland ranging from concert to exhibition, from a seminar on innovative technology in elderly care to a tour to a pilot plant for biogas production. Or a photo exhibition was set-up at the AHAA Science Center in the very city center of Tallinn providing a visual impression of what it means to cooperate across borders. Or the bus tour the programme organised for stakeholders dealing with regional development ranging from ministry and embassy representatives, representatives from county governments and administrations, EUSBSR National Contact Point and media to project people presenting their activities.

The latter (exhibition and bus tour) actually being conducted within the framework of the European Cooperation Day, an initiative launched by the European Commission and realized by INTERACT for the very first time in 2012. This Europe-wide event joined over 280 events organised by 72 European Territorial Cooperation funding programmes to promote the added-value of cooperation between European regions on respectively around one day in September in almost 40 countries. The variety of activities was immense and impressive. With the timeframe limited to (around) one day, this joint activity in many cases created synergies and added value. In a few cases unfortunately it also caused a slight competition for attention (e.g. by media) and participants.

This kind of competition for attention and participants raises of course the more general question, why or rather what to promote on such occasion as the European Cooperation Day? Is it important that so and so many funding programmes organize some event to promote their projects? Or would the true sense of cooperation not be better realized by joint promotional activities beyond programme borders? If e.g. programmes in certain regions would rather organize joint events than dozens of funding programmes trying to organize something on their own, even if under the bigger umbrella of the European Cooperation Day? At the same time, it should not be forgotten to whom the benefits of territorial cooperation should be promoted – the general public, those who normally do not know about it and want to know what is in it for them. And this target group might be better reached with a high number of rather local activities simultaneously all over Europe than a few bigger activities at selected places.

Therefore, it should be considered in the future to instead of just combining a variety of events by various actors on or around one day, rather to develop the concept of the European Cooperation Day further and to consider joint events not by each and every one, but by a certain number of actors, let it be thematically or geographically chosen – still keeping such activities on the local level to reach the general public. Real added value by true cooperation, by promoting results and achievements together – results and achievements not only of one's own organization, but results and achievements in and for the benefit of everyone's own region, and finally for Europe as a whole.

Philipp Schwartz

Dr., Head of the Joint Technical Secretariat

Central Baltic INTERREG IV A Programme 2007-2013

www.centralbaltic.eu

Territorial cooperation in the Baltic Sea region and the supportive role of INTERACT Point Turku

By Gabriel Alvarez

The breakout of the financial crisis a few years ago, the aggravated lack of natural resources, the rapidly growing impact of global warming and the ageing population trend exemplify a few of the hot topics on the European Union's agenda for the upcoming years.

In a global context, territorial cooperation stands out as a key element to efficiently address common challenges. The joint efforts of working together unconditionally bring a series of valuable upgrades which territories can benefit from.

Overcoming borders reinforces the added value of territorial cooperation and helps better address similar threats as well as promote more balanced development. In this respect, it is strongly recognised that joining forces also contributes to fostering integration and inclusion as well as avoiding duplication of efforts and resources.

Regardless of the evident territorial diversity in the Baltic Sea region, some common features affect this large area surrounded by an array of different countries. Hence cooperation between the territories involved facilitates coordinated strategic responses to mutual challenges.

A considerable number of EU bodies specialised in the field of territorial cooperation as well as other funding instruments actively participate in the task of strengthening the ties across the countries in this area. This is done through implementation of projects, organisation of events, dissemination of information etc.

Cross-border and transnational projects in the Baltic Sea region are carried out in the fields of transport, innovation, agriculture, energy, health, education and many more. The efficient implementation of the projects is conducive to effective results which consequently help ensure a sustainable environment and optimal economic and social development within the region.

ETC and ENPI programmes

In particular European Territorial Cooperation (ETC) programmes, financed by EU Structural funds, strongly contribute in this respect by primarily providing a framework for cooperation and experience sharing between stakeholders of different countries.

In order to streamline, simplify and increase the efficiency of the management process for ETC programmes which spread all over Europe, the INTERACT Programme was established in 2003. One of the four INTERACT Points is located in Turku, Finland, and assists ETC programmes in the north-east part of the continent.

INTERACT Point Turku provides forums for discussions, exchange of knowledge and dissemination of best practices. It offers Europe-wide trainings and seminars as well as tailor-made services delivering practical support and advice in response to specific needs of ETC programmes. The expertise addresses management techniques, financial issues, regulatory frameworks, communication, strategic orientation and policy development.

Additionally, specific knowledge on cross-border cooperation with the EU neighbouring countries is also offered by INTERACT Point Turku. In particular, support and advisory services on all aspects of programme management and implementation are provided to thirteen ENPI CBC (European Neighbourhood and Partnership Instrument Cross Border Cooperation) programmes.

EU Strategy for the Baltic Sea Region

In order to fortify the links within the Baltic Sea area, the European Council adopted in 2009 the EUSBSR (European Union Strategy for the Baltic Sea Region) as the first macro-regional strategy in Europe. In relation to this, the recent approval of the three objectives of the EUSBSR benchmarks a focused action on the pollution of the Baltic Sea, the level of prosperity and the accessibility conditions.

This initiative highlights the significance of territorial cooperation on a wider scale by bringing together stakeholders and ensuring visibility of macro-regional projects. In this respect, INTERACT Point Turku acts as a bridging organisation by facilitating and supporting the effective implementation of the Strategy e.g. promoting and managing networks, disseminating information and, more importantly, fostering territorial cooperation.

Territorial cooperation in the Baltic Sea region has become a valuable asset to identify needs, seek the necessary resources and apply the adequate policies so as to enable citizens to have better living standards. Against this background, the added value of territorial cooperation in the Baltic Sea region is often highlighted and considered as a proven tool for boosting prosperity as well as contributing to the overall objectives of the EU2020 Strategy in order to grow smart, sustainable and inclusive.

Lastly, the ownership of territorial cooperation lies on citizens whose active involvement and participation in daily life mutual support enhance the attractiveness of the Baltic Sea region.

More information can be found at the following websites:

www.interact-eu.net
www.balticsea-region-strategy.eu

Gabriel Alvarez
Communication Officer
INTERACT Point Turku
Finland

Oil spill risks can be reduced through concrete cooperation

By Kai Paananen

The risk of a large oil spill in the Baltic Sea, particularly in the Gulf of Finland, has elevated significantly due to the increased number of Russian oil transports. The Finnish SET Group is committed to boosting cooperation in order to reduce and control the risk of such accidents.

Marine Traffic Significantly Growing in the Gulf of Finland

During the past years, marine traffic in the Baltic Sea, and especially in the Gulf of Finland, has increased significantly. Furthermore, it is expected to continue to grow in the coming years. It is estimated that the Gulf of Finland constantly carries 300–400 cargo ships, tankers and/or passenger ships in traffic. During the summer season the respective figure exceeds 500 ships. In the entire Baltic Sea there are over 2000 ships in traffic at all times. According to The HELCOM AIS database 65% of the traffic in the Gulf of Finland consists of cargo ships and 20% of tankers.

The number of oil transports in the Gulf of Finland has multiplied significantly in just two decades. In 1997 oil products transported were less than 20 million tons. In 2007 this figure was approximately 150 and this year something short of 200 million tons. This figure is estimated to be 250 million tons by the year 2015. Already today, the Primorsk Oil terminal produces and ships a yearly amount of 80 million tons in oil products.

In the following years the production capacity of the enormous Port of Ust-Luga is expected to increase up to 120 million tons per year, of which oil products make up to 80 million tons. When completed, Ust-Luga will be Europe's largest harbor. As a comparison it will have 12 times the capacity of Finland's largest port, Helsinki's Vuosaari.

When looking at the rate at which the terminal capacity in the Gulf of Finland is growing, it is obvious that the risk of serious marine accidents and especially oil spills will increase substantially.

The winter conditions in the Gulf of Finland make the prevention of these accidents even more challenging. Marine traffic conditions become more hazardous, and the oil spill response operations, in case of an eventual accident, face serious hardships.

Russia Starting to Enhance its Oil Spill Response Alert

Finland has set a target by which it can by year 2015, together with other neighboring coastal nations, collect 30,000 tons of oil from the Gulf of Finland in three days during open sea conditions and in ten days during icy conditions.

In order to reach this rather modest target, five more 1,000 cubic meter oil spill response vessels are needed. While Russian oil spill prevention and cleaning capacity is rather limited compared to Finland and the increased accident risk is due to Russian oil transportation growth, it is natural and justified to look in Russia's direction for more oil spill response capacity.

In the past Russia has not paid much attention to oil spill response for historical, geographical and financial reasons. However, Russia's more active role in the global economy has increased its pressure for participation in global environmental protection, a direct result of its WTO membership among other reasons. This view is increasingly shared among Russian political and economic decision-makers and marine community.

In 2009, SET Group, for which I represent, investigated the oil spill response capacity of the eastern part of the Gulf of Finland. The report revealed, with specific reference to "the capacity to cover a winter-time accident", that resources were completely insufficient. As a result SET Group provided the report results to Russian political and economic decision-makers with the proposition that Russia should quickly strengthen its oil spill prevention readiness.

This effort proved to be a success and in the summer of 2009 SET Group agreed on a project to develop a multipurpose icebreaker and oil spill response vessel for the Russian Government. The vessel would be first of its kind in Russia's Gulf of Finland presence.

The project was confirmed in Lappeenranta, Finland, in May 2010, when a Memorandum of Understanding on the construction was signed in the presence of the Prime Ministers of both Russia and Finland. The parties of the contract are Rosmorport, Sovcomflot, STX Finland, Aker Arctic and SET Group. The actual contract for the delivery of the ship was made in November 2011. The vessel, which is scheduled to be completed 2013, is currently being built as a cooperation of Arctech Helsinki and USC Kaliningrad shipyards.

The multipurpose vessel under construction is significant enough as a single delivery and technological innovation, but it also opens the possibility for the enhancement of the Gulf of Finland oil spill prevention readiness in the form of new ship deliveries. In addition to this, the project has brought new cooperation between Finnish shipbuilding knowledge and Russian shipyard industry. The vessel will operate at the area of Ust-Luga Port.

This successful project to increase Russian oil spill response alert shows that environmental awareness and practical measures to implement the related responsibilities are also increasing in Russia. One cannot take part in global trade and interaction without being liable for the environmental effects of one's actions – both nationally and internationally.

I am confident that this concrete cooperation for increased readiness for oil spill response in the Gulf of Finland will trigger more positive projects and actions in the future.

SET Group works for increased oil spill prevention capacity

The Finnish SET Group consists of Southeast Trading Ltd., SET Engineering Ltd. and SET Petrochemicals Ltd., which is a notable distributor of Russian oil and gas products in the Nordic and the Baltic Countries. In 2011, the Group's sales exceeded 200 m€.

In February 2010, SET Group joined an important Baltic Sea protection program, the Baltic Sea Action Group. SET Group is committed to work for a cleaner Baltic Sea in in terms of boosting Finnish–Russian cooperation. The intermediate target of this commitment will soon be reached, when the multipurpose vessel will be completed next year.
The work for a cleaner and safer Baltic Sea continues.

Kai Paananen

CEO

SET Petrochemicals Oy / SET Group

Finland

Development of oil transportation in the Gulf of Finland

By Olli-Pekka Brunila

In 2010, almost 290 Mt (million tonnes) of oil and oil products were transported in the Baltic Sea, of which more than 55% via the Gulf of Finland. Every day more than 2,000 ships sail in the Baltic Sea, approximately 25% of which are tankers. Almost 15% of the world's maritime transportation is carried out in the Baltic Sea. The economic recession had a negative effect on transportation and on demand for goods; however, the volume of transported oil did not decrease during the recession. The demand for oil products and Russia`s new oil terminals in the Eastern part of the Gulf of Finland are the main reasons for the growth of maritime oil transportation in the Baltic Sea area.

The volume of oil transported in the Gulf of Finland was 43.7 Mt in 2000, and it increased to 157.9 Mt in 2010. In other words, oil transportation volumes have nearly quadrupled in the past ten years. In spring 2012, the New Baltic Pipeline System 2 was connected to the port of Ust-Luga, and the first tanker was loaded in the port in March 2012. It is expected that the transported oil volumes in Ust-Luga will increase at the first stage to 10-15 million tonnes, and later the volumes will be upgraded to 25-30 Mt annually. The capacity of the new oil terminal is around 30-38 Mt per year. In the next few years, oil transportation volumes in the Gulf of Finland will increase to nearly 200 Mt annually.

What is the future of oil transportation in the Gulf of Finland in 2020 and 2030?

The risks of maritime oil transportation in the Baltic Sea and in the Gulf of Finland were studied in the project Minimizing risks of maritime oil transport by holistic safety strategies (MIMIC). The project produced three alternative scenarios for oil transportation in the Gulf of Finland in 2020 and 2030. These scenarios are based on energy, political, and economical strategies and other future transportation scenarios. The scenarios for 2020 are the *Slow development 2020 scenario* – the economy will not grow, and the EU`s climate and energy package will have failed to fulfil its aims; the *Average development 2020 scenario* - the development of population, economy, technology and transportation will continue similarly to today in the future, and investments will be made both in green technologies in Europe and in oil production technology in Russia; and the *Strong development 2020 scenario* - investments in oil production and transportation infrastructure in Russia will be made following the most ambitious plans, and green technologies and energy sources will not be able to replace oil as an energy source.

The scenarios for 2030 follow the same logic as the 2020 scenarios, but the time period is longer, adding to the uncertainty of the scenarios. In *the Stagnating development 2030 scenario*, the main driver will be the lack of investments and economic growth. Environmental goals will not have been achieved because political efforts will have been concentrated on balancing the economy. In the *Towards a greener society 2030 scenario*, energy and climate strategies will have succeeded and Europe will be moving towards a decarbonised society. However, fossil fuels will still remain the main energy source despite the development of new innovative green technologies. The EU will have implemented strict environmental policies in the *Decarbonised society 2030 scenario*. Demand for oil products will have decreased, and the share of bio fuels and renewable energy sources will have increased.

Oil transportation volumes will only increase moderately in the Gulf of Finland by 2020 and 2030

Based on these scenarios, a group of experts were asked to give three estimations of the oil volumes to be transported in each scenario: the most probable volume of oil transportation, the minimum volume (a volume that will at least be transported) and the maximum volume (a volume that will not be exceeded). According to the expert evaluations, the oil transportation volumes will only increase moderately in the Gulf of Finland by 2020 and 2030.

In the *Slow development 2020 scenario*, the minimum and maximum volumes vary between 151–187 Mt. The most probable value is 170 Mt, which would include the oil volumes from the port of Ust-Luga if oil transportation there starts as planned. In the *Average development 2020 scenario,* the minimum and maximum volumes of transported oil vary between 169–207 Mt and the expected volume is 187 Mt. In the Strong development 2020 scenario, the minimum volume of transported oil in the Gulf of Finland is 177 Mt and the probable volume is 201 Mt. In this scenario, the maximum volume is 218Mt.

In the *Stagnating development 2030 scenario*, the expected oil volume (165 Mt) will have decreased by 3% compared to the *Slow development 2020* and increased by 5% from the current volume. The minimum and maximum volumes are 148–177 Mt. In the scenario *Towards greener society 2030*, the most probable volume will grow by 12.4% compared to the 2010 volumes and by 7.5% compared to the *Stagnating development 2030 scenario* (177.5 Mt). In this scenario the minimum and the maximum vary between 156–192 Mt. In the *Decarbonised society 2030 scenario*, the volumes of oil transported will be the same (165.5 Mt) as in the *Stagnated development 2030 scenario*, but the minimum and maximum volumes (153–190 Mt) are almost the same as in the *Towards a greener society scenario*. The future oil transportation volumes in the Gulf of Finland will depend on many factors. One major factor will be Russia's policy and development, but the EU will also be moving towards a greener society after having solved its economical problems.

This article is based on the report:"*Oil transportation in the Gulf of Finland 2020 and 2030*",published by the Centre for Maritime Studies at the University of Turku. The publication is part of the project "Minimizing risks of maritime oil transport by holistic safety strategies" (MIMIC). For more information on this project, visit www.merikotka.fi/mimic

Olli-Pekka Brunila

Researcher

University of Turku

Centre for Maritime Studies

Maritime Logistics Research Unit in Kotka

Finland

Russia's future reforms

By Anders Åslund

For Russia, the period 1999-2008 offered the highest growth in its history, no less than an average of 7 percent a year. The global financial crisis came as a great shock with a GDP drop of no less than 8 percent in 2009. For the time being, Russia's economy has stabilized at a growth rate of 3-4 percent a year, not bad but hardly satisfactory. The question that is being raised today is whether Russia has entered a so-called middle-income trap of low or moderate growth.

The sources of Russia's great growth spurt were essentially three. First, the arduous market economic reforms of the 1990s were finally completed with the Russian financial crash of 1998, which forced the authorities to cut state subsidies and level the playing field. Second, because of the decade-long economic decline, Russia had plenty of free capacity. Third, Russia has been a major beneficiary of the global energy boom.

Now these three sources of growth appear to be exhausted, but two other sources are apparent. Russia's most obvious asset is its great human capital with an ever larger share of the population receiving higher education. The other source of growth is increasing international economic integration, notably through Russia's accession to the World Trade Organization. Sensibly, Russia is also aiming at an early accession to the Organization of Economic Cooperation and Development and it should attempt a free trade agreement with the European Union, though its membership of the Customs Union is a serious impediment.

Russia's big drawback, however, is its poor governance. This is often identified as an energy curse. The Russian state receives about half of its revenues from oil and gas. The key question in most economic policy debates is whether Russia's energy curse can be broken.

Suddenly, such an opportunity has arisen. The shale gas revolution in the United States has made that country self-sufficient in natural gas, and much of the liquefied natural gas designed for that market is instead destined to the European market. As a consequence, European gas prices have fallen by up to half, and they are likely to stay close to that level. Such prices would eliminate Gazprom's profits and land that corporation in serious financial crisis. Given that Gazprom is the mainstay of Russia's state capitalism and energy curse, its crisis may be pivotal for new Russian reforms.

Russia has most resources needed for substantial economic reforms. Since the Gaidar government in the early 1990s, it has a large and intellectually strong economic policy group both in the government (the Ministry of Finance, the Central Bank, the Ministry of Economic Development, and the Presidential Administration) and the key academic institutions (the Higher School of Economics, the New Economic School, and the Academy of the National Economy).

This group has repeatedly elaborated sound economic reform programs – the Gref program in 2000, Russia 2020 in 2008, which they updated in 2012. These programs are substantial and quite detailed. Moreover, a broad public consensus has evolved around these ideas, not least because hundreds of Moscow economists have been engaged in their development for years. Intellectually, Russia is ready for sound market economic reforms.

Russia's current dilemma is that most liberal economic policymakers are convinced that few of the needed economic reforms are possible without a democratic breakthrough. The key question is therefore how such a breakthrough can come about.

The dominant view is that the lower the oil price becomes, the weaker state capitalism and its rent-seeking elite will be, and the more democratic and economic reform the country is likely to carry out, which in turn will boost future growth rates. Gazprom's crisis opens such an opportunity. More broadly, according to this view, economic crisis facilitates democratic reforms, which open the door to economic reforms.

An alternative, or complimentary view, is that the growth and strength of the middle class is critical for the success of democratic reform. This view draws on the modernization theory of Seymour Martin Lipset from the 1950s. It can be summarized that Russia is too wealthy, well-educated and open to be so authoritarian and corrupt. The large demonstrations in Russia after the parliamentary and presidential elections in 2011 and 2012 support such a view.

In the summer of 2011, Dmitri Muratov, the editor of *Novaya gazeta*, said that Russia had two parties. One was the television party, which consisted of two-thirds of the population and whose leader was Vladimir Putin. The other party was the Internet party with the remaining one-third of the population. Dmitri Medvedev as a member of the Internet party, but it had no leader.

At present, no less than 51 percent of Russia's youth complete higher education, to compare with only 36 percent in the United States. This is one reflection of the steady growth of the Internet party or the modern middle class. Also, at present oil and gas contribute 19 percent of GDP. Since energy production is pretty stagnant, its share of GDP is set to fall.

The question is hardly if or even how Russia will reform, but when.

Anders Åslund

Senior Fellow

The Peterson Institute for International Economics

The USA

Author of the book "Russia's Capitalist Revolution"

Russia after Putin?

By Kari Liuhto

Some experts argue that the power structures of the siloviki, the persons raised by the power ministries, are already crumbling during **Vladimir Putin's** current presidency. Personally I do not believe that the current power system is about to collapse quite yet, although Russia, at least in part, is living in a state of quasi stability.

If, against all probability, Putin were to have to abandon his presidency before the elections in spring 2018 due to sudden ill-health or an accident, **Dmitry Medvedev,** as Russia's prime minister, would become Russia's next leader. Were this to happen, however, Medvedev, as acting president, would be unlikely to gain enough of a lead over his opponents before the next presidential election. Were Putin to renounce the presidency at the end of his current term, former deputy prime minister **Igor Sechin** would be more likely to inherit Putin's mantle than Medvedev.

The most likely scenario at the moment is for Putin to continue as president until 2024, unless his star wanes completely in the eyes of the siloviki before the spring 2018 elections. Putin will not be deposed from his throne, even by plummeting popularity, as long as Putin's backers see themselves as safe. In the game for power, the most important thing is neither popular support nor even Putin's future, but the destiny of the power elite behind him. The siloviki will not suddenly sacrifice Putin even if his popularity plummets, as a sudden and unplanned change of power would lead to a power struggle between the siloviki. Such a power struggle is to be avoided for as long as possible, as it could cause the existing power structures to crumble, thus endangering the future of all the siloviki.

To avoid a battle for power, the siloviki are attempting to find a mutually acceptable successor to Putin for 2024. It is possible that Putin's current trusted ally Igor Sechin, born in 1960, will be too old by 2024 to accede to the Russian presidency. In this context it is appropriate to note that by 2024 advisors to the Russian president and prime minister could well include key people born after the break-up of the Soviet Union.

Although the Russian president has a significant influence on the future direction of the country, evaluating the future of Russia as a whole is more important than speculating about the future president. In the light of recent events, it appears that Russia is unintentionally drifting towards stagnation. To avoid stagnation, the country's leadership is attempting to introduce whirlwind reforms. Examples of these include Russia's membership of the World Trade Organization (WTO), privatisation plans, a modernisation programme, changing the way regional leaders are elected, making it easier to register new political parties and lowering the election threshold for the State Duma.

I fear that the above reforms will not be fully implemented and will partly be merely superficial. For example, the Eurasian Union being built around Russia could become an alliance that will isolate Russia from the global economy more than its WTO membership will open it up. The experiences of earlier privatisation programmes tell the sorry tale of ambitious plans being watered down at the implementation stage. The real focus in modernising Russia lies in improving its industrial competitiveness and in improving the capability of the army, not in wide-ranging social reform.

Several Russian experts see regional electoral reform as a cosmetic operation, leaving the Kremlin a free hand to continue to arrange the selection of regional leaders in any way it pleases on into the future. The lowering of the registration threshold for political parties too may lead to an even more fragmented opposition than is currently the case, resulting in no genuine opposition party emerging capable of meeting even the State Duma's new lowered election threshold. Even more important than lowering the threshold for the State Duma is liberating the media from the custody of the Kremlin.

If no genuine political opposition is formed, civil society will fail to gain strength and there will be no increase in open discussion of society in the media; Russia lacks a pressure valve mechanism capable of relieving social pressures. This defect in the system will, in time, lead to an increase in social pressure and finally to social unrest.

Social instability will not be immediately followed by the strengthening of the democratic system. Instead it is more likely that power will become concentrated in the hands of the ultra-conservative siloviki. Social turmoil may even be followed by the declaration of a state of emergency, which could in turn lead to an economic crisis and finally to a national revolt. To prevent an uprising, Russia's leadership might consider there to be a need for an internal, or even an external enemy, to mask popular dissatisfaction.

Preparing for the worst is not wasted effort, even were the stagnation scenario not to be fully realised in Russia. In my opinion it is wiser to prepare for the worst than to be rudely awakened from Sleeping Beauty's slumber. We have time enough, but we do not have time to waste, as Putin's successor could be less reform-minded than his predecessor.

"Better be despised for too anxious apprehensions, than ruined by too confident security", as Edmund Burke, an Irish/British philosopher and politician, stated over two centuries ago.

Kari Liuhto

Professor on the Russian economy

Turku School of Economics at the University of Turku

Finland

Good-bye, poverty – Russia's quiet social revolution

By Mikhail Dmitriev and Svetlana Misikhina

Since the end of 1990-s Russian society was transforming rapidly. One of the most conspicuous aspects this change was the emergence of the new mass urban middle class which may soon outnumber any other social group (it already comprises more than 1/3 of adult population and over 50% of the residents of Russia's cities). Lifestyles, attitudes and values of this new middle class are converging with its peers in advanced economies. It now claims to play a stronger role in Russian politics and has made its wishes known in open street protests.

However, other major developments, less theatrical than the emergence of the new middle class and affecting low income social groups, remained by and large overlooked. Fast economic growth of the last decade allowed incomes per capita to increase 2.5 times and wages 3 times in real terms whereas income differentials remained almost unchanged. Between 2000 and to 2011 Gini coefficient increased by just 0.02 - from 0.4 to 0.42. This means that the benefits of fast growth were distributed evenly across the society. Russia's poor were affected by this growth in an even more dramatic way than the middle class. During last decade poverty headcount measured by Russia's national criteria of late 1990s declined 2.5 times and continued to decrease even during the last economic crisis. More importantly, Russia's poor almost entirely exited from absolute poverty. By international criteria, Russia's poor are no longer considered poor but overwhelmingly belong to the low middle class. In 2001 0.9% of Russians were living on 1.25 $US on PPP a day. Since 2008 this group is no longer observable in household surveys. 6% of Russians in 2006 were living on less than 2 $US on PPP a day. By 2009 there share declined more than 100 times – to just 0.05%. Practically all Russian poor now belong to the low middle class by the World Bank definition (daily incomes between 2 and 13 $US a day). Even if measured by the US poverty threshold (15.5 $US a day in 2010) Russian poverty headcount declined from 64.4% in 1999 t to just 30.6% in 2010 (and to about 25% if equivalence scale is taken into account).

Being poor in Russia no longer means absolute deprivation. Vast majority of Russian poor can afford a certain degree of non-substantial consumption and in many ways the gap between them and the middle class is shrinking. In 2005-2010 the gap between 1-2nd and 5-9th income deciles in car ownership declined from 2.5 times to 1.9 times and in computer ownership – from 3.3 to 1.5 times. Almost 15% of Russian poor now own plasma or LCD TV sets (26.6% among non-poor) and over 35% - refrigerators with no-frost system (46.5% among non-poor).

Rapid advancement of modern retail chains, telecommunications, and financial services facilitates consumption convergence between poor and non-poor. Retail and hotels were for many years the fastest growing sector of Russian economy and its share in GDP is now 8 percentage points higher than in Germany, France, Canada, and Japan. Like the newly emerging department stores in the XIX century Western Europe and North America facilitated top bottom diffusion of lifestyles and consumer preferences of the upper middle classes, retail chains in modern Russia become the melting pots where Russian poor imitate consumption models of Russia's middle class. Consumer credit is no longer a privilege of high income groups. In 2011-2012 share of loans in consumer spending increased from 15 to 22% and they are accessible even to poor households facilitating access to consumer durables. Cell phone ownership is omnipresent – Russia has over 160 cell phone subscribers per 100 of population - 70% above the levels of France, USA and Japan.

The significance of this shift could be understood through the changes in social expectations and political attitudes. Here, once again we observe a convergence of the poor towards the middle class. Earlier surveys indicated that in the beginning of the last decade traditional survival values, dependency culture, leftist redistributive political populism, and ethnic nationalism prevailed among the non-middle class Russians. But the large-scale sociological survey carried out but the Center for Strategic Research in spring 2012 revealed that both the middle class and other social groups are now expressing a homogenous, non-ideological and pragmatic demand for change focused on a narrow range of priorities. These priorities are related to human development (in particular, healthcare and education), personal security, the rule of law, and the quality of infrastructure services (especially in housing and utilities). Russian public is no longer as responsive as it used to be to unrealistic promises of leftist populists. It values fiscal prudence and rejects any forms of political aggression including radical nationalism The demands that unite all mass social groups currently prevail over those that divide them. Due to this change - more than to anything else - Russia is becoming a modern and politically mature society, ready for more opened and accountable political system and capable to identify and support politically responsible leaders in a competitive electoral process.

Mikhail Dmitriev

President

Center for Strategic Research

Russia

Svetlana Misikhina

Director

Center of Social Policy of the Institute of the Applied Economic Research

The Russian Academy of National Economy and Civil Service

Russia

Russia's budget priorities shaped by the leadership, and the outcome by an uneven inflation landscape

By Vesa Korhonen

With most of the recession behind, Russia's leadership has set the stage for further increases in government expenditures, in line with the projected GDP (currently the expenditures are at 37–38 % of the GDP). Like in earlier years, president Putin and prime minister Medvedev are also stressing the need to maintain a budget balance. Yet, reconciling the two goals is not self-evident as the outlook for budget revenues, unlike in most earlier years, is constrained by expectations of a non-rising oil price, stalling oil production and diminishing exports of oil products (taxes on oil production and exports bring 25–30 % of all revenues of the federal, regional and local budgets and the state's social funds).

The leaders have been advocating two areas as the main expenditure priorities. The first concern is social, to look after the income level of those left behind. Political stability and economic stimulus also matter – pensions & public sector wages cover over one half of eligible voters, and all social spending & the wages around one fifth of the GDP. They account for more than one half all budget expenditures, and are no on-off expenditures. That has been confirmed by Mr. Putin during the past several years in his repeated emphasis on the need to maintain the pension/wage ratio rather unchanged (still an admittedly low 30 to 35 %, despite earlier hikes) and on no need to raise the retirement age (55 years for females and 60 years for males, generally). More recently, his promises during the presidential campaign and his orders signed immediately upon taking office in May call for large wage hikes for certain professional groups of the public sector in 2012–18.

Second, on another front left behind, Russia's armament programme 2011–20, announced by the then-president and now prime minister Medvedev, tabled a sizeable amount of budget funds. President Putin has reiterated the funds are headed for spending (even if doubts linger among observers as to whether all of it will be used). For a more recent concern, the leadership has in the past several months alluded to allocating more budget funds to education and health care (both crucial sectors for Russia's future development).

Russia's fresh economic forecast and government budget plans for 2013–15 estimate that total government budget expenditures (of all the levels) will grow 10 % p.a. nominally (as will expenditures if the oil price is around 100$, which will create a slight budget deficit). Defence expenditures will grow fastest, almost 20 % p.a., followed by education, pensions & social benefits, and health care, which will all grow around 10 % p.a., as will public wages overall.

The real outcome will be shaped by the inflation landscape as it will probably stay uneven. Pensions, social benefits and public wages basically go to private consumption, and will increase by several per cent p.a. in real terms. All other budget expenditures will grow more slowly in real terms as far as inflation relating to public consumption and investments remains much faster than consumer price inflation, like it has stubbornly done for many years. In fact, the plans note that public investments will decline in real terms in 2012–13 and rise only slightly in 2014 (despite the arms programme), and further imply that budget spending in transport and roads (which need plenty of investments) will, after this year's boost, rather decline than rise in real terms in 2013–15.

For a possible setup further ahead, calculations until 2020 suggest the pressure to choose between prioritizing expenditures and departing from a budget balance may grow. Based on the 2013–15 budget plans, one upward revenue adjustment (oil price at the current 115$) and rather moderate assumptions for 2016–20 (oil sector production and exports as in Russia's economic forecasts, 3 % GDP growth, the arms spending proceeding, and growth of wage and social expenditures in line with GDP growth and consumer prices and the number of pensioners in line with the number of pension-aged), it looks that all other expenditures except wages, social spending, arms, and interest on debt can be raised back from their low share of GDP in 2015 to their 2011–12 share by allowing the budget deficit to rise to over 2,5 % of GDP by 2020. If president Putin's orders to raise wages in individual public sector segments to the average wage level in the economy created the same rise of wages in the entire public sector by 2020, raising back the GDP share of the other expenditures would require the budget deficit to exceed 5 % of GDP.

The perspective does not necessarily look drastic on the surface. However, growth of all the other expenditures in nominal terms – in the deficit calculations, over 10 % p.a. in 2016–20 – will yield very slow, if any, growth in real terms unless the rapid public consumption & investment inflation is restrained. The deficits, for their part, might be reasonably financed for a while as the government would be free of net debt till late 2010s. But even a balance could be a risk in case the oil price fell, and a deficit a weak position to enter the next decade when the number of pensioners will continue to grow (unless the retirement age rose by then).

Russia's efforts to seek relief from the tightening setup appear gradually, because the big means for relief may hamper growth and also prove unpopular. On the revenue front, budget planning for 2013–15 has focused on raising smaller taxes (excise taxes and gas production taxes) and activating privatization. Pondering on larger revenue sources such as the VAT (18 %), corporate profit tax (20 %), social taxes (30 %) and labour income tax (flat 13 %) remain for the time beyond 2015. On the expenditure side, the continual goal is efficiency, while e.g. plans published so far to reduce the number of employees in the administration only cover a small segment of the public sector. Another aim is to make budget-funded organizations, i.a. in education and health care, obtain more funding from other sources, which would basically mean that firms and households pay more.

Vesa Korhonen

Senior economist

Bank of Finland Institute for Economies in Transition (BOFIT)

Finland

BI Norwegian Business School and its activities in the Baltic Sea region

By Tom Colbjørnsen

The relationship between Norway and Lithuania is of a special kind, since the two countries belong to a greater Nordic-Baltic region with strong cultural, political, and not at least economic relationship for centuries (Scandinavian Journal of History 2003, 38 (3/4), Special Issue on the Baltic States). After the end of the communist period in the Baltic countries, which set back the economic cooperation between the Baltic and the Nordic countries, the economic links are closer than ever. After the fall of the Soviet Union Nordic companies have invested heavily in Lithuania as well as in other Baltic nations (Törnroos and Nieminen 1999). Today, companies from the Nordic countries are dominating as top foreign investors in Lithuania.

One of the first Norwegian investments in Lithuania after independence was made to increase competence in Lithuania. The former Soviet republic of 10 million inhabitants was in need of a new generation of leaders with an understanding of basic market economy to speed on the Lithuanian economy. In 1991 BI Norwegian Business School began to offer courses in business administration in Kaunas. The initiative was taken by Professor Arne Jon Isachsen at BI and made possible by a donation of $ 15,000 by William Wurster, a businessman from Pennsylvania, USA. During the first years the courses were taught by Norwegian students (Aftenposten 1992-05-23). These courses led to the establishment of the Business Training Centre in 1995, and to the establishment of International School of Management (ISM) in 1999 as the first private Lithuanian government-accredited business school with BI and The Norwegian Industrial and Regional Development Fund (SND) as the main owners. The aim of ISM was offering innovative, qualitative studies and training of management and economics for creative, ambitious young persons and already experienced business managers. The University was also the first in Lithuania to respond to the global call for business schools and academic associations to advance corporate social responsibility worldwide.

One motive for BI's activities in Lithuania was idealistic. Another was, as the former President of BI, Peter Lorange, said, 'to follow Norwegian business abroad' (Aftenposten 1992-05-23). The fact that the Norwegian public investment fund, SND, supported the initiative also reflects an optimistic attitude concerning investing in the Baltic states in the early 1990s, since one of SND's tasks were to support Norwegian businesses investing abroad and to enable cross-national transfer of knowledge.

Today ISM has campuses in Vilinius and Kaunas and offers programs from bachelor to doctoral level as well as executive programs (www.ism.lt), and the ISM today has over 2,000 students. The capital attracts young professionals, and not just from Eastern Europe, who see in Vilnius a rising star in business and appreciate all that the extensive cultural scene in the little capital has to offer. The employment level among the graduates is 94 percent.

It was ranked number one out of all public and private Lithuanian universities in 2011. The Central and East European Management Development Association (CEEMAN) awarded ISM with the International Quality Accreditation (IQA) in 2006, certifying that ISM belongs to universities that offer the most advanced business studies in the region. ISM has also established itself among the Top 200 business schools by being ranked in EDUINVERSALs global ranking since 2007.

The accomplishments reflect ISMs well-founded ambitions, huge motivation, and the ability to see itself in a broader international context. Knowledge and the constant search for new ways to apply it are among the key factors to change. ISM has a vision to maintain its position as a contributor to this, by being a dynamic and modern European university of management and economics, serving the lifelong educational needs of individuals, business and society in general.

BIs contributions today are three-fold. We are administratively involved through board representation. Secondly, our faculty is engaged in supervision and counseling of students, and thirdly we offer a double-degree program at master's level allowing BI and ISM students to spend the second year of their Master course in respectively Lithuania and Norway. As for the double-degree collaboration, the motivation for both institutions has been advancing internationalization, broadening educational offerings, strengthening research collaboration and firmly embedding international experience into the students study programs. The collaboration also has enabled fruitful cross-country conversation about best practices and trends.

ISM has developed into an independent university of high quality ran by their own faculty. BIs contributions are in large linked to our governance based on board representation and chairmanship. Since its foundation in 1999, ISM has experienced a vast growth and proved itself a successful education institution. The university is equipped with the necessary motivation and assets to compete in the global market for management education and to continue to inspire people to learn.

Tom Colbjørnsen

President

BI Norwegian Business School

Norway

The limits of Eurasian integration

By Agata Wierzbowska-Miazga

The Eurasian integration project, proposed by Russia, is primarily a process of tightening economic ties in the post-Soviet area. Moreover, it is found on the Customs Union of Russia, Kazakhstan and Belarus established in 2010 – a structure strictly committed to the commercial cooperation of the member states. However the culmination of the process is to set up the Eurasian Economic Union in 2015. The framework of this structure is not yet clarified, but it is known that it assumes a very deep level of integration - going beyond just economic cooperation. This integration should result not only in economic interests and political drive, but it should also be based on shared values, sense of community both in terms of culture and ideology, similar to the European Union, which is to be a model for the creation of the Eurasian Union. In the manifesto-article of Eurasian integration published in the daily Izviestia in October 2011 Vladimir Putin also refers to common values.

Russia still has a fairly wide variety of instruments on which it could build a sense of community in the post-Soviet region. This could be based on existing heritage of the USSR which is still visible in government-society relations, in political and legal culture and in the mentality of societies in the region. Also, Russia still has powerful opinion-forming tools such as media and cinema. An important channel of communication with the people of the region is the Russian language. In many post-Soviet countries the Orthodox Church can also play a significant role. One can argue how effective Russian instruments of potential influence could be. The problem is that in starting the process of integration Russia has not even tried to use them. As in previous integration projects, Russia's building of Eurasian Economic Union is not committed to true integration of states, but instead to create a sustainable system of region's dependency on Russia, giving Russia the ability to have control over region's states. Hence Eurasian integration largely comes down to the implementation of Russian solutions and standards in the member states. It is worth noting that among the participants and potential members of integration there are countries which are pushed to rapprochement with Russia by economic dependence on it and on which Russia has sufficiently strong tools of pressure. Countries in the region that have been able to build a stronger position are not in the slightest interested in Russia's integration initiative. This means that Russia, despite having a quite big potential in this area, has not created an attractive model for neighboring countries, which could cause them to accept norms and standards proposed by Russia. As a consequence, if Russia wants to implement its standards and norms it needs to force them on the countries in the region.

In effect, even those countries which are currently participating in the process are beginning to distance themselves from integration. President of Kazakhstan, Nursultan Nazarbayev, is considers himself co-creator of the idea of Eurasian integration – he has been promoting such a process since 1994. This makes Kazakhstan the most ideologically engaged member of integration. However, even from Astana signals of dissatisfaction with the process flow. The Kazakhstan's highest state officials have charged the integration process with falling inequality. Kazakhs also denied the Russian concept of establishing the Eurasian parliament, recognizing that it threatens their sovereignty. There are some reservations even about the simplest, technical aspects of economic integration. Both Kazakhstan and Belarus co-founders of the Customs Union and the Common Economic Space with Russia, claim to be dissatisfied with the process. Lukashenka even suggests that the integration process can stop at the stage of the Common Economic Space, and there is no need to further enhance integration. Dissatisfaction of the integration's participants and lack of attractive offer from Moscow for them prevented the signing of the agreement on the establishment the Eurasian Economic Union, scheduled for March 2012.

It seems that Russia has sufficient instruments of pressure to create the Eurasian Union, if it so desires. One can also assume that due to the tools of pressure and promises of economic preferences Russia will be able to attract to the integration process some other countries. Using incentives in the form of prospects for access to low-cost energy resources, access to the Russian market and opening up the labor market together with the threat of trade restrictions or the refusal to negotiate the conditions of raw material supplies it can definitely push Kyrgyzstan and Tajikistan to integrate and probably to some extent Ukraine. However, such integration, without obtaining elites and societies of the integrating states support will not have stabile basis. States integrated by force will have a natural tendency to distance themselves from the process, dragging negotiations and boycotting the decisions already made. Created in such a way, the Eurasian Economic Union will not be a structure permanently bonding the post-Soviet area, despite the fact that some of its economic components will certainly work.

Agata Wierzbowska-Miazga

Expert

Russian Department

Centre for Eastern Studies

Poland

The Baltic Sea region and business – a model for European macro regions?

By Filip Hamro-Drotz

The Employers' Group within the European Economic and Social Committee (EESC) met in Helsinki and Stockholm on 14 - 15 June 2012 to discuss both the business community's views on the Baltic Sea Region cooperation and the EU Strategy on the Baltic Sea Region (EUSBSR). In recent years, the EESC has been closely involved in matters relative to the Baltic Sea Region (BSR).

In many respects, the different national economies in the BSR complement each other well. This, in addition to their geographical proximity to one another, good neighbourly relations and a liberal market access policy, has facilitated sustainable economic growth, competitiveness, employment and welfare in the region. The BSR is a stable and homogenous region. It can today be noted as the most prosperous region in the EU.

Since the foundation of the EU, also the BSR has benefitted from the successes of it: the neighbourhood policy, the single market, the trade policy and Common Agriculture and Fisheries' Policy.

The BSR is a key part of Europe. In this respect, it is contributing to the growth of the whole EU, promoting good practices and deepening cooperation with the other European regions. The BSR is, as well the pioneer of the EU macro-regional policy, which can provide best practice examples during the development of the other macro-regional strategies in the EU (Black Sea, Danube, also others are considered).

The EU's Strategy for the BSR, together with its Action Plan and its Programme for 2007-2013, are on the right track; nevertheless the implementation of the objectives has in past years been quite fragmented. Focus upon business environment, growth and economy has been weak.

There are three new priorities of the EUSBSR Strategy and Programme for 2014-2020 which will be in business' mind of crucial importance:

- **"Connect the Region**": all efforts to develop and link up infrastructure and the transportation of goods, people, energy and information between the countries in the region, as well as between the region and other parts of Europe, should be given first priority.

  Cooperation in information and communications technology (ICT) should be enhanced in this context. EU's Trans-European Networks and the "Connecting Europe'" program for the coming years should take due account of the efforts and need to connect the infrastructure in BSR, such as the Rail Baltic project.

- **"Increase Prosperity"** aiming to secure a 15 % increase in the volume of intra-regional trade and cross-border services by 2020: it is highly important that the EU internal market is completed and its functioning strengthened further. However, trade and economic cooperation with neighbouring Russia should also be actively facilitated through the further harmonisation of laws, regulations, customs and other procedures to spur cross-border economic activity. Stimulating entrepreneurship and SMEs is an important aspect here.

- **"Save the Sea":** increased cooperation between the maritime surveillance authorities of all the states concerned should be prioritised, as maritime transport in the Baltic Sea is growing rapidly and the risk of a maritime man-made catastrophe is growing by the day. Serious attention must also be directed to securing the competitiveness of BSR maritime transportation and industries relying on maritime transportation. This is of urgency for instance in the implementation of EU's sulphur emission directive.

There are two additional issues, which the Baltic Sea Region Programme should focus on, in coming years:

- Efforts to strengthen cooperation on innovation, research and development between the countries. The "Baltic Science Link" project, already established, is a dynamic platform for strengthening networks between industry, universities and research institutes.

- The region is good at implementing sustainable development policy in many sectors, but there is considerable room – in terms of both performance and perception – to do more to credibly position the BSR as a green region and a global frontrunner in the 'green' sectors, thus facilitating investment in 'cleantech' and renewable energies.

European business firmly believes that the EUSBSR should aim at reinforcing the strength and competitiveness of the countries concerned in order to improve welfare in the region and at continuing its contribution to the European integration process. BSR can serve as an example for the other macro-regions, but is also able to contribute to the success of the European common policies, such as: single market, energy, sustainable development, SMEs, social cohesion, trade, transportation and neighbourhood policy.

Business supports the conclusions of the 9th Baltic Sea States Summit (in Stralsund, May 2012) which underline the vision that BSR has the potential to become one of the most prosperous, innovative and competitive regions in the world. This would require above all purposeful further efforts to complete the internal market in the region (above all through harmonisation of rules and regulations) even in case this would not be achievable with the same speed in whole EU. Also the participation by all countries in the region on equal terms in the BSR further cooperation would be a prerequisite for a prosperous outcome.

Filip Hamro-Drotz

Senior Advisor

Confederation of Finnish Industries EK

Finland

Pohjola's growing interest in the Baltic markets

By Jorma Alanne

Pohjola Bank plc is a Finnish financial services group which provides its customers with banking, non-life insurance and asset management services. Its Banking segment serves corporate customers in Finland and on an international scale by providing an extensive range of financing, investment and cash management services. Pohjola is Finland's second largest corporate lender with a market share of 20.7 per cent. Pohjola is part of OP-Pohjola Group, the leading financial services group in Finland with more than four million customers.

Continued economic recovery in the Baltic countries

The three Baltic countries are quite similar with respect to their economic development in recent years and the outlook for the next few years. The countries plunged into difficulties because of overheating economies before the global financial crisis of 2008–09. The financial crisis deepened their slump significantly, considering that their total output fell by almost a fifth. They had to fix their economies through internal devaluation, which meant cuts in labour costs and redundancies in order to improve productivity.

The Baltic countries began to make better progress in their recovery in 2011 and the recovery will continue in the next few years although the sluggish global economy and the European sovereign debt crisis, in particular, will slow their economic growth. This recovery is mainly based on exports boosted by improved competitiveness. In all of the three countries, export volumes have already exceeded their level prevailing before the slump. Consumption and especially fixed investments, or domestic demand, are nevertheless much below their level before the slump. Although unemployment has decreased, it is still high. That government debt is small by international standards and national budgets are almost balanced give more economic policy leeway in all of the three Baltic countries.

Much growth potential in the banking sector

Major Nordic banks dominate the banking sector in all of the Baltic countries. Following the dissolution of the Soviet Union, banks channelled financing to the Baltic region and increased their lending quickly and more than would have been possible with local resources. This also helped the development of the local banking sector.

The Baltic nations were also hit by the global financial crisis in late 2000s. Customers' financial difficulties caused big loan losses, making the banking sector plunge into a loss during 2008–10. However, Nordic parent companies were able to continue to provide local banks with financing and the countries did not actually see any run on banks. On the whole, the banking sector held up pretty well and, for example, Parex Bank in Latvia, a local bank lacking the support of a strong parent company, was the only bank that needed government aid.

Later on, banks have cleaned up their loan portfolios and moved into profit after 2010. They have tightened their lending criteria and enhanced their risk management. The time of the heaviest losses is over and customers' financial standing has improved. Selective lending has seen a revival although total loans as a whole have decreased for several years in a row. Nordic banks boast good credit ratings and have had access to funding in international financial markets almost throughout the crisis period and have also been able to channel these funds to the Baltic region. In the meantime, local banks hinge on deposited funds in their financing. Banks under pressure to make profit have also cut costs by, for example, reducing their staff.

The Banking sector in the Baltic countries is still small on a European scale in relation to the size of their economies. The sector has still a lot of growth potential as the economy grows and people become more prosperous. Considering that the European debt crisis is, however, slowing down growth in the Baltic region too, developments in the banking sector will largely depend on the world economic situation.

Pohjola in the Baltic countries

Trade and dealings between Finland and the Baltic countries have increased year by year. An increasing number of Finnish companies are looking for new business opportunities and are expanding their business in the region. For example, more than 4,000 Finnish companies are currently operating in Estonia and some 300 in Latvia.

Pohjola will respond to customer needs by extending its branch and service network in the region. Knowing our customers' needs and finding optimum solutions for them – plus being close to customer – form an integral part of the way we do business. Pohjola has already operated in the Baltic region for almost two decades through non-life insurance company Seesam. As a result of the acquisition of K-Finance corporate financing business in 2008, Pohjola began to provide finance lease services. Pohjola's Estonian branch office launched its customer services in 2011 and its business is growing strongly thanks to brisk demand for payment services in particular. In September 2012, we opened a branch office for corporate customers in Riga and we have a plan to do the same in Lithuania.

The Baltic countries play an important role in our strategy and in the improvement in international service capabilities in the years to come too. These countries form a vital and interesting region in economic and cultural terms. Even if the region looks homogeneous through the eyes of an outsider, nuanced cultural differences and differences in the markets occasionally present challenges to management. Finding the right professionals and their recruitment will be at the core of building our branch network.

Jorma Alanne

Executive Vice President
Baltic Banking

Pohjola Bank plc

Finland

Why some companies succeed

By Keijo Koskinen

Businesses have three central objectives. First and foremost, they must be profitable, i.e. they must produce sufficient resources for their owners to enable further business development. Second, they must produce quality products and services for their customers. And finally, the third objective of any company must be to function as a nurturing social community for its employees. Time has shown that both customers and staff who are treated poorly will soon show their displeasure by finding the door. A company's failure to deliver on any of these fundamental issues will prove fatal to its operations sooner or later.

It is in the area of professional competence that these three business objectives are most clearly intertwined. If a company's key know-how and leadership have not been fostered appropriately and are allowed to reach the end of their life cycle, it is inevitable that problems will soon escalate.

Over the last 15 years of my career I have become acquainted with hundreds of Finnish companies and their management personnel. The vast majority of these firms were significant players on the international stage, both in terms of their size and their expertise. I have long been intrigued by the reason why some of these companies enjoyed or went on to astonishing success and why others did not. I recently set out to gather together the notes I had collected on my visits to these companies with the purpose of completing a grounded analysis. The premise behind this B2B customer work was my work using process consultation methods[1] to discuss the company's situation with the customer and jointly discover the real needs of the organisation. Then together we would work to devise a beneficial solution. My analysis of this material from these meetings does not go to far to encompass such market phenomena as cartels, embargos, and corruption, which are fortunately quite rare in Finnish commerce. Instead, I chose to focus on know-how and leadership alone.

My analysis produced some interesting observations. Of all of the areas that had an effect on success, strategic development seemed to be the one that companies devoted the least time to actively developing. Investment in the enhancement of various kinds of tangible know-how also appeared to be quite constant from one point in time to the next; after all, a certain amount of effort must be made in order to simply preserve the company's current expertise, if not to advance it further. It is nonetheless clear that a basic requisite for market success is adequate company management of its fundamental and auxiliary know-how, in addition to its core capabilities[2].

A surprising finding is that all of the companies apparently have a glaring need for the development of so-called "enabling skills". We could also speak here of organizational operations development. The statements below are representative of the environments prevalent in the analysis companies, in particular the everyday hectic operative workload of its middle management:

"The company has reached a point at which it would be good to move from a problem-centred, result-oriented management approach to a broader employee-focused management approach that fosters motivation and a good work environment."
"After the merger, the language and cultural barrier has restricted all prudent activity."
"The root cause of our difficulties is the amount of unproductive work that takes place in our processes. We have the skills, but not the efficiency."
"Each of our units is plagued by a culture of stanch autonomy and self-interest."
"Our biggest challenge is a lack of staff commitment to the company; 20% of our employees leave their brain at the door when they come in to work in the morning."
"There should be a way to disseminate our tacit knowledge in order to safeguard the company's core competencies."
"We can't get the high number of faults on our main production line under control."
"Our production bottlenecks keep changing and we can't get a hold on it."
"The start up of our new production plant must succeed or else…"

A sufficient growth in production is a key indicator of the vitality of national economies on a macro level. The pillars of a healthy economy are in turn successful companies. Company productivity is inextricably linked to its competencies. Businesses have traditionally sought to improve their capital intensity by increasing and investing in technology, but they have also invested in other forms of non-material capital and know-how as well. Professional competencies naturally have an extraordinary leveraging effect on any kind of investment.

It is imperative that companies are able to identify and admit their situation when they have come to a point where sluggish or negative growth can no longer be suitably addressed with decisions to purchase larger, more advanced equipment. If the company's concept is ineffective, the law of diminishing returns will inevitably warrant that each investment in the system will produce a lesser result. Consider one of the central challenges facing the production industry today: the escalating number of unfinished products that tie up capital. Instead of investing in more machinery, the solution should favour systematic elimination of the impediments to smooth operation – in other words, fluid production.

A successful company cannot develop itself successfully if it seeks to simply run the same race indefinitely. To thrive, it must eventually gain a mastery of every single sport. Constant changes in the global business environment add their own degree of difficulty, no doubt. But few businesses operate in a penalty-free environment, as every performance and result is greatly influenced by a myriad of internal and external factors.

For businesses and their employees, the practice of keeping company know-how and operational processes up-to-date is like taking out a life insurance policy. At the same time, it secures a license to carry on and enhance the business further. Although it is true that many successful business concepts can be based on outmoded technology and conventional structures and methods, even these require a healthy dose of astute business know-how to succeed. Without inspired leadership and the proper nurturing of competencies, companies will find that nothing can save them in the long-term – not even an impressive balance sheet.

Keijo Koskinen

Key Account Manager

AEL

Finland

[1] Schein, Edgar H. Process Consultation Revisited. Building the Helping Relationship. Addison-Wesley Publishing. 1999.

[2] Long, Carl & Vickers-Koch, Mary. 1995. Using core capabilities to create competitive advantange. Organizational Dynamics, Summer, pp. 7–22.

Event sourcing: a new approach to destination marketing – case City of Turku, Finland

By Janne Tienpää

Tourism covers roughly 2,5% of Finnish total GDP – that is the sector is now a 'marginal' revenue-maker in our country. However, travel industry as a whole (including personnel on ferry cruisers) is a substantial employer with approx. 64.000 employees.

For specific reasons (accessibility, major tourism investments, historical consumer behavior) four major parts in Finland are more important tourist regions than the others. From south to north these are southern archipelago (including the Aland islands), Helsinki capitol area, 1000 Lakes district and Lapland.

City of Turku is the main gateway to the wonders of the archipelago.

Turku – the port to Scandinavia

Turku with its 179.000 inhabitants lies at the Aura river estuary. Also known as the oldest city in Finland (founded in 1229) this former capitol is situated in the south-west part of Finnish mainland. After the Swedish kingdom lost a war to Russia 1809 and was forced to hand over Finland to its eastern rival and it was announced soon by the new rulers that capitol was to be transferred eastwards – that is how Helsinki actually was given a birth. Statesman, university authorities, flamboyant bourgouise moved to new surroundings and gradual degeneration started in Turku. Finland gained its independence in 1917 after Russian revolution and status of Turku again high-rised. Busy harbour and active business contacts to Stockholm region helped the growth in the area. Also large-scale shipyard industry flourished tempting new labour to the city. Nowadays the whole sea cluster in the region gives work to more than 20.000 Finns.

Culture capital of Europe

Turku was the official culture capital of Europe 2011 together with another well-known Baltic city: Tallinn.

The capital year was a great success: approx. 2,2 million visitors from all over Finland and abroad were more than satisfied. And so were the city authorities. City of Turku invested totally 36 million euros to the culture capitol project during 2008-2011. Number of hotel nights in Turku region were +7% higher comparing previous year. It is calculated that total extra revenue to the region was 260 million euros which is 60 million euros more than expected. Most of the revenue increase comes from tourism. This is a clear sign that travel industry has poteantial ability to grow even further.

Turku Touring – a key player

The official tourism organisation of city of Turku is called Turku Touring. Its manages both BtoC and BtoB marketing and does broadly cooperation with local tourism operators (hotels, aircarriers, cruise companies etc.) and has managed to market the city remarkably well. For instance the New York Times gave top ranking to Turku and praised the city as 'one of Nordic Europe's best kept secrets. A fine example of well-implemented marketing strategy of Turku Touring.

The city and Turku Touring now focus on event 'hunting'. Major events are professionally monitored everywhere whether there is a possibility to rise interest to come to Turku. Last year Turku hosted also Power Cup volleyball tournament with some 7.000 attendees – a largest volleyball event in Europe! All kind of events are welcomed: sports, cultural, scientific, political plus various concerts & conferences.

Destination marketing in practice: combining business & leisure

There are approx. 2300 hotel rooms in Turku and room occupancy 2011 was 58,8% while at the same time in Finland it was 49,7%. High season is during summer months and July being the peak month. The leading hotel operator in the area as well as in Finland is S-Group Hotels representing both Sokos Hotel and Radisson Blu Hotel brands.

One of the most popular hotels is Sokos Hotel Caribia. Located on the edge of the city center this hotel is a resort-like activity center combining both business and leisure customer needs. Sokos Hotel Caribia has a spa and congress center with easy accessibility. Caribia Arena at the facility hosts annually various major events: concerts, conferences, sports events, various fairs etc. During the past three years the hotel has focused especially to major-scale events & productions. As a result of this hotel has managed to have a steady inflow of revenue all year round, that is seasonal variations are now less than some years ago.

This is due to the following tactics: ability to combine city's or region's attractiveness to a selection of social interest activities at the resort hotel and further use story-telling marketing strategy to be able to create more value to potential customer segments. And the story goes on. After culture capitol of Europe year 2011 the statistics show that number of nights in Turku has decreased while at the same time Sokos Hotel Caribia has sold more this year compared to last year! This result underlines the importance of event sourcing. It also emphasizes the power of long-term strategic & tactic planning.

Janne Tienpää

MSc in Geography and Economics

Senior Sales Manager

S-Group Hotels Finland

Finland

State-financed investment – the Achilles' heel of Russia's rents-addicted economy?

By Janne Hirvonen

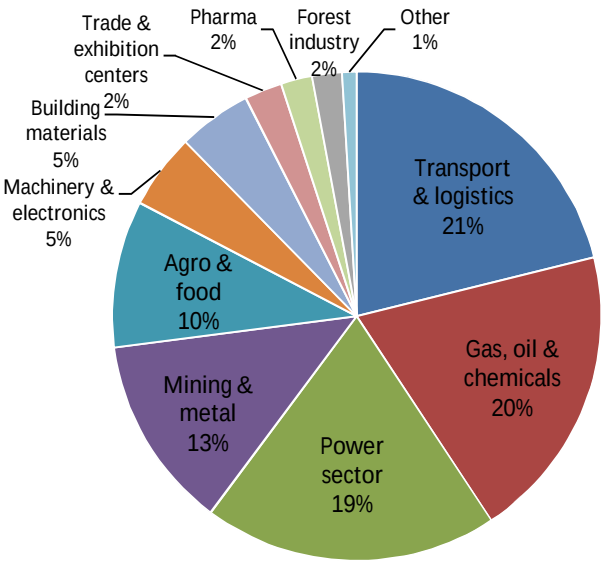
Compared to our earlier survey, real investment activity has moderated somewhat in Russia. From May 2011 to July 2012 some 286 major investment projects worth a total of $86.5bn[1] were announced, under construction, or in the commissioning phase.[2] The value of individual projects ranges from $11m to $10.8bn and over 40% of all projects involve state money. A vast majority (71%) of the investments are from federal investors. Regional and foreign capital investors provided a smaller, but fairly similar shares of investment, 15 % and 14 %, respectively.

The charged investment atmosphere in the second half of 2011 ahead of the Duma elections faded by early 2012 as it became clear private sector investment was decreasing. In 1H12 the flow of fixed investments gained momentum from a substantial boost in state-financed projects.

The transport and logistics sector was the largest real investment category with investments totaling $18.2bn. The second- and third-largest project categories were gas, oil and chemical industries, and the power sector (Figure1). In terms of the number of investment projects, agriculture and food industries ranked first with 69 projects (total value $8.4bn). Despite continuous efforts to diversify Russia's industrial base, investments in high-tech production was still minimal.

The largest investment projects involve the transport and logistics sector; gas, oil and chemical industries, and the power sector. Transneft's ESPO-2 ($10.7bn) and BPS-2 ($3.3bn) pipelines are by far the largest transport and logistics sector investment projects. The oil refining sector has experienced an investment boom, outdoing even highly capital-intensive metallurgy. Kinef, a subsidiary of Surgutneftegas, is building a $2.9bn oil refinery in the Leningrad region. Rosneft's $2.3bn modernization project at the Tuapse oil refinery will boost its refining capacity from the current 5m tons to 12m tons. LUKoil´s $3.7bn natural gas & chemical complex in the Stavropol region is expected to become one of the industry's largest in Russia.

Figure 1. Main real investments in Russia (% of total, $86.5 bn, May 2011-July 2012)



Source: East Office, Ekspert, NSSRF

Most of the 40 investment projects ($16.8bn in all) in the power sector were state-financed. The state seems determined to modernize the industry's out-of-date infrastructure. Rosatom, the state atomic energy corporation, is developing a $4.5bn nuclear reactor investment in the Sverdlovsk region. Network companies, such as FGC UES and MRSK, have announced 11 investment projects worth over $1.5bn involving building new or fundamentally modernizing old electric substations.

Mining and metal industries have continued to attract investment. OMK's $1.5bn plate rolling mill in the Nizhny Novgorod region is among the most substantial projects. Foreign investors have a strong presence in the machinery and electronics industries and thus a vast majority of the investments involved foreign capital. The automotive sector, along with heavy machinery, continues to lead the sector.

The high investment activity in the agricultural sector was largely a reflection of federal subsidy policies that provide investors with easy access to funding and the relatively low cost of capital. In May 2012, Cherkizovo group, Russia's biggest meat producer, announced it was putting on hold new investments in pork production until the impacts of Russia's WTO accession clarify.

Investments of established operators drove investment in building materials production (23 projects with a value of $4.2bn). The biggest projects were Holcim's $660m investment in a cement production line in the Moscow region and Lafarge's $600m investment in cement production in the Kaluga region. The forest industry has 13 investment projects (total $1.7bn) although the *Ekspert* data omits several substantial projects. The $400m wood processing complex in Arkaim on the Pacific coast in

[1] *Projects exceeding US$11m*
[2] *Ekspert Business Weekly issues 37(770), 50(783), 16(799), 23(806), 36(818); NSSRF; East Office*

Vanino, Khabarovsk Territory, was by far the most expensive investment on the menu.

Both foreign and domestic investors announced several retail trade investment projects ($2.1bn) including Metro Cash & Carry's and Auchan's projects. The pharmaceutical sector saw 15 sizeable investment projects (total of $1.8bn) that included 11 pharmaceutical plants. Novo Nordisk, the world's leader in production of diabetes medicines, broke ground on a $100m plant for the production of insulin cartridges in Grabtsevo, Kaluga Region.

The state-financed projects have sustained investment activity at a relatively high level. In his third inauguration speech, President Putin ordered the government to boost investment from 20 % of GDP to 25% by 2015. Even more important for the long-term success of the economy beyond increasing the investment ratio would be to diversify Russia's industrial base.

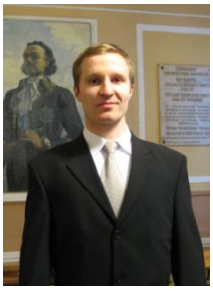
A possible external price shock and subsequent implementation of a tighter budget rule would effectively force the state to cut back on investment in the real sector. As long as Russia's economy remains vulnerable to external price shocks of commodities, the dominance of state-financed investments can be considered the Achilles' heel of Russia's rents-addicted economy.

Janne Hirvonen

Analyst

East Office of Finnish Industries, Helsinki

Finland



The impact of investment climate on the ease of investment: a comparison between Russia and the Baltic States

By Markku Sippola

Russia's economic modernisation programme seeks to render the country's industries more efficient to meet international competition. One way to do this is to attract foreign investment in the country which will provide the manufacturing and other sectors with necessary technology transfers and knowledge spillovers. For foreign investors, the path to Russia is still thorny. For big businesses, there is the domestic Foreign Investment Advisory Council and a number of foreign lobbies, such as the East Office of Finnish industries, to facilitate investments in Russia. However for SMEs, the Russian environment is continuously hard to invest in (U.S. Department of State: Investment Climate Statement 2012).

Also in practical terms, the focus of the Russian government to attract investment has been on big multinational companies. Large forest sector companies have been granted a 'prioritized investor' status. Inspired by the huge consumer market and the reduced customs duties, the larger manufacturers of cars and auto components have set up industrial assembly units in the country. The Skolkovo 'technopark' will house up to 1,000 start-ups in the near future, but those firms only exhibit the most innovative, high-risk and high-gain young enterprises. As to the ordinary SMEs and the other regions of Russia, the development is still mostly stagnant.

With regards to the ease of investment, we can make comparisons to the Baltic States, who have had in economic terms a similar starting point as Russia had in the 1990s. I have had an opportunity to do research on Nordic-owned manufacturing companies in both Russia in 2011-12 and the Baltic States in 2004-08. The emphasis on large companies is seen especially in my Russian case study companies: while four parent companies out of the twelve cases in my Baltic sample were SMEs, there were no SMEs among the investigated seven companies in Russia. Although I do not have any SMEs in my Russian sample, I can grasp some of the difficulties foreign SMEs might encounter when entering Russia: three out of the seven researched factories had adopted a small-steps investment policy even though by virtue of their size in the home country they would have had resources and also willingness to make bigger investments. Although having been in Russia for years, these three firms still had less than 100 workers in Russia, the entry mode was predominantly 'brownfield', and they still assumed a careful stance towards Russian authorities and business environment.

Somewhat the small steps in Russia seem forced to be smaller than those in the Baltic States. In Russia, the cases encompassed an unsuccessful launching of production in an industrial park (Agrotehnika), disinvesting from unprofitable business – and consequently a shift from large steps to small steps investment (Mashina) and a search for suitable premises (Stal). In the Baltic States, some of the case companies also assumed the 'small-steps' investment policy, but there the cases exhibited a successful production launching in a Nordic industrial park (Steel Works), greenfield entry (Profile Maker), the utilization of a peripheral location and its cheap local labour force (Foodstuff) and the employment of skilled, locally supplied labour (Medicament); in other words, the Baltic cases resembled the liberal market economy setting more than that of the transitional market economy.

As regards the larger-steps investment policy, my evidence exhibited a clear distinction between Russian and Baltic environments in firms' approach to public relations. In both contexts, PR was highly relevant. In Russia, the cases evidenced that the relationships with local authorities need to be established before the investment and actively maintained since then, whereas in the Baltic States, local PR is rather being done in order to maintain good supply of labour. In other words in terms of larger investment, those Nordic manufacturing companies investing in the Baltic countries seek to become 'agents' rather than 'patients' for the localities. That is to say, enterprises that make localities dependent on them are called 'agents', and enterprises on which localities are not dependent are called 'patients'.

In the light of these cases, it seems obvious that we can speak of the end of the transition period to a market economy with regard to the Baltic societies but not yet as to Russia. The 'transitional' phase of Russia is most strikingly seen in the degree of friendliness – or unfriendliness – towards foreign SMEs. It follows that for the Russian government, it would pay off to smooth small steps investment by offering facilities for investment that are freed from short-term local interests of the authorities (perhaps benchmarking from the Baltic States); and to switch the focus with regards to larger steps investments on the provision of labour (VET measures, welfare and housing provision, perhaps benchmarking from the Nordic countries) rather than on how the large investment would benefit the locality in terms of taxes, rents and revenues.

Markku Sippola

Postdoctoral Researcher

Karelian Institute

University of Eastern Finland

Finland

Nordic-Baltic defence cooperation: opportunities and challenges

By Martin Hurt

The total population of the Nordic and Baltic region amounts to 32 million people, which makes up only 6% of Europe's population. Hence the region holds a fairly modest position in Europe in terms of population size. At the same time, the Nordic and Baltic countries are surrounded by a relatively similar security environment where Russia does not pose a military threat to them, but still affects the whole region due to its fitful nature and inadequately contained aggressiveness. The region's defence forces are quite small-sized with capability development and materiel procurements becoming increasingly more difficult for them due to defence budget cuts and increased appreciation of military technology. After all, the Nordic and Baltic countries are rather small and therefore less attractive customers for the huge international arms industry compared, for example, to Southeast Asian nations with their rapidly growing economies.

The Nordic-Baltic region has traditionally put great emphasis on transatlantic cooperation. However, the US pivot towards Asia raises the issue of how to remain relevant in the longer term. The trend towards downsizing in the defence forces is accompanied by an increase in dependence on allies, partners and especially neighbouring countries with whom many qualities are shared. Cross-border defence cooperation takes on new significance as the need to retain existing military capabilities through joint training activities and large-scale investments is getting more pronounced.

Although constantly deepening bi- and multilateral cooperation has become commonplace, there are still several factors that undermine the development of Nordic-Baltic defence cooperation.

The first factor is, of course, the historical tradition to treat national defence mainly as an activity conducted by a state to safeguard its independence. All Nordic and Baltic countries are currently members of either NATO or the EU (or both), which is why the development of military capabilities should not be solely based on each nation's individual needs, but should take into account NATO's and/or the EU's requirements and developments in their entirety. Every wasted euro affects not only one nation, but all allies, all partners and their ability to implement the decisions adopted by their heads of state.

Another complicating factor is a preference for domestic defence industry and research institutions – a preference that stems from internal politics and has been expressed more or less vocally. This category also includes decisions based on local political considerations to retain units without military relevance in the international context.

All people active in the field of national defence have not yet linked into the global social network that contributes to joint defence development. There have been major language and cultural barriers in the cooperation between the Baltic states on the one hand, and the Nordic states on the other. Fortunately, these are gradually beginning to disappear in connection with deeper cooperation.

Despite the challenges, Nordic-Baltic defence cooperation also provides ample opportunities which so far have been exploited only to a limited extent.

Nordic defence cooperation dates back to the Cold War era. The present cooperation framework NORDEFCO was launched in 2009 to strengthen the participating nations' national defence, to explore common synergies and to facilitate efficient common solutions. In January 2011, the Baltic countries were also invited to join in, but initially only in three selected areas of cooperation: education, veteran and gender issues. However, none of these contributes directly to the establishment of Nordic-Baltic military capabilities or to the creation of considerable synergy. At the moment, Nordic-Baltic defence cooperation is far from reaching the level of pooling and sharing, not to mention smart defence. Admittedly, the Nordic countries work closely together, but the Baltic states still lag behind in their involvement.

From the perspective of the young Baltic nations, the Nordic armed forces seem extremely well developed and highly experienced. The Baltic countries have much to learn from every Nordic country, be it a member of NATO or merely of the EU. The building of national defence from scratch is a time-consuming process which requires financial resources as an input, but it cannot do without experiences either – otherwise the resources will be easily squandered. The Baltic defence forces still have a lot of potential, which is why they definitely need support in the form of joint exercises, joint procurements and personal cross-border contacts.

The Nordic Battle Group (NBG) has provided a fine example of joint capability to which Sweden, Finland, Norway and Estonia (plus Ireland) have contributed to date. Sadly, the NBG is by default only of a temporary nature, having been on standby twice – in 2008 and in 2011. If the Baltic countries expect increased military visibility from NATO and EU members on the eastern coast of the Baltic Sea, they must all join the NBG. In addition, it would be justified to ask why only Sweden must fulfil the leadership role in the NBG – maybe the responsibility should rotate, so that Finland, Norway and a Baltic country could also bear the brunt of leadership?

Martin Hurt

Member of the Executive Board

International Centre for Defence Studies

Estonia

Unconventional resources and energy security in the Baltic Sea region

By **Jonas Grätz**

Unconventional oil and gas resources – i.e., oil and gas resources that cannot be recovered by simply tapping a reservoir – have contributed to a paradigmatic change in the energy security debate: It has shifted from the zero-sum Malthusian predictions of the mid-2000s, which foresaw a permanent decline of physically limited production and yet greater political dependence on a few suppliers, towards the concepts of technological advancement, economic opportunity, and territorial diversity. The concurrently increasing globalisation of the gas market has been aided by improvements in the technology for liquefying and transporting natural gas (LNG). The prospect of a "Gas OPEC" that made the headlines just a few years ago has now become a very unlikely prospect.

Due to the hype one could be forgiven to forget that the "unconventional revolution" requires a geological base, too. It is taking place mostly in North America and in Australia so far. It is here that the vast resources of tar sands and light tight oil as well as shale gas are located and where the population has so far accepted their extraction. Mainland China may also have big reserves of shale gas, but it remains to be seen whether it can replicate the North American success, especially as the geological conditions might be far more difficult. The Baltic Sea region has attracted some attention recently, particularly Poland. But difficult geology means that the shale gas prospects are still uncertain in Europe.

With regards to unconventional oil production, the Baltic Sea region is the leader in the EU. This is due to the Estonian shale oil industry, which produced 0.5 million tons of oil from oil shale in 2011, a figure only surpassed by China. This has aided the Estonian economy and energy security, but wrecks the country's climate scorecard.

As the impact of Estonian production on oil markets is negligible, it is primarily global gas markets that transmit the benefits of unconventional resources to the energy importers in the Baltic Sea region. Traditionally, they have been relying on gas supplies from Russia, which makes a lot of sense due to transport economies, but poses risks for energy security. As the US market is saturated with cheap natural gas, LNG has become available in greater quantities and at lower prices. In line with the economic slump that helped depress energy demand and reorient EU funds towards infrastructure spending, this has opened a window of opportunity in the region. Also, the EU Commission has become more active in promoting a common gas market against the background of the changing global market fundamentals.

Aided by the injection of EU funds, several LNG terminals are being built or planned: Poland is building an onshore terminal in Świnoujście, and Lithuania will lease a floating storage and regasification unit to be installed in Klaipeda from 2014 onward. The unit is currently being built in South Korea. Estonia and Finland are still discussing on which side of the Gulf a third terminal should be constructed. In addition, planned pipeline interconnectors between Poland and Lithuania and also between Finland and Estonia will create the first interlinked Baltic gas market.

But the flurry of projects also points to a lack of coordination in the region, putting a question mark behind the economic rationality of the national diversification policies. Russian gas is certainly expensive, but so is the construction or lease of an LNG terminal for a tiny gas market. For example, over a quarter of Lithuania's natural gas is used by the Achema fertiliser company, which receives gas from Gazprom under a separate contract. The market for LNG will therefore be quite limited without additional coordination. Baltic rim importers therefore need to coordinate their diversification strategies better to be able to reduce the economic cost of diversification.

Meanwhile, the dynamics of diversification serve to expose further cracks between Russia as a resource exporter and the net energy importers of the Baltic rim, as it simultaneously blunts Russia's ability to use gas as a tool of political influence and is eroding Gazprom's market share and profits. Russia is still extremely dependent on the revenues from its oil and gas exports, as well as from other raw materials – a situation that has not improved much in recent years. As a result, Gazprom has been pushing for its oil-linked natural gas prices throughout the EU, rejecting a volume-based strategy over high prices. This was predicated on the hope that the glut would come to an end sooner rather than later.

The problem is that the economic model the Kremlin wanted to capitalise upon seems no longer so viable, while it has not developed the means to reform the economy or even adapt it to changing circumstances. Instead, the Russian political system is entrenched and geared towards short-term survival. In this context, the wrong choices are being made: Putin opted for more, not less repression in his third term. Russian WTO membership is also witnessing a bumpy start, indicating that the Kremlin wants to use its membership to influence global rules rather than to comply with them. "Modernisation" is increasingly understood in terms of bolstering the defence industry. Neither has the Kremlin abandoned or reduced Russia's ambitions as one pole of a purported "multipolar world order", a claim that serves to deflect attention from the problems at home.

The growing gap between the Kremlin's goals and the available economic means implies that Russia may act even more stridently and unpredictably in the near future. The spot to watch is the Caucasus, rather than the Baltic rim. In the longer term, Russia's clout over the EU might increase notwithstanding the unconventional boom, if the EU's economic crisis will be overcome and as the "Arab Spring" is showing repercussions on energy markets. But currently, opportunities are huge for energy importers of the Baltic Rim. If opportunities are grasped in a coordinated way, structural changes will be profound and will endure, even if the supply picture should darken in the future.

Jonas Grätz

M.A., Researcher

Center for Security Studies (CSS) at ETH Zurich

Switzerland

Euro-Arctic cross-border cooperation for development of the Russian Arctic offshore oil & gas reserves

By Mikhail Grigoryev

Development of the Arctic zone is one of priority goals and challenges for the Russian Federation. It means the solution of two tasks – exploitation of natural resources, first of all – hydrocarbons, and establishment of a global Europe-Asia transport corridor – the Northern sea route (NSR). These processes are interconnected: creation of modern transport schemes for supplies of equipment and materials for development of oil&gas fields and for deliveries of products to markets of Atlantic and Asia-Pacific region promotes development of NSR infrastructure. It reduces navigation risks and makes sailing by NSR more attractive for transit transportations of different cargoes, and growth of cargo shipping should lead to decrease fees for icebreaking and other services, reduce insurance expenses that also favorably affect navigation development.

The effective solution of both tasks is possible only in terms of intensive international cooperation – development of the Arctic technologies, unified/harmonized standards for the industry, communication and other infrastructure, personnel training, etc.

Challenges of the international cooperation for protection of fragile Arctic ecological systems have special importance. It concerns not only mitigation of industrial impacts on Arctic environment, but also on development of preventive measures to decrease negative processes for nature. Considerable climate change processes not only open access to exploitation of natural resources and development of the Arctic navigation, but defines emergence of the negative natural processes with consequences that we may still not understand well enough – first of all, melting permafrost and methane gas emissions.

We have to consider indigenous people as essential element of existing ecosystems. When planning the exploitation of natural resources of the Arctic, we should ask one question – whether there is life after oil? All possible efforts should be undertaken to ensure that short, in historical aspect, stage of development of exhaustible mineral resources would not bring us to ecological and social cataclysms.

Exploitation of natural resources of the Arctic and development of new transport corridors is requirement of all mankind, therefore Russia realizes responsibility for sustainable development of the region within constructive international cooperation. A basic condition is a stable legal platform, first of all in the sphere of the international relations. Russia supports observance by all states, including non-coastal, historically developed legal regime of the Arctic fixed in a number of international agreements – the UN Convention on the Law of the Sea (UNCLOS) and others.

Development of the region is leads from west to east. It is connected with development of onshore and offshore oil and gas fields of the Barents Sea region (the impulse to the process was given by the Russian-Norwegian Barents sea agreement), but also with building logistic structure for development of fields of the North-Western Siberia, first of all – Yamal, and with forming infrastructure of the NSR.

The western part of the Russian Arctic is the prime region for development; special importance is gained by interaction of Russia with its partners within the Barents Euro-Arctic Region, first of all, with the neighboring countries – Norway and Finland. From the Russian side, obvious participants are northern regions of the Northwest federal district – members of the Barents regional cooperation.

Pillars for development of the Russian Arctic are large investment projects – as realized at the expense of the federal budget, private investors and public-private partnerships. These projects are considered in several documents of strategic planning already approved by the Russian Government. Cross-border cooperation for the development of the Russian Arctic offshore oil&gas reserves will be carried out within the specific investment projects, based on the optimal international division of labor. It is necessary to mention the agreement for the Barents Sea between Russia and Norway which directly state the joint development of cross-border fields.

It is obvious that cooperation should be based on the developed economic relations and participants' experiences. Finland has exclusive experience in ice-class vessel design and construction (the majority of the Russian fleet of ice breakers and the strengthened ice class vessels was designed or constructed in cooperation with the Finnish experts), environmental technology, weather and ice condition forecasts. The obvious directions of the Russian-Finnish partnership in development of oil and gas reserves of the Arctic are shipbuilding, navigation, ice technology and environmental aspects. Cooperation in the field of the Arctic transport scheme and logistics are primarily connected with the NSR. In this case the number of partners from the Russian side extends for the eastern coastal regions - Yamal-Nenets autonomous okrug and others.

Cooperation with Norway obviously proceeds not only from participation in development of the fields (not only cross-border) on the basis of high technological and environmental standards, but also providing their logistics, being based on optimum distribution of deliveries through the Norwegian and Russian supply bases and terminals. Norway can also be the large consignor for NSR – oil and LNG, iron ores and other cargoes.

Mikhail Grigoryev
Co-owner and Director
Consultation Centre GECON

Expert
Scientific Council of Security
Council of the Russian Federation

Member
Coordination Council on Cross-Border and Interregional Cooperation under the Plenipotentiary of the President of the Russian Federation to the Northwest Federal District

Chairman
Expert Group concerning Development of Mineral Resources and Development of Transport System in Arctic Regions

The Russian Federation

The ”small” actors are the major actors

By Eva Hjälmered

The city you live in use a lot of energy, in order to make your city safe, attractive and to fulfill their duties. In order to have a more energy efficient future we need to focus on our efforts in reducing the consumption. Major players in consuming energy are our cities and municipalities. This can be considered a big problem. It can also be considered a big opportunity!

In 2009 a report was written about sustainable energy scenarios for the future by the Danish company EA Energy Analyses. They looked at energy perspectives for the Baltic Sea Region, how an agenda can be set for the future. The effects on the climate are global, borders are not restricted. The efforts need to be global as well, but we cannot leave the question “up in the air”. We need to look at the local level and at the individual level. In the report the authors highlight big tech versus small tech.

Small tech versus Big tech

The Small tech scenario focuses on distributed energy generation, energy savings and efficient utilization of energy through combined heat and power generation. This scenario assumes a high level of interconnection of the electricity grids in the Baltic Sea Region to allow for the integration of a high share of wind power. So-called ‘smart grid technology’ and improved communication between the different parts in the energy system play a key role in providing an optimal dispatch and efficient utilization of the energy infrastructure. The Big tech scenario on the other hand explores the opportunities of more centralized solutions. In the Big-tech scenario, almost all new coal and natural gas power plants established from 2020 and onwards will be equipped with carbon capture storage technologies (CCS). In addition, it is assumed that most new large coal power plants commissioned in the period 2010-2020 are prepared for CCS and retrofitted in the subsequent decade. The nuclear power capacity will be increased by 35 % compared to today. New nuclear generation capacity is presumed to be built in Finland, Lithuania and Poland, and existing nuclear power plants in Germany, Sweden and North West Russia will continue generation.

The results from the study show us that we do have the resources and technologies to achieve the targets set out. It also shows us that the effect of the Small tech scenario can give us a substantial reduction of the energy consumption, unlike the Big tech scenario.

Why are these results of importance?

As mentioned earlier the climate issues faces no borders, but policies and actions do. The Baltic Sea Region joins countries with very different economies and energy resources. The results show that major actions can be taken on a local and individual level that will have great importance. We do have the technology, and we have the science. What is missing is a strategy and decisive measures on a local political level. Energy is crucial when it comes to designing policies that meet the future challenges of developing renewed growth and prosperity in the region, competition and climate friendly new technologies. Keen political interest is taking in the Baltic Sea region in these years providing great opportunities for the region to shape its energy policies to develop and obtain prosperity. The report discloses some of the advantages of enhanced energy cooperation in the Baltic Sea Region based on facts and data. It illustrates that there is a huge potential for cost-efficient energy savings and energy efficiency measures through a stronger coordination of the energy policies across the region.

UBC works practically on the local level

It is time to highlight the actual part the cities and municipalities play in a more energy efficient and sustainable future. The Union of the Baltic Cities (UBC) acts on a local level. It is a network of cities and municipalities around the Baltic Sea Region. The focus is the local level and how we can cooperate and help each other. We choose to work with practical examples that can give inspiration, information and guidance. I would like to give you two practical examples in our energy efficiency work; lighting and buildings.

Lighting

Lighting effects how we feel, what we feel and how we perform at work. Providing street lighting is a very important – and expensive – responsibility of a city! Lighting can account for up to 38 % of the total energy bill in a typical city worldwide (NYCGP 2009). Inefficient lighting wastes significant resources each year, and poor lighting creates unsafe conditions.

The light has several functions. For example we need light for orientation, for recognition of small details, for creating a special atmosphere, for feeling safe. A working space, where people work for several hours requires other lighting than a space which is just meant for relaxation or transition to another space.

By converting the public lighting to more energy efficient lighting, in our case LED lighting, significant amounts of energy and money can be saved while making the cities safer and more attractive.

Buildings

Another example is buildings. There are several technical solutions allowing improvements in the housing energy efficiency. Of the introduced solutions, improved insulation, control of the heating, and sufficient ventilation with heat recovery are seen as effective methods to improve both housing energy efficiency and quality of living. Renewable energy sources are available in different scales, and for instance micro CHPs can provide additional option for using natural gas.

Both when it comes to lighting and buildings, these are a large budget post in the municipalities’ energy costs, and huge savings can be made. We know that financial incitements are very effective. To become more energy efficient is a big goal in itself, but to save money in doing so gives a clear push in the right direction. By cooperating on a local level we can learn from each other, become more energy efficient and make a big difference in becoming a sustainable region.

Eva Hjälmered

Head of Secretariat

UBC Energy Commission

Union of Baltic Cities

Energy infrastructure projects in Lithuania

By Eugenijus Uspuras and Vaclovas Miskinis

The energy infrastructure is crucial for stable economic development in any country. It should create opportunities to supply fuels and energy technically safe, reliable in terms of supply security, environmentally friendly and at acceptable social costs. During five decades the Lithuanian economy and the energy sector were fully integrated into the Former Soviet Union. Therefore capacities of the main power plants and oil refinery were planned and constructed with intention to meet not only the growing country's internal energy demand, but also the needs of a much larger North-Western region of the Former Soviet Union. In principle energy infrastructure inherited from its Soviet past was inappropriate in terms of country's size and access to primary energy, and in some respects was not enough reliable and technically safe. Many efforts were done to convert the Lithuanian energy sector into a new structure but many projects of the energy infrastructure are still not implemented.

The Lithuanian power sector was oriented towards large electricity consumption, as well as towards considerable exports. However, after closure of Ignalina Nuclear Power Plant in 2009 more than half of required electricity is imported from neighbouring countries (mostly from Russia). Lithuanian Thermal Power Plant currently is the major electricity generation source. But its units constructed in 1960's and 1970's are inefficient and are not competitive in the electricity market due to high price of natural gas. Since 2013 the gap between electricity generation and consumption will be reduced due to commissioning of modern combined cycle gas turbine unit with a capacity of 455 MW at Lithuanian TPP. Construction of wind power plants with capacity of 500 MW as well as cogeneration power plants using biomass with capacity of 355 MW is foreseen in the National Energy (Energy Independence) Strategy until 2020. One can expect that contribution from renewable energy sources into balance of electricity consumption will increase during decade up to 30-40%. The major option seeking to reduce high country's dependence on import of primary energy and as well of electricity is construction of a new regional nuclear power. Its commissioning is planned in the Strategy in 2020-2022. This project is a big challenge for Lithuania and regional partners from Estonia and Latvia. Therefore its implementation is based also on significant contribution from the Strategic Investor "Hitachi-GE" from Japan and support of Japanese and US Governments.

The Lithuanian electricity transmission and distribution network is comparatively powerful and well connected with neighbouring countries – Latvia, Belarus and Kaliningrad region of Russian Federation. However, absence of interconnection with countries of Western Europe is the major shortage of transmission grid. Currently only the underwater cable with a capacity of 350 MW connecting Estonia and Finland could be used for power exchange with electricity market of Scandinavian countries. Therefore the first priority in the national energy policy is construction of strategic interconnections with Poland and Sweden. Interconnection Lithuania–Sweden (NordBalt) with capacity of 700 MW will create since 2016 technical conditions for integration of the Baltic electricity market into market of Scandinavian countries. Interconnection Lithuania–Poland (LitPol Link) with capacity of 1000 MW will integrate the Lithuanian power system into the power system of Western European countries and will increase the reliability of energy supply. This link is important step for synchronous operation of the Baltic power system with the ENTSO-E system. These infrastructure projects are included into Baltic Energy Market Interconnection Plan (BEMIP) and have been partially supported by the EU funds. To use efficiently new opportunities of electricity market integration, the reconstruction of physically and morally worn electricity transmission and distribution networks is required in particular taking into consideration growing contribution from distributed electricity generation and the requirements for electricity supply reliability.

Taking into consideration existing technical supply facilities and the more stringent environmental requirements, currently natural gas is the major fossil fuel for electricity and district heat generation in Lithuania. However, gas is imported only from one source – Russian Federation. The country's gas network is connected with the "Northern Lights" pipeline transporting natural gas from Siberian gas fields by the only pipeline Minsk – Vilnius. The gas supply to the Lithuania is exposed to potential disruptions and in particular security of supply in peak periods is not sufficient. In addition due to limited interconnection capacity between the Latvia and Lithuania and limited output capacity of the Incukalns gas storage possibilities for alternative gas supply in winter time are very limited. Therefore the national energy policy documents are focused on infrastructure projects orientated at diversification of gas supply sources and increasing security of gas supply. Preference is given to construction of LNG import terminal in Klaipeda sea port as the best and the fastest option of solving the problem of Lithuania's dependency on single gas supplier (Gazprom). The start of its operation is planned in 2015. The expansion of the transmission system in the western part of Lithuania is going on. This infrastructure project is very important for connection of LNG terminal with existing natural gas system and proper functioning of this terminal. To foster development of a regional Baltic gas market, construction of the new gas interconnection between Lithuania and Poland and enhancement of interconnection Lithuania–Latvia until 2020 are included into the list of projects specified by the BEMIP implementation action plan.

Largely developed systems of district heat supply are important feature of the Lithuanian energy sector –about 75% of residential houses in towns are supplied by district heat. Due to disconnection of industrial consumers, reduction of heat consumption by residential and public sectors and other reasons district heating is insufficiently efficient. In addition natural gas accounts for approximately 73% of fuels in the production of district heat, and bills for space heating in many multifamily houses are not affordable for consumers with low salary due to high price of gas as well poor thermal insulation of buildings. Therefore modernization of the existing infrastructure in the district heating sector is required. The major priorities are: substitution of natural gas by biofuels, deployment of cogeneration, reduction of heat transmission losses and complex refurbishment of buildings. Application of modern technologies creates new opportunities for the effective use of wood and waste (wood waste, chips, pellets, straw, municipal waste, etc.) for reduction of district heat price.

Eugenijus Uspuras

Director

Vaclovas Miskinis

Head

Laboratory of Energy Systems Research

Lithuanian Energy Institute

Lithuania

Plans for Baltic nuclear power plant financially unviable and ecologically hazardous

By Frederic Hauge

The Baltic nuclear power plant, which is now being built in the Kaliningrad region of the Russian Federation, is a prime example of how the lobbying power of nuclear energy, combined with the vicious mechanism of decision-making in modern Russia, leads to the implementation of economically wasteful and environmentally hazardous projects.

Rosatom declared that, "the construction of Baltic NPP will solve the problems of energy security of the Kaliningrad region, as well as export up to 2 GW of power to neighbouring countries and will strengthen Russia's influence in the region, and be a favourable example of cooperation with Russia to these countries." Thus, the project has a clear political motivation. Its commercial prospects are nevertheless dubious.

The electricity generated by the Baltic NPP would be too expensive.

The projected cost of the Baltic nuclear power plant in 2010 prices was 4.8 billion euros, and with the necessary plant infrastructure - 6.23 billion euros. This value is clearly underestimated, since this does not include interest expenses, and the costs for the power system, or payments for surplus capacity in the region and abroad.

The projected payback time is quite long for the modern Russia - 19 years - but we do not know the key parameters applied in this calculation (for example, load factor, average price), the way plant decommissioning will be funded, etc. The NPP cannot operate without the construction of high-voltage transmission lines or underwater cables to access markets of sufficient capacity, which involves capital expenditures comparable to the cost of the plant.

The project is funded in part by the Russian budget, in part by a special fund of Rosatom, which is formed by mark ups on regulated tariffs. Though Rosatom was supposed to sell a 49% stake to foreign and private investors, so far no such investors have shown interest in entering the project.

There is no market for the electric power generating by a power plant of that size neither in the region nor in the neighbouring countries.

The amount of electricity that can be generated by the region's power plants and the Baltic NPP reactors together (2340 MW) will exceed the needs of the Kaliningrad region by 4-4,5 times. A nuclear power plant that is built specifically for the export of electricity is unique in global practice.

Nuclear plants operate as a base load capacity, and consuming the electricity power they generate on a regular basis imposes some obligations to the importing countries. They have to include energy imports from Russia in their energy mix by excluding some of the local, as well as maintain spare capacity. All this can create some dependence on Russia, which its neighbours are trying to avoid. Only the construction of transmission lines in Poland and Lithuania makes it technically feasible to export energy from the Baltic NPP and thus crucial for the project, but these countries still refuse to discuss the possibility of power distribution from the Baltic NPP to their power systems.

The Kaliningrad region is surrounded by EU nations, and its power grid is still connected to the Baltic energy system. But according to an agreement among Belarus, Russia, Estonia, Latvia, Lithuania there no obligations to buy or sell the electricity produced.

Neighbouring countries are currently not experiencing shortages of generating capacity aside from considering their own nuclear power projects. The Baltic NPP is a rival for these projects. Rosatom intends to sell electric power on the transborder spot market without international long-term agreements, referring to the today's practices of trading with Finland and the Baltic states. However, other regional energy systems sell surplus electricity that can be easily sold elsewhere in the domestic market, and the export earnings are not critical for them.

Due to the technological limitations, a nuclear power plant running without the long-term contracts will be ready to sell electricity in almost any price to avoid downtime and will be very dependent on consumers.

Experts point to a number of environmental issues with the project (seismic hazards at the construction site, the construction of reactors in the area in the flight path of low flying aircraft).

The energy shortage issue in the region may be solved more efficiently by a proper energy saving programme.

The level of losses in networks is the worst in Russia - up to 22% of supply, more than 800 million KW/h per year. District heating is in the poor condition and the level of heat loss in some municipalities exceeds 50%. Wasted heat from the Kaliningrad Heat Station (5 million Gcal per year) exceeds the amount of heat consumed by the whole region.

While it does not appear in general to be justified economically, the Baltic NPP project is very beneficial to the nuclear industry, with the risks and losses allocated to Russian taxpayers and power customers. This concerns both the purely commercial risks and the risks specific to the nuclear power industry - third-party liability in case of accidents, emissions, spills, etc. One can talk about the economic feasibility of nuclear power only if at every stage it operates according to favourable rules. Implementing a nuclear power plant at least in part as a business project that has no guaranteed customers or regulated prices is doomed to commercial failure.

Frederic Hauge

President

The Bellona Foundation

Norway

The political project of the Baltic nuclear power plant

By **Marijuš Antonovič**

After the Fukushima nuclear disaster Europe has lost its affection towards nuclear power. But this phenomenon is more common in the western part of Europe than in the eastern, especially in the Baltic Sea region. In fact at least 4 new nuclear power plants are planned to be built in the region: Visaginas nuclear power plant (VNPP) in Lithuania, Astraviec nuclear power plant in Belarus, one nuclear power plant in Northern Poland and the Baltic nuclear power plant (BNPP) in the Kaliningrad district. While the motives for building the first three are known, the economic reasoning behind BNPP is still unclear and needs further explanation.

The decision to build BNPP was taken in 2009. It will be built near the town of Neman and will have two 1150MW blocks. It had been planned to complete the construction of the first block in 2016 and of the second block in 2018, but later the launch of the plant was delayed for a year, and recently there has been speculation that the delay may last two years. BNPP's project will be formed on basis of an identical nuclear power plant currently being constructed near Saint Petersburg. BNPP stands out from other Russian nuclear projects as it should be the first to be partly financed by private sources and foreign investors will be allowed to acquire up to 49% of BNPP's shares. "Inter RAO" is responsible for finding finance for the project and for negotiations with potential investors.

After the completion of Kaliningrad's thermoelectric power plant, the Kaliningrad district is self-sufficient in electricity. Thus, BNPP will generate surplus electricity – the first reactor will create an energy surplus of 1020 MW, and the second reactor will raise the surplus to 1990 MW. Hence, at least 80% of BNPP's generated electricity will have to be exported. This is the reason why Russia wants to attract foreign investment into BNPP, as it is expected that the same investors would then import electricity. Without export markets the plant cannot be launched. Russia firstly targets the Baltic States, then Poland and Germany as it is estimated that these countries will soon have an electricity deficit. Russia is mostly keen to attract Lithuania and Poland into BNPP, because if these countries join the project, then VNPP becomes economically unfeasible. VNPP is aimed to generate electricity for the Baltic States, reduce electricity and gas imports from Russia and prepare the Baltic countries to join the European electricity market. But to satisfy the electricity needs of the Baltic States one nuclear power plant would suffice. Hence, the construction of BNPP is targeted to preclude VNPP project from being finished and by doing so, tie the Baltic States into Russia's energy system, further strengthen its positions in the region and prevent the Baltic States from joining the European electricity market. Therefore, the BNPP is not a commercial, but a political project aimed to stop the Baltic countries from pursuing energy independence from Russia.

Russia started preparatory and construction works in 2010, though the project of the plant has not yet been completed. "Inter RAO" had expected to attract investors by the end of 2011, but at the moment has not found any foreign investors. Poland had rejected Russia's offer to import electricity from BNPP and the Baltic States are refusing to join the project. Moreover, France announced it would not participate in BNPP and the interest shown by German, Czech, and Spanish companies has not materialised into deals to invest and buy electricity. Neither there was any interest from Scandinavian countries or companies. Only Italy's Enel accepted the possibility of becoming the supplier and distributor of electricity generated in BNPP. Furthermore, the Kaliningrad district lacks the necessary infrastructure to export electricity and this detracts potential investors. Therefore, BNPP finds itself in a tricky situation: though the construction works of the plant are moving forward, it is still unclear where the generated electricity will be used and if it will be used, how it will be transported into export markets.

The perspectives of BNPP depend on two factors. First is the outcome of Lithuania's parliamentary elections in October 2012 and whether the new ruling coalition will stick to the current schedule in building VNPP. Second is Poland's willingness to build its own nuclear plant. Thus, there are three potential future scenarios for BNPP. First, if Lithuania holds on to its schedule to build VNPP by 2022 and Poland continues with its plans to build a nuclear power plant, then Russia will try to build an electric cable along the NordStream pipeline and export electricity into Germany or upgrade the "NordBalt" electricity cable connecting Lithuania and Sweden and use it for export into Scandinavia. Both of these options are costly and if they fail, then the BNPP is unlikely to be launched and may not even be completed at all. Second, if Lithuania decides to freeze VNPP then Russia has a huge potential to export electricity into Lithuania. Third, if Poland abandons its nuclear ambitions, then it may become an export market for BNPP.

All in all, nuclear energy in the Baltic Sea region has become very politicized meaning that economic reasoning is of secondary importance that creates a huge risk of wasting human effort and financial resources for unrealistic goals.

Marijuš Antonovič (Mariusz Antonowicz)

MA in International Relations and Diplomacy

Vilnius University

Lithuania

A drastic change to be expected in the energy map of the Baltic region

By Bo Österlund

Fossil and exhaustible fuel sources - oil, coal, and natural gas - respond for more than 80 per cent of the primary energy of the globe. Of this amount, the share of crude oil is about 50 per cent. The estimates of the adequacy of oil, at the present daily consumption rate (85 million barrels), vary between slightly less or more than 60 years. The estimates of adequacy depend primarily on calculations of profitability, i.e. which wells are still profitable, and which are not. Russians always include in their estimates of adequacy all oil wells regardless of their profitability.

According to expertise estimates the supplies of natural gas will probably suffice for another 65 years. The estimates of the adequacy of natural gas are based on the time prior to the economic exploitation of shale gas and exhibit an immense range of variation dependent on the estimator. All estimates reach, however, beyond 60 years.

Among the fossil energy sources, coal boasts of the largest exposed deposits in the world, the annual coal production today being slightly more than five thousand million tons. For the most part, the yield of the coal production is consumed in the mining countries themselves: consequently only the surplus, some 13 per cent, can be exported. The deposits of coal are calculated to suffice for at least another two centuries. In these calculations, only those deposits are included which can be exploited profitably by using modern technology and which meet the demands of quality required today.

As late as some thirty years ago enlightened energy estimates around the world still established oil as the sole raw material whose exhaustion might have an immediate impact on the welfare of the world's population. An American research on energy policy, published in October 2011, predicts that by the 2030s Russian natural gas has taken the major role of being the crucial factor concerning the energy map of most European and NATO countries. The new relationships of mutual energy interdependence may, in a few decades, result in choosing different routes and generating different alliances from what we have today.

The United States consumes more than twenty per cent of the primary energy of our globe; of this amount natural gas covers slightly more than twenty-five per cent. A few years ago the American estimates concerning the exhaustion of natural gas supplies made the great gas producers (Norway,
Russia, and Qatar) delineate plans of exporting liquid gas (LNG) to the New Continent. Establishing new LNG terminals was commenced to ensure gas imports. By the year 2009 nine new LNG terminals had been constructed in the United States which was thus prepared to take in LNG vessels from other parts of the world.

The European Union consumes about 490 thousand million cubic metres of natural gas annually, and roughly one quarter of this amount comes from Russia. This figure does not yet include the annual gas import of the 55 thousand million cubic metres transported via the double gas pipeline of Nord Stream from Vyborg to Greifswald.

According to the estimate of the EU Committee the import of gas into the EU will increase with at least 50 per cent from its present level by the year 2030 while the share of Russian gas will rise to sixty per cent of the total. Approximately one fifth of all energy forms is imported from Russia, i.e. every fifth resident in the EU countries "runs with Russian energy".

In the estimated structural map of energy of the year 2030 made by the BP it is demonstrated that inexhaustible energy sources will grow slightly more than five per cent, the increase of nuclear energy will be 0.4 per cent, that of water energy 0.8 per cent, of coal energy 0.4 per cent, and the rise of natural gas will be 4.1 per cent. The consumption of oil is estimated to decrease as much as eleven per cent.

Shale gas will launch a revolution in the energy market. This energy source has been known for a long time. The first bore holes to bring gas to the surface of the earth were dug in the small town of Fredonia, NY in the United States in 1821. The gas thus obtained was used to light the town on the east coast. Greater economic exploitation was not, however, achieved until nearly 190 years later, in 2009 which is the crucial year of development. The new drilling technology exploits high-pressurized water in the bore holes, and the drilling proceeds by using a drilling technique at a ninety-degree angle in the shale gas deposit. Thus the process runs along the gas vein, not always through the thinnest layer. In 2009, an increase of one third in the gas supplies was registered in the United States due to new findings. It is estimated that in a few decades shale gas will cover as much as approximately 50 per cent of the demand for gas in the United States. The country will actually be a gas exporter, and the LNG terminals built for imports will be transformed into gas export harbours.

Europe, including Turkey and Russia, are, proportionally, the greatest consumers of natural gas. According to experts the European supplies of shale gas will suffice to meet the demands of the whole continent for the next thirty years. The estimated total amount of the deposits is evaluated to be somewhere around 18 billion (18 000 000 000 000) cubic metres. The corresponding amount of the deposits in the United States is estimated to be as enormous as 127 billion cubic metres, i.e. three times larger than the traditional Russian supplies of natural gas. It is possible to use shale gas to make up for the coal used in coal plants directly. When the maximal European shale gas production is launched, it will affect the gas pipeline network now crisscrossing the continent and the traditional suppliers of natural gas, i.e. the Norwegian Statoil and the Russian Gazprom.

According to the American research institute EIA (U.S. Energy Information Administration), Poland alone is able to supply more than 5 300 thousand million (5 300 000 000 000) cubic metres of shale gas in addition to the traditional amount of more than 100 thousand million (100 000 000 000) cubic metres known today. The quantity of shale gas supplies equals to the amount of gas transported in the Nord Stream pipeline in one hundred years. Twenty-seven million European citizens are today supported by this gas at the end terminal of the pipeline providing them with what energy they need. The most optimistic estimates concerning the sufficiency of the Polish shale gas to be used in Poland extend further up than 300 years in future.

At the end of this year, tests will be introduced as for the suitability of Polish shale gas for heating, as three

thousand households in the village of Pomorkies will be connected with the shale gas network. The price of the Polish shale gas will be at least twenty per cent lower than that of Russian gas. Full-scale production will be commenced during the year 2014. According to estimates, Poland is expected to produce fourteen thousand million cubic metres of shale gas by the year 2035, i.e. the amount sufficient to satisfy its own needs of consumption. At the moment, sixty per cent of the gas is imported from Russia. The Polish consumption of gas is only three times higher than that in Finland but we are totally dependent on imported Russian gas.

The Baltic countries, Latvia and Lithuania, are planning to build floating import terminals for the Polish shale gas since they were excluded from the scope of the Nord Stream project. Short distances, simple infrastructures, and the lower price seem to serve as excellent consultants of shale gas. Poland is likely to recruit an extensive clientele of consumer countries once the production has been properly launched.

The use of shale gas makes it possible to compensate the diminishing number of polluting coal plants. The transportation of shale gas to the consumer may be done either by the gas pipeline system or as ship transportations of liquid gas. The argumentation of the Nord Stream pipeline project disclosed that the estimated gas amount would be equal to 600 cargoes of gas tankers annually.

The effects of the energy development schemed above seem to cover the whole basin of the Baltic Sea. Sea traffic may increase more than what was estimated a few years ago, and the significance of incessant follow-up activity of sea traffic will be emphasized. The impact of the changes in energy policy on the composition of the security and military policies will remain to be estimated in subsequent years.

Bo Österlund

Commodore (One Star Admiral, retired)

Finland

Cold February of 2012 – European gas system passes test, but questions remain

By Vitaliy V. Yermakov

The events of February 2012 challenged the gas system of Europe and Eurasia. As cold weather blanketed the region, from Russia to Spain and the United Kingdom, gas demand spiked. As markets coped with the peak demand, Russian export deliveries fell short of rising nominations in several European countries, LNG deliveries slowed, and traded market prices rose to new levels. Heavy storage withdrawal and some limited load shedding allowed the market to balance. The suddenness of the onset of the cold, following a period of unusually warm weather, was the major reason for the shortfall in deliveries to Europe, but Gazprom's room for maneuver was limited by a chain of complicating factors:

- **Russian domestic market trumps exports in an election season.** Gas deliveries in Russia exceeded all-times highs at 2 Bcm per day at the end of January-beginning of February. Previously, Gazprom would introduce gas supply limits for industrial users and power plants during such winter peaks, forcing these interruptible consumers to use reserve fuels (mazut). While running for the presidency, (then) Prime Minister Putin instructed Gazprom to deal with the home market as a priority destination, and to meet external demand for Russian gas only after the needs of the domestic market had been fully met. This political order greatly decreased Gazprom's room for maneuver.

- **Ukraine maximizes its gas offtake.** The Ukrainian gas transportation system operates by a principle of substitution: transit gas from Russia is used in Ukraine's industrially developed east, and equivalent gas is pumped out of storage in the country's west and sent to Europe. As a result, the contractual flows of Russian gas that are destined for Europe and gas supplied for Ukraine's internal use cannot be physically separated. As record cold set in over Ukraine, daily gas consumption in Ukraine jumped from 0.2 Bcm per day to 0.35 Bcm per day and, according to Gazprom, in early February Ukraine was taking Russian gas at a rate of 0.164 Bcm per day, significantly higher than the preliminary agreed schedule and the maximum Gazprom obligation under the contract, further complicating the task of delivering the volumes requested by Europe.

- **Weak links emerge in Gazprom's southern export flank.** Following a significant contraction in European demand in 2009-2010, Russia dramatically cut its gas purchases from Turkmenistan. Additionally, the pricing arrangements with Russia reached in 2008, before the crisis, made Turkmen gas very expensive in the new reality of a buyer's market, and Gazprom has refrained from purchasing Turkmen gas in the same volumes as previously. This denied Russia some of the additional swing capacity it had previously enjoyed, delivered on southern flank, for peak demand periods.

- **Weak links are exposed in Gazprom's gas storage system.** Historically, Russia relied on the storage facilities that were available in western Ukraine to support its gas exports to Europe, especially during the winter months. These are the largest gas storage facilities within Europe, located right at Ukraine's western border. However, following several incidents of "disappearance" of Russian gas in Ukrainian storage, Gazprom dispensed with their services and has moved on to develop its own gas storage system in Europe. The process of creating a new generation of gas storage facilities in European countries has not been completed and still leaves some of Gazprom's clients exposed to limitations on meeting peak demand.

An important result of the obvious stresses of early 2012 was a demonstration that the European and Eurasian gas system can operate relatively effectively even under severe stress. In spite of temporary shortfalls in deliveries, Europe was largely able to meet the extra demand by digging into its natural gas storage reserves. Traded markets reacted appropriately to the surge in demand: prices spiked, gas flowed to the higher priced markets (where transmission capacity allowed it), storage capacity was drawn down hard, and interruptible customers were curtailed. Traded volumes increased markedly. Furthermore, the problems experienced by some European countries were due to a delayed response on the part of Gazprom to the very sudden onset of the coal weather rather than to insufficient supply capacity.

However, the events of February highlight a number of key questions about the way that the European market is developing.

- **A strengthened negotiating position for buyers?** Substantial embedded flexibility is one of the major benefits of signing long-term gas contracts. If this contractual flexibility cannot be guaranteed it weakens one of the pillars that support the role of long-term gas contacts in Europe.

- **Growing importance of Russian domestic market.** Although still below export parity, rising Russian domestic prices are increasingly attractive to independent gas producers and oil companies with relatively cheap associated gas, and to Gazprom.

- **Limitations of European gas market reform.** Necessarily the reform of the European gas market has been concentrated on the aspects that can be influenced by national governments and the European Commission: liberalization, the development of traded markets, and increased interconnection. However, the events of February 2012 highlight the limitations of the reform agenda: it can allow for the most efficient use of the existing

infrastructure (through reverse flow, capacity auctioning, and efficient TPA) and the most efficient allocation of available gas (through traded markets), but it has proven very difficult for internal reforms to increase the supply of gas to Europe or ensure the flexibility of supply.

- **Provision of flexibility.** The events of February 2012 were unusual—extreme cold weather across a wide swath of Europe combined with multiple supply problems—but planning for unusual events is an inherent part of the gas business. As the European market continues to liberalize, it must ensure this essential flexibility is provided. How this flexibility will be provided in the future remains to be determined—in recent years the majority of new storage development has either taken place in regulated markets or has been in conjunction with external suppliers. As high swing domestic production declines this question is likely to raise up the EU agenda.

Vitaliy V. Yermakov

Director, Russian and Caspian Energy

IHS CERA

Russia

The revolution of gas logistics in the Baltic Sea region?

By Kari Liuhto

The unconventional gas production revolution in the USA has put into a motion a global chain reaction, which may also ignite a liquefied natural gas (LNG) terminal boom in the Baltic Sea region (BSR). The chain reaction is caused by the fact that the USA can reduce its gas imports due to its unconventional gas production, and this reduction forces the LNG exporters of Middle-East and Africa to find alternative consumers in Europe and Asia. In addition to this indirect impact on Europe, I would not exclude an option that the USA would start exporting its gas to Europe and Asia. The US gas exports are motivated by a substantial price difference between the USA and Europe / East Asia, where gas costs more than 5 times that of the USA. Even if the gasification and transport costs are included, the price difference is 2-3 times to the advantage of the US gas producer.

In 1980, less than 20 million tonnes of LNG was traded globally. In 2011, the LNG trade exceeded 240 million tonnes, or over 325 billion cubic meters (bcm). The LNG represents a quarter of the EU's gas imports, whereas the pipelines cover the remaining three quarters of the imports. In 2010, nearly a half of the EU's LNG imports came from Qatar. The share of both Nigeria and Algeria was close to one fifth. All the gas arriving from Russia to the EU is piped. The major importers of the LNG in the EU are Spain, the UK, France, Italy, and Belgium. They covered 95 percent of the EU's LNG imports in 2010. None of the BSR countries imported LNG in 2010, but we may experience an LNG terminal boom in the BSR as the country-by-country analysis below shows.

Denmark has no intentions to build a major LNG plant or terminal in the foreseeable future. However, I would not exclude the possibility of the construction of small scale LNG plants, since annual consumption of LNG in Denmark may reach 0.5-0.6 bcm due to the bunkering of the LNG-driven ships.

Estonia will most probably host only one major LNG terminal. I believe that the project proposed by Elering will go forward. Most probably, the size of this terminal will be smaller than indicated in the plans. I guess that the nameplate capacity of the Estonian LNG facility could be closer to 1.0 bcm than 3.0 bcm, if it will be implemented on the national basis. I estimate that the LNG unit will be operational by the end of this decade.

Gasum's plan to construct a major LNG receiving terminal in **Finland** seems realistic as long as Gazprom does not start to slow down the project from within the firm. Here it needs to be underlined that Gazprom owns a quarter of Gasum and may influence decision-making of Gasum's main owner (Fortum) via its gas supplies to the company's electricity generation units in the Urals. Gazprom / the Russian Government may consider that there is a conflict of interests between the proposed LNG terminal and Gazprom's gas pipe deliveries to Finland. As there is no clear understanding of Gazprom's real motives, it is impossible to predict the final size and timetable of this unit despite detailed plans. Should the terminal reach the proposed 2.0-bcm-capacity, then it could have a major impact on diversifying Finnish gas imports. In addition to this major terminal, Finland will build a small scale unit to bunker LNG ferries and ships in South-West Finland.

Germany may prefer to build additional pipes (Nord Stream 3 and 4) from Russia rather than construct LNG receiving terminals. Even if Germany would take a decision to build a small scale LNG terminal in Rostock, it does not have a major impact on the gas diversification of the country, since the terminal would meet less than 2 percent of Germany's total gas consumption.

I would not be surprised, if **Latvia**'s LNG project would slightly be postponed, but nevertheless, it may see the light of the day on the eve of next decade. Furthermore, the downgrading of the project seems inevitable, if the common Baltic LNG project does not materialise.

Lithuania has progressed most among the Baltic States with its LNG terminal, and it has declared to open the first LNG terminal in the Baltics already at the end of 2014, though most probably the terminal will be babtised during the course of 2015 due to a slight delay. The ultimate size of this terminal remains to be seen, although it is almost evident that it will be downgraded from 3.0 bcm due to the fact that the unit mainly serves Lithuania's national needs.

Norway's LNG exporting capacity (6.0 bcm) is nearly in full utilisation at the moment, and therefore, it is not self-evident that Norway will be the main supplier of the LNG terminals in the BSR, unless Norway constructs new LNG plant or expand the existing ones.

Poland tries to open its LNG terminal in 2014, though a delay up to 1-2 years is possible, since one of the main constructing companies involved has went bankrupt. It cannot be excluded that the terminal's capacity would go with time to 7.5 bcm, but I assume that 2.5-5.0 bcm seems at the moment a more realistic estimate.

Russia: Sibur, a subsidiary of Novatek, plans to build a plant with a nominal capacity of 2.0 bcm. The location of the Baltic LNG plant will be in Primorsk, close to the Finnish-Russian border. It can be estimated that this terminal can be operational by 2018. This project will proceed, if the Russian Government considers that Novatek would not start to compete with the pipeline deliveries of Gazprom. In other words, this would mean that Sibur's main clientele would be outside the BSR. In addition to this plant, Sibur plans to erect a liquefied petroleum gas unit in Ust-Luga, a port close to the Estonian-Russian border, in 2013.

Sweden opened the first LNG receiving terminal in the BSR in May 2011. Sweden may well proceed with another LNG unit in Gothenburg in 2013-2015. These two terminals with the combined capacity of 1.0 bcm can cover a major part of Sweden's gas consumption (1.3-1.7 bcm). On the other hand, I assume that gas consumption in Sweden will substantially increase, since the country uses little gas compared to its size. Besides these major LNG receiving terminals, there are plans to build at least five

small scale LNG terminals. I assume that not all of these small scale units will not be realised.

To sum up, it is very likely that the BSR will not witness all the LNG terminal plans in their proposed capacity. Second, the postponement of some of these projects is likely. Third, it is important to remember that the actual regasification volumes will be much smaller than the nameplate capacity of the terminals.

All in all, one can safely conclude that the LNG terminals of the Baltic States, Finland, and Poland will not replace Gazprom's deliveries but rather allow them to diversify a proportion of their gas supply i.e. Russia will be a large supplier of natural gas in the eastern BSR also in the foreseeable future. On the other hand, these LNG terminals will introduce competition which has a positive (lowering) impact on the price paid by the final consumers. And finally, the LNG terminals will improve the security of gas supply, though the eastern BSR in particular cannot build its energy supply on the LNG deliveries alone.

Kari Liuhto

Professor
Turku School of Economics at the University of Turku

Director
Centrum Balticum

Finland

Russian railway sector transformation – opportunity for larger Europe

By Olli-Pekka Hilmola and Eugene Korovyakovsky

Impression of other Europeans from Russia is that it is applying the same public sector principles with governance structures of the society. This means that state manages and owns the structures, and for-profit companies should only concentrate on trade and industrial sectors. However, in some aspects Russia is already considerably leading with its liberalization and privatization policies other European countries, and this concerns mostly logistics field, whether we are talking about railways, sea ports or sea transports. There are of course exceptions on this, where Russia has identified areas as strategic, like oil, gas and railway infrastructure.

What about Novorossiysk commercial sea port, company who nowadays runs two most important oil export sea ports of Russia (most of the export volume), namely Primorsk and Novorossiysk (ticker at London Stock Exchange: NCSP)? Or sea transport operator as well as important hinterland logistics company Fesco (ticker at Moscow MICEX/RTS: FESH)? Or Transcontainer, dominant player in rail based hinterland transport of unitized cargo in the country (ticker at LSE: TRCN)? Or 2000 other companies involved in the railway market, mostly by owning and renting the rolling stock? Typically people out of west are keen to advise emerging economies in structural issues, but actually Russia went through similar economic crisis in the late 90's as what is the Europe currently experimenting. Due to the entire transition in 90's from centrally planned economy to market one, resulted in situation, where many areas of society are now in the ownership and operational control of private sector.

In one way the future of Europe in flourishing scenario is similar to the development of Russia after its crisis. Country was earlier mostly state run and uncompetitive industrial player (lack of appropriate investments), which successfully transformed itself into low taxation and low governmental role run, and raw material export economy. It is very hard for Europe to gain back lost manufacturing units, which were and are still being transferred to Asia. At least based on Russia's experiment from recovery process, economy and its structures appear to be totally different from the past. This does not mean that in Russia's case raw material sector would be the only contributing one, it is of course the dominant, but e.g. software and high tech industries are experiencing some sort of renaissance (e.g. St. Petersburg or Moscow's Skolkovo), but these still in very small scale.

Typically in world-wide logistics or logistics infrastructure indexes Russia performs rather poorly (like Logistics Performance Index/World Bank or infrastructure quality of World Economic Forum). This could be explained with numerous different issues. One of them is that Russia is large country, and performance in Moscow and St. Petersburg is entirely different as compared to the rest of the country. Second issue is that these measures typically trace the performance of general cargo segment, not liquid bulk or dry bulk. General cargo's low competitiveness could be explained with the lack of international manufacturing sector, short history of using containers at operations (international standard) and of course with the role of customs (e.g. level of customs income from state budget is still very significant).

It is not secret that roads are weak point of Russian distribution system, and quality as well as congestion creates also in the future problems for logistics operations. Situation could improve, but will do so only gradually. Numerous developments stand behind of better future for general cargo, for example: Increasing foreign investments on manufacturing units, Russian governmental programme to improve roads as well as World Trade Organization membership. However, situation is not going to change quickly, but will have positive development trajectory caused by these major factors.

Due to the situation described in the above, Russian logistics sector lives and breathes from railways. Or to be more specific from sea port, railway and short distance road transportation chain entity. However, as country is geographically largest in the world (numerous million population cities), the importance of railway sector could not be over exaggerated. Good news is that this sector from infrastructural point of view is in the best shape in Russia (even comparable to west), and government is having ambitious plan to deregulate sector considerably.

Already the role of governmental railway company, Russian Railways (RZD) is much lower than what it used to be. Structure has been split in smaller pieces, where Transcontainer, Freight One and Second Freight Company e.g. own most of its freight rolling stock. They all specialize in own transportation logistics sub-segments. Numerous other companies have been formed from old RZD structures too. Actually nowadays the role of RZD is to facilitate railway traffic and also offer traction services – of course maintaining and operating very large-scale railway infrastructure is most important task among these two other mentioned. So, in other words RZD still owns rail engines and holds legislation stated privilege to offer traction services for all railway wagon owners.

However, in Russia's long-term plans there exists will that traction could also be freed to competition, and in some very small segments this is already the case (e.g. private railway arrangement yards, short distance passenger transport and Norilsk Nickel run railway section). This means huge potential change what situation was in the past, and if in full extent materialized, will improve business opportunities of logistics sector considerably. And not only logistics, but will enable further investments on manufacturing capacity and retail sector. Currently these two sectors have been problematic issues to manage as operations in Moscow and St. Petersburg have been run properly, and in other cities making operations reality has been extremely difficult to achieve. Think about this rail liberalization effect together with WTO membership – growth should improve thereafter considerably.

Russian railway network is already today having direct linkages to some European countries (sharing the same or nearly the same gauge width, 1520 mm). For example, this is the situation of Finland (1524 mm), Estonia (1520) and Latvia (1520). Indirectly railway network reaches Lithuania (1520) and small part of Poland (there is small 1520 railway network in south-east called PKP Linia Hutnicza Szerokotorowa). Typically the railway operations in the countries are being accomplished with bilateral

agreements of RZD and national railway operator of respective country. So, traction is being run by governmental companies.

However, if Russia continues with its railway reform as it seems to be the case currently, then these international operations should be further considered, and possibly to remove privilege of governmental operators, and give market economy space to form itself, and produce growth. This would not only be business or economically wise decision, but would lead to much lower CO_2 emission levels. Also could be expected that market actors would solve the paradox of using railways only to transport dry bulk and bulk to west from Russia, and illogically using road transports to dispatch containers to Russia. Currently implications of this paradox are evident in empty transports: Railway wagons are empty as returning e.g. from Finland to Russia, while trucks are empty as they come and pick containers from transit sea port (such as HaminaKotka). Basically these flows could and should be combined, not only due to economical reasons, but also in the sake of environment and avoiding building excessive road infrastructure at border areas (e.g. waiting areas and customs). In the ecological and oil scarce future economy long distance hinterland freight operations belong to rails.

In the long-term neither European Union nor Russia can trust alone on economic growth generated from further collaboration with each other. Joint projects and development agendas are of course necessity for the short and medium term growth, but in longer term both of these parties need together help each other to achieve viable and sustainable connections on emerging economies, which do not experience from graying population with small generations of younger children. Like it or not, European Union is facing shrinking and ageing population, and situation is exactly the same in Russia.

So, interoperable connectivity should be built in collaboration through Europe to potentially in two decades time emerging economic area of Africa. Europe has also already as operational 1435 mm Adriatic railway corridor, which ends to Slovenia (starts from Poland). Also railway corridors going through Germany and reaching Italy have been for years as reality (e.g. Denmark-Italy; eased by Brenner railway tunnel completion in future). Similarly Russia could offer very time wise and economically viable connection to Middle East (railway corridor, which ends to Iran). Also reaching India through this corridor is very convenient (short sea journey required). Cost and time wise Trans-Siberian Railway connection to China, South Korea and Japan is of course at everyone's collaboration agenda in European industrial sector.

In this light long-term context Russian plans to finance 1520 mm connection to Wien are understandable, and should be seen as an opportunity in larger Europe. Similar motivation goes to two decades planned Rail Baltica corridor, which would enable links for Central Europe to northern capitals, like Riga, Tallinn, St. Petersburg and Helsinki. In here it would greatly help too, if European Union and Russia together could implement project, and assure transportation volumes from the beginning.

It could be stated that in short-term we need to collaborate, medium term bring benefits for both parties, but in longer term we need to establish both benefitting symbiosis in railway logistics issues. Only way to connect emerging, distant and typically "landlocked" markets to European Union or Russia in post 2020 ecologically demanding world is by railways. This could only be accomplished together. Building sustainable growth after several bubble bursts in recent decades' time takes now more work, since economic growth is arising from distant and unfamiliar places.

Olli-Pekka Hilmola

Professor

Department of Industrial Management, Kouvola Unit

Lappeenranta University of Technology

Finland

Eugene Korovyakovsky

Head of Department

Department of Logistics and Commercial Operations

St. Petersburg State Transport University

Russia

Baltic transport research agenda – a strong demand

By Vladas Sturys

THE HISTORY of the last decades of the Baltic Sea region and in particular of its transport system is undoubtedly unique in world practice. Through the previous centuries, and "Iron curtain" times significant technical and technological differences between its various parts were formed out.

UNIQUE ACCELERATION, under which the region's transport system is undergoing changes in last decades, is impressive. No other marine basin around Europe was breaking infrastructural, technological and mental barriers so fast and successfully. Driving forces for this were programmes of Pan-European Transport Corridors and Trans-European Transport Network, the regional co-operation, initiatives of the business to build supply chains for new economic relations.

May such strong acceleration of the regional transport system development to be continued?

On the one hand - yes. Currently the largest part of the region is in the same political and economic space - EU. The economic policies of the Russian Federation with its accession to the WTO are becoming more open; the EU - Russia cooperation program demonstrates evident trends for further loss of existing barriers.

On the other hand threats for efficiency of the development are obvious.

Globalization actualises the competition of macro regions. The transport system is the backbone for our region, being at the same time important competitiveness factor for the eastern parts of the continent. Just to overcome individual differences in the development of those parts will not be enough.

A roadmap of tasks up to 2050 is well guided in the new White book of EU Transport Vision “Towards a competitive and resource-efficient transport system”. This set of tasks together with highest criteria of transport users is one challenge.

INTERESTS of transport and logistics stakeholders in the region is another challenge. Just three aspects from the findings of my study of interests along the East-West transport corridor: 1- a very wide range of stakeholders; those are countries with their governmental vertical , then three NUTS level regions, local societies, infrastructure developers, extremely broad pallet of transport and logistic business actors, transport users (passengers, freight shippers) etc. 2- very wide spectrum of interests (from strategic national interests to tariffs for concrete services or technical standards etc.). 3-high difference in coherence of interests (from full matching e.g. optimisation of logistic costs to hard objections e.g. fair competition, state aid etc.).

The repulsive forces are no less than attractive ones. Illustrative example might be the Rail Baltica project, a much-needed one for the EU transport enclave from north-eastern borders of Poland to Helsinki, which for long years still close to the starting phase.

So, without consensus and harmonization of interests the further sustainable acceleration is unlikely.

How and by whom the COMMON DENOMINATOR could be created to serve as a base for harmonisation of interests and for the synergy of stakeholders? I think that well-coordinated RESEARCH accordingly commonly accepted AGENDA may play this role and serve as development accelerator.

The recent moment is exactly right for changes. On the one hand, the going preparation for the new 2014-2020 EU financial period requires to ensure the effectiveness of the use of the funds. On the other hand, the global financial crisis is forcing savings and expedience. Research carried out on ad-hoc basis, is not able to do that in complexity.

The region needs to have a well justified pyramid of transport and logistics problems, topics to be analysed and actions to be performed. This is a way how EU investment programmes are usually performed: they mostly arise from comprehensive research accordingly Framework Programme agenda; this agenda is elaborated by technological platforms, consisting of best European professionals and experts.

Such platform (let’s call it Baltic Transport Research Agenda Council - BalTRAC), brought together by individual experts from all Baltic Sea countries (incl.Belarus) could be a strong instrument to create the regional research Agenda and reconcile it with stakeholders. Namely this Agenda could serve as a starting point for projects from most of international and national sources.

An important principle of the Council membership should be a voluntary individual membership and independence of the Council. If delegated by organizations and state structures, such platform may become an ordinary and inert body, once - twice per year issuing protocol or declaration.

The region disposes really strong individuals - transport and logistics academics, researchers and consultants. They are successfully working in international, national and industrial projects, demonstrating their knowledge and highest standards. Namely they (not organisations) are personally communicating with governmental structures on EU, national and regional levels, with developers, operators, customers and transport users. Involvement of professionals from the industry would strengthen the competence of the council.

BalTRAC activities are of high demand in the region. Its cooperation with the EU DG MOVE, coordinators of the Chapter 11 of the EU Strategy for the Baltic Sea Region, BDF Directorate, NDPTL and other regional organisations would create conditions for new synergy and acceleration.

Oncoming 25th Anniversary Seminar of the Pan-European Institute (25 October 2012, Turku, Finland) is a good opportunity to collect the initiative BalTRAC group.

Initiatives are welcome by e-mail: v.sturys@zebra.lt tel. +370 698 2375.

Vladas Sturys

Consultant, Researcher in transport and logistics

Director

Baltic R&D Centre

Lithuania

Environmentally safe transportation and packaging unit for transportation and storage of spent nuclear fuel

By Ilya Shegelman and Pavel Shchukin

Environmentally safe transportation and packaging unit for transportation and storage of spent nuclear fuel is a result of cooperation of Petrozavodsk State University (PetrSU) and JSC “Petrozavodskmash”. The work is conducted under the grant supported by the Ministry of Education and Science of Russian Federation (resolution № 218 under date of 09.04.2010 of Government of the Russian Federation, State contract № 13.G25.31.0066 under date of 22.10.2010).

The analysis revealed that the preparation and implementation of commercially viable projects in the field of nuclear energy requires huge investments for their implementation and influences both on the competitiveness of businesses and the states to ensure their national economic and environmental security. Competition in this area and the projects themselves are under careful attention, and sometimes face fierce resistance of the opposing businesses, states and environmental organizations. That is why it is essential that all the decisions in this area should be based on a detailed study of the problem, comparison of the precise evaluation of the anticipated competitive advantages and possible threats to the environment, society etc. In addition the authors of the project taken into account that for transportation and storage of spent nuclear fuel there should be used transportation and packaging units, which are equipped with damping shock absorbers in order to reduce the dynamic loads on the container and protect its contents from damage due to careless handling, as well as emergency conditions.

The significance of this project is totally supported by the provisions set out in the Basic principles of the state policy for ensuring the nuclear and radiation safety of the Russian Federation till 2010.

The place and role of the multiple-purpose project in solving the set tasks:

- to work out an entirely new range of transportation and packaging unit, and occupy relevant domestic and world market niches;
- to strengthen the competitive position of national science and big business in the fields related to nuclear energy;
- to develop labor productivity at the domestic enterprise JSC "Petrozavodskmash" be means of modern production organization;
- to develop innovative industries and create new jobs in knowledge-intensive production;
- to maintain long-term scientific and practical cooperation between PetrSU and JSC "Petrozavodskmash" with students, young scientists and teaching staff involved;
- to improve professional development of PetrSU teaching staff by taking part in the project; to give better knowledge to the graduates who are ready to work effectively in high-tech organizations of the real sector of economy.

Practical implementation of the obtained results would allow creating in Russia a commercially viable production of transportation and packaging containers for spent nuclear fuel, followed by their release and delivery to the businesses; to improve the environmental safety of transport and packaging containers manufactured in Russia. Furthermore, it would facilitate the domestic machine-building enterprises of CJSC "Petrozavodskmash" which produces competitive products to enter the international market of transportation and packaging unit for safe transportation and storage of spent nuclear fuel of VVER-1000 reactors, as well as for it storage for at least 50 years.

Production of large machine parts from high-strength cast iron with spheroidal graphite at CJSC "Petrozavodskmash" would increase the degree of capacity utilization at JSC "Petrozavodskmash" and thus strengthen its position in the domestic market of transportation and packaging containers for the nuclear power waste.

Close cooperation with a large machine-building company on implementation of a joint project allow to extend the capabilities of the university to hold the experiments, conduct practical trainings for students and offer wider opportunities for joint research, development and technological work from related scientific fields, providing innovative activities and implementation of scientific projects at the domestic machine-building company and further commercialization. Specifically, the areas of joint studies are: development of promising methods and devices for storage and transportation of spent nuclear fuel; development of damping devices for large-size containers, including containers for storage and transportation of spent nuclear fuel; development of methods and devices for efficient dehydration of wood and etc.

The results of development and implementation of the project revealed that joint scientific and practical studies would lead to the creation of intellectual property with a high chance of successful commercialization.

Dr. Ilya Shegelman

Administration Counselor, PhD, Professor

Pavel Shchukin

Head of Innovation Projects and Innovative Infrastructure Developing Department, PhD

Petrozavodsk State University

Russia

Sustainable water management in the Baltic Sea region and the Kingisepp phosphorus case

By Egon G. Nordström

The state of environment in the Baltic Sea is and has been of great concern during decades. First we had the problem with DDT and PCB, which still lies in the sediments on the bottom of the sea. However, after this we have seen rising levels of phosphorus and nitrogen nutrients, affecting the eutrophication of the sea. Countries around the Baltic Sea in the region have made efforts like in the form of Helsinki Convention or HELCOM to start actions towards a more healthy ecological state of the Baltic Sea. By the end of the last millennium a lot of information data had been collected. However, real substantial actions were few and mainly talks and meetings were on the agenda.

Thus, when looking in back mirror we can ask ourselves - what have we achieved? Firstly, we could ask - how should we act to reach the best results? Perhaps there is no simple answer to this question. However, if we do not really put the money resources and human resources to solve this matter and stop or reduce the nutrient flow to the Baltic Sea from the Baltic Region drainage area and instead swell out the administration of distributing money (for what?) we will be in trouble.

Working for two decades teaching sustainable development in Baltic Region and sustainable water management at Open University of Åbo Akademi University have taught me a lot of the global interest for our sea and surrounding environment. Students participating in the course are international students from Asia, Africa, Oceania, South and Latin America, USA and all around Europe. My main interest for the Baltic Sea and the Region awoke in late 1980 and in the second part of 1990 when we on private basis together with my colleagues of our private entrepreneurship made a suggestion to the Finnish Environmental authorities on ministerial level. This proposal considered a list of actions that would have effect on stopping the eutrophication of the Baltic Sea, by taking acts against nutrient inflow from the main sources like rivers connected to the Baltic Basin and using the large analytical data collected. Today I'm proud to see that similar, more prestigious associations than ours are walking the same route. Congratulations and all the best in their work for an important issue.

Do we know all the phosphorus and nitrogen sources in the Baltic Region and do we have an action plan for all the countries around the Baltic Basin? The sources of nutrients are many. However, the main sources are recognized i.e. agriculture, urban sewage water and locally even large fish farming. All of these introduce phosphorus and even nitrogen, in the ratio 1:50, to the Baltic Sea Basin.

Municipality sewage water treatment has been developed since 1960s in some of the countries. Some of the countries started in the late 1970s and the last ones are now developing their systems. Sewage treatment systems are of course "expensive". However, thinking of this as an investment for future life in the region makes them "cheap". The cost is one reason that has been a retarding factor for development and construction of plants. However, with increasing living standard and development of state economy the investments have been successfully overcome. Also the Directives promulgated by the European Commission have been a driving force to fulfill construction work and together with positive funding decisions from European Investment Funds and Banks too. I must say that I'm very impressed of what I experienced when visiting Vodokanal, the local company responsible for sewage water handling in St. Petersburg. Not only the simple removal of phosphorus, but the interest and enthusiasm to develop the systems, even if already very developed, were something that can be an example for other cities in the Baltic Region. They had experienced all the difficulties and had overcome them by making solutions to solve the problems in a sustainable way and by using the brains, not only pushing problems away and trying to persuade themselves and others that the situation is now good and status quo is achieved. Ironically, those who have criticized St. Petersburg sewage treatment are those who have most to learn from there.

However, even if we raise the treatment effects of all the sewage treatment plants to almost 100 % nutrient removal, we still have the biggest polluter the agriculture untreated. The nutrient flow from agriculture is from large cultivated areas via the big rivers. I'm not going to point out any particular country responsible for this. However, the reader can imagine where we have large agricultural landscapes in the region and also flooding areas. To find and good action plan for the most critical areas will be a future challenge for the decision makers and experts. The follow up of HELCOM Baltic Sea Action plan in 2013 will be of uttermost importance and that the next report will be stricter especially if the 2003 stated has not been achieved.

In chapter four I mentioned fish farming as a polluter and in fact locally this is so, but even more regionally also this load is an extra load to the sea and what is even more alarming is that the ecological state and biodiversity of fish fauna in the Baltic Sea locally at least is disturbed by this introduction of a salmon species that is not a natural one in this ecological environment. The effects grow with growing size of fish farming plants.

Recently we were notified of the Kingisepp phosphorus case and the matter rouse to squares that were of enormous interest. HELCOM awakened and started a program (BALTHAZAR) to analyze the phosphorus levels of Luga River. Even a possible source for this unexpected phosphorus leak was pointed out, namely a former phosphorus mine and the deposits of its waste.

Suddenly, however, in the early summer of this year the phosphorus levels surprisingly went down.

Just a little before this a Finnish association together with Finnish consulting company had started the cooperation with the owner of the former phosphorus plant. Maybe this way of working, in this particular case, shows to be fruitful and not official communication between two states, where the distances between authorities, seems to be very far from each other.

Egon G. Nordström

PhD, Docent

Åbo Akademi University

Senior Officer

Ministry of Environment

Finland

*This article does not represent official position of the Ministry of Environment of Finland and the views presented here reflect only the opinions of the author.

What next in Russia's climate policy?

By Anna Korppoo

As the fourth largest emitter of greenhouse gases (GHGs), Russia is an important player in international climate politics. Since being in the centre of attention as the crucial party to bring the Kyoto Protocol into force in 2004, Russia has taken a less active role in the UN climate negotiations process. Moscow maintains that the collapse of emissions due to economic restructuring during the 1990s counts as a major contribution to the global combat against climate change. Whilst it is true that Russia's emissions have remained some 33-37% below its Kyoto target during the first half (2008-2010) of the first commitment period, the economy continues to use energy very inefficiently. This is illustrated for instance by the fact that the Russian economy is three times as energy intensive as the European Union average. Further, the emission cuts were not the outcome of focused emission reduction measures, and their permanence is thus uncertain. Russia's GHG emission trend has been upward since the late 1990s; during 2000-2010 the growth was ca. 8%.

Russia announced its decision not to participate in the second commitment period of the Kyoto Protocol at the Cancun climate conference in 2010. This was hardly a surprise to any longer-term watchers of Russian climate policy. The ratification of the Kyoto Protocol was originally considered as 'a political' decision. The leading argument that the Protocol is ineffective in solving the problem of climate change due to its limited coverage dates back to the 2004 debate and is alive and kicking in today's discussion. The Russian leadership – like many others – argues that they would like to see a new global climate agreement which proceeds beyond the division of countries into developed with and developing countries without climate commitments. The Russian proposal first discussed in Durban climate negotiations in 2011 addressed this by suggesting a periodic review of the country groups under the UN Framework Convention on Climate Change that are currently based on the early 1990s situation.

However, some in Russia would like to see the country joining the second commitment period of the Kyoto Protocol (Kyoto 2) for economic reasons, and it has even been suggested in the media that Russia's participation is being reconsidered on higher level. Russia has participated actively in one of the Kyoto mechanisms, Joint Implementation (JI), since mid-2010. JI allows industrialized countries (as defined in the Annex I of the Framework Convention) to reduce emissions jointly. A country which finds its domestic emission reduction opportunities expensive can link purchases of cheaper emission allowances from other countries to financing equivalent amount of emission reductions. Given the inefficient use of energy in the Russian economy, plenty of such opportunities have been identified and already implemented. However, actors involved in JI would benefit from access to the investments through the mechanism beyond the first commitment period of the Kyoto Protocol that ends in 2012.

These benefits could indeed be considered as attractive to Russia, especially since the start of JI was delayed. It would not require significant effort from Russia to join Kyoto-2. The increasing GHG emission trend is so slow that the Russian emissions would be unlikely to exceed the country's pledge prepared for the Copenhagen climate conference in 2009 i.e. limiting emissions to 15-25% below the 1990 level until 2020. Further, some policies which can further slow emission growth down have been introduced, including measures targeting the low energy efficiency as well as the flaring of associated petroleum gas. Even though the implementation of these policies has been delayed and complex, they establish a good basis for developing towards an economy with lower carbon intensity. The Kyoto Protocol also established Russia's surplus emission allowances - the 'hot air' – which could be transferred between commitment periods according to the Kyoto rules, but not outside the Kyoto Protocol.

Regardless of these view points, it seems that the political leadership has still been quoted to call the Kyoto Protocol 'useless' recently. It is easy to agree that Kyoto 2 makes only a minimal contribution to solving the global warming problem as its rate of participation is indeed low and targets lose. This would also mean that there would be little demand for Russian carbon credits beyond the so called true up period of the Kyoto first commitment period which provides the participants some leeway for final shopping should they find themselves overshooting their targets in the end of the commitment period. Further, the Russian climate debate has traditionally included views skeptical of climate change and its origins, which reduces the pressure to act to avoid negative impacts in the future.

Against this background Russia's preference of a new global agreement - and simultaneous refusal to support the Kyoto Protocol as a short-term solution - can be interpreted as the easy way out of international carbon regulation. Given the major disagreements on the global equity and burden sharing issues, a meaningful global climate agreement could be in a distant future. In order to demonstrate that Moscow is serious about global climate policy even though outside Kyoto 2, Russia could adopt a domestic emission reduction target. There have been discussions about taking such a target, however, rather of keeping emissions 20% below 1990 level until 2020 than what was offered in Copenhagen in 2009, yet no decision has been taken. Even though easy to achieve without additional measures, it would still be a step forward to adopt such a domestic target, and provide Russia a better starting point to argue that the future climate agreement must have a global coverage.

However, given Moscow's lack of interest in the climate issue, it seems unlikely that Russia would be keen to make a serious contribution to developing the future global climate regime through promoting wider participation. What comes to the individual future options outlined above, the decision-making process is hard to predict, and a lot depends on the attention the issue happens to get on the top decision-making level. The marginality of the climate issue adds to the random nature of the process. Only one thing seems quite certain. Climate change is very unlikely to gain weight in Russian domestic politics at its own right anytime soon.

Anna Korppoo

Postdoctoral Researcher of the Academy of Finland

Pan-European Institute

Turku School of Economics at the University of Turku

Finland

Senior Research Fellow

Fridtjof Nansen Institute

Norway

Environmental lessons from the past

By Tuomas Räsänen

Our culture overrates the present over the past or the future. Companies want quick profits, individuals seek instant fulfillment of their desires, and intellectuals are the ones who can give incisive answers in a second. If societies seem to lack overarching plans for the future, this is because we have forgotten the past. The past, however, is among us in every action, thought and motive, and without historical explanations they are doomed to be misunderstood. As with individuals, societies become sick when the past experiences, present wellbeing and future expectations are not in balance.

Historians themselves are partly to be blamed for the decline of the historical perspective in contemporary debates (the exception to this being wartime traumas). They have more or less accepted the current situation, where, echoing Voltaire, history is seen as nothing more than fables; suitable entertainment for educated minds when in need of a moment of rest from daily stress.

Perhaps nowhere is the lack of historical understanding as clear as in discussions about the degradation and management of the environment. Environmental problems are seen as totally belonging to the realm of natural sciences, although their essence lies in the interaction between the natural and the cultural. If we study only the natural side, the other half of the question – the historical and cultural processes that have inflicted environmental problems – will be left unanswered.

A case in point is the Baltic Sea. We have a wealth of natural scientific knowledge that has been gathered during half a century of intensive research. At the same time we have virtually no knowledge about the environmental history of the sea. It is therefore no wonder that social discourse about the Baltic Sea environment is ahistorical and focuses overwhelmingly on natural processes.

Maybe economists have not read Voltaire (although I know many that have), but when they are trying to figure out causes and ways out of economic crises, they turn their eyes towards recessions of the past. Environmental managers should do the same. History is, of course, not a manual from which to pick readymade solutions to present problems. Environmental history, however, tells us that human societies have faced problems in the past that are not so dissimilar to the present ones. Thus, historical analysis gives a perspective for weighing solutions that have or have not functioned in the past.

In such a short space as this it is impossible to thoroughly elaborate historical processes that would be important from the point of view of the discussion about the Baltic Sea. Instead, I am presenting three, somewhat polemical, arguments based on the environmental history of the Baltic Sea.

First, we have known for years about the nature of the environmental problems and what is required to remedy the matter. What we are lacking is knowledge about the social side of the issue. This is not to say that marine sciences are not needed anymore. On the contrary, they are indispensable, for example, in tracing the sources of pollutants and in order to discover novel environmental problems (which will inevitably occur). However, from now on resources should be distributed more evenly between natural sciences and social sciences, such as environmental economics, sociology, political sciences, and history, for they can uncover obstacles and possible solutions for more effective protection.

Secondly, it is always worth listening environmentalists with great care, even though you might oppose their general views about societal development. This advice has become ever timelier in recent years, when environmentalists' direct impact on political decision-making has been faltering. Environmentalists have time and again advocated ideas and methods that are initially met with resistance or even hatred, but have later been taken for granted. It would also be a lot cheaper, history shows, to be in the vanguard of introducing ecologically responsible methods than to cave in at the last possible moment. In regards to the Baltic Sea, environmentalists were the first to demand stricter control on toxic chemicals; they spoke for safer oil tankers and better equipment for dealing with oil leaks. They also campaigned for the purification of all waste waters at the time, when most marine scientists saw no reason to be worried about the pollution of the open sea.

Thirdly, never count on Russia (in administrative level it must be added), when it comes to protecting the Baltic Sea. They did not care about the well-being of the marine environment in Soviet times, and they do not care about it terribly much now. They have contributed to protecting the sea only when others have paid the bill. They continue to ignore the threat of oil accidents, as their capacity to clean oily seas is light years away from what is considered adequate. They have eaten their own words and frequently concealed their emissions for as long as the protection of the sea has been discussed. And there are very few signs that any of this will change in the near future. The episode last spring, when a Finnish scientist revealed a huge secret source of phosphorus in Luga River and found himself under arrest in Russia, should not have surprised anyone familiar with the history of Baltic environmental cooperation.

Russia, however, can be talked into governmental agreements by offering them support in other arenas of diplomacy. This is the only choice anyway. Despite all the talk about the demise of nation states and despite burgeoning non-governmental activities, the fate of the Baltic Sea is and continues to be irreversibly tied to governments: on their capability to sign mutually binding treaties and to enact efficient environmental laws.

Tuomas Räsänen
PhD Student
Department of General History
University of Turku
Finland

Fostering innovation in Russia – time to set priorities

By Vera Barinova

Innovative companies are assumed to be the backbone of the innovation-based economy. By those we mean dynamic companies of all sizes that are ready to change, open to new ideas, and constantly seek new ways to improve their products, business processes and administrative procedures. Innovating in all spheres of activity is regarded as their immanent feature.

Taking into account all the attempts to foster such companies in Russia, modernization by innovations may seem an unsolvable task or, at least, a goal, which may take decades to achieve. Indeed, Russian economy and its institutional framework have a set of issues that make it difficult to prioritize the support and investment focuses and areas of further structural changes. Obviously, this is a challenge to face, but it is possible to simplify the task by dealing with it from a managerial standpoint.

An effective manager, as we see it, has to set up priorities. According to this, we need a clear plan to classify the main factors that somehow influence innovations in companies and innovative firms themselves.

We suggest to use the principle of Herzberg's motivation-hygiene theory also known as Dual-Factor Theory (Herzberg, 1968)[1], that analyses motivation factors, that cause job satisfaction and dissatisfaction. Thus, to motivate personnel, managers should either provide people with motivators, increasing satisfaction, or improve hygiene factors to minimize dissatisfaction.

Similar to this, we divide factors, influencing innovations. It should be emphasized, that the list of factors classified is not complete; the example is merely an illustration of the classifications' criteria. Moreover, we should also keep in mind, that work motivation can't be equated to innovative activity.

First of all, we obviously divide factors into "inner" and "outer" (for example, competition). Everything that comes from the government is "outer" to innovators (laws, infrastructure, competition, scientific resources, concentrated in educational and science institutes), while all the factors, which are important within the company, are "inner": its assets, organizational structure, managers and other employees, their expertise etc.

Secondly, we distinguish between "framework/infrastructural" and "activating" factors. The first group refers to Herzberg's "hygiene factors", while the second one consists of "motivators". The key difference between them is not only in the sphere they belong to (that is "framework/infrastructural" are general, they refer to infrastructure and institutions), but also in the way they influence innovators. "Framework" factors are necessary but not sufficient to boost innovation. Without proper infrastructure there no innovations are possible, but improving it can't bring a significant breakthrough. At the same time, activating factors (such as tax incentives as an accelerating factor and technical regulations as a restricting one) can be very effective in promoting the innovative development, providing that proper infrastructure and framework exist. Moreover, in some cases they are unnecessary, while framework factors along are able to create incentives for innovations (USA, Germany).

As for outer factors, it's rather easy to draw the line between activating factors and framework: targeted support (either financing, subsidization investment or tax exemptions) is to stimulate innovation processes, whereas the general environment (legal system, science&educational system as knowledge generators etc.) configures the infrastructure and framework for innovations.

A way more challenging task is to classify inner factors. We use the same criterion, described above: static characteristics of the company/start-up, which are necessary for it to function properly, constitute its framework. Those are: organizational structure, its fixed assets and R&D base, etc. Almost every successful company has these, but not all of them innovate, for these are not sufficient condition for innovations. Since innovating is synonymous to permanent improvement, we assume, that the driving force for innovations inside the company is its staff, both the initiative employees on the lowest and middle positions and top-management, responsible for the business strategy. So as far as activating factors are concerned, innovative corporate culture, entrepreneurial vision and strategic planning are the essential elements of corporate innovation processes.

Defining these groups of factors that influence innovative activity is useful mostly for public administration purposes, for it's no use trying to impel managers to change their business strategies towards innovations.

Now that we classified possible incentives to innovations inside and outside the company, a kind of a strategic action plan – an algorithm of changes for the government officials may be proposed. Obviously, to foster innovation development in Russia it is necessary to work towards two directions. First priority we see as creation potentially comfortable and innovation-supportive environment – that refers to institutional reforms, of which the most important for the innovation development are competitive environment, science and educational system, finance system, legal framework, judiciary, public management. However, these actions will only create the basic conditions for innovations. So the next step is to apply direct measures such as targeted financial support and consulting, tax exemptions, support of the workplace innovations. The proposed algorithm may be helpful for the purpose of allocating scarce finance and time resources to different innovation incentives. Neither the proper environment nor direct measures alone won't be effective in modern Russia: it's essential to combine these two groups of incentives, described above, according to the priorities set.

Vera Barinova

Head of Innovation Economy Department

Center for Real Sector

Gaidar Institute for Economic Policy

Russia

[1] Herzberg, F. 1968, "One more time: how do you motivate employees?", *Harvard Business Review*, vol. 46, iss. 1, pp. 53–62

Finland and Russia – how good partners may contribute in developing innovations

By Virpi Herranen

Finland and Russia have a common history and long-lasting economic relations. Finland remains one of the most important economic partners for Russia and historically, was the first border entry point for Russia to the EU (European Union). Until very recently economic activities between the two countries were mostly focused on cross-border trade, where Russia predominantly provided raw material imports, and Finland provided predominately industrial goods within their overall export structure. This equilibrium began to be altered by major changes in the Russian economic landscape initiated by the government's attempts to modernize its current commodity-based economy into a knowledge-based one.

In the last five years a completely new set of governmental institutions has been created to support development of translational research and technology commercialization, leveraging of private investment in domestic hi-tech industries and nurturing of Russian venture capital. The world's best environment for innovative development, including that of Finland, have been analyzed and benchmarked to create a local business environment that supports innovations. The most important institutions include the Russian Corporation of Nanotechnologies (RUSNANO), Russian Venture Company (RVC) and Foundation for Assistance to Small Innovative Enterprises (FASIE). The Skolkovo Innovation Centre, often dubbed as "Russian Silicon Valley" is the lateset to join the consortion. These institutions combined, form a so-called "innovation lift" where hi-tech companies are supported by the government all the way from the very initial "seed" stage up to the higher development stages of aggressive expansion. The model implies that the increasing share of private investment shall complement public funding.

University reform is another important step that Russia has undertaken to bring its innovation system in line with recognized best practices of other major nations around the word. Research work that was previously allocated mostly to the research institutes of the Russian Academy of Science is now prioritized to move back to universities, which receive additional funding for R&D activities and, especially, commercialization of innovations.

Russia still has a lot of catching up to create a modern knowledge-based economy, but recent governmental initiatives backed by considerable amounts of funding, both public and private, paint a more optimistic picture for local R&D professionals, hi-tech entrepreneurs and investors as compared to the last 10-15 years. Young innovative Russian companies, especially in ICT, have already proven their ability to grow into international success stories. Examples are Kaspersky, Yandex, ABBYY, and Parallels. Another investment intensive area is nanotechnology. However, funding here comes mostly from public sources. Biotech and Pharma innovations are also growing trends in Russia, and a good example is Maxygen – a university startup that developed a fast, mobile and inexpensive DNA diagnostic device that won the top award at Aalto VG Startup Sauna 2011 and came in second at Intel Global Challenge in the US.

It is the right time for Finland to share its experience in hi-tech commercialization with its big neighbor-Russia, and capitalize on joint development of breakthrough innovations created by Russian researchers. Finnish-Russian collaboration in the area of innovations intensified in 2010 when the Partnership in Commercialization of Russian Innovations Project was launched by the Finnish Ministry of Employment and Economy. The Finnish innovation Centre -Finnode Russia has been offering a focal point for Russians willing to get into contact with the Finnish innovation development system and learn about cooperation possibilities. Working on fostering and facilitating collaboration between Russian and Finnish development institutes, infrastructure institutions, innovators, investors and entrepreneurs, Finnode has also been helping some of the best Russian startups to visit Finland and establish valuable and practical contacts with potential Finnish partners.

Over 400 Russian innovation companies and their business cases, collected from all around Russia and from all kind of institutions, incubators, techno parks and innovation award events underwent thorough evaluation by Finnode during two years of the project. From this number of companies, 2-3 % of all cases demonstrated commercial value and potential that was attractive for Finnish private investors or regional development organizations. As a result, seven companies based on Russian innovation have been established in Finland in order to commercialize their invention for western markets.

Infrastructure to support innovations in Russia is completely new and is founded on greenfield. Existing conditions for hi-tech businesses in Russian techno parks, incubators and accelerators varies substantially depending on region, and organization. Russian entrepreneurs' skills in international business development are often insufficient, even for a neighboring country.

Competition is tight, however, only a few smart ideas look for smart money, smart networks and smart partners. The country who wants to fight for the best innovative ideas in Russia must offer all of this smart infrastructure, but at the same time also offer professional Russian – focused support, which will be either participating in business or having a true long term interest in developing business ideas into success stories.

The last two years looking at project work in searching which business cases were the best for coming to Finland and for commercializing to international markets from Finland has shown that the "project pipeline to Finnish innovation ecosystem" still needs development. Lots of municipal and regional players do offer their help, but for Russian companies it is hard to see added value in Finland compared to other EU countries, not to mention between regions or cities in Finland. To be able to start one's own business based on innovation, residents of Russian need to establish their own company in Finland, and take many practical steps through foreign bureaucracies. Even if it is not cumbersome, it is time consuming. When the business is to be started outside the country from scratch, the progress is even slower.

To improve Finland's competiveness as a partner for good innovative ideas, certain changes to Finland's own

internal structure have to be made. Finland's innovation ecosystem has been built up internally for Finns and it has in practice no systematic structure or strategy for incoming foreign startups. Contrary to US investment funds, Finnish private investors in innovative technologies are still reluctant to screen Russian startups. Finnish private investors (VCs and investor angels) usually evaluate most of the Russian ideas coming to present at forums such as MoneyTalks as being too early for investment. As a result, a typical startup trying to reach an international market and seeking not only smart money but also market access and business model knowhow and best practices in commercialization often hears "too early stage, no, thanks". This is heard even if technological innovation itself is high grade. In interesting cases, business intelligence should be offered as an in-kind service to high-interest companies to enhance their competitive advantage for the Finnish innovation ecosystem. All gaps between Russian entrepreneurs and the Finnish innovation ecosystem need to be filled.

Proactive steps are being implemented all the time. One recently added powerful tool available for joint innovation development is the co-funding program initiated by The Finnish Funding Agency for technology and Innovation Tekes and FASIE. The program provides that Russian and Finnish innovative SMEs developing joint innovative projects may apply for funding from their respective country agencies. A number of joint projects have been successfully approved already, but as FASIE is significantly smaller than Tekes and has limited funding capacity, Tekes now seeks to offer a mutually beneficial collaboration model that is similar to Skolkovo. Initial contact has already been made and both sides are now negotiating potential opportunities.

Startup Sauna, a well-known accelerator program from Aalto Venture Garage, started to accept Russian startups and Sauna which has generated interest several times in many Russian cities, has selected startups for the acceleration program in Finland. Vigo – another new and very successful accelerator concept which is supported by Tekes is opening their eyes towards Russia. Currently Vigo features nine accelerators launched by some of the most successful of Finland's hi-tech entrepreneurs and business angels leveraged by Tekes. Areas of specialization include ICT and software, Cleantech and renewables, Biotech and pharma. Vigo accelerators are looking towards welcoming Russian innovative technology cases in Finland, as well as attracting private Russian investment in their portfolio companies. Initial contacts have already been made, and recently, in a fact finding trip organized by Finnode, 2 Vigo accelerators along with Vigo program coordinator have attended Russia's biggest annual innovation contest BIT in Moscow to get the first impression.

Last but not least, Russian private and public investors are now looking for interesting hi-tech projects from Finland. Government provides financial support for tech transfer projects to Russia where about a billion Euro in total is available. A number of associated private venture capital funds are ready to use this leverage for investments into projects that have potential in bringing their technology to Russia. Cleantech, energy efficiency and renewables are regarded as hot topics in addition to the traditional favorites such as ICT and software.

Virpi Herranen

Director

FinNode Russia

Science and innovation policy of the new Russian cabinet

By Liliana Proskuryakova

The new Russian cabinet that was formed after the presidential elections in spring 2012 marked new priorities of science, technology and innovation (STI) policy. Dmitry Livanov, Rector of the National University of Science and Technology "MISIS", was appointed the new Education and Science Minister. Previously Dr. Livanov already spent three years in the Ministry as Director of Department and Vice Minister (2004-2007).The new Minister holds a doctorate degree in physics and mathematics from MISIS.

One of the first initiatives of Dr. Livanov was the creation of an 'open ministry', including the establishment of open spaces for discussion of particular decisions and initiatives, and the organization of a civil society council by the Ministry, headed by the Nobel prize winner in physics (2000) Z. Alferov. The new team of top officials consists of practitioners - researchers and professors, while some career civil servants left the Ministry. It is also planned to create a network for professional evaluation of projects of key importance. Both the expert council and the network will comprise a wide range of stakeholders.

At a recent meeting devoted to modernization of the Russian economy, which has remained high on the agenda of the Russian leaders since 2000, the PM announced a planned 30% increase in the share of high-tech and knowledge-intensive sectors of the economy by 2018 (as compared to the 2011 level). At a meeting of the expert group on entrepreneurship at universities and research centers in August 2012 Mr. Medvedev also underlined the lack of investment, which could be resolved by venture funding and state funds support. He also suggested the possibility of IPO by selected new innovative companies at the specially created international stock markets.

The 2012 presidential decree features more immediate actions in the sphere of science and technology (S&T), including further advancement of the leading universities internationally, an increase in budget allocations for state science funds[1] (up to RUB 25 bln by 2018) and competitive funding to university-performed R&D**.** It should be noted that Russian universities hold weak positions in the Russian innovation system. As compared with OECD and BRICS the input of the Russian higher education sector in basic research is one of the lowest (it varies from 80% in Ireland and Denmark to 20% in Korea, Great Britain and Russia). To address this and other weaknesses the recent move of the ex-Minister Fursenko was to strengthen the research capacities of the Russian universities and to improve their connections with Russian companies.

Considering the mentioned tendency, an important factor is the attraction of highly qualified professors. The authors of an international comparative survey of academic profession note that Russia is characterized by low internal mobility, most universities have little flexibility to increase salaries for better performing faculty, and the average professors wage often fall 10% below the average wage of others in the economy who have completed higher education. Certain wage increases for professorate (up to 200% of the average wage in each of Russia's regions) were previewed in a relatively long perspective - until 2018.

Another immediate action outlined in the 2012 presidential decree is the adoption of a long-term national basic research program (following the opinion expressed by some renowned commentators, such as Yaroslav Kuzminov, of the need to concentrate efforts on long-term priority-setting and strategies rather than daily routine). Such a program will facilitate reaching some key targets, for instance, increasing the share of Russian publications in the Web of Science journals up to 2,44%.

The difficult and long-pending reform of the Russian Academy of Sciences (RAS), also highlighted in the OECD Innovation Review 2011, is currently not on the agenda of the new Minister, who previously criticized the Academy. Prime-Minister Medvedev earlier mentioned that it is up to the RAS itself to undertake internal reforms. Today the Academy remains by far the biggest recipient of the government R&D appropriations and is slowly moving towards a greater share of competitive funding in its budget.

The S&T development targets require budgetary support, but its prospects remain obscure. On the one hand, it is expected that Russian GERD will increase to 1,77% of GDP by 2015 and the share of appropriations to higher educational institutions will raise to 11,4% of GERD. On the other hand, the 2013-2015 Russia's draft budget already caused disagreement between the official and "open" (expert) governments. The experts claim that education and a few other sectors are underfunded, asserting that federal appropriations for education will decline by 7% (by 0,3% GDP down from 1% in 2012) and the planned salary increases in the educational sector will be assured by lowering the appropriations for applied research and subsidies to regional educational programs.

Liliana Proskuryakova

Researcher

Laboratory for S&T Studies

National Research University "Higher School of Economics"

Russia

[1] First of all the Foundation for Basic Research, Russian Foundation for Humanities, and the Foundation for Assistance to Small Innovative Enterprises.

Russia – an unattainable goal of diversification

By Natalya Volchkova

During the last two decades the diversification of Russian economy was always declared as one of the most important goals of economic policy. The breakup of the Soviet Union left Russia with a very peculiar economic structure. In 1990, industry accounted for around 50% of GDP, while services contributed only 35%. Over the next two decades the major changes in the structure of economy were highlighted by an expansion of services and the relative contraction of both industry and agriculture. Currently, services make up nearly two thirds of GDP while manufacturing now accounts for no more than 16%. Additionally, in the past decade, the Russian economy has experienced a substantial increase in external revenues due to the rise in international hydrocarbon prices. An improvement in the terms of trade coupled with an increase in domestic demand has been accompanied by appreciation of the domestic currency and the relative rise in the price of non-tradables. Thus, the process of de-industrialisation that had already started in the early 1990s has been emphasized by the shift in relative prices induced by inflated oil and gas prices and, consequently, government revenues.

The consequences of the natural resources boom since 2000 are clearly observed in the concentration of Russian exports. By 2009, mineral fuels contributed nearly two thirds of Russia's exports in nominal terms - a significant increase from a level of over 40% in the mid-1990s. Most of this increase can, however, be attributed to higher hydrocarbon prices rather than purely by an increase in volume. Calculated in constant 2000 prices, the share of mineral products in exports actually remained the same over this period. In other words, in real terms, there was almost no reallocation across commodity groups so that the concentration of exports has remained broadly stable since 2000.

However, while at the aggregate level the export structure is stable, a more detailed analysis reveals signs that diversification has worsened. In 1996 Russia had a comparative advantage in 156 out of 1242 product lines (for comparison, China had a comparative advantage in 479 product lines in the same year). The latest data for 2010 show that Russia's comparative advantage had narrowed substantially: the number of Russian product lines with comparative advantage had fallen to 103 (in contrast, the number for China had increased to 513 by 2010). These figures emphasize the fact that despite the policy rhetoric, the Russian export basket had become even more concentrated since the mid-1990s.

One might blame oil dependence as a major reason for such deterioration of export structure. However, a closer examination of production and export concentration across Russia's regions does not provide supporting evidence of this. That is, no significant correlation between oil and gas abundance of a region with its export diversification is observed in the data.

An analysis of company level information along with company export profiles indicates regulatory burden as one of the major constraints for diversification. The very first observation is that Russia has a far smaller share of export –oriented firms than many other countries. By 2008/09, about 3% of Russia's firms were exporting firms compared to 15-17 % for the USA or France. Not only are there relatively fewer exporters, but those that do export have higher premia in terms of sales, assets and investments than in these other countries. Further, an increase in foreign market penetration by Russian exporters is mainly associated with the increase in intensity of exports per firm rather than in the number of exporters. These findings are consistent with a higher fixed cost of becoming an exporter in Russia. In fact, applying a more general model using other countries' data revealed that the ratio of the fixed costs of exporting to fixed costs of production in Russia is five times higher than in a country like Chile.

The qualitative and quantitative analysis of Russia's export firms sentiments' toward export barriers revealed several "candidates" that prevent Russian exports from diversification. Firms indicate problems with VAT refunds as a very important reason that precludes them from export expansion. Instead of fighting false exports with the help of enforcement agencies, the state employs tax inspectors. The strategy is very simple; young exporting firms can, as a result, generally only receive the VAT refund for exported goods through court decisions, which is both costly and time consuming. This also implies meeting with tax inspectors in a trial. However, tax agencies in Russia have too much discretion over the firms, especially young ones, such that not every firm will want to risk fighting their case. Ultimately, due to this bureaucratic barrier, many firms prefer not to export at all rather than go through this extra scrutiny by tax inspections.

Another rudimentary regulation that Russian exporters face involves currency control. By law, Russian exporters must receive foreign currency in the full contracted amount in their bank account within 45 days after their goods leave Russian customs. The fees for violators are quire severe. This is the remnant of state capital controls that Russia enjoyed during 90s. Now, when many other components of capital control are completely removed this particular element is still enforced resulting in pushing up the costs of exporting, particularly for new small manufacturing exporters.

Ironically, while the Russian government spends more money on export promotions and the development of new, modern, technology, there are quite a lot of regulatory traps that prevent these resources from achieving these aims. Without streamlining bureaucratic red tape, procedures, and legislation and making the interaction between the state and potential exporters more predictable, the diversification of Russian exports will still remain an unattainable goal.

Natalya Volchkova

Professor

New Economic School

Russia

The real challenges of start-ups who want to make people's lives better

By Triin Kask

It all started like these stories very often begin. In May 2008 I parked my car on a paid parking spot and went to have dinner in a restaurant nearby. About an hour later I returned to my car and saw this familiar yellow paper on my car's windscreen. Once again I had forgotten to start the parking payment and got a parking fine for this typical misbehaviour. I was really furious and thought to myself that why anyone has not yet developed some kind of a GPS-based parking device that parks your car automatically. Just like that the light bulb above my head went on and it is shining ever since.

Today I am running the company, BluNavi and I have great plans bringing it into the global arena. We have developed a GPS-based automated parking payment solution that includes a device and software and above all, it actually does what it is supposed to do. Imagine, just pulling into a parking spot and walking away without having the need to have coins, send SMSies, activating mobile apps etc. Thus, we have the solution that improves people's lives, guarantees parking fees for cities, increases revenues and customer satisfaction at the same time, helps to reduce costs and increase traffic efficiency in cities, so it seems that the world is ours. But just here the whole fun ends as suddenly as it had begun. Well, what is the problem then?

The problem is that instead of helping cities to upgrade their parking infrastructure, we have to spend many hours on finding the right people to communicate with or in order to put the idea into practice we need to spend much time on lobbying. Over 45 billion EUR worth parking industry is very fragmented, there are lots of different stakeholders who all want their share. I have been told several times that the industry is still in Stone Age and it takes at least a decade for it to understand the possibilities of modern technology. I think they have already understood it but their mentality is to keep something that earns good money stable, although the end-users and cities could gain much more by upgrading the parking infrastructure according to modern technology.

The process of becoming a player in the parking industry is long and hard as it is controlled by long-term contracts, big corporations and nerve-racking bureaucracy. This could be a real challenge for a start-up who has no previous experience and network in this industry. Therefore, finding the right business model that ensures instant revenue is crucial. Otherwise it might take several years to work your way into the market, which in turn is too long for an innovative solution to be truly an innovation.

As different aspects concerning traffic are very often controlled by the city politics, one might need unethical approaches to get to the market. For example we had a case with one city in Italy, which was interested in our solution but instead of being progressive and organizing beta trials with us, they suggested us to collect some money first in order to satisfy different needs of decision-makers, like travelling to Estonia and staying in five-star hotels, having expensive meals and other benefits. At first you think it is some kind of a test but when you understand that this is actually the way business is done you start to think how far are you willing to go yourself. Thus, the real challenge is to understand the game played in this industry and finding your strategy and tactics.

But more complicated are these cases where decision-makers do not even concider finding better alternatives to existing solutions. This usually means slow communication or no communication at all and it is quite baffling how to attract attention in order to show the benefits we could provide. Hence, coming out of your comfort zone, being an intrusive communicator may well be all against your beliefs and yet it might be the way to success.

And then there are investors without whom a start-up can rarely grow. Investors usually look for bullet-proof business model that warrants them income of ten times their investment. Getting the investment very often depends on how impudent a start-up is not on how well their product helps to improve people's lives. Therefore, the founders have to switch over from ideals to profitable result-oriented thinking, which again might be really hard when you have strong rooted principles.

So how can one survive in this rigorous superficial world order of parking industry? Before I founded my own start-up I had been studying economics and lecturing entrepreneurship courses in the University of Tartu. Writing my PhD disseration about innovation and Estonian IT organizations provided me with different viewpoints how companies manage innovation and success at the same time. My research results showed quite clearly that the broader and more ambitious the vision of a company, the more successful it is in terms of innovation. That brought me to the idea that what organizations and their members are really lacking is actually understanding their vision and where the company is heading. Thus, as long as I have the vision where BluNavi will be one day, I have the willpower to build those complicated time and nerve consuming relationships in order to get through to the right people who make decisions and who hopefully see the financial benefits of our solution. I know we will succeed one way or another and knowing this keeps us going.

Triin Kask

CEO

BluNavi

Estonia

Baltic States – three states, but no region

By Dovile Jakniunaite

Since the three Baltic States - Estonia, Latvia and Lithuania - re-established their independence in 1990-1991 they were considered as one region, as they had a lot in common. Noticing their development now the idea about the Baltic States region seems dubious, at least for the Baltic States themselves. Regional policy is almost nonexistent in their foreign policies, and they competing among themselves more that they are cooperating.

There are many ways to describe Estonia, Latvia and Lithuania. They all are small states. They are (still) post-soviet states. They are Central Eastern European states. And only then we may think about them as Baltic States. Geographically, it is the right description, and it also emphasizes their uniqueness - they are the only ones in the EU with the experience of having been part of the Soviet Union.

All these descriptions are applicable and useful. And the description "Baltic States" is one of the options usually used in a certain context, but not everywhere. Analysing the usage of the concept, can we fine any "Baltic way" of doing things, and, if so, what does it imply? A region is usually understood as a territorial entity defined by common identity, institutions and activities, as well as by perception of others as such. A region is not something absolute, given and unchanging. A region is always historical and exists as long as it provides something for its parts.

Any definition of the region depends both on the external as well as internal actors. Looking throughout the 20th century, we can see that the "Baltic States" was mostly used by the external actors. During the inter-war period these three small states were at some point considered as a neutral buffer from Soviet invasion and influence. During Soviet times the conceptualization of the three western republics as the Baltics was established and strengthened. Unsurprisingly this thinking continued after the fall of the USSR, this time supported mainly by the neighbours in the North and by the EU policies.

After 1991 the Baltic regional cooperation was developing in full speed. During five or six years all the necessary institutions modelled on the Nordic cooperation were established. Presidential summits became common practice. At the same time around 1995, the policy priorities of the three states clearly moved towards integration into the EU and NATO, and all joint efforts were concentrated there. The lively military cooperation was encouraged and facilitated by NATO. The economic cooperation was fostered especially by the EU. The EU saw the Baltic States as a sub-region and thereby emphasized the regional cooperation as preparation for accession, and gave financial support for regional initiatives.

Starting from 1997, however, the individualized and differentiated EU policy began to develop. As a consequence, external initiatives for cooperation decreased, and Latvia, Lithuania and Estonia started to compete among each other for the position of being the most successful one. After the EU enlargement in 2004 nothing of importance has happened in the arena of cooperation and regional development of the Baltic States. Although common institutions still exist and function, and meetings between the leaders are taking place, it is very difficult to find any substance in the regional cooperation proclamations. Integrations into the Shengen and the euro zones - another two important integration projects - have also happened separately, without any coordination. Energy and transport sectors - the most potential areas for cooperation - are surrounded by disputes, arguments and mutual frustrations. And one more or less successful project – the establishment of the Baltic Energy Market – only became feasible because of EU efforts.

All in all, these three states were thinking as one and coordinated their policies only for a very short time. Becoming part of a bigger regional project naturally diminished the need for smaller regional initiatives. Besides, all the three states started to look in other foreign policy directions. Lithuania contemplated about the strategic partnership with Poland concentrating more on the EU Eastern policy, Estonia was focusing on Nordic cooperation, and Latvia recently started to redefine its relations with Russia.

Finally, when we look how Estonia, Latvia, and Lithuania perceive each other, we can notice the constant comparison and constant competition. Estonia and Lithuania are economically and politically the most visible states, constantly competing for being more famous and/or successful. Latvia is persistently looking for its own developmental path. Thus, while being undeniably similar in economic, political, social and cultural terms, the states nevertheless do not make one regional entity in their own minds.

The Baltic States have travelled a long journey together, but they haven't formed a friendly company. The internal motivation and reasons to regionalize were short-lived. The term Baltic States exists for these states as a shortcut that is convenient for policy reasons. But the regional practices, thinking as a region or the regional idea do not exist. It is not yet a community that tries to find common solutions to common problems.

Dovile Jakniunaite

Associated Professor

Institute of International Relations and Political Science

Vilnius University

Lithuania

The Baltic Sea Dimension at the Department of North European Studies, Humboldt University, Berlin, Germany

By Ralph Tuchtenhagen

Since the late 18th century, Berlin has constantly been a centre of academic research on Northern Europe. In 1994, the Department of North European Studies at Humboldt University, Berlin, was founded as a merger of north European studies previously pursued at various academic institutions in Berlin. Presently, the Department of North European Studies employs a staff of c. 50 persons, including 3 professors, 2 guest professors (from Norway and Sweden), 5 language lecturers, assistant professors etc. Roughly 550 students are registered in various teaching programmes including a continuous language education in Danish, Finnish, Icelandic, Norwegian, and Swedish as well as courses in north European history and culture.

Teaching and research at the Department of North is carried out against the background of a broad geographical definition of the term 'north European', meaning an area reaching from Greenland to Northern Russia and from northern Germany, Poland, and the Baltic States to the Arctic Sea. The Baltic Sea region is an integral part of this concept.

As a tool to coordinate teaching and research the "Baltic Sea School" (Ostsee-Kolleg) has been founded as an affiliated institution in 2001. It serves as an institutional forum for all study and research activities dealing with the politics, culture, history, and economy of the Baltic Sea Region. Beyond regular teaching on various aspects of the history, politics, and culture of the Baltic Sea region, summer schools were organized during the years of 2008-2011 in order to attract international scholars and students interested in the study of the Baltic Sea region. Conferences organized on a regular (annual, biannual) or irregular basis were also part of the Department's research on the Baltic Sea region. Since 2009 the Department, in co-operation with the Institute of Northeastern Europe (Luneburg, Germany), the Department of History at Tallinn University, the Baltic Sea Academy and the Sankelmark Academy (both Sankelmark/Flensburg, Germany) organized conferences on Baltic Sea history and culture for junior scholars from the Baltic Sea region and beyond. Moreover, national and international co-operation include various programmes with the Finnish Institute, the Baltic Sea states' embassies in Berlin and Germany's embassies in the Baltic Sea region, the Herder Research Council (Herder-Forschungsrat), the Herder Institute (Marburg, Germany). Contracts of academic exchange and project co-operation exist with a dozen universities in Scandinavia, the Baltic States, and Poland.

Research activities are documented in the Department's own journal and various monograph series. The half-yearly journal "Nordeuropaforum" (Northern Europe Forum), founded before the Department's existence in 1991, includes, among others, articles and reviews on historical, political, sociological, economic, and cultural aspects of the Baltic Sea region. The monograph series "Arbeitspapiere 'Gemeinschaften'" (Working Papers 'Communities') deals with historical and present phenomena of communities and societies in Germany and Northern Europe. The "Berliner Beiträge zur Skandinavistik" (Berlin Contributions to Scandinavian Studies) comprise editions of old Norse and recent Scandinavian texts as well as monographs, paper collections and bibliographies from all branches of Scandinavian studies. They present mainly texts written by members of the Department, but are open to other contributors as well. "Kleine Schriften des Nordeuropa-Instituts" (Smaller Publications of the North European Department) publish various kinds of working papers and resources useful especially for teaching or as a basis for further research. The Department's central organs for Baltic Sea studies are the two monograph series "The Baltic Sea Region: Nordic Dimensions – European Perspectives" and "Nordeuropastudien" (North European Studies). "The Baltic Sea Region" aims at analyzing historical, political, economic, social, and cultural processes and structures within the Baltic Sea region. It is especially meant as a forum for younger scholars. "Nordeuropastudien" publishes economic and sociological, historic, juridical, and cultural studies, covering an area reaching from Greenland to Finland with special emphasis on the Scandinavian states of Denmark, Norway and Sweden. The monograph series "Die kulturelle Konstruktion von Gemeinschaften im Modernisierungsprozess" (The Cultural Construction of Communities during the modernization process), published in 11 volumes during 1997-2007, has not been continued. It analyzed topics like nation building, societal life, and the welfare state in Scandinavia and the Baltic Sea region. "Kleine saamische Schriften" (Small Saami publications) includes working papers, original sources, and smaller studies with a focus on Saami language, culture, and literature.

In addition to research projects, conferences and publications research is also carried out in the Department's "Deep Water Think Thank" dealing with current developments in the Baltic Sea region, and the research group "North European Politics" (FOR:N) focusing on the political development of, among others, the Baltic Sea region.

Ralph Tuchtenhagen

Professor, Dr.

Chair of Cultural Studies

Deputy Head

Department of North European Studies

Humboldt University, Berlin

German

Peripheral regional universities – what role within the Baltic Regional Forum?

By Tatjana Muravska and Roswitha King

During the last 20 years Latvia has experienced a rollercoaster ride. In the earlier and mid 2000s the country was known as one of the Baltic tigers showing double-digit economic growth in 2005-2007 and - in the wake of the recent world recession - to double-digit economic decline, as GDP fell by 18 % in 2009, while official unemployment reached more than 20%.

Following the advice of the international lending community, Latvia chose severe cuts in budget expenditures. Statistics show that Latvia now is recovering from its dramatic economic recession. However, the social cohesion requires serious attention as a steady stream of Latvians continues to leave the country in pursuit of a better future. For example, although in many EU countries unemployment among university graduates has risen far less severely than among lesser qualified groups, the rate has increased by more than 100 percent in the Baltic States bringing with it a number of undesirable social consequences. Education and research have a key role to play not only to promote growth and employment, but also to guarantee equal opportunities and social cohesion.

To meet these major social challenges, universities are called upon to reconsider their mission beyond the confines of the lecture room in recognition of their role in knowledge creation and its transformation into innovative goods and services under involvement of both public and private sectors. More could be done to make business and academia work hand in hand to design and supply the curricula, develop skills and competences that allow traversing between business and universities. This has been recognised at the national and European level. Among the tasks to be performed are consulting services to SME, more proactive engagement in placing university graduates in businesses and connecting key players towards this purpose. The overall goal is to bind universities to regional growth and to rethink the responsibility of higher education institutions in regions. In order to obtain the truly connected region a catalyst for this process is urgently needed. Latvia has taken a first step in this direction by establishing the Baltic Regional Forum and bringing together academics, business partners, NGOs and other actors of civil society.

The role of universities in regional development has so far been under communicated, but it could be of a particularly strong impact in the economically weaker regions of Latvia, where the private sector is relatively underdeveloped. Here some thought needs to be given to why and how universities can be agents of change in regional development, as their potential to foster prosperity remains underexploited. Going beyond their two traditional duties of teaching and research, a third mission of universities, linking them directly to the business sector and regional growth is called for. In this process the Baltic Regional Forum as an initiative for regional development may become a central driver. In this regard we should learn the hard won lesson from the past and refrain from seeking isolated initiatives in favour of longer- term partnerships independent of the boom and bust of the funding cycles. To encourage such a long - term partnership development some institutional anchoring through the recently established Jean Monnet Centre of Excellence in Latvia is called for. The initial mission is a critical evaluation and an inventory of the regions' current and potential strengths as well as the region's capacity to identify and absorb university expertise. Thereafter regions' perceived advantages would be evaluated according their potential toward development of critical mass that could lend the region its particular profile. Inventorying and evaluating the regions' potential require specific skills and competences. This is were the university should step in with capacity building workshops under collaboration with local, national, regional and international actors from both the public and private sectors. These considerations find support in a growing sentiment that universities should be coming out of their ivory towers and align their research and teaching more closely to their socio-economic environment. As universities maybe viewed as residing within specific regions it is a small step from there to a desire that universities become more proactive as drivers of regional development and community outreach. In this regard, we are not only thinking about technology and skills development but also about cultural awareness - thereby opening up a larger role for social sciences and humanities.

It may take considerable transformation before universities begin to understand themselves as regional actors or as service providers for the region. Development of the Baltic Regional Forum is equivalent to development of the gateway mechanism between the university and the region, which it wishes to serve in a novel way. This gateway mechanism works in two directions: connecting local concerns to larger regional issues. But also regional and global issues need to be translated into locally concrete targets.

If these challenges are to be successfully met, universities will have to confront their own specific barriers to regional engagement. Contributions within universities regional engagement will have to be worked out on case-by-case basis. Universities need to develop a sense of place. Is the Baltic Regional Forum a catalyst for regional development?

Tatjana Muravska

Jean Monnet Professor

Director

Centre for European and Transition Studies

University of Latvia

Latvia

Roswitha King

Associate Professor of Economics

University of Latvia

Ostfold University College

Norway

BSRS – making sense of regional realities for 15 years

By Markku Jokisipilä and Tarja Hyppönen

When the Baltic Sea Region Studies programme (BSRS) at the University of Turku was launched in the autumn 1997, we we're living in the midst of change. 1990s witnessed a significant increase in the number of international students, and there was a demand for more teaching in English, both single courses and whole study tracks. Finnish Universities turned more and more towards the outside world and also international cooperation became a funding criterion. In the EU it became possible to become part of international higher education funding and mobility programmes as well.

Similarly in mid-1990s Turku University strategy started to stress more heavily the academic collaboration in the BSR. Ministry of Education mandated it to coordinate the relationships of Finnish Universities with those in Estonia, Latvia, and Lithuania, as well as throughout the Baltic Sea region. The BSRS became a pilot project in this task. The work began enthusiastically first with the universities in Estonia, Latvia and Lithuania, especially as they also established their own BSR related programmes. The collaboration evolved quickly and the focus was soon broadened to cover the whole Baltic Sea region and even beyond.

The language of instruction is today's European lingua franca English. The programme is coordinated by the Faculty of Humanities, but since the very beginning it has relied also on cross- and multidisciplinary expertise from the other faculties, other Finnish universities and a network of international partner institutions in BSR and beyond. In its wide-ranging effort of making scholarly sense of the BSR and world at large the programme utilizes the perspectives Contemporary History, International Relations, Human Geography, Cultural Studies and Nationalism Studies.

Three-ring circus

The BSRS programme has three main fields of operation. Firstly it runs a two-year international Master's Degree programme, made possible by the creation of European Higher Education Area in the Bologna Process. Master's programme was launched in August 2005 as a joint venture in collaboration with international partner universities and has ever since been the main component of our activities. In 2005-2011, a very international corpus of 53 students representing 25 different nationalities has enrolled in the programme. So far 23 have graduated and four of them continue in doctoral studies in Finland and Sweden.

Secondly BSRS offers a Bachelor-level non-degree programme, which has been in operation since 1997. It is mainly directed to short-term international exchange students and Finnish degree students as minor studies. The range of courses offered has been diverse, covering for example fields of history, culture, intercultural communication, economics, geography and environment. The non-degree programme has offered the participating departments a structured opportunity to provide courses in English, to enhance their international activities, and to provide the junior members of their staff with experience of teaching and working in a genuinely international classroom.

Thirdly our programme participates in various international projects and joint undertakings, most typically linked to curriculum development and/or promotion of the academic awareness of the Baltic Sea region. International collaboration takes place on many different levels from the contribution of individual researchers to larger, programme-based initiatives. In Autumn 2008 we became partners in the International Masters in Russian, Central and East European Studies (IMRCEES) consortium coordinated by the University of Glasgow. In 2011 IMRCEES was recognized by the European Commission as an Erasmus Mundus Masters Programme of 'outstanding academic quality'.

International forum of experience and discussion

Today, the programme offers an interdisciplinary approach to understanding the characteristics of the region which has rapidly become involved in the process of European integration. With the 2009 adoption of the European Union Strategy for the Baltic Sea Region, the first macro-regional strategy in Europe, Baltic regionalization has become a model of cooperation and shared interests for other European regions. In this context our programme offers a scholarly qualified contribution towards constructing a new regional identity within European Union.

Teaching and learning in the Baltic Sea Region Studies Master's Program is based on a regional approach that complements but also challenges conventional national and international perspectives. Combining the expertise from various fields, the program strives to create an interactive and innovative environment for studying and learning. In a truly international classroom environment, students learn about the multifaceted history of the region, its vibrant political present, and its future challenges.

Equipped with in-depth knowledge about political, economic, and cultural developments on national, regional and global levels, BSRS graduates find employment in a broad variety of academic, governmental and other institutions and organizations. We encourage independent thinking, critical debate and intellectual creativity, qualities that are in an ever-growing demand in our completion-driven and information-centered globalized world. Multinational and multicultural interaction makes Baltic Sea Region Studies a truly unique academic experience.

Markku Jokisipilä

Academic Director

Tarja Hyppönen

Coordinator

University of Turku

Further information on the BSRS programme
http://balticstudies.utu.fi/

The Warsaw School of Economics (SGH) and its collaboration within the Baltic Sea region (BSR)

By Elżbieta Fonberg-Stokłuska

SGH, established in 1906, is one of the leading research and teaching centres in the area of economy, finance, political studies, business and management in Central and Eastern Europe, and the only Polish member of the prestigious international networks CEMS and PIM.
The academic position of SGH and its involvement in the transformations in Poland and Europe after 1989 relied on strong relations between its research staff and global academia, dating back to the times preceding the transformation in CEE. They resulted in introduction of new, innovative curricula and conducting research supporting development of Poland and the region.

The academic support for SGH shown by universities from the Western part of the BSR made it possible to develop its academic and research potential. Especially the cooperation with German institutions has been strong for years, climaxed with the establishment of the German Economy Research Centre at SGH. It is where numerous research projects are conducted, many in cooperation with German partners. Their focal point is the area of social market economy and German economic policy in the global context, the economic role of Germany in the EU, the impact of the change in the position of Germany in the EU on economic relations with the countries of the CE Europe, regional cross-border cooperation and energy safety.

The educational collaboration resulted in creation of the Polish-German Academic Forum, offering studies in German to SGH students. In 1999 the Forum was awarded the title of the best DAAD German language programme in Europe. SGH runs also exchange of students and academic staff with German universities, including 4 double degree programmes.

A new SGH initiative that is very popular among German students, is the German summer school (the 2nd edition - Between competition and partnership. Polish-German socio-economic relations - took place this year), providing students with up-to-date knowledge on Polish-German economic relations and business opportunities.

Equally important is the academic and research cooperation of SGH with BSR Scandinavian institutions. Students and teachers exchange with these partners is developing dynamically, and joint research projects are taking place, e.g. concerning the evolution of the Swedish labour market policy in 1950-2005 (extended for the Danish labour market as well) and comparative studies of Poland and Sweden in the area of life satisfaction, quality of life and late maternity.

SGH also cultivates very important partnerships with the countries from the Eastern BSR. The common experience and the need for creating a common regional strategy make such countries as Lithuania, Latvia, Estonia and Russia natural partners for Poland. In 2001 the Baltic States Studies Centre has been established (now Global Economic Interdependence Centre) at SGH. It is where research on systemic transformation and mutual relations among the Baltic states is conducted, as well as studies on their trade and investment relations, especially in the area of relations with the EU and the Russian Federation (RF), including the Kaliningrad Oblast (KO). The academic interests of the Centre's staff include in particular: political dialogue between the EU and the RF, position of the KO in the context of the enlargement of the EU, the EU Northern dimension and international economic competitiveness of Lithuania, Latvia and Estonia.

The results of the research on the economies of the East BSR countries, as well as on the relations between Poland and this subregion, contribute to annual conferences dedicated to i.a. the challenges the states of the subregion face in view of their accession to the EU. The conferences provide the opportunity to discuss global and regional challenges faced by the countries in question, such as the global financial crisis or the Russia-Ukraine gas dispute of January 2009. They also cover such topics as corporate social responsibility within the BSR and its implications for the creation of the economic competitiveness, realization of the Lisbon strategy in the BSR countries and the regional competitiveness, with a particular focus on the matter of innovation. In addition, the Centre contributes to numerous academic publications, such as the study on the competitiveness of Polish economy that became a part of the 2010 State of the Region Report, published by the Baltic Development Forum.

SGH is involved in cooperation with partners from the BSR in realization of projects within the EC research framework programmes, including: The Insecure Perspectives of the Low Skilled in the Knowledge Society; European Network of Better Regulation; or Reconciling Work and Welfare In Europe, in the partnership with Estonia, Sweden, Denmark, Finland and Germany. Since 2000 SGH has been a member of the Baltic Sea Region University Network (BSRUN) that gathers higher education institutions from Belarus, Estonia, Finland, Latvia, Lithuania, Poland and Russia.

In March 2012 the EC published an announcement concerning the macroregional EU Strategy for the BSR (EUSBSR). Translated into aims and actions defined by the member states, it shall provide an impetus for the continuation and start of new intensive research of regional importance, the results of which should be transformed into new applications. SGH wants to be an active participant in new programmes for the region, declaring openness to topics important for the BSR, including environmental protection, effective use of resources, sustainable transport and energy.

Elżbieta Fonberg-Stokłuska

Head of International Centre

Warsaw School of Economics (SGH)

Poland

Knowledge, networks and regional growth through best practices within the Baltic Sea region

By Tiina Tervaniemi

Moving towards the 2020´s, it is necessary to improve the competence and capacities of the workforce to cope with the pace and the challenges of the future. This applies to the competencies needed in international collaboration as well as the capacity to innovate and to critically evaluate and alter one´s working methods. Best Practices in the Baltic Sea Area project (2010-2013) aims at enhancing the exchange of best practices and seeking for new innovative methods to be implemented in the regional organizations. The project operates particularly in energy, environment and wellbeing sectors, which have been among the key development areas of Pohjois-Savo region. Furthermore, Best Practices- project focuses on bringing the regional actors together in order to openly discuss and assess the working methods. The overall goal is to promote and enhance cross-border co operation between the Baltic Sea region and Pohjois-Savo. The project focuses on different types of operators, such as the EU-funding authorities, RDI –organizations and educational institutes. Best Practices in the Baltic Sea Area is managed by the Regional Council of Pohjois-Savo and financed by the European Social Fund and Pohjois-Savo Development Fund.

In Pohjois-Savo, there are many fields of expertise in which international cooperation is a natural part of the operations, but there is certainly room for more. The statistics show Pohjois-Savo as a region lacking entrepreneurs or growth-oriented enterprises to be more precise. There are, however, possibilities for growth for example in bio- and medical technology. Furthermore, food production industry could be one of the possibilities for successful landmarks and Pohjois-Savo region poses promising possibilities for this sector as well. When talking about the environment, low carbon economy challenges us to seek for sustainable solutions in regional as well as international perspective.

But as we all know, sustainable growth does not come by itself. In order to go beyond the business as usual - perspective, it is necessary to work together and to offer sufficient supporting services for growth-oriented entrepreneurs. Local and regional administration, R&D organizations, educational institutes and private sector need more collaboration throughout the chain, starting from education and financing all the way to delivering the actual results. Team working spirit is evidently needed among the different regional actors in order to develop a common vision and allocating sufficient resources thus creating an increased base for innovations.

During the course of the Best Practices project, it has been delighting to explore the art of making things happen in different places around the Baltic Sea region. It is clear that in order to accomplish innovative ideas and to develop larger entities, it is necessary to share ideas and to store them for further use. There are, for example, excellent models of how to build efficient networks to promote green business opportunities in a region. By combining regional know-how and resources, it is possible to create a solid base for sustainable local growth, which also has global effects.

It is of course evident that the time frame needed for setting up a well-functioning network is rather long, but this is where the already existing models really make the difference. Sharing the knowledge and remodeling the ideas into one´s own surroundings is highly acceptable, when keeping in mind that this can also be beneficial in both ways; you do not necessarily only give but you also get something in return.

Gathering and sharing the existing knowledge is immensely important as we move towards the 2020´s and particularly beyond. There are undoubtedly many ideas and methods in different regions, which can be modified to suit different fields and actors, if only the success stories would be shared and implemented into practice. Changing the rooted mindsets is evidently required in order to fully utilize the potential that we possess. In this respect the change is merely a question of looking at new ways of combining existing things, as sometimes the best practices are just around the corner.

Best Practices in the Baltic Sea Area strives to bring the existing examples of the good and the bad practices in front of the regional actors and opens the doors to active collaboration – the more voices we have, the better possibilities there are for delivering results across the borders.

Tiina Tervaniemi

Project Manager

Best practices in the Baltic Sea Area

Regional Council of Pohjois-Savo

Finland

Internationalisation process in high education – a practise of Šiauliai University

By Regina Karvelienė

Before starting to share our experience in internationalisation processes at Šiauliai University (ŠU), we need to know the general definition of this aspect. If we look into internationalisation as a specific driver in the life of organisation, so you may find it in every sector: *in business* (the increasing integration of economies across national borders through trade in goods and services, the migration of labour and the investment of capital), *in sciences* (there are many forms that affect every aspect of academic life from teaching, research to service), *in culture* (our society would not be as it is without the influx of all cultures that created the current picture over time). So what is an internationalisation in higer education? According various authors, internationalisation means the international university dimension that included intercultural subjects into the programme that made the participation of the faculties and students in different intercultural programmes more active. Whatever the viewpoint, a university should never enter the international market unless some basic provisions have been put in place. These are the then *most obvious* ones: A well thought-through portfolio of courses; International welfare officers; Suitable and affordable accommodation; Host country language support; Clear and well-communicated disciplinary procedures; Sound introduction programmes; Infrastructure to facilitate socialisising between local and international students; Insurance schemes, legal and visa support, medical support and ect.; A truly welcoming attitude of both academic and non-academic staff towards international students. A University that goes into internationalisation without being able to tick all these boxes is arguably acting unethically. And it would certainly be unwise to do so, given the sustainable growth objective.

Analysing the internationalisation at ŠU it was taking to consideration the main elements of Internationalisation: the number of international students, the change of the study programmes, international cooperation, financial, the mobilization of human and technological resources, social partnership, the input of faculties and researches into the process of internationalisation and the support of the institution itself. During the 15 years of work, ŠU developed towards the internationalisation. The University confirmed 2007-2013 International Strategy in the beginning of 2007 and the basis of which can be described as the vision of the university that also includes the components of the internationalisation. SWOT analysis of the ŠU international activity showed that the University has a wide net including the whole Europe other part of the world. It is mportant to note, that these bilaterals works, not existing in "statical" position. Statistical indicators in the period of three years show, that numbers remain similar, even though the funding from EC and Budgets of the Republic of Lithuania has been significantly reducing. The stable mobility statistics is maintained by the International Strategy of ŠU, which plans the double increase in the number of participants – ŠU lecturers as well as students – in international exchange programmes and the formation of more opportunities of studies abroad for students from different levels of studies. The statistics of mobility at ŠU is presented as the picture of applied methods: about 37 % outgoing staff from the total staff number (in 2009 – 180 people, in 2010 – 189 p., in 2011-175 p.); 3 % outgoing students from the total student's number (in 2009 – 152 st., in 2010 – 175 st., in 2011-157 st.). Every year ŠU is visiting by international professors, the number of incoming students increses as well: in 2009 – 64 st., in 2010 – 53 st., in 2011 – 60 st.

Internationalisation has been developed at ŠU by encouraging not only the mobility of outgoing people, but by attracting foreign students and staff from foreign institutions of higher education to University, as well as by active application of previously mentioned methodologies of strategies. Firstly, ECTS is successfully used; the quality of modules, offered in the foreign language, is ensured. In order to attract more students, the University system allows to select the flexibly between subjects, also icreases number of study programmes, offered in foreign languages (in 2011 there were over 130 courses tought in English and 19 international study programmes (4 Bachelour, 15 Master). The system of students – mentors has successfully been implemented too, which helps the foreign students to integrate to the University and city academic as well as socio-cultural environments easier. Also ŠU developing "Internationalisation at Home" idea this is the way how "home" students get a great opportunity to study speciality subjects in the foreign language together with international students, to communicate and cooperate with foreign students withouth going abroad.

The decision to implement internationalisation at ŠU is far-reaching for a university if it wants to make serious effort. First, it should be aware that the policy for internationalisation should include internationalisation for all students, not just those that go abroad. The University should be aware of who the stakeholders are both inside and outside the university. It should adapt its human resources policy and staff development programme to facilitate internationalisation at home.

Regina Karvelienė

Director

The Department of International Programmes and Relations

Šiauliai University

Lithuania

References

Council on International Educational Exchange (1994) *The Power of Educational Exchange: Essays in Honor of Jack Egle*. New York.

Ellingboe (1998) Reforming the Higher Education Curriculum: Internationalizing the Campus, American Council on Education and Oryx Press, Arizona.

Ellingboe, B.J. (1998) 'Divisional strategies to internationalize a campus portrait: Results, resistance, and recommendations from a case study at a U.S. university', in Mestenhauser, J.A. and Elllingboe, B.J (eds.), *Reforming the Higher Education Curriculum: Internationalizing*

Gumport, P.J. and Sporn, B. (1999) 'Institutional adaptation: Demands for management reform and university administration', in Smart, J.C. and Tierney, W.G. (eds.), *Higher Education: Handbook of Theory and Research*, Volume XIV. New York: Agathon Press, pp. 103–145.

Hanson, K. H., & Meyerson, J. W. (1995) International challenges to American colleges and universities. Phoenix, AR: Oryx Press and American Council on Education.

Knight, J. (1994) Internationalisation: Elements and Checkpoints, Canadian Bureau for International Education, Ottawa.

Lapiner, R. (1994) 'Defining the challenges for achieving transnational higher education', in Council on International Educational Exchange (ed.), *The Power of Educational Exchange. Essays in Honor of Jack Egle*. New York: Author, pp. 71–85.

Mestenhauser, J.A. and Ellingboe, B.J. (1998) *Reforming the Higher Education Curriculum: Internationalizing the Campus*. Phoenix, AZ: American Council on Education/Oryx Press.

Sporn, B. (1999) 'Current issues and future priorities for European higher education systems', in Altbach, P.G. and Peterson, P.M. (ed.), *Higher Education in the 21st Century: Global Challenge and National Response*. New York: Institute of International Education, Report No. 29, pp. 67–77.

Teekens, H. (2007) 'Internationalisation at home:ideas and ideals", EAIE, pp. 1-22.

Iceland facing the Artic – Baltic lessons?

By Alyson JK Bailes

Iceland and the Baltic States have been good friends ever since the former recognized the latters' renewed independence. Today there are healthy economic, educational, and touristic links between these small states. It is harder, however, for them to work closely together in security matters, where opportunities are reduced both by the countries' different geo-strategic situations and by Iceland's lack of armed forces.

A possible new front will open for dialogue and mutual support when Nordic and Baltic parliamentarians meet at Reykjavik in October 2012, with the emerging Arctic challenge high on the agenda. Iceland has always been an Arctic state, even if its Northermost territory barely extends above the Arctic Circle. The Baltic States have no Arctic history of their own, but have good cause to be interested in what is happening now. They may be affected in practical ways by the expected opening up of the frozen seas to long-distance shipping, new fisheries, tourism and exploitation of seabed oil and gas. They certainly need to watch how the new Arctic dynamics will affect power politics, peace and stability in Europe. Bridging the differences in the Icelandic and Baltic situations is the fact that all four states concerned are among Europe's smallest. Does that suggest any ways in which Iceland's Arctic experience might be instructive for its Baltic partners?

Answers may be found both in Iceland's past and present. During the Cold War it lay in the midst of a sensitive strategic zone, marked by nuclear and naval confrontation between the US and Soviet Union. Iceland was non-provocative in its own behaviour and made a good trade in fish with the Russians, but it kept safe by joining NATO and securing a specific US defence 'umbrella'. Under a bilateral agreement of 1951, US forces were stationed at Keflavik in South-East Iceland, helping out with civil duties like air traffic control and search and rescue as well as projecting deterrence. Mutatis mutandis, the way the Baltic States have used NATO membership and a US 'special relationship' to protect their still-sensitive strategic position on Europe's Eastern borders is quite a close parallel to these Icelandic solutions.

In 2006, however, the US unilaterally withdrew its military presence from Iceland, having downgraded its estimate of threats in the North Atlantic. It was time for Iceland to learn from a Baltic example, persuading NATO to organize air policing patrols over its territory with other Allies' aircraft. Even if these take place only a few times a year, they have helped to fill the gap and also to strengthen Iceland's multilateral engagement with NATO and its closest European neighbours. Icelanders now see that relying on one big protector, even when essential, is never quite enough.

The lessons of 2006 have helped Iceland grasp that it must stand up and set its own priorities for dealing with the effects of global warming. Since then it has hosted several international conferences on Arctic themes, including the only NATO conference ever held on the topic, in January 2009. At first, Icelandic ministers played up the chances of economic profit for their nation: increased shipping could call for increased trade, transport and servicing facilities on Icelandic soil, while Iceland might find oil or gas in a small seabed area of its own (the 'Dragon Field'). As time has passed and Icelanders have absorbed lessons from the economic crash, the government's policy focus has widened and the tone has become less euphoric, Iceland still hopes to benefit from Arctic development, but stresses that it must be sustainable; while Reykjavik's analysis now also notes the possible security challenges, ranging from 'militarization' and conflict to major sea accidents for which local rescue capacity is lacking.

Iceland's current policy goals in the Arctic were set out in a parliamentary resolution of March 2011. They call for sustainable development, sensitivity towards local populations, peace and respect for international law, and the pooling of international resources to ensure effectiveness in monitoring, search and rescue, pollution defence and accident response. It is striking, however, that around half the items refer to process and governance, including the need for Iceland to improve its internal coordination and policy-making. Aware that a small state's voice is not naturally loud, the Icelandic strategy insists on its right to be heard as a permanent part of the Arctic and as a qualified 'littoral' state (implying firm control over national resources such as fish). Further, Iceland supports the Arctic Council both in word and deed as the central institution for the High North, where local nations' interests enjoy the most equal representation. That said, Iceland is also ready to work with several other institutions with useful competences, including the EU (and potentially NATO, if one state's current veto on Arctic discussions there was lifted).

Three general points here could be worthwhile for Baltic observers to reflect on. First, the need to plan explicitly for getting one's voice heard as a small – and in the Baltic case, second-echelon – player. Second, the logic of seeking protection primarily in institutional frameworks when the security agenda is so diverse and the evolving power-political balance unclear. Thirdly, the fact that the Icelandic government processed its strategy through parliament was helpful both in building consensus and in polishing the document's quality. Democracy has hardly been a strong feature in Arctic governance so far, but is an aspect where even the smallest can lead the way.

Alyson JK Bailes

Adjunct Professor

Faculty of Political Science

University of Iceland

Iceland

Visiting Professor at the College of Europe

EURO 2012 in Poland – was it worth it?

By Aleksandra Kuźmińska-Haberla and Marcin Haberla

Big sporting events always evoke great interest and excitement not only among sport fans but also among economists, the media and politicians, particularly in the countries which organize such events. It was no different in Poland, which hosted the UEFA EURO 2012 along with Ukraine. Despite the fact that the Polish team lost quickly – was eliminated in the group stage, for many Poles the important question was whether Poland handled the organization of such an event and if it was worth organizing it? Some politicians and economists argue that too much money was spent on it especially in the times of economic crisis. What is more, the money could have been spent much better and it did not pay off. Thus, was it a success or a failure?

Organizing great sport events always requires plenty of money and effort. Economists estimate that organizing EURO 2012 in Poland cost 25 bln euro, which is about 6,5% of Polish GDP (what makes 650 euro per each Pole, and in the situation when the average wage is about 1000 euro it makes quite a big expenditure). The most money was spent on the infrastructure – about 16 bln euro on highways, 4 bln euro on railway, 5 bln euro on new stadiums. Host cities got new airport terminals, in many cities railway stations were renovated, many kilometers of new roads were built. Unfortunately, the results of Polish construction industry were not very optimistic. Instead of big boom after EURO 2012, many companies were threatened with the collapse because they were not paid on time. But those expenditures should not be considered in terms of short-term economic calculation – in Poland there is a strong need to modernize infrastructure so it had to be done anyway. Besides, those expenditures will pay off in the future – the facilities will be used for years.

The maintenance of stadiums in the host cities seems also a big problem. It is estimated that the upkeep of one stadium amounts to about 2 mln euro per year. The host cities took mortgages to build them and now have to pay the debt off. Like it or not, it is the citizens who will bear the costs of all stadiums.

During EURO 2012 Poland was visited by about 600 000 guests, which was less than it had been predicted before the event. Tourists spent about 225 mln euro in hotels, restaurants, pubs and fan zones, usually in host cities but some other places also got to earn – especially Krakow where 3 national teams stayed during the championships. According to the experts those results can get better in the following years – more tourists will visit Poland on holidays or weekend trips because they had very positive experiences, fun and explored interesting and friendly places. Many tourists declared that they would come back or at least encourage their friends to come to visit Poland. Polish Tourist Organization also counts very strongly on business tourists who would use new hotels or conference facilities prepared for EURO 2012. The Organization predicts that Poland will be visited by half a million of tourists more in the following years.

Such an international event as EURO 2012 is not only about the money but also about the prestige. The biggest advantage of organizing the championships was a huge improvement of Polish image not only in Europe but also to some extent world widely. Despite of the membership in EU Poland used to be considered as backward, poor country, full of nationalists and racists. EURO 2012 was a great opportunity to improve that weak image. Luckily, it was used very well. Not only national teams and football fans were delighted with organization and warm welcome, but also journalists reported that Poland made a huge effort to make the championships as good as possible. They praised well built and equipped stadiums, good communication solutions after matches, hotels and the organization as a whole, but also Polish attitude, hospitability and great enthusiasm of Poles who were very happy to host other Europeans. Assuming that people very often tend to rely their decisions on what they have heard or read, positive stories about Poland can help to "sell" it to tourists, investors and consumers that buy imported products. Hopefully, Poland will be able to make a use of it in the forthcoming years.

Unambiguous assessment of the event appears to be difficult. There were huge costs connected to organization of the event, some plans have not been implemented (not all highways promised by the government have been finished yet), some predictions were too optimistic. But on the other hand, EURO 2012 was an invaluable promotion of a not very recognizable country. The world got to know Poland – the country that had made a tremendous progress from a backward, communistic country to a modern, open-minded European democracy, that can handle the organization of big international events. There is one more positive and important result of organizing the championships: Poles believed in themselves – got rid of complexes and got proudly patriotic about their country, people and actions.

Some say that organizing such sports events never pays off – economic costs are much bigger than profits. But they forget about prestige and image benefits. Moreover, it is important to notice that those benefits are much more important for not recognizable countries like Poland or Ukraine than for example for England – the host country of Olympics. So, answering the question in the title – yes it was worth it!

Aleksandra Kuźmińska-Haberla

Ph.D., Lecturer

Department of International Economic Relations

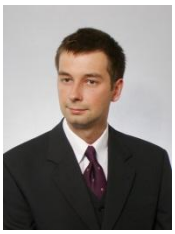
Marcin Haberla

Ph.D., Lecturer

Department of Marketing Research

Wroclaw University of Economics

Poland



Paneuropean and Baltic Estonian Diplomat

By Pauli Heikkilä

Kaarel Robert Pusta (1883-1964) became an active politician in the Russian Empire and he was arrested many times. In the independent Estonia he acted as Foreign Minister and subsequently his main posting was as envoy in Paris. As Minister, Pusta became aware of the Paneuropean Movement by Count Richard Coudenhove-Kalergi. He promoted European unification on the basis of continental community, which was divided into various languages and nations.

As early as in 1924, Coudenhove-Kalergi asked former Pusta to initiate an Estonian section of the Paneuropean Union. The call was futile for now but Pusta became member of the Central Council. The Estonian Society of Paneurope was founded in August 1929. Professor of international law, Ants Piip, was elected chairman and many prominent Estonian, such as former Head of State Jaan Tõnisson, joined the Society.

Pusta could easily incorporate Europeanism and national security. He ended his speech in the first meeting of the Estonian Society: ”When we are supporting Paneuropean Union, we are working for our own independence, economic success and preservation of national culture.” There was a need to give birth to “conscious European solidarity, European 'patriotism' in every class, especially among the young.”

Pusta's Europeanism did not prevent him from promoting cooperation with immediate neighbours. According to him, different regions were not exclusive alternatives but complementary entities. Pusta had been a strong advocate of the Baltic League, and later applauded its protocols “a blueprint of a small European federation”. Whereas regional cooperation was a method for continental unification, Pusta's reasoning worked to the opposite direction as well: “The more distant, the more European our aim is, the more certainly and rapidly we will achieve something in a narrower sphere.”

The two region were both present in Pusta's posthumous publications. His memoirs were edited into “Saadiku päevik”, which was accompanied with the Paneuropean emblem. On the other hand, his colleagues compiled an anthology of scholarly articles with the title “Pro Baltica”.

The aspirations for European unification of the interwar period culminated in the proposal by French Prime Minister Aristide Briand in May 1930. His “Memorandum for a System of European Federal Union” was sent to other governments for their opinions. Pusta's report from Paris affected greatly to the Estonian response, which encouraged the League of Nations to act vigorously towards United Europe.

Other European states were not as eager, and as a compromise Commission of Inquiry for a European Union was created. The mandate of the Commission were anywhere near to the grandiose task and the continuation of the Commission was discussed a year later.

There Estonian Foreign Minister Jaan Tõnisson proposed actions by the League to evolve the fundamental idea of sovereignty into new, European thinking. He wanted the commission to summon the governments to use newspapers, education, movies, and radio to promote the idea of European unification. Five days later, Pusta criticized the Commission for focusing too much on economic problems and urged it to go further.

These proposals resulted in some ridicule but mostly with appreciation of earnest attempts to increase European security. The continental unification as such ended with this action and worsening economic situation was next met with regional approaches. Pusta organized in Paris so called Baltic Lunches among neighbouring legations. Soon he was sent to Warsaw to improve Estonian relations with Poland and subsequently to Stockholm.

Eventually Estonian democracy failed, when Konstantin Päts installed authoritarian regime in March 1934. Pusta was brought to the middle of events, as he was listed as Foreign Minister of the forbidden right-wing movement of Vapsid. He was imprisoned for several months once again, and finally found innocent.

Pusta emigrated to Paris and he was called back to diplomacy in 1939 and later he went on to New York, where he persuaded Americans to continue their non-recognition policy towards the Soviet incorporation of the Baltic states.

After the war he joined the Free Europe Committee, which initiated the European Integration Project. It was soon closed down and then Pusta returned to Europe as Estonian diplomatic representative in Spain and France; he moved to Madrid in 1953. He joined again with Coudenhove-Kalergi in the European Parliamentary Union and attended its conferences and signed declarations until his death. Pusta never showed any doubt in the progress of European unity and reminded constantly of the half of the Europe left out from the European solidarity.

On the other hand, Coudenhove-Kalergi had fallen out of developing European integration. Pusta was badly informed on other efforts for unification and other Estonians in it. When he returned to Europe, he gave advice to Estonian National Council in Sweden: “I'd presume that it is the last hour to educate our people to consider common European problems; the fate of our country and nation depends totally on their solution.” The receivers had been active members in the European Movement and actually withdrawing from it. Nevertheless Pusta became their valuable contact person in Western Europe.

Despite his long career during the essential changes in international relations, Pusta maintained his guidelines of promoting Estonian interests always in a wider, Baltic or European, context.

Pauli Heikkilä

Research Fellow

University of Tartu

Estonia

To receive a free copy, please register at www.tse.utu.fi/pei

Co-funded by the City of Turku, the Centrum Balticum Foundation and the Turku Chamber of Commerce

ISSN 1459-9759
Editor-in-Chief (responsible for writer invitations): Kari Liuhto
Technical Editor: Leena Koivisto

University of Turku
Turku School of Economics, Pan-European Institute
Rehtorinpellonkatu 3, FI-20500 Turku, Finland
Tel. +358 2 333 9567, www.tse.utu.fi/pei

Turun yliopisto
University of Turku

Turun kauppakorkeakoulu • Turku School of Economics