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## What kind of Latvia in what kind of Europe?

By Vaira Vīķe-Freiberga

Of those Europeans born during the 20<sup>th</sup> century, many have witnessed history in the making more times than they would have liked. Latvians have had more than their fair share of such upheavals, including two World wars with front lines moving back and forth across their territory and all the horrors of both communist and Nazi occupations. When Latvia regained its independence in 1991, after the collapse of the Soviet Union, Latvians thought that, at long last, they would experience a change for the better. A new era was about to dawn, full of freedom, hope and promise. The Iron Curtain was down, they had a free and democratic country, and the only thing left to do was to catch up to 50 years of peace and prosperity that Europeans on the other side of that curtain had enjoyed. To do that as fast as possible, integration into the European Union seemed the logical thing to do. Why try and reinvent the wheel, when other countries had already been perfecting it for decades? Becoming a part of the European Union thus became the first strategic goal for Latvia as early as 1995.

The other major goal for Latvia was to find some model of security that would do a better job of protecting its sovereignty than its declared neutrality had done before the Second World War. Fortunately for Latvia, NATO was there as a major security umbrella and becoming a member of NATO therefore became its second strategic goal.

Now, some ten years after accession to NATO and the EU in 2004, Latvia will be taking a third step in supranational integration by becoming the 18<sup>th</sup> member of the euro-zone on 1 January 2014. While the previous steps had enjoyed wide popular support, this time more than half of the population are sceptical about the wisdom of such a move. One cannot really blame them for feeling leery, since hardly a day goes by without more bad news about the financial situation of some EU country or another, or about massive strikes and protests against austerity measures in some Southern European country. Latvians have endured successive waves of austerity ever since they can remember, most recently after the banking crisis of 2008. This time, at least, their efforts have paid off, with a growing economy that has largely recovered its pre-crisis levels. Yet the recovery has come at a serious social cost, not least an accelerating decrease in the population, due largely to emigration.

While ten years ago most Latvians looked to the EU and NATO like a drowning man looks to a life-raft, this year many repeat the Estonian joke: joining the euro-zone just now is much like buying a ticket on the "Titanic". Worse still, the very fabric of the European Union seems to be unravelling at the seams, not least with the United Kingdom threatening to withdraw from the EU altogether. Everywhere in Europe we hear complaints about a financial crisis that does not abate, despite billions of Euros spent in attempts to dampen the fires. We hear complaints about collective decisions being too slow, too feeble or incompetent to address the problems. Even before the financial and economic crisis, there was a spreading sense of disillusion, betrayal and anxiety about the future. In most of the Western world, the rich had been getting richer, the poor getting poorer and the middle class shrinking because of increasing pauperization. For the past several years, fears about the future of the "European project" have been becoming deeper, as has the gulf of confidence between citizens and their political leaders or elected representatives. Next fall, a major conference in Brussels will address the question "How can we reinvent Europe?" To this, one might well add: "Who is it, who will be able to do this?"

Less than ten years ago, eight countries liberated from decades of communist oppression had hoped to join a Europe

strong, free, prosperous and committed to social justice. Robert Schuman's vision of a European continent reconciled and at peace, was the blueprint that had guided generations of European politicians towards building impressively successful societies. Sadly, just as we too were beginning to enjoy the benefits of such a strategic vision, the whole system started to unravel.

In anticipation of the Euro-parliament elections next spring, concerned Europeans are beginning to marshal their forces to come up with recipes for overcoming a vast array of serious challenges. In Latvia, there is much more concern about the national parliamentary elections next fall. With so few Euro-parliament deputies to elect, Latvians are all too aware how little weight their representatives can hope to achieve in the overwhelming mass of deputies from other countries. Yet even in countries with large numbers of deputies, the popular interest in the European parliament and its elections is remarkably low. Ordinary citizens have become disillusioned about their real ability to influence important events. This, needless to say, is extremely dangerous for the future of democracy.

In Latvia, after 22 years of democratic governments, people are asking: why are we still lagging so far behind the income of the average European? What are our chances of survival as a nation, if the years of freedom have brought such a dramatic decrease in our population, instead of the natural growth that could be expected? Is our countryside doomed to becoming an uninhabited and uncultivated waste-land and will the professionals that our country continues to educate and produce increasingly leave us for greener pastures abroad? History seems to be playing with us a very nasty game of snakes and ladders, which requires every generation to lose what the preceding one had gained.

From my own personal perspective, having gone into exile as a child, I still feel the thrill of seeing my country reborn after being wiped off the map for half a century. Independence has given our population a chance to become active shapers of their own destiny, even in the context of decisions taken in Brussels or upheavals in the global economy. A lot of power still belongs to the people, if they make the effort to use it wisely and actively. Even living in a small country, one should never accept the defeatist notion that power always lies elsewhere and there is nothing we can do about it.

Many of my compatriots have become doubtful of European ideals, traumatised as they have been by one crisis after another. We have lived through the collapse of communism. Are we to live through the collapse of capitalism as well? Hopefully, it can survive, if there is will enough for the serious overhaul that is needed. Europe may have discovered it has feet of clay as an economic giant, but it still has the chance to maintain its lead in social values, achieved at such cost by previous generations. As for Latvia – it has a tough road ahead, but it will be a road travelled in freedom. We may not be the "motors" of Europe, nor the lords of high finance, nor the owners of vast natural resources. We are our own resource and I believe that is no small thing.

Vaira Vīķe-Freiberga

President of Latvia (1999-2007)

Latvia



## Lithuanian success – from crisis towards credible European Union

By Algirdas Butkevičius

Lithuania was one of the fastest growing economies in the European Union prior to the global financial and economic crisis. Then, facing the world crisis, Lithuania has shown strength and unity in tackling challenges that swept the world. Radical measures were introduced to the people of Lithuania: salaries in public sector were cut by 20 percent and pensions cut by 10 percent. The adjustments were very harsh compared with the ones that were undertaken by the countries of Southern Europe but Lithuanians had to adapt to new reality that was brought by strict fiscal policy measures.

Lithuania found the way from crisis without asking support from the International Monetary Fund, (unlike Latvia, where IMF played a major role in recovering countries' economy) and without the devaluation of the currency. The prognosis of "strong deflation" never materialized either. Lithuania has managed to maintain confidence of the international credit market, increase its competitiveness and expand exports very rapidly. Thus, the expected long recession lasted just one year and in two years economy started growing again.

Of course several other important factors contributed towards fast recovery of Lithuanian economy. Lithuania is known for having one of the most educated workforce in Europe as well as one of the leading communication infrastructures in the region. Not only Lithuania is strategically situated between the Nordic region, Western Europe and the CIS, but for more than twenty years the country was focused on education and training, technology, transport infrastructure, development of business-friendly environment as well as economic stimulus and stabilization programs. As a result, Lithuania boasts one of the fastest growing economies in the EU today. The World Bank's 2012 Ease of Doing Business Index, the Heritage Foundation 2012 Index of Economic Freedom and the Wall Street Journal have rated Lithuania as a great place to do business. Lithuania is recognized as a prime transport hub of the EU that also boasts unrivalled Internet speed and has a competitive tax and salary structure. The country has one of the most pristine environments in Europe, and a quality of life that is among the highest in the world.

In second half of 2013 Lithuania is presiding over the EU Council. Besides organizing the Presidency in an efficient and result-oriented manner Lithuania is focusing on three goals: a credible, growing and open Europe. As the European Union is starting to recover from the economic turmoil, closer cooperation between member states is needed more than ever to ensure growth, job creation and competitiveness. It is the right time for The EU to once again prove that it pursues credible financial and economic policies, is committed to growth through joint initiatives that increased competitiveness.

Lithuania will focus main efforts on enhancing the EU's abilities to provide an appropriate response to economic, financial, social and energy challenges. The primary focus will be to further strengthen the financial stability and competitiveness of Europe, as well as the implementation of the Growth Agenda.

Lithuania will focus its attention on deeper EU integration and strengthening of the Single Market, including energy

market in particular, where the purposeful effort of all 28 Member States is needed. Furthermore, Lithuania advocates openness of the EU to new members, neighbours and trade partners, who not only advance EU economy, but also reaffirm the EU position on the development of a prosperous, peaceful, democratic, free and open Europe.

One of the major priorities of the Lithuanian Presidency is, credible Europe. Lithuania will strive for the progress towards sounder public finances in the Union and strengthen the ground for financial stability. The efforts will be directed to further develop the Banking Union framework, and achieve progress on other legislative proposals for financial market reforms. The major task is to implement and enhance agreed reforms on economic governance and the deepening of the Economic and Monetary Union.

The Lithuanian Presidency will build on the Europe 2020 agenda and the European Semester, reinforced by stronger Single Market policy, as well as the effective implementation of the Compact for Growth and Jobs. The Presidency will work to complete the initiatives of the Single Market Act I, advance new initiatives under the Single Market Act II and facilitate the Single Market Governance. The initiatives that enhance confidence in the EU economy and result in a dynamic Digital Single Market will be prioritized. Furthermore, due attention on research and innovation issues will be paid. The Lithuania's Presidency will pursue the EU's commitments to complete the internal energy market by 2014, and ensure that no Member State remains isolated from the European energy networks after 2015.

For the appropriate completion of the energy market it is important to monitor properly the implementation of already agreed actions and existing legal framework, especially the 3rd Energy Package, market design, integration of renewable energy sources with a view to overcome the possible obstacles and, if needed, to initiate further follow-ups. Extensive efforts and strong commitment are needed to agree on the first Europeanwide list of projects of common interest and to benefit from the Connecting Europe Facility in order to secure its timely implementation. A solid external dimension of the EU energy policy is necessary prerequisite for the functioning of the EU internal energy market. The Presidency progress report prepared in line with Commission's position and discussions envisaged in the Council will be presented for the endorsement of the ministers in the TTE Council in December 2013. This work will continue and will be based on the principles already agreed by the EU such as: single voice, solidarity and guarantees to member states vis-à-vis third countries, transparency and cooperation.

*Algirdas Butkevičius*

*Prime Minister*

*Lithuania*



## Back to the family – two decades of military-to-military U.S.-Baltic relationship

By Arvydas Pocius

In the year 2014 Lithuania and the other Baltic countries will have lived their first decade as full-pledged members of the world's strongest civil-military alliance – NATO.

On this occasion the countries will overview all the different steps and conditions that have helped them to start reconstructing their defense systems after 50 years of occupation and have led their way to rejoining the family of the countries responsible for global security, as well as in forming national armed forces that met the high standards of the Alliance.

Let me remind you of one of the most important factors in this process: the military-to-military support initiative that the U.S. launched twenty years ago to become one of the most important and complex assistance projects in support of developing the armed forces and defense systems of Lithuania and the other two Baltic States in line with western tradition.

In the year 1993 the U.S. National Guard started the first state partnerships with European countries: Pennsylvania-Lithuania, Michigan-Latvia and Maryland-Estonia. It was a significant step in the partnering path of the United States and the emerging democracies of Europe directed at the creation of a strong and stable defense environment in Northern and Eastern Europe after the collapse of the Soviet Union. So far, 22 state partnerships have been established in Europe, while more than 60 partnerships of that kind have been created worldwide.

Let me briefly describe a few practical instruments and directions of partnering that have played a significant role in developing the Lithuanian Armed Forces in conformity with NATO standards.

**Military Liaison Team as an instrument of military-to-military relations.** What was key to the process of providing initial support to the development of the National Defense Systems via military-to-military relations? The key to the success of the program was the Military Liaison Team (MLT). Three to five-strong multi-service Military Liaison Teams deployed in a country are the key elements in bringing U.S. military expertise to bear on a wide range of issues. Over 5,300 military-to-military contacts, or "events", coordinated by these teams have helped host nations address such fundamental issues as human rights, social securities for and civilian control of the military, and establishment of military legal codes and programs for developing professional non-commissioned officers and chaplaincies. The teams and the events they were conducting provided a clear example of the benefits of a U.S. style of military organisation while also offering American-way solutions to the abundant challenges the militaries of these emerging democracies were facing. As the foundation of all the bilateral U.S. programs in the region such events pave the way for partnering countries to participate in the Security Assistance and Partnership for Peace (PfP) activities.

More than 60 U.S. soldiers served at the MLT in Lithuania during the first ten years of cooperation. All of them did a great job and in 2004 Lithuania and six other European countries joined NATO. In the period of ten years, from 1992 to 2002, over 7,750 EUCOM-coordinated and managed military-to-military events were organized in order to help host nations to understand the U.S. approach to fundamental defense issues.

**Composition of contact teams - ethnical factor as the key to success.** The Joint Contact Team Program (JCTP) was a military-to-military program that was first applied in Lithuania in

April of 1993. That was the right time for it. The occupying army of the former Soviet Union was still deployed in Lithuania and the members of the JCT witnessed its withdrawal process that finally ended in August of 1993. The efforts of the program were directed at developing the host nation's military capacity consistent with western standards of military operations. The program focused on the areas enhancing interoperability with the Western militaries that were assisting the host nation in the Partnership for Peace (PfP) process. The JCTP provided such assistance by scheduling visits of U.S. military experts to the Republic of Lithuania or by arranging visits for Lithuanian military personnel to U.S. facilities. Varied in subject such visits focussed on leadership, civil-military cooperation, communications, and logistics, to name just a few. The JCTP arranged the assistance visits in close coordination with the Lithuanian Ministry of National Defense.

Four out of five U.S. officers and NCOs that made up the original team were of Lithuanian descent. That was a very successful solution as they could communicate in Lithuanian which had positive effects on the population of the host nation – Lithuanians did not see them as new invaders of their Motherland.

Over time the composition of the team was changed due to military personnel rotation policies. However, the tradition to have at least one member of the team of Lithuanian descent was kept for many years. U.S. representatives were very popular among the citizens of Lithuania.

**Active partnership in the fields of military education, training, and collective defense.** Cooperation with the Pennsylvania National Guard was a vital part of the MLT Lithuania program. In 1993 the state of Pennsylvania was chosen as a partner in the state partnership program because of the large Lithuanian community it had. The partnership is active to this day. Pennsylvania and Lithuania have had numerous exchanges of personnel and information to assist the development of Lithuania's military. Soldiers of the Pennsylvania National Guard participate in the largest and the most significant international exercises hosted by Lithuania and the Baltic region on a regular basis, e.g. large scale exercise SABRE STRIKE 2013 combined efforts of U.S. and Baltic military this year. At the same time soldiers of Lithuania and the Pennsylvania National Guard served in the Lithuanian-led military unit in Ghor province as a part NATO ISAF operation in Afghanistan.

Two decades of successful partnership can set an example for future vision. Joint training events and participation in joint international operations has to serve as a basis for achieving an appropriate level of interoperability. This kind of partnership demonstrates that we are able to support each other exactly when the support is needed.

*Arvydas Pocius*

*Lieutenant General*

*Chief of Defense*

*Lithuania*



## The euro – the key driving force in competition to promote sustainable growth

By Andris Vilks

The aim joining the Eurozone on 1st January 2014 has been an important step for deeper economic and monetary integration with the European Union (EU). Looking back in recent history from 2008 till 2010 Latvian economy took one of the sharpest downturns in the world, when the fall of GDP reached 25%. Latvia took decisive and swift actions to receive the financial assistance from the international organizations, which in return set conditions in the Supplemental Memorandum of Understanding addressing economic policy criteria linked to each instalment and the reporting and monitoring conditions of the loan.

It was a great challenge to overcome the crisis by the implementation of broad set of fiscal consolidation measures and structural reforms, because it affected the amount and quality of public services. In overall consolidation measures reached almost 17% of GDP during the time period from 2008 until 2012. On average from 2008 until 2012 Latvia has performed the fiscal consolidation measures in the amount of 3.4% of GDP per year. However, in view of significant changes in the economy and gradual global economic recovery from the financial crisis, Latvia returned to growth in the latter half of 2010 as a result of economic stabilization measures and internal devaluation, which was accompanied with favorable situation in external markets and increase of market confidence. At present Latvia continues to show rapid and sustainable growth and has achieved considerable improvement in the fiscal position.

Latvia's way to the Eurozone can be compared with the competition where participants need overcome different obstacles in order to win the competition. In 2010 Latvia set a target to introduce the euro until 2014, therefore the government had a strong determination to undertake significant additional measures to meet the Maastricht criteria by 2012, and achieve euro entry by 2014. Due to gained competitiveness GDP growth rate increased to 5.6% in 2012, which was the fastest rate among all EU member states. At the same time, starting from September 2012 Latvia has been able to simultaneously comply with all the Maastricht criteria. In addition, compliance with the Maastricht criteria can be regarded as a quality mark stating that the economy is capable of providing sustainable growth, which is an essential precondition to improve Latvia's investment environment.

Recent economic difficulties in the Eurozone might raise questions whether it is the right time for Latvia to adopt the euro? Besides society has fear that the country will be burdened with additional financial liabilities through assisting the Eurozone countries in trouble. Nevertheless, constructive and productive exchange of thoughts is welcomed, and at the same time any fallacies connected to misinterpretation of our fiscal policy aims should be refuted. One could ask, "What can be expected from Latvia as a new member of the euro area?" One aspect is distinctly clear – Latvia will not be

a silent partner but will take an active part in policy making to further strengthen European integration. After the country becomes a full-fledged member of the Eurozone, it will be possible to participate in discussions and decision making process on the same level with other euro area member states.

Both Latvia and the Eurozone have gone through economic difficulties that have raised questions about further steps how to promote economic performance. Thus, there is a need for closer cooperation within commitment to fiscal discipline and structural reforms in order to raise economic potential in sustainable manner. With ratification of the Fiscal compact, the member states have agreed to observe the fiscal discipline marking it as an essential factor in promoting further economic development in Eurozone and EU at the same time ensuring protection from future economic imbalances.

Latvia also has learned from policy making gaps in the past and formulated that that strict fiscal policy is and should be one of the most fundamental cornerstones in economic policy framework in Latvia. New turning point in fiscal policy in Latvia has been adoption of Fiscal Discipline Law in beginning of 2013 which envisages stipulation of fiscal policy principles and provisions (in line with regulations of reinforced Stability and Growth Pact) which ensure balanced budget over the economic cycle and thus facilitating a sustainable state development, macroeconomic stability and reducing negative impact of external factors affecting national economy. Latvia is an example for other EU member states demonstrating the strong will to win the competition.

Overall the euro is not a "wand" for all economic difficulties, but an instrument which can be used to contribute growth of the economic potential. In 2010 the euro introduction was set as a goal, which at the same time was both the crisis exit strategy and the key driving force to promote stability of Latvian economy and to perform structural reforms. Since the recession Latvia has overcome many obstacles and showed considerable improvement in competitiveness through internal devaluation but it does not mean that we should be lulled into complacency. It was just one step in the competition and the euro introduction is another step but not the last one. Latvia will not rest on laurels after the euro introduction, but as hardworking euro area member Latvia will take part in enforcing well-being of all EU.

*Andris Vilks*  
*Minister of Finance*  
*Latvia*



## Finland prepares for increased eastern mobility and possible visa-free travel between EU and Russia

By Päivi Räsänen

This autumn there has been wide-ranging discussion in Finland about possible visa-free travel between the EU and Russia, and its national impacts, in particular. In mid-September, the tourist industry released a comprehensive survey on how visa liberalisation would influence Russian tourism in Finland and what advantages and disadvantages visa-free travel would have. During the present Government's term of office, a number of comprehensive studies has been conducted with the purpose of examining the sufficiency of our resources with regard to increasing eastern mobility. The Government has now decided to give serious consideration to increasing eastern mobility and possible visa-free travel.

There has been an annual increase of about 10% in passenger traffic at the border between Finland and Russia. In 2012, the number of border crossings at the Finnish-Russian external land border topped twelve million. At this pace of growth, the number of border crossings is expected to reach about 20 million within the next five years. The impacts of increased mobility are already evident in the daily work of the border guard, police, rescue and immigration authorities — all covered by the mandate of the Ministry of the Interior.

Finland has already benefited from growing eastern mobility, with Russians being by far the largest tourist group in the country, and still growing. Finnish businesses, too, generally consider the foreseeable impacts of visa-free travel to be positive. It is expected to boost demand for tourism, trade and services, raise the employment rate and increase Russian investment in Finland.

The Ministry of the Interior's goal is to enhance people-to-people contacts and secure the operating conditions for businesses, without putting Finland's or the EU's internal security at risk. The tourist industry is one of the biggest employers in the EU, and it is a key driver of economic growth. Therefore, the authorities responsible for border control, internal security and immigration are to ensure smooth cross-border and transit traffic at the EU's external borders while taking care that the EU requirements for border control are met.

Visa-free travel is a common long-term objective of the EU and Russia set out as early as in 2003. In 2011, the EU and Russia agreed on common objectives and conditions, 'common steps', which need to be implemented before agreement can be made on visa-free travel. A dialogue on the conditions of visa-free travel has been conducted for a while now, and it is only a matter of time when the actual negotiations on a visa waiver agreement will be launched.

Now is the time to discuss in Finland, too, what the impacts of visa-free travel will be and how we should prepare for it.

The single most significant challenge for the authorities will be how to maintain internal security. As the number of passengers grows, the transport infrastructure and the flow of cross-border traffic will be put to test, in addition to which ordinary crime and traffic accidents are expected to increase. In order to maintain the throughput of the border crossing points and the management of cross-border traffic at a level required by the growing traffic volumes, we need to take steps to comprehensively develop the crossing points and improve transport routes and connections to them.

The EU's 'Smart Borders' package currently under preparation will have an effect on smooth border traffic. The package consists of the Entry/Exit System and the Registered Traveller Programme which will enhance security and facilitate border crossing in the EU. The systems should be in operational at the Schengen external borders before the possible EU-Russia visa-free travel begins.

At the informal meeting of home affairs ministers of Schengen states with eastern external land borders, held in Finland on 13 September, Poland, Estonia, Latvia, Lithuania, Slovakia and Finland agreed to step up their cooperation and establish a ministerial forum to convene on a regular basis. The forum aims to promote multilateral cooperation, dialogue and the exchange of best practices concerning the challenges of home affairs. Particular focus areas include the future EU visa liberalisations to the eastern neighbouring states, increasing cross-border traffic and prospects for cooperation at the external land borders.

Discussions at the informal ministerial meeting in Lappeenranta showed that Schengen states with external land borders share common interests and face similar challenges. Closer and more regular cooperation will give us increased opportunities to raise issues for discussion, by making use of the ministerial forum of Schengen states with external land borders, and by working together with existing regional compositions, such as the Salzburg Forum.

*Päivi Räsänen*

*Minister of the Interior*

*Finland*



## Like minded Baltic cultures

By Rein Lang

The West Sea or the East Sea (depending on one's perspective) is not merely a historical trade route that once enriched families and cities. Culture – both spiritual and material – moved together with merchants. There is more and more evidence of close interaction already from before the establishment of Christianity in Estonia. Michel Rouche, professor at Sorbonne University, claims in his book "Clovis" that Clotilde, the spouse of the first French Christian king Clovis, was half Norwegian and half Estonian. Clotilde is believed to have convinced her husband to turn to Christianity and to let him be crowned a Christian at Reims Cathedral. All this happened long before Christianity reached Estonia.

The merchants and nomadic monks, many of whom were acting as spies of the Teutonic Order, made it clear in the 11<sup>th</sup> century that Estonia was worth invading. The year 2014 marks 800 years from when Pope Innocent III devoted today's Estonia and Latvia to the Virgin Mary. This served as an ideological foundation for carrying out the Crusade. Christianity and the Western Christian cultural space were brought to the Land of Mary – Terra Mariana – with fire and sword. Along came the medieval fortresses and stone churches, many of which have to this day, more or less, preserved their original form. Cities developed, forming the Hanseatic League, in which similar cultural processes took place. 12<sup>th</sup>-14<sup>th</sup> century feudalism and consequent allocation of land to German feudal landlords defined Estonia's cultural development and affiliation. As an outcome of the Great Northern War, Estonian territories were transferred under Russian tsarist rule. Despite this, the land ownership dynamics and the Western Christian cultural beliefs remained intact. Although under the Romanov Dynasty, Russia became an important maritime power and a famous exploration hub, their admirals' names were still inherently non-Russian – Bellingshausen, Kruzenstern, Kotzebue, Wrangel etc – coming from Estonian noble estates. The Baltic Sea cultural space, including St. Petersburg's Russia until Lenin-led coup d'état, shaped Estonians' lifestyle, beliefs and their cultural legacy. Through Estonia, this cultural space expanded to St. Petersburg, turning it into a cosmopolitan cultural hub. Even today, St. Petersburg is an oasis standing out from the rest of Russia, where Western and Eastern Christian cultures meet, continuing to offer timeless works of art to the world culture. Even the communist terror's hostility towards culture, best exemplified by the conversion of the city's historical name to Leningrad, could not break the spirit of St. Petersburg.

Although predominantly German, this cultural space included elements from ethnic cultures from all around the Baltic Sea. Estonian cultural space was dominated by the Baltic German culture, which was an entirely unique phenomenon, and which faded due to German landlords' decision to raise arms against the newly created Estonian Republic in 1918. Baron von Goltz, who was defeated by Estonians under today's Latvian town Võnnu, did not only compromise its people's political and military power but also the unique culture that had developed over centuries.

The fact that the angry victorious "natives" started to reckon with their former landlords after a successful military defeat is hardly a surprise. However, the cultural beliefs of the leaders of the newly born State should be acknowledged – the cultural heritage remained almost entirely unharmed in

the process. Even the coats of arms of noble families remained on the walls of the Dome Church in Tallinn. And yet, it is only now, 20 years after the end of the communist rule, that we re-discover this spiritual and material cultural legacy that was developed here over centuries by Baltic German families. And this is both exciting and admirable. Today, we carry out seminars together with German researchers exploring the ties and hostility between one of the most productive German playwright and former landlord August von Kotzebue and Goethe, we study the heritage of Michael Sittow and try to restore the manor ensembles created for local barons by Italian architects, gardeners and artists.

While in Southern Europe the flowering of the Renaissance was impeded by plague epidemics and quarrels between noble families, the biggest problems for Terra Mariana were the growing ambitions of neighboring Eastern rulers. More than half of the Estonian population was killed during the invasion of Ivan the Terrible. Estonian mainland was re-populated by islanders that had managed to survive. As the result of the Great Northern War, Estonian population fell below 200 000 people. The Second World War destroyed one third of Estonian population.

In 1991, Estonia restored its cultural affiliation with the Western Christian cultural space. Despite all the historical destruction, more than 800 year-old examples of Gothic architecture have remained, together with the understanding of aesthetics and artistic continuity similar to that of Western Europe. Furthermore, our understanding of the relationship between individual and the state, of individual's responsibility towards himself/herself and his/her loved ones, and of sustainable economic management is similar to that of Finns', Swedes', Germans', Danes', and Poles'. It seems not only fish and boats traverse the Baltic Sea but also ideas and mentalities. Even in the framework of the European Union, the Baltic Sea states usually think alike. It would be useful for us if at least some of our ideas and values were shared in the St. Petersburg region of Russia, and often that is the case.

To conclude, I would like to stress that the Baltic Sea cooperation is not only necessary but unavoidable if we want to preserve our centuries-old lifestyle and value system. During peaceful times our quality of life has, despite the harsh climate, been high and it continues to be so. The effort to maintain it seems in every sense reasonable and necessary. This is a good reason to continue to look for opportunities to enhance cooperation in all areas.

*Rein Lang*

*Minister of Culture*

*Estonia*

## A new transatlantic alliance must be based on shared values and shared objectives

By Hannes Swoboda

The relations between the European Union and the United States have entered a new phase soon after the election of Barack Obama as President of the United States in 2008. This trend has certainly been consolidated by his re-election to office in October 2012.

The Presidency of Barack Obama has marked a change of paradigm in the relations between the US and the world, where the unilateral affirmation of military power has been replaced by an increasing role of political diplomacy and by the promotion of US interests via a more proactive participation in global and multilateral fora.

This trend has coincided with increased attention towards Europe and the European Union, both through a call to take up greater responsibility in conflict management and neighbourhood policy, and via a renewed interest in re-shaping a transatlantic alliance, particularly facing the rise of other more competitive global actors.

At the same time, after the entry into force of the Treaty of Lisbon, the European Union has emerged more and more as a distinct political and institutional actor in transatlantic relations. This shift in the EU institutional system has been clearly perceived by both parties in recent years on the occasion of important negotiations concerning counter terrorism agreements on data exchange and data protection (TFTP and PNR agreements), where the power of consent of the European Parliament significantly shaped negotiation dynamics, away from purely intergovernmental relations.

I believe these political and institutional developments on both sides of the Atlantic constitute an important challenge for the EU and for the US for a renewed and stronger partnership based not only on shared objectives but on a set of shared values.

The EU and the US need to be part of this new global dynamics and lead the change, not only in terms of economic and trade competitiveness: we have the opportunity to define together global standards in line with our historical heritage of democracy, freedom, equality, welfare and learning from the failures that the financial and economic crisis has dramatically brought to light.

For this reason I have welcomed the opening of negotiations for a Transatlantic Trade and Investment Partnership - TTIP last July in Washington.

Economic reasons supporting this choice are self evident.

The EU is the largest economy in the world, representing 25, 1% of world GDP and 17% of world trade, while the US is the second largest economy accounting for 21, 6% of world GDP and 13, 4% of world trade.

Together the EU and the US account for almost half of the world GDP and one third of total world trade. The transatlantic economic relationship is among the most open in the world and the EU and US markets are very integrated. Nonetheless, the relative share of bilateral relationship has been declining over the past decade due to the rapid rise of emerging economies.

In this context, according to the European Commission's recent estimates, a comprehensive and ambitious agreement could increase the EU's GDP by 0.5% annually and the US GDP by 0.4% by 2027.

But there is much more to this than just economic considerations and we would lose an historical opportunity if we did not use these negotiations to discuss also about shared values and actions necessary to promote them and uphold them across the Atlantic and at global level.

For instance, according to estimates of the World Bank, by 2030, 2 billion Asians will enter the middle class. Emerging countries are moving fast in terms of economic growth, technological

development, job creation, production costs, boost to talent and creativity. But are fundamental rights and freedoms, labour rights, environmental standards, democracy evolving at the same pace?

At the same time the EU and the US are now - in different ways and at different pace - recovering from the hardest economic and financial crisis since 1930, whose impact on economies, societies, democracies and rights has been deep and will be long lasting.

Another example: the debate around data protection and mass surveillance generated across the Atlantic by leaks on US NSA generalised surveillance programs has highlighted the importance to define shared values and standards for the protection of what is considered by both parties a fundamental right to privacy.

In this respect I believe there can be no trade off between security and freedoms, both online and offline. Cyberspace must not be equated to impunity. Equally, the same fundamental rights and principles that the EU and the US uphold offline must also apply and be promoted online.

These concerns have to be addressed swiftly and credibly by our US friends, if TTIP negotiations are to proceed in a climate of mutual respect and mutual trust, as this difficult challenge deserves. The parallel decision to set up a bilateral EU US dialogue on intelligence, law enforcement and data protection goes in the right direction.

Overall, I still believe that the extraordinary interdependence of our economies is a valuable opportunity in the present historical phase and we need to seize it, knowing that the challenge for both parties is to overcome obstacles to trade and investment, simplifying where possible the regulatory environment, but also to promote the values, principles, models that have made our societies thrive, not only in economic terms, but in terms of democracy, social protection, fundamental rights, consumer rights, privacy rights.

Europe has a specific heritage in this respect. This heritage is that of a set of well developed welfare states, of societies that ensure still a high level and quality of social protection, public education, healthcare, services of general interest, access to culture, in spite of growing inequalities and growing unemployment.

This task specifically questions the role of Progressive forces on both sides of the Atlantic. Socialists and Democrats in Europe and the Democrats in the USA have the historic chance to boost cooperation on a series of fundamental issues, ranging from the regulation of financial markets, to human and civil rights as well as immigration and integration of migrants.

We should use the present opportunity to give not only Europe a new face and create new chances, but to construct a progressive cooperation across the Atlantic.

US-EU cooperation can be the core of this alliance, that should be open to all other actors interested to join forces.

Globalisation can not be stopped and should not be stopped as long as it is fair to all participants. But to make it fair we need a strong EU - US cooperation.

Not - as was the case during the Bush era - a co-operation of those who are willing to intervene militarily and without UN support, but a real transatlantic alliance of progressive forces willing to bring fairness and justice into our societies.

*Hannes Swoboda*

*President*

*Alliance of Socialists & Democrats in the European Parliament*

## The Silicon Sea?

By Jouni Backman

For a long time Finland was one of the world's leading information societies. Now Estonia is about to take that position. Also in Russia there is a strong tradition of mathematical and thus also ICT sector know-how. In many other countries in the Baltic Sea region expertise in the information society is on a high level.

This strong know-how could be a source of regional cooperation. Not only around business, but also around research, education and product development. Cooperation in developing the public sector would be challenging, but useful.

The development of the information society is both a possibility and a threat. Regarding the opportunities, cooperation between countries is needed – regarding the threats, cooperation is imperative.

To the side of traditional security threats, or even ahead of them, has risen the so-called cyber security. It no longer means just plain data security, but the safety of the whole electronic and networked society.

Dependence on data networks and their uninterrupted operation these days concerns almost all functions of society. Targets of security threats are both private financial transactions, trade and travel, and states' critical functions and public services. Uninterruption of electrical and data networks is an absolute prerequisite for the functions and safety of a society.

Many countries are investing significantly in cyber security. And as with traditional security politics, it cannot be done only at national level, but also international cooperation is needed. In cyber security the cooperation between states is emphasized, because cyber threats are not geographically limited. A large part of cyber threats is also related to terrorism and other cross-border crime.

The Baltic Sea region is in the core of cooperation formed around cyber security. NATO Cooperative Cyber Defence Centre of Excellence (NATO CCD COE) was established in 2008 in Estonia. The goal is to have 16 member countries by 2016. Finland has also been persuaded to join, at least in the beginning through a permanent expert. Cooperation has already been achieved in many ways.

Tallinn as the choice of location can be explained by Estonia's good information society development. This, in turn, can be explained by a couple of things, at least. In Estonia, the construction of the information society has been able to take place through the so-called clean slate, which means that old structures and practices have not hampered meaningful activity. In many other countries the change process has been much slower and more difficult.

Another secret to Estonia's success was the open-minded decision to introduce joint solutions. Some of them, like a digital identity card for all citizens and a common open technical service platform, have created the necessary foundations. It is noteworthy that these solutions are in use in both the public and private sector. Finland is about to follow the example of Estonia.

ICT's potential has been utilized only to a small extent so far. In particular, this applies to the public sector. In many

countries, efforts have been made only in the development and acquisition of ICT technologies, but not to its actual utilization by reforming processes, in other words practices.

Also in this regard, Estonia's example makes a good exception. There, courage to renew also the practices was shown. In Finland, this has happened, for example in taxation, but in many respects, Estonia is clearly ahead. One example is the Estonian-Russian border traffic, where it is possible to book for oneself, in advance and online, a time for border crossing. At the Finnish-Russian border this is not possible yet, but the only way is to wait in line for one's turn at the border.

One key difference between the two countries is the development of citizens' ability to have a say and how transparent the society is. This is not only a question of e-voting, even though Estonia is clearly ahead of the others in this area as well.

Data is a key element of an information society. Transparency and the availability of data are prerequisites for the utilization and further processing of information. Promotion of the transparency of public data pools has started to take effect determinedly in many countries, including Finland.

Good management is related to data openness. In particular, the public sector must take big steps towards modernizing their knowledge management. It does not mean any longer the production of information only for the management, but an automatic utilization of updated information within the entire organization.

The most important area of development is for democracy. The applications of new technology would provide the capability to bring democracy to a whole new level. It does not just mean that meetings can be followed online openly, but it means new and real ways of influence.

The former model country for the promotion of democracy, Finland, has fallen to 45th place in the UN statistics (2008) for e-Participation. We achieved the same as Honduras, but lost to Botswana. In our country, as elsewhere, it would be possible to open the preparation of issues, decision-making and follow-up in such a way that a genuine democracy would become a reality. After all, it surely cannot mean only casting a ballot once every four years.

*Jouni Backman*

*Member of Parliament*

*Chairman of the Social  
Democratic Parliamentary  
Group*

*Finland*



## The Russian border – yesterday's curse, today's possibility

By Anu Urpalainen

Imatra stands at the outer border of European Union in south-east Finland. A look back in history signals that the border used to be a curse, but today we play the key role of the game called *Finland and Russia economic development and enormous opportunities for co-operation*. Recently region's heavy industry has gone through challenging structural change but new coming of tourism has versatiled our economic life. To be able to understand the present, it is good to explore the past.

The borough of Imatra was founded in 1948, but its history goes much further. The first record ever written from Imatra dates back to the 16th century as tax inventories contained references to taxes paid on salmon fishing on the River Vuoksi. The official history of tourism at the Imatrankoski Rapids began when The Empress of All the Russia's Catherine the Great visited Imatra in July 1772. When railway was built in 1892 it shortened the journey from St. Petersburg and boosted the influx of tourists. Wealthy Russians from St. Petersburg started to travel to Imatra to admire its exotic rapids. At the end of the 19th century industrial production began to increase and exploit the potential of the rapids of River Vuoksi. Paper mills, cellulose factories of Enzo-Gutzeit and growing industry on metal business cemented region's status as "Ruhr of Finland". As a consequence of the Second World War Finland lost Karelia to the Soviet Union. War closed the border, and the Ruhr of Finland was divided- wartime caused lasting wounds into people's hearts and souls, and froze the rest of the international tourism.

Over the years people started to reconsider the benefits of co-operation, and the border was re-opened little by little. In 1993 the city of Imatra and Svetogorsk made agreement of co-operation covering issues such as business, development of infrastructure, education, tourism and training. The concept of "Twin cities" was born. Both towns stand just on the other side of the border placing them in a unique position to gaze over the border between the European Union and Russia. During the years twin cities have carried out several common EU-projects among which Imatra for example has offered expert help on infrastructural development initiatives. School trips, exchange student programmes, communal teacher's seminars, language courses, youth music performances and reciprocal shopping visits mark the liaison between the cities. Nowadays the alliance lies strong and going across the border from one city to another is as simple as riding a bike.

In spite of the structural changes the south-east Finland still has a strong centralization of wood industry when counting in International Paper mill located in Svetogorsk. Due to its location it transfers easily raw-materials and components to Finland without needing to put a strain on Russian highways. Good quality of Finnish highway infrastructure furthers the efficiency of the paper mill.

Economically beneficial entrepreneur park situated at the gate away of European Union and Russia has attracted many companies to settle their operations there. The modernizing of the Imatra's and Svetogorsk's border station with the EU's ENPI (European Neighbourhood and Partnership Instrument) -fund is an excellent proof of cross-border collaboration by authorities on both sides.

Today Imatra has close co-operation with St. Petersburg, the border guards, the customs, and with the governments' of both Finland and Russia. Wounds that arose during the war have mostly healed; new generation is forming the global world. The era of looking back and closing borders is behind. Last year the south-east border of Finland was crossed by 10 million passengers and Russia was Finland's number one trade partner and second biggest export market after Sweden. Imatra and Svetogorsk – the twin cities, represent an excellent example of how mutual trust and relationship built between small towns can open big doors and expand connections on many tiers of the society and country.

On September 2013 the Finnish Parliament contributed 10 million euros towards a new fund to support studies in Russian language and culture. The parliament wants to ensure economic development and opportunities for co-operation in the future on governmental level. Finland is also willing to speed up trade and to facilitate planning and construction orders to ensure high quality and easily accessible shopping malls for the needs of increasing tourism. At the moment Russia and European Union are checking out the conditions to start the negotiations regarding exemption from visa. At the earliest it could be possible in 2018. I personally treat the idea with positive attitude.

What was once started in 1993 between small towns of Imatra and Svetogorsk, is now being done between Finland and Russia. Cultural exchange, improvements of language skills, commercial boosting, expert help, reciprocity and common trust are the key elements for fruitful co-operation. The Russian border affords us opportunities without limits, we just need to accept them, roll up our sleeves and team up. I believe we are ready for that.

*Anu Urpalainen*

*Member of Parliament  
of Finland*

*Member of City Council  
of Imatra*

*Finland*



## The “non-race to the Arctic” – some observations from Norway

By Ine Eriksen Søreide

Since the end of the Cold War, there has been a fundamental transformation in the strategic significance of the high north and Arctic. The historical situation, with the deep split between the East and West, and the area serving as a focal point for military buildup and activity, is well known. Today we face a new reality with the main focus being the development of natural resources and opportunities for commercial maritime transport, as well as the global challenge posed by melting sea ice and environmental degradation.

In this perspective, the strategic importance remains high, but is much broader and more complex. However, this transformation does not negate the need for a security policy perspective, and all the Arctic states, including Norway, maintain a considerable military presence in the area, both due to issues of sovereignty and to maintain a situational awareness in an area of increasing importance.

The first white paper on Norway's stand on the high north was presented in 2005 by the Bondevik II government. In the Norwegian political landscape there has since been a broad and consistent consensus regarding the Norwegian policies in the high north. Of course there are minor differences in the priorities, but on the macro level the level of agreement has been high over time.

On the domestic side, expectations have been set high as the interest in the area increases. However, exploration, sustainable exploitation, growth and construction of comprehensive infrastructure are all slow processes. I would argue that concrete action needs to be taken in order to strengthen the potential cooperation and growth in the high north further. For us, this also includes strengthened people-to-people cooperation and the exchange of much needed labor and knowledge between Russia and Norway, for instance.

Over the last years, the multilateral frameworks for cooperation and policy development have been strengthened. The increasing importance of the Arctic Council, with a permanent secretariat being established in Tromsø, and several new members being accepted as permanent observers serves as one example. The cooperation between the five circumpolar states, as illustrated by the Ilulissat declaration of 2008, another.

Norway also enjoys, and wishes to maintain, a close bilateral relationship to all the Arctic states. This includes a very constructive cooperation with Russia in areas of common interest. Every day issues are solved in a pragmatic way. One longtime example is our joint management of the fisheries in the high north. This has shown that where we have common interest we can solve these pragmatically and successfully. Our military forces enjoy an increasingly close cooperation with naval and land forces having conducted several joint exercises. More recently the search and rescue

exercise Barents Rescue was conducted in Norway. This was done with resources from Russia, Sweden, Finland and Norway.

Regardless of the increasing cooperation between the Arctic actors, there is still a tendency, not least in the international media, to focus on potential tensions and conflicts. A much used metaphor is the so-called “Race to the Arctic”. I would argue that this is a clear exaggeration. This is not an area “up for grabs” or without international, and national, regulation. Boundary disputes and delamination of areas of responsibility on the continental shelf have been clarified in an increasing tempo, with all actors respecting the bodies of international law regulating these issues. A huge diplomatic victory for both Russia and Norway took place in 2009, when the boundaries in the arctic waters were set, and a long term border dispute was solved, building on decades of diplomatic craftsmanship.

The future will probably bring an increase in freight transported through the area. The coastal states in the Arctic therefore have a responsibility to provide a comprehensive search and rescue capability, as well as capacity to handle environmental threats and accidents. In several areas this effort will be best solved in close cooperation between states. A strong increase in maritime freight also necessitates the construction of relevant infrastructure and facilities.

Another challenge is the sustainable exploit of natural resources. In vulnerable areas this must be both sustainable and take the footprint the industry leaves in the nature seriously. Potential mineral resources could provide an opportunity to create growth and jobs in the high north. Oil and gas remain important, both on a commercial and strategic level. These industries have some of the same needs and policymakers have to create a framework that meets the expectations from important stakeholders in a comprehensive way.

The complexity of the activity in the high north and the arctic areas demands strategic vision, close handling and political, commercial and diplomatic craftsmanship from policymakers. The opportunities are big and the stakes are high. The actors have chosen a responsible approach through cooperation. The “Race to Arctic” is in fact called off, and the more constructive, though perhaps not as exciting, process of responsible management has taken its place.

*Ine Eriksen Søreide*

*MP for the Norwegian Conservative Party (Høyre)*

*Norway*

## The change of the Arctic geography

By Olli-Pekka Heinonen

For many years the Arctic was only known as the opposite end of the Antarctica, predominated by cold weather, thick ice, polar bears and non-navigable waterways. It was in other words considered a hostile ground with harsh conditions. But due to the climate change and the melting of the ice cap our perception – or should I say the mental geography – of the Arctic has been changing rapidly.

### What is the Arctic and what it's not?

The Arctic is in the High North. We know it's there, but we disagree where it begins and where it ends. Researchers, scientists, politicians and even legal scholars disagree and have their own ways of defining the Arctic. Geographically the Arctic is the northern circumpolar area, the ice-covered ocean forming the white area at the top of our maps with no evident signs of human activity. And for many people this is how it should be now and forever.

The Arctic also means infertile and barren coastlines, inhospitable and icy islands and fringes where indigenous people used to fish, hunt, raise their families and go on with their daily lives until just a few decades ago. Now there might be a constant search for natural resources in their back yard.

The Arctic area is very diverse. Dozens of languages are spoken by people that have lived there since immemorial times. The Arctic is like a ring tied together by the Northern Polar Circle – in the middle you'll find the ocean and ice field and by the edges are the icy islands, the fringes of three continents and eight states. Some four million people call this place home.

### What is really changing?

The melting of the Arctic ice cap is real. A comprehensive satellite study show that the polar ice caps have melted fast in last twenty years. The melting is undeniably caused by the climate change – and even how undesirable this is – we need to address the development and take advantage of the new possibilities it presents. The melting of the Arctic ice-cap will open up the waterways and the main hype seems to evolve around the navigation routes along the Northern Sea Route (NSR).

NSR runs along the Russian Arctic Coast from Murmansk in the Barents Sea along the coast of Siberia to Bering Strait and Asia and is approximately 3,000 nautical miles. Navigation season for transit passages starts approximately at the beginning of July and lasts through to the second half of November. The Northern Sea Route is approximately 10-15 days shorter than the normal route from Asia to Europe through the Suez Canal.

Commercial navigation is still very modest along the NSR. Only 46 cargo ships made the passage in 2012 and this year some 200 ships have been granted permission to sail the NSR. The volumes are still only a fraction of the annual 20 000 ships sailing through the Suez Canal. The trend is however very clear. The number of ships along the NSR will increase, which on the other hand presents both

challenges and opportunities for all countries operating in the Arctic.

### What needs to be done?

The Arctic environment is unique and fragile. It is also one of the last untouched frontiers left on planet Earth. Its ecosystems and species have adapted to extreme weather conditions and short growing periods. Any human activity may result in permanent changes in the Arctic region. Any economic activities in the Arctic need therefore to be developed in a sustainable manner taking into account the limitations imposed by the Arctic environment and indigenous people's way of life and livelihood.

### Finland as an arctic actor

Finland's Arctic policy focuses on understanding the effects on climate change and the limitations imposed by the environment. It lies in the best interest of Finland and the entire international community to preserve the Arctic land and sea areas and to promote sustainable economic and social development. Finland is a true Arctic country, albeit without a coastline in the High North. After all one third of all people living north of the 60<sup>th</sup> parallel are Finns. Finland possesses the top-level expertise and the know-how it takes to understand, adapt and make use of the changes in the Arctic. The main areas of expertise in the field of arctic business and environment include: offshore and maritime industry, weather and ice information services, tourism, winter testing, environmental technology, cold climate research. The entire list is published in Finland's Arctic Strategy approved by the Government in August 2013. We know how to make things work, regardless what comes down from the sky- and we do it.

### And then what?

The management of the Arctic – from change to development, from challenges to opportunities – is a crucial issue not only for the eight states within the Arctic area, but for the rest of the world as well. We must understand the impacts of the changes in the Arctic have on a global scale. We need to seek cooperation on the Arctic issues with outside stakeholders as well. The climate change may slow down in a foreseeable future, but the Arctic will be there for a much longer time. Let's take care of it!

*Olli-Pekka Heinonen*

*State Secretary*

*Prime Minister's Office*

*Finland*



## Baltic maritime safety and research know-how is applicable in the Arctic

By Petteri Taalas

Finland is a country, which is highly dependent on sea transportation. About 80-90 % of the export and import takes place through the Baltic Sea harbours located in the coast of Finland. Finland is also an Arctic country, and about 40 % of the people living north of 60 °N latitude are Finns. Due to the Arctic climate there has been a need to develop icebreaking vessel and service know-how to enable maritime transportation during the winter half of the year, when the Finnish harbours and sea routes are frozen. Finland is well known for its Arctic vessel design and ice service expertise.

Maritime safety is an essential factor in both Baltic Sea and in the Arctic sea areas. The Finnish Meteorological Institute has developed advanced weather, marine and sea ice services for the Baltic Sea. The weather services are based on meteorological forecasting models. Finland is a member of the European Centre for Medium Range Forecasting, situated in Reading in the UK. The ECMWF runs a global forecasting model with 15 km horizontal resolution and timescales ranging from one day up to three months. The quality of the medium range forecasts (1-15 days) is the best in the world. Besides the ECMWF the cornerstone of Finnish weather forecasts in the 1-2 days scale is a limited area 7.5 km resolution model called HIRLAM, which is continuously developed as a joint venture of 11 European countries and run on the supercomputer of the FMI. FMI also runs fine mesh model with 2.5 km resolution for Finland for 24 hours. FMI has also developed models for Baltic Sea oceanography, ice services, waves, streams, temperature, salinity etc.

FMI has developed an advanced weather service production system, which is based on ground-based, balloon, radar, aircraft and satellite observations, weather prediction models, 24/7 operational forecasting office run by meteorologists and oceanography experts and an automatic production system called SmartMet. FMI provides about 1 million weather and marine products every day for various customers. These are maritime safety authorities, shipping companies, harbours, airline companies, winter road maintenance companies, railroads, cities, energy companies, rescue authorities, military, commerce, agriculture etc.

According to the recently published Physical Basis Part of Fifth Assessment report of the Intergovernmental Panel on Climate Change (IPCC) the rapid growth of greenhouse gas emissions has led to higher estimates of the global warming and the sea level rise scenarios by the year 2100. It has also been scientifically shown that the human emission induced climate change has led to enhanced frequency of heat waves

and flooding. The largest change is observed in the Arctic. It has been shown, that since 1980 the extent of multi-year ice in the Arctic has diminished by more than 70 %. There has been also a considerable change in the amount of one-year ice with all-time minimum in September 2012.

The Arctic change offers new opportunities for marine transportation, natural resource exploration, commerce, tourism etc. For example the shipping route from Europe to Asia would be 40 % shorter by using so-called North-Eastern passage instead of the Southern route. The North-Eastern passage was first used by Finnish scientist and Arctic explorer A.E. Nordenskjöld in 1878-1879. One should hence keep in mind the limitations related to the Arctic shipping routes. Although the ice-free period is getting longer, the ice cover will still exist during the winter half of the year. The shallow routes do not permit the use of the largest container ships. There are still challenges in improving the safety services, which means additional investments in weather and sea observations from satellites and in-situ, improvement of telecommunication systems and development of weather, sea and ice forecasting models applicable in the Arctic conditions.

Due to its location in the every winter frozen Baltic Sea Finland has developed an advance weather, marine and sea ice service infrastructure, models and 24/7 operational forecasting systems to ensure safe and economic use of the shipping routes in the Baltic Sea year around. This know-how and the methodologies are highly applicable in the Arctic Sea area. The Finnish Meteorological Institute has started the provision of weather, marine and sea ice services to the Arctic Sea areas. The FMI is happy to serve additional customers and their dedicated needs in the Arctic to ensure safe and economic businesses and activities in the region.

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## Is Russia a revisionist or status quo power in the Arctic?

By Alexander Sergunin

Since the planting of a Russian flag on the North Pole in August 2007, resumption of strategic bomber patrols in the High North and the publication of the Russian Arctic strategy of 2008 the Western experts have often described Russia's Arctic policies as expansionist and even jingoistic or return to a "gunboat diplomacy". However, in contrast with the Cold war era when the Soviet behavior was driven by ideological and geopolitical factors, the current Russian policies in the Arctic are mainly explained by Moscow's pragmatic interests such as competition for natural resources and control over the Northern Sea Route (NSR). According to some Western analysts, because of its economic weakness and technological backwardness Russia tends to make an emphasis on military-coercive instruments to protect its national interests in the Arctic and this will inevitably lead to the regional arms race, remilitarization of and military conflicts in the High North. On the other hand, there are experts (mostly from Russia itself) who argue that Moscow is not interested in changing the status quo in the region and favors international cooperation to develop the Arctic Zone of Russia (AZR).

It should be noted that Russia has important economic, societal, environmental and military-strategic interests in the High North. These interests include the access, exploration and development of the Arctic natural resources. Russia tries to modernize and further develop the RAZ's industrial base which makes a significant contribution to the country's economy. Moscow is also interested in the NSR's opening up for international commercial traffic and developing circumpolar air routes. Moscow is deeply concerned about the debilitating ecological system in the RAZ and trying to stop and reverse the negative trends in this sphere. Russia still has considerable military-strategic interests in the region. These have not lost their relevance with the end of the Cold War. This continuity can clearly be seen in Russia's security perceptions of the Arctic as a region of both challenges and opportunities.

Currently, Russia's Arctic strategy represents a mixture of the revisionist and soft power/status quo policies. On the one hand, Moscow is quite assertive as regards its claims on the Arctic continental shelf as well as demonstration of its sovereignty over the 'Russian part' of the Arctic and military presence in the region. The Russian military modernization programs in the High North are also seen by other Arctic players as worrisome and destabilizing the regional strategic balance. The Russian international partners are also concerned about the lack of serious progress in Russia's environmental strategies and its policies toward the indigenous people of the Arctic.

However, looking at the bright side of Russia's Arctic policies it is possible to identify a number of positive

changes. As the recent Russia's Arctic doctrine (February 2013) demonstrates Moscow now realizes that most of threats and challenges to its positions in the Arctic region originate from inside rather than from outside of the country. These problems are caused by the complex of factors such as the degradation the Soviet-made economic, transport and social infrastructures in the region, the current resource-oriented model of the Russian economy, the lack of funds and managerial skills to develop the RAZ, etc. Therefore, Russia's strategy aims at solving existing problems by domestic rather than external means. Moscow understands that the success of its Arctic strategy to a larger extent depends on how effective its socio-economic policy in the region will be. The proclaimed course on modernization and innovation should move from declarations to the implementation phase and be substantiated by specific and realistic projects in the RAZ.

To conclude, the general 'balance sheet' of Russia's Arctic strategy is quite positive. It is safe to assume that in the foreseeable future Moscow's strategy in the region will be predictable and pragmatic rather than aggressive or spontaneous. In contrast with the internationally wide-spread stereotype of Russia as a revisionist power in the High North, I believe that Moscow will continue to pursue a double-faceted strategy in the region: On the one hand, such a strategy aims at defending Russia's legitimate economic and political interests in the region. On the other hand, Moscow is open to cooperation with foreign partners that are willing to partake in exploiting the Arctic natural resources, developing sea routes and solving numerous socio-economic and environmental problems of the region. In doing so, Russia will prefer to use non-violent, diplomatic, economic and cultural methods as well as to act *via* international organizations and forums rather than on a unilateral basis. This brings the Russian behavior in the Arctic closer to the soft power model albeit there is still a long way to go for Russia to fully fit in this frame.

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## Managing the Arctic – challenges and opportunities

By Jørg Willy Bronebakk

The High North, or the Arctic as it is more commonly referred to here in Finland, is a region full of opportunities, moving to the centre of geopolitical interest. Therefore, the High North has been defined as Norway's most important strategic priority area. Our aim is to enhance knowledge in and about the North, increase our activity and presence and safeguard the foundations for sustainable economic and social development in the years to come.

The main growth industries in the Arctic are oil and gas, aquaculture, minerals and tourism. Northern Norway is currently seeing an increase in population and employment levels, and unemployment is low. Finland, like Norway, defines developments in the Arctic as an opportunity for the whole country – in the whole Arctic region.

Governments can help create the framework for business opportunities. But the business communities themselves must consider them and identify concrete, profitable projects. Finnish companies with cold tech competence combined with a solid track record on health, environment and safety issues, should be well suited to compete for contracts coming up.

Temperatures in the Arctic have been rising twice as fast as the global average. In September 2012, the extent of the Arctic sea ice was smaller than ever recorded before. The Arctic could be ice free in the summer much faster than climate models have so far predicted, perhaps only a few decades from now. This gives rise to opportunities. The Northeast Passage between Europa and Asia has received the most attention. Whereas only four transits of the Northern Sea Route were conducted in 2010, 46 were made last year. This year we may be heading for another record season. However, most available analyses predict that this transport route will remain a complementary route for certain types of products, mainly related to oil and gas. This still leaves open the possibility for business development, on exports and imports of petroleum products and minerals, and on shipbuilding for Arctic conditions.

While certain parts of the regulatory framework need to be strengthened, for instance in relation to shipping, the main legal framework for regulating activities in the Arctic is in place. There is no "race for the Arctic", if this is to be understood as a race between states. All resources known to be commercially exploitable are within areas under coastal state jurisdiction. To the extent that overlapping claims exist, the United Nations Convention on the Law of the Sea provides an adequate legal framework for the settlement of such claims.

We also have the political framework in a strengthened Arctic Council, and in regional cooperation forums like the

Barents Euro-Arctic Council and the Northern Dimension. The members of the Arctic Council are the primary stewards of the resources and environment in the Arctic. Our experiences and expertise should provide the yardstick for further development.

The focal point for petroleum activities on the Norwegian continental shelf is now moving northwards. If production and value creation are to be maintained on the Norwegian continental shelf until 2030 and beyond, there is a need for new areas to be opened for exploration. The Government is taking a step-by-step approach with a view to facilitating a gradual increase in petroleum activities in the Arctic.

There is also a great potential for cooperation on land-based industry. Just as Norway is a world leader in subsea offshore operations, Finland has long experience and substantial expertise in the mining sector. The Norwegian government presented a new strategy for the mineral sector in March this year. There is great potential in Norway, but we lag somewhat behind Finland in terms of geological mapping, investments and education and research. Hence, we have a clear interest in cooperation.

As Nordic countries we have to join forces in developing the region's potential. Today, infrastructure is a bottleneck in many areas. Deep-water and ice-free harbours in Northern Norway are ideally located for transporting Swedish and Finnish minerals to the markets. However, there is a need to develop roads and/or railroads to facilitate connections.

The question of new rail corridors has been analysed on both sides. There are no simple solutions, but what is clear is that infrastructure development in the north has to be seen in connection with neighbouring countries' plans.

The government's role is to provide the legal and political framework for value creation, but it is up to the businesses to position themselves to seize the opportunities. Together we can develop knowledge and technology, which is essential for making opportunities into activities. I look forward to seeing increased cooperation between Norwegian and Finnish businesses.

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*Ambassador*

*Royal Norwegian Embassy  
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## Shifting the parameters of the debate on global energy challenges – investment needs to become the buzzword

By Urban Rusnák

Many contemporary practitioners of global energy policy have become infatuated with the “challenges” with which the international energy economy is presently confronted. And it is fair to say that our newfound fondness for the “global energy challenges” concept is not without justification. Debates over energy security have become more acute in recent years, as concerns which consumer nations once had over access to cheap oil flows during the 1970s have transformed into an even more alarming politicisation of present-day gas supplies. Peaking demand for hydrocarbons has caused oil and gas prices to spiral inexorably upwards, as consumer-country watchdog organisations continue to warn us of the finite nature of fossil fuels.

Most informed sources suggest that demand for hydrocarbons will continue to not only peak in the years ahead, but that the main source of future demand will come from non-traditional consumer countries, which are mostly located in Asia. Countries like China and India, rather than Europe and the United States, are already becoming the drivers for fossil fuel demand and this trend is only set to accelerate further, looking ahead. These are just some of the challenges which presently confront decision makers as global energy issues inevitably take a higher profile in the international arena.

The axiomatic trend of accelerating demand for energy in the developing world immediately poses two further, inter-related challenges which widen the scope of the energy security debate. The first of these relates to the fact that managing harmful CO<sub>2</sub> emissions remains a highly complex task in developing countries, with nefarious implications for climate and the environment due to the increased consumption of oil, gas as well as coal. China and India, where energy efficiency strategies remain underutilized, are in the process of joining the United States in the club of the “world’s largest emitters”. China is, for all intensive purposes, already there. They may well overtake America if present trends continue unabated.

Second, we need to take note of that fact that, as energy consumption in developing countries continues to grow, such states begin to stake their case for a stronger voice in debates on energy security within the framework of existing international fora. We have already seen a substantial power shift and commensurate wealth transfer from West to East over the last decade or so, as the BRICS countries become more prominent global actors at all levels. Further, their national ‘oil champions’ hold a commanding stake in existing oil reserves, super-ceding the original “seven sisters” (group of international oil companies). This trend is often seen as yet another challenge by mainstream energy consuming countries. This is particularly the case when developing and/or oil rich countries band together in establishing international organisations in order to forge “solidarity blocs” to uphold their own interpretation of energy security, ie, namely security of demand.

While the whole landscape of contemporary global energy governance briefly surveyed above is, itself, extremely challenging, it is worth reminding both practitioners and policy makers that the real buzzword in international energy relations is, in all respects, *investment*. Although the “challenges narrative” tends to capture our imagination, it is *investment* – both in terms of concept and application –

which is the real driver of the international energy economy. Little could be achieved without the realisation of adequate *investment* in the global energy economy, no matter how challenging the governance landscape may have become in recent times.

Furthermore, the *investment* buzzword applies to every situation, at every time and in every place: economies prone to recession need to stimulate *investment* to promote growth; capital poor countries need to find ways of increasing domestic *investment* levels as well as attracting FDI; whilst capital rich countries which may themselves be net exporters of *investment* are constantly on the ‘lookout for greener pastures’ and new opportunities.

As we seek to rise to many of the challenges confronting the global energy economy, policy makers, practitioners and those of us working within global energy governance institutions should strongly consider shifting the parameters of the debate in order to address the questions of how to: 1/ adequately protect, 2/ securitize and 3/ ultimately promote sufficient investment into the international energy economy. And if we are to have a robust discussion on investment protection and promotion in the global energy sector as a whole, the first question we need to ask is whether the present-day (global energy) governance landscape lends itself to any international investment protection frameworks dedicated specifically to the energy sector.

Assuming that the answer to this first question is yes, the second question we need to ask is whether such frameworks really have any practical relevance – whether they are useful – in terms of stimulating investor confidence. Can multilateral inter-governmental investment protection frameworks imbed themselves as tools which are useful for securitizing and stimulating the deepening of investment flows in the global energy economy?

While my objective in this short commentary is merely to raise a debate about how we should go about creating the conditions for stimulating investments in global energy, we should not negate the fact that the Energy Charter Treaty (ECT), which has been in legal force since 1998, was designed exactly for that purpose. The core objective of the ECT, and the Energy Charter Process which has evolved around it, is the protection of energy investments in the territories of its 52 member countries. Furthermore, the ECT and the Charter Process likewise aims to promote the energy security of its entire constituency in an equal and unbiased manner. While the Charter further purports to establish a rules framework for the promotion of trade and transit of energy goods and services, the Treaty serves to protect investments by providing its constituency with concrete dispute settlement mechanisms: conciliation and arbitration procedures for investor-state and state-to-state disputes that inevitably arise now and again.

The sceptics of multilateral treaty frameworks may argue that such instruments lack practical relevance since countries may already be signatories to bilateral investment treaties (BITs), or provide investors with their own domestic investment protection legislation. This may, to some degree, be true. That said, in a rapidly changing and highly dynamic global energy environment, which is increasingly inter-connected as well as inter-dependant, multilateral frameworks provide substantial value added by promoting

common rules and spreading good governance. In essence, they help to create a uniformed and integrated market environment, inclusive of a level playing field for all of participants, whilst further leading to predictability and greater transparency.

As global FDI flows and investment starts to pick up again following significant recessionary trends at the global level, energy investment projects are themselves becoming increasingly ambitious in nature as well as multinational in scope. BITs and domestic legislation are, on their own, not enough to securitize projects of such magnitude. In order to realise multi-billion dollar gas pipeline projects traversing the territories of multiple sovereign states, or giant electricity generation and distribution projects involving numerous countries, multilateral investment protection frameworks such as the Energy Charter are needed to provide the necessary institutional muscle in order to spur investor confidence.

This applies, in particular, at the level of project governance, where political agreement between multiple stakeholders is every bit as necessary as agreement at the legal and commercial levels. I have little doubt that the usefulness and practical relevance of multilateral investment protection frameworks such as the Energy Charter will only increase further as the international energy environment becomes more integrated and calls for more robust instruments to stimulate investments as the penultimate driver for growth and sustainability in the international energy economy.

*Urban Rusnák*

*Secretary General*

*Energy Charter Secretariat*



## New opportunities for cooperation with Kazakhstan

By Galymzhan Koishybayev

Kazakhstan has come a long way in a relatively short time; we have moved to a sovereign state with a market economy ranked as one of the five fastest growing in the world. Kazakhstan has very ambitious plans for growth into a modern, technologically advanced economy and democracy. At the time being Kazakhstan has begun to implement its strategy up to 2050. The country aims to be in the world's top 30 economies by 2050. We aim to produce 50% of our energy from renewable resources by 2050, which provides a massive investment opportunity for Western technology and innovation. Our capital, Astana has won an important bid to host EXPO-2017 with the theme of «Future Energy». This example clearly represents the Kazakhstan's drive on renewable energy. Construction within the EXPO-2017 project in Astana offers huge opportunities for Finnish companies and it will provide a showcase for the Finnish advanced clean and green technologies.

Kazakhstan attaches great importance to bilateral relations with the European Union as well as with its member states including Finland. In recent years the state programme «Path to Europe» has been successfully implemented. Through this programme, the European Union has firmly occupied the position of a leading trade and investment partner of Kazakhstan.

Finland is an important partner for Kazakhstan both politically and economically. In recent years, cooperation between two countries in bilateral and multilateral formats has been strengthened, especially during Kazakhstan's OSCE Chairmanship in 2010. The establishment of the Embassy of Kazakhstan in Finland is a real sign of our firm commitment to further increase dialogue between Astana and Helsinki.

Countries enjoy growing bilateral relations which we are keen to consolidate in the political, economic and cultural fields. Kazakhstan regards Finland as a model country for innovation, education and science. There is also an enormous potential for cooperation in business: Kazakhstan desires to develop its abundant energy resources in an environmental friendly way and Finland has a lot to offer in the energy efficiency, clean technology and mining industry.

The state visit of the President of Kazakhstan Nursultan Nazarbayev to Finland in March 2009 became a milestone in the history of our mutually beneficially relations. Over the past four years ties between our countries have grown stronger. These years passed eventfully in our relations, including high-level presidential visits and frequent contacts by ministers.

The profound foundation for our cooperation was laid out during the state visit of the President of Finland Sauli Niinistö to Kazakhstan in April 2013. Several agreements and cooperation documents were approved and signed during

the visit, including a partnership declaration on green economy development and modernisation together with inter-ministry action plans on cooperation in the education sector and on environmental technology development. The sistership relations were established between Astana and Oulu.

Substantive business negotiations and signed documents during the visit of the Minister for European Affairs and Foreign Trade Alexander Stubb to Kazakhstan in October 2012 considerably enhanced development of our economic ties. The active participation of Team of Finland demonstrates significant interest in partnership with Kazakhstan.

At present Finland has become Kazakhstan's first largest trading partner among Nordic-Baltic countries. Bilateral trade volume in six months of the current year increased by 40% compared to the respective period of 2012.

Cooperation in the clean and green tech sector has acquired more importance due to the plans of Kazakhstan to implement own national strategy for transition to the green economy. This goal is a part of the President Nursultan Nazarbayev's broad Strategy Kazakhstan-2050 initiative, which was designed to modernize and diversify the nation's carbon-reliant economy.

Other promising areas of Kazakhstan-Finland include education and healthcare. We are keen to promote direct universities' contacts and raise public awareness in Kazakhstan of the advantages of the Finnish education.

In general, at the moment our relationships are blossoming in several areas beyond the realm of cooperation in energy sector. The future for Kazakhstan-Finland relations remains bright. Our relationships has already delivered great benefits for both sides, particularly in the energy and clean tech sectors but there are even bigger prospects in trade, education and health care for the future.

Nowadays, both Kazakhstan and Finland are faced with the challenge to promote its national economy, where sound cooperation between two countries can have a great part to play. Therefore favorable environment shall be maintained to facilitate business and personal contacts.

*Galymzhan Koishybayev*

*Ambassador*

*Embassy of the Republic of  
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## Russia's first year in the WTO – hip, hip hooray?

By Monika Sztajerowska\*

As with most birthdays and anniversaries, the marking of Russia's first year in the World Trade Organisation (WTO) comes with a bitter-sweet taste of stock-taking. What has the WTO entry brought to-date for businesses operating or selling their products in the Russian market? What can it bring in the future? And, eventually, what it cannot do, regardless of how many candles will be lit on the anniversary cake?

After a protracted 19 year-long negotiation, Russia's entry into the WTO on 22 August 2012 was welcomed in some circles (not least those of trade negotiators) with a perceptible degree of hope and, admittedly, of relief. From now on, Russia would be subject to international trade rules, for example on maximum import tariff levels or market access in certain services sectors, which should have a real impact on business. The World Bank estimated the likely gains to reach 3.3% of Russia's GDP in a few years after the accession, with most benefits stemming from the removal of restrictions on foreign direct investment (FDI). With this initial enthusiasm in mind, where do we stand one year on, and what has the WTO accession achieved so far?

Reduced import tariffs on goods coming into Russia and removed restrictions on FDI in key services sectors have been among the most tangible gains from the accession. Import tariffs fell on average by 2.2 percentage points for manufactured goods (currently at 7.3%) and by 2.4 percentage points for agricultural goods (now at 10.8%), with significant reductions—and thus sizable cost savings for foreign manufacturers—on passenger cars, civil aircraft, agricultural equipment, pork meat, pharmaceuticals or wine. In services sectors, market access was also broadened, for example allowing 100% foreign-owned firms to operate in sectors to which they did not have access to before, such as telecommunications, insurance and banking. More generally, the extensive body of WTO rules is now binding in Russia—including on the use of subsidies in general, the maximum support for domestic agricultural producers (capped at USD 9bln in 2012 and declining to USD4.4bln by 2018), non-discrimination of foreign products and firms, and the use of regulatory barriers to trade (e.g. sanitary norms, licensing requirements), among many others.

Still, as testified by articles that mushroomed around August this year, many businesses seem not to have felt any, or little, change to-date as a result of the accession. Why is that? First, Russia managed to negotiate long transition periods, with some extending as far as 2020. Only upon their expiry, when all tariff reductions and other concessions become effective, the markets will start adjusting. Pork exporters into Russia, for example, already saw their export and market shares increase, with tariffs falling immediately upon accession. Others will have to wait a few more years for similar effects to become visible. In addition, around the time of its WTO entry, Russia implemented a series of domestic measures that, in the short term, may have partially offset some of the negotiated concessions. Bans on live animal and meat imports and the imposition of a recycling fee on foreign automotive vehicles are a case in point. As some of these measures may be WTO-incompliant (one WTO case already pending), they are likely to be reduced over time, allowing businesses to profit more from the new market opportunities associated with the WTO entry.

In addition, while it may be difficult for managers to see an immediate difference in companies' everyday operations, there are signs of progress. For example, on 13 September this year, Russia—in line with its WTO accession commitments—joined the Information Technology Agreement (ITA), bringing down tariffs on information technology goods covered to 0%. It has also introduced new measures to improve the level of IP protection in the country, notably through the creation of specialised IP courts and the introduction of limited liability of Internet Service Providers to help combat Internet piracy. In some cases where allegations of WTO-incompliant behaviour were brought forward—as in the case of copyright or automotive recycling levies, the government undertook steps to amend its legislative proposals. All this can be considered a novel development. Even in the case of contentious import bans based on alleged sanitary and veterinary concerns, the talks with affected parties are under-way. In a nutshell, while the machine of the international trade rules may be slow-moving, it is turning its wheels in the background, and firms are bound to profit from the ride.

In the long run, it is through the application of the common rules of the game, enforceable via the WTO Dispute Settlement Mechanism, that the WTO membership will strengthen the stability and predictability of Russia's trade regime and thus its economy. The setting of maximum allowed tariff levels (i.e. binding of tariffs), for example, prevents a return to higher rates in the future, and the rules on customs procedures, technical norms, and other regulatory requirements help standardize the trading environment. Still, the WTO entry is hardly a panacea for all economic governance problems. For example, a quantum jump in the quality and transparency of the regulatory environment—still a significant headache for firms doing business in Russia—can only be achieved through a continuous domestic reform. This also applies to the extent and nature of state intervention in the economy. In addition, while WTO disputes provide a safeguard against WTO-incompliant behaviour, they take time and resources, and there is scope for affording a certain degree of protection that does not breach the official rules (e.g. via trade defence measures).

All in all, the WTO accession is undoubtedly a positive, albeit not an immediately revolutionary, development in Russia's economic history—with time, it will provide a more stable and predictable framework for trading and doing business in the country but some of the most significant economic benefits will have to come from yet more difficult domestic reforms.

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\* The views expressed here are those of the author and not of the OECD or its Member States.

## Universal higher education and its social and economic impact – case of Russia

By Yaroslav Kuzminov and Isak Froumin

Over all the transition years Russia has been moving toward a policy of universal higher education. This process is accompanied by the explicit tendencies such as increasing number of higher education institutions and enrollment rates, which doubled since the '90s. The shift to the universal higher education is a steady trend and changed the meaning of tertiary education and its curriculum. Expansion of higher education in Russia is inspired by the idea of equality and opportunity, social equilibrium and promoted on the following grounds: demographic necessity, economic considerations and labour market demands for more innovative manpower with special competences and capacities for lifelong education. In the context of expanding and internationalization of education, Russian higher education faces the challenges of adaptation to financial, social and institutional constraints. The issues of special interest are cost and benefits of mass higher education system and challenges it has to meet.

The impact of this great expansion in Russia still should be analyzed and understood. For now one can see that the expansion did not lead to greater equality of opportunities. It also did not lead to sustainable growth of the productivity of the labor force. One can argue that the higher education brought important externalities like healthier behavior or sophisticated consumption. Our analysis suggests that this expansion had greater social than economic impact because it was driven by social demand and not by the demands of growing economy..

On the one hand the growth of accessibility of higher education has triggered the process of universities transformation. Mass higher education is expected to become a sufficient basis for social mobility, upsurge in economic activity, innovative development and economic growth. Looking from another perspective, mass higher education brought a problem of quality on the table. Radically increased enrollments, "institutional trap" in the higher education system and diploma-hunting has become one of major concerns at a moment. According to expert estimates in 10-20 years the labour market will experience imbalances in a workforce, caused by the prevalence of workers with higher education.

Russia's higher education expansion in the 1990s was different from the other middle-income countries because it came from a much higher initial enrollment rate (comparable to Europe's), but it was similar to the other BRICs because of relatively slow growth in the 1970s and 1980s and the large increase in enrollment beginning in the mid-1990s.

There are several features of higher education expansion in Russia that are different from the earlier leaps in the developed countries. That higher education expansion is increasingly differentiated financially as it incorporates more students, is increasingly "rationalized" through entrance testing, and is increasingly financed by families paying user fees (tuition), whether through cost-sharing in public universities or through tuition payments to private universities and colleges. That is the sign of latent demand driven by the

high economic returns to completing university, particularly to completing technical and business university training

Not only is Russia unique among the middle-income countries in the massification of its higher education, it is unusual among all the world's countries in another way: it has reached such a high level of incorporating youth into post-secondary institutions that for the next ten years or so a more general slowdown of population growth (common to many European countries) is resulting in an absolute decline of youth seeking to enter higher education.

This, combined with the economic recession of 2008-2009, has major implications for higher educational reform. The Russian government is attempting to "rationalize" the large number of public institutions developed during the Soviet era. Core strategic measures are effectiveness monitoring aimed to cut the "low quality" segment and "5-100" initiative providing special support for the universities targeted to global rankings. The mechanism of regulation of public financed admission quotas is going to be the next stage of the struggle for quality enhancement. The tricky lock is in bringing the partially still Soviet higher education system closer to the labor market of new economy.

Russia in the post-communist era will likely reverse the spatial and social equalization connected with the planned economy, introducing market rules to public institutional location and economic development.

We would argue that higher education expansion may have contributed to rising productivity, but Russia is a good case showing that State development policies (the politics of the development process) are extremely important in the relationship between education and economic growth.

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## Baltic Sea market – new era, new challenges

By Jyri Häkämies

Trade and investment within the Baltic Sea region seldom raise big headlines or emotions. The globe has shrunk and company strategies often describe this area as expanded home market.

Statistics confirm this development. Finnish Customs recently produced an analysis, which shows that Sweden, Denmark and Estonia are Finland's leading partners in intra-industry trade, that is, the importation and exportation of goods belonging to same group of articles.

The Baltic Sea unites businesses and the importance of the region has not diminished although activities in BRIC countries and other markets have increased. Thus the countries around the Baltic Sea have not lost their importance for Finland, its companies, economy and welfare. Not even the current economic turmoil has reduced their significance for Finnish foreign trade and cross-border investment.

The share of the countries around the Baltic Sea - Sweden, Denmark, Germany, Poland, Lithuania, Latvia, Estonia and Russia - remains at a very high level in Finnish foreign trade.

In January-June 2013 the share of these countries in Finnish exports totalled 38.4 per cent. Adding to this figure exports to Norway and Iceland, member countries of the Council of the Baltic Sea states, we end at 41.6 per cent. In Finnish imports the corresponding figures were even more significant - 51.5 per cent and 53.6 per cent.

As regards foreign direct investment we have no other region where investments from and to Finland were as numerous and versatile as in the Baltic Sea region.

### Never-ending need for change

In 1996 prominent Baltic Sea business leaders asked for major policy revisions in the Baltic Sea countries and signed in Stockholm the Declaration on Growth and Development of the Baltic Sea region. Thereafter positive change in the region has been impressive and we have been able to enjoy a long period of rapid growth of economy and welfare, which ended - for the time being - with the first decade of this century.

Today all countries around the Baltic Sea except Russia are members of the European Union. Also in Russia business environment is much closer to that of the rest of the region as a result of the reforms made to attain WTO membership. This unity has been of great importance for economic integration and reaping benefits from removal of trade and investment barriers for the whole region.

Radical improvements have taken place and we have come a long way in 17 years. Nevertheless there is plenty of room for fine-tuning in practically all issues covered by the Stockholm 1996 recommendations and published under following headings: Rule of law, Less bureaucracy and better public administration, Integrate Europe, Stable monetary systems and prudent economic policies, Greater flexibility - a necessity for the future, Links in the Baltic Sea region - improve infrastructure, Development must be sustainable, Human capital - a natural resource.

We must continuously address the challenges of global competition. The past few years have shown that we all are vulnerable in the economic turmoil. Thanks to liberal trade policy we have gained a lot from global economic integration. Unfortunately the integration process in the WTO framework

has stalled and companies have faced growing protectionism during the last decade.

The medicine taken is deepening bilateral economic integration between the EU and its trade partners. All Baltic Sea businesses strongly support this policy and concluding comprehensive free trade agreements with all major trade partners. Unfortunately negotiations take time and the agreements seldom bring quick results.

### Untapped potential of Baltic Sea cooperation

The quickest and most effective medicine to regain competitiveness is in the hands of national governments and parliaments. Joint efforts by all Baltic Sea countries or a group of them in different areas can foster positive development. Such opportunity should not be neglected.

An example of an area of common interest is labour mobility where the situation has improved drastically since the 1990s. However, progress in some issues like harmonisation of qualification requirements has been too slow.

In the transport domain Pan-European corridors and TEN-projects have been important for the development of regional rail, road and maritime connections. A recent milestone in this area was reached in September, when Ministers of Transport of Estonia, Latvia, Lithuania, Poland and Finland signed an agreement to establish a joint venture to develop Rail Baltica from Tallinn to Warsaw. Construction should start in a few years and be ready in 2023.

Another area of successful regional cooperation is linking electricity networks of the Baltic Sea countries with each other.

Significant results have also been achieved in environmental cooperation especially concerning the protection of the Baltic Sea. Unfortunately, without proper economic impact analysis, tightening environmental regulation with short transition periods may lead to undesired consequences. This is the case in cutting maximum sulphur content in marine fuel, the cost of which will be a massive competitive disadvantage in logistics. The realization of this requirement on sulphur should, however, not undermine Baltic Sea countries' cooperation, but, instead, remind us of its great importance.

Though companies as a rule see competition all around, they also need each other. This is particularly true for countries with limited domestic markets. Instead of only competing, more efforts should be made to find partners and build clusters around the Baltic Sea. Only the sky is the limit – and not even that! Already today, the regional cooperation ranges from space research and technology to arctic challenges.

*Jyri Häkämies*

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*Finland*

## S Group seeks growth from its neighbouring countries

By Antti Sippola

S Group is a Finnish cooperative retail company group which consists of the SOK Corporation with its subsidiaries and 20 regional cooperatives. These regional cooperatives are owned by their customers and the cooperatives own the SOK Corporation. The number of S Group's co-op members already exceeds two million. The purpose of S Group's business is to provide the co-op members with diverse services and benefits they find useful and satisfying. S Group's business model is built on a nation-wide chain business combined with the regional cooperatives' good knowledge of local markets and customers. SOK's main purpose in this business model is to centrally produce chain management services and joint service operations for regional cooperatives.

In Finland, S Group's business includes the grocery and consumer goods trade, the service station store and fuel trade, the travel industry and hospitality business, the automotive and accessories trade and the agricultural trade. In addition to the home market, S Group has international business as well. Through its subsidiaries, SOK engages in the supermarket trade and travel industry and hospitality business in the Baltic area and Russia's St. Petersburg.

### S Group's internationalization started already in the mid-1990s

For S Group, internationalization is not a new thing, it has operated abroad since the mid-1990s. The first international operation was CitySokos, S Group's department store concept of that time, which started in Tallinn, Estonia, in 1995. In addition to this, S Group has also had some agri-business in Estonia and car business in Estonia and Latvia during the last few decades.

When the new strategy regarding S Group's internationalization was revealed in the 2000s, it started a whole new phase in S Group's internationalization process.

The two focal points of this new strategy were and still are supermarket trade and travel industry & hospitality business. Geographically, S Group sees growth potential especially in Finland's neighbouring countries and therefore it operates now in the Baltic countries and in Russia's St. Petersburg.

The first implementation of this new strategic vision was the acquisition of Tallinn's iconic landmark Hotel Viru in 2003. The next and quite natural step was to establish the first hotel in Russia's vivid and rapidly evolving St. Petersburg in 2007. Today, S Group operates three hotels in St. Petersburg.

S Group's international supermarket trade concept is a somewhat localized version of its successful hypermarket concept Prisma.

The first country S Group entered with the supermarket trade was again Estonia, in 2000. After that SOK started up supermarket trade operations also in Latvia and Lithuania. Today, S Group operates altogether 17 Prisma hypermarkets in the Baltic countries: nine in Estonia, five in Latvia and three in Lithuania. More stores will be opened in the near future.

In 2008, S Group entered a new market with the supermarket trade when it opened the first Prisma hypermarket in Russia's St. Petersburg. Today, S Group has the biggest growth expectations particularly in the St. Petersburg area, where it has grown quite rapidly and now operates 15 Prisma hypermarkets. S Group's current plan is to open four to six new hypermarkets in 2013–2014 and in the near future there will be about 30 stores in total.

Prisma's strengths, both in Finland and abroad, are good sites, reliability, permanently economical prices, diverse and

broad selection, quality and efficiency. The ease of shopping is important for customers and Prisma sites offer, for instance, enough parking spaces. Customers' changing needs are carefully analysed and the concept is remodelled accordingly and locally when needed.

### Why become international?

Growth is the key for every business and S Group makes no exception in this matter. In Finland, S Group is a very strong market leader in the grocery trade and its key promise to customers is to provide them with the cheapest shopping basket. One of the most important ways of making customers' shopping baskets cheaper is to increase volume in purchasing. But for S Group, as a market leader, the opportunities for growth are nowadays very limited in Finland, and because of that our purchasing power cannot grow much either. However, the international business helps S Group to execute this with much bigger volumes in purchasing. As a result, the international business supports S Group's price competitiveness both in Finland and in neighbouring markets.

Exposing its concepts to international and local competition in a new business environment helps S Group to develop them to be even more competitive. This adaptation to new markets has to be agile. S Group has a great opportunity to learn from this process and these experiences also affect its business in Finland by creating an evolving learning cycle.

Operating in Russia and in the Baltic countries also gives S Group valuable information regarding Russian and Baltic consumers. They travel quite often to Finland and Russian customers are especially a very important and a rapidly growing customer group in Finland in general and for S Group as well. Their importance is particularly shown in S Group's eastern regional cooperatives. Understanding foreign customers and their habits better helps S Group to serve them better.

### How do we do in the neighbouring markets?

During the last five years S Group has grown quite fast internationally, especially in St. Petersburg. The business itself is doing very well, but for the time being the investments are made by SOK Corporation. In the future, the investments will be financed by cash flow. That is already the case in Estonia with the latest investments. As a whole, the investments in the neighbouring markets are still less than 5% of S Group's total investments.

For SOK Corporation, international business is a bright spot. The retail sales in neighbouring markets will exceed EUR 500 million this year and the business grows by tens of percentage points each year.

S Group will continue its investments in these rapidly growing markets and strongly believes they also benefit its customers in Finland.

*Antti Sippola*

*CEO (acting)*

*SOK*

*Finland*



## Jyväskylä and the Union of the Baltic Cities

By Markku Andersson

Why is Jyväskylä, an inland city, a member of the Union of the Baltic Cities organisation? This is a question that is put to me from time to time.

Jyväskylä is indeed an inland city, but it is located in the Lakeland area of Finland at the northern end of Päijänne, the country's second largest lake. Partly for this reason Jyväskylä has become a major hub for research and expertise in environmental and energy technology. Know-how connected to the waterways around Jyväskylä has been exported to China among other places. What is more, the Union of Baltic Cities deals with many other issues than those involving simply the Baltic Sea.

Jyväskylä became a member of the Union of the Baltic Cities in 2006 and has enjoyed two terms on the Executive Board commencing in 2010. The Union of the Baltic Cities, or UBC for short, was founded in 1991 and currently has 101 member cities. Where the organisation scores, in my opinion, is the broad scope of its membership, which embraces Saint Petersburg, with a population in the millions, as well as various other big cities and a number of small ones.

The network of cities in the Baltic countries supports and strengthens Jyväskylä's existing international contacts, which include our twin town, ICLEI - Local Governments for Sustainability, LUCI - Lighting Urban Community International and EUROTOWNS networks. The goal of such international networks is to reinforce economic, social, political and educational cooperation, to extend the comparison of best practices and to help us respond to common challenges. Furthermore, the goal is to apply for project funding from the European Union for necessary joint undertakings. Joint projects for their part promote the mobility and availability of quality labour, streamline the regional economy and underpin member cities' development efforts.

The joint activities of the countries in the Baltic Sea Region will serve to cement the region's competitiveness as partnership between Russia and the European Union increases. Jyväskylä Regional Development Company Jykes Limited has indeed had its own office in Saint Petersburg for twenty years now.

The cities in the UBC are important partners for us in a variety of areas. We wish to compare best practices and apply in the city's functions, in relation to such issues as the state of the environment, healthcare, education, culture and well-being, matters concerning young people, municipal construction, and the operating conditions for companies.

For Jyväskylä, education, international collaboration between institutions of higher education and companies, as well as the international mobility and exchange of students and workers are vitally important entities and turning them into reality is something worth tackling in the forum offered by the UBC, too.

National and international dialogue is essential for the development of our city. It provides us with great ideas, which we can also offer others, creating a true win-win situation. We are constantly seeking to improve the international visibility and reputation, appeal and

competitiveness of our city. To achieve this we need solid, trustworthy partners.

The current challenges faced by European cities are related to the economy, employment and the sustainability gap. Balancing and improving these issues is at the top of the agenda in many cities of the UBC, also in Jyväskylä.

However, we cannot only concentrate on stabilizing the existing imbalance. We must also look to the future and create new innovations. For Jyväskylä, this means a resource-wise attitude.

Resource wisdom is a concept devised to convey a more positive take on sustainability issues. There is no denying that energy, food, transport, water and waste are quite serious subjects, but a shift in attitudes and a more holistic approach to resources can open up new opportunities and innovations.

The Finnish Ministry of Employment and the Economy has selected five themes for the Innovative Cities programme, which will be launched in 2014. Administered by the Finnish Funding Agency for Technology and Innovation (Tekes), the programme will run from 2014 to 2020. In addition to funding from cities and the state, the programme will use financial support from the European Structural Fund Programmes to strengthen innovation hubs.

The five main themes for the national programme are healthcare, bioeconomy, sustainable energy solutions, smart cities and industrial reform, and cyber security. Jyväskylä is responsible for the theme of cybersecurity. According to a recent view put forward by Jyväskylä-based companies operating in this branch, cyber security is an area of business that is currently experiencing powerful growth. Smart specialisation, genuine expertise in one's own field, has been seen as the response to globalisation and ever-tightening international competition. For the cities of the Baltic Sea Region, this could well be a good platform for cooperation.

It is crucial to recognize the role of the largest cities as the key drivers of growth and competitiveness and to highlight themes important for urban regions' growth and development.

Within the framework of the UBC we must clearly try to establish how we can turn this international and Baltic cooperation into more jobs, better cities, a better climate, and a better environment.

I sincerely hope that what I have outlined here provides an answer to the question posed at the beginning.

*Markku Andersson*

*Mayor*

*City of Jyväskylä*

*Finland*



## West Finland coast guard district – slimming down with help of synergies and technical applications

By Jukka Savolainen

The current fiscal/financial crisis in Europe shows the importance of agile and lean authorities for any national economy. Nowhere in Europe will the state authorities face lazy days with increasing budgets any more. The winners will slim down and look for synergies and technology advantages. In this respect, the Finnish arrangements in the field of maritime safety and security are worth noting.

The last recession, in early 1990's, paved the way to synergetic solutions amongst state maritime authorities in Finland. A principle was agreed to save money and effort: three administrations should maintain their major operational maritime capacities and be ready to represent all other authorities' interests at sea. As a result, the other authorities could afford to reduce their directly sea-related investments and costs. The sustaining three maritime authorities were (main line of activity in brackets):

- The Coast Guard, an integral part of the Border Guard (law enforcement, search and rescue),
- The Navy (all military duties)
- The Finnish Civil Maritime Administration (for example water ways, charts, vessel traffic services, competences, licenses). Later on, this administration was reorganized and its main functions are now performed by the Finnish Transport Agency and the Finnish Transport Safety Agency.

These three services, each falling under separate ministries, then started actively cooperating. Joint bases were founded, common communication and surveillance technologies were built and surveillance data was shared. Instead of building networks of their own, all three merged their efforts and gained substantial savings and an increased effect. This work is being continued in the daily work and in development projects as well.

Another field of inter-agency cooperation also concerns the Coast Guard. The Police, the Customs and the Border Guard (including its Coast Guard districts) have been given the jurisdiction to assist each other and even carry out each other's functions whenever this increases the promptness or economy of activity.

Based on these two co-operational arrangements, the Coast Guard is the civil law enforcement body posing the major capacity to monitor and react to incidents at sea. The sphere of responsibility covers such duties as immigration controls and related surveillance of all vessel movements, maritime search and rescue, as well as the detection and sanctioning of ship-borne pollution. In addition to these main duties, the Coast Guard performs various functions whose major owner is another authority. Such duties are, *inter alia*, fisheries control, surveillance of the integrity and sovereignty of the state area, maritime police duties and customs control. The operational capacity consists of a fleet of offshore patrol crafts, patrol boats, helicopters and fixed wing aircrafts. In addition, a chain of radars and cameras is constantly

monitoring vessel movements. The daily work is being carried out hand in hand with the fellow organizations with shared technologies and common interests. Furthermore, any authority not possessing maritime capacities may ask for and will be granted assistance by the Coast Guard. Thus, they can either request the Coast Guard patrols to take action on their behalf, or they may come onboard and join the patrols.

The West Finland Coast Guard District, an integral part of the Finnish Border Guard, is responsible for patrolling a significant part of the Baltic Sea. Its area of responsibility covers the entire western part of Finland, including the Gulf of Bothnia, the Åland Islands and the Sea of Archipelago. In this area the boundary of Finnish territorial waters is 1074 kilometers long which reflects the dimensions of the maritime and adjacent coastal areas to be monitored.

Internally, the West Finland Coast Guard District is amidst a significant transformation process. The current number of personnel is 350 and it will be reduced to 267 by 2017. The reduction takes advantage of modern communication technologies that allow two major savings in comparison to earlier. Firstly, it is nowadays possible to supervise all the surveillance sensors of the vast sea area at one single point. Secondly, all 15-20 active Coast Guard units can be controlled, in spite of the long geographical distances, by one tactical commander. There is no need to hold several officers in 24/7 readiness any more to command or carry out routine radar surveillance as was performed in the earlier years. In line with that development, a reduction of managers and field workers has become possible.

In order to slim down the organization, the West Finland Coast Guard District now performs both functions mentioned above - real time surveillance and tactical command - side by side in the same district command centre. In that very centre, there is one more significant feature present. The Coast Guard and the Customs have established a joint unit performing criminal intelligence and analysis. This is utilized in an inter-agency interest: whenever need be, a thorough control by field patrols is arranged, often as a joint operation between the Customs and the Coast Guard.

Currently, a Coast Guard command centre forms a hub that consists of three important elements: intelligence information, real time surveillance data and the authority to command and control. This has facilitated the necessary cuts in the number of our personnel. Future will show that we will have improved our outputs, even under diminishing funding.

Jukka Savolainen

Capt (CG)

Commander of West  
Finland Coast Guard District

Finland



## Maritime traffic at the threshold of the new customs regime

By Jarkko Saksa

As known sea transport is essential to Finland's foreign trade. Nearly 83% of tons is transported in vessels (export 88%, import 79%). The correspondent percent in value is 81. Route Finland as transit route to Russia was blooming for a long period, but started to decline some five years ago. Transit to Russia is mainly using the sea route to Finnish ports and then continuing with trucks across the border. At its best the transit route via Finland's share of all Russia's import from the EU was more than 20%.

The transport chain, including customs procedures, should be as seamless and cost effective as possible to meet the competitiveness demands of today's economic challenge. Roughly half of the import and export originates from the EU. Although intra community traffic is free of customs clearance based on the principle of free movement of goods, in sea transport between EU ports customs formalities are still in place, unless there is a certificate for regular shipping issued by Customs. The ratio lies in the need to ensure that all goods that need to be declared are declared and that customs control on supply chain is possible.

Customs rules and demands and especially the way they are managed by all the parties involved in the transport chain form one part of the competitiveness of the delivery chain. EU has a very ambitious plan to modernize customs procedures gradually in the period already started and ending by the end of year 2020. First steps have already been taken. The legal text, the Union Customs Code has been approved by the Council and the Parliament. According to the Union Customs Code no customs clearance is needed for union goods transported from one EU port to another. This simplifies the customs procedures in the maritime environment.

Lot of work is still ahead. The most significant part, articles of delegated and implementing acts, that practically constitute the customs procedures, each parties' obligations and the basis for interoperable IT environment, are still to be drafted, understood, negotiated and decided. When starting the planning of the modernized customs code some 10 or more years ago, the main drivers were simplification and electronic services. Since then a lot in the environment of the world trade has changed. After 9/11, safety and security concerns have risen significantly and come to the very center of the customs work worldwide. Tackling new threats has meant new procedures had to be put in place with an extra price tag for all parties involved. At the starting point of planning the new customs legislation calculations were presented showing the growth in export for the whole EU as a consequence of cheaper and smoother processes. The calculation was part of the "evidence" justifying the investment with very rapid and high rate of return. The

investment can be estimated to exceed one billion euros counting together economic operators' and customs' shares.

Are we still on the right track? Do we have a crystal ball for right way to 2020s and beyond? Can EU with 28 member states reach the goal and meet the targets in a cost effective way? Isn't there a danger that the EU develops something not quick and fit enough to compete in the global market?

There is yet no answer to all that. It remains to be seen. All efforts in national customs administrations and in DG TAXUD are focusing on achieving the goal. In 2020 we should have a compatible, well-functioning IT customs environment serving for the facilitation as well as control purposes to ensure EUs competence on the world market and a good level of safety and security of Europe and its citizens.

In Finland we are proud to have a good cooperation among authorities and companies operating in the area of sea traffic. We have already more than 10 years ago built up jointly a single window system to maritime transport called PORTNET. It already fulfills the requirements set up in the Ship Reporting Formalities Directive 2010/65/EU, which has to be implemented in each member state by 1.6.2015.

As described, legal framework in the customs area is changing. There are various drivers in other policy areas outside customs area, such as the blue belt initiative, effecting the development in sea transport. It will be challenging to combine various demands together. The widely accepted goal is to reduce the administrative burden and build up a single window solution. The real challenge is how to do it. The closer we are to deadlines, the more evident it becomes that the key factor to success is good collaboration between authorities and economic operators nationally and inside the EU. The focus of the work and impact to cost and functioning of the system is development of data contents, ways of managing information and information flows and harmonization of the interface between economic operator and Customs EU wide. The more different data contents and interfaces there are the more cumbersome and costly it gets to the companies operating in different members states.

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*Finnish Customs*

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## Finnish harbours in Russia's transit traffic

By Juha Mutru

The economy of Northwest Russia has grown significantly in recent decades and this trend will gain strength in the future, spurred by Russia's membership in the World Trade Organisation. In spite of the considerable growth of the harbour of Ust-Luga, Russia will continue to need the transit routes of the Baltic Sea in the future as well. Finland also needs Russia's transit traffic.

The Finnish route works efficiently, which is attributable to a number of factors. The harbours have powerful expertise. Finnish industry and commerce have plenty of experience in trade with Russia. The available services linked with foreign trade are of high quality. The infrastructure and the developed information systems support efficient international trade.

Special strengths of the Finnish route also include stability and transparency. A comparative study by Transparency International in 2012 found that Finland ties with Denmark, as the least corrupt country in the world. The activities of Finnish officials, Finland's system of justice, and the workings of Finnish society are extensively trusted owing to their predictability, and to the stability of the regulations on which they are based. The Finnish state has a AAA economic rating, putting it among the most economically stable in the world.

In a comparison made by the World Economic Forum (WEF) Finland was ranked as the third-most competitive country in the world in 2013. This comparison speaks of Finland's long-term structural competitiveness, and of the good operating environment that companies have in Finland. In the most recent years Finnish competitiveness has been weaker. Russian transit traffic via Finland declined considerably at the end of 2008 and has not significantly risen since then. Finnish harbours today have plenty of unused capacity for transit activity. In other words, a "buyers' market" now prevails.

In Finland transit traffic is powerfully focused on certain harbours. The greatest amount of transit goods pass through the ports of HaminaKotka and Kokkola. Transit traffic has traditionally been a key line of business for the Port of Hanko as well. A certain amount of transit traffic also passes through the harbours of Helsinki and Turku. The greatest amount of transit tonnage moves from east to west: ores, concentrates, chemicals and fertilisers. Transport from west to east largely involves parcelled goods in containers. In addition, metals and metal products go east.

Eastbound container traffic (for instance, consumer goods en route to St. Petersburg) is linked in an interesting way to the competitiveness of Finland's forest industry. Empty containers are taken from St. Petersburg and sent back to the Port of HaminaKotka, where the containers are

filled with products of the wood processing industry, which then move southward. This equilibrium in the flow of containers is a significant factor in the competitiveness of Finland's forest industry.

Environmental regulations, which are constantly becoming stricter, pose a threat to the future of Finland's transit route. Pending environmental regulations include restrictions on sulphur and nitrogen emissions, as well as requirements for ships' energy efficiency, EU plans for trade in carbon dioxide emissions, washing waters for ships' holds, ballast waters, etc. These environmental standards threaten the competitiveness of the entire Baltic Sea route, and in many scenarios could even add to emissions if cargoes move away from maritime traffic to other forms of transport. The fact is that shipping is the cleanest of all forms of transport in terms of emissions per tonne of cargo. For the future it is important for the EU and Finland not to lose competitiveness for the sake of environmental protection. In the long term it might be said that better protection of the Baltic Sea environment than that which is in force of other seas could give transport passing through the Baltic a green competitive advantage.

Both the EU and Finland currently have maritime and harbour policy projects pending aimed at improving the competitiveness of maritime transport. It is very important that the projects in question should achieve their goals. In Finland, especially the development or elimination of the shipping route fee would give a significant boost to transit traffic. Labour market organisations, for their part, also share responsibility for improving competitiveness. The Finnish Port Operators Association sees the reduction of disturbances to industrial peace to be a key challenge on the labour market. Even one illegal industrial action is one too many. In addition, the working hours at harbours need to be made more flexible so that the service becomes available whenever there is demand for it.

*Juha Mutru*

*Managing Director*

*Finnish Port Operators  
Association*

*Mutru*

*Finland*



## A new matrix for Russia's shipbuilding industry? Civilian-military and public-private partnerships

By Katri Pynnöniemi

In late August 2013, President Vladimir Putin gave his approval for the rebuilding of a "super-shipyard" in the Russian Far East by 2018. The shipyard will be based at the same site as the existing Zvezda shipyard in Bolshoi Kamen, a state-owned enterprise established in 1946 and specialised in renovating and dismantling nuclear submarines. The Zvezda project exemplifies the challenges Russia's shipbuilding industry faces in fulfilling both military and civilian production targets. But it also shows that Russia is willing to renegotiate the border between the military and civilian spheres in order to achieve results.

### Identification of problems

Discussions about the super-shipyard surfaced in the Russian media after President Putin criticised the Russian military's build-up programme, especially when it comes to shipbuilding. In a meeting held in late July, Putin listed a number of problems that have caused delays and budgetary excesses in the Russian Navy's orders for new ships and submarines. At the heart of the problem is the dysfunctionality of the subcontracting network, which in turn is due to the inefficiency of state-owned enterprises – although this last point was not openly admitted in the discussions led by Putin. The deputy prime minister, Dmitry Rogozin, who is responsible for the coordination of both civilian and military shipbuilding, has adopted a two-pronged strategy in response to the criticism.

First, back in spring 2013, Rogozin commissioned the planning of a new military procurement programme with a 2025 timeframe. This will focus attention on future challenges and possibilities, and deflect it away from the problems related to the current programme, due in 2020. Secondly, Rogozin has indicated factors that have led to the present problems. Top of the list is the former minister of defence, Anatoly Serdyukov, under whose term the "governance of the procurement programme practically ceased to exist", as Rogozin put it. The executives of Russia's defence industry, in turn, are to blame for the rising prices and the low quality of their products. Rogozin has stated that the corruption and negligence of the executives amounts to treason.

Rogozin's criticism is targeted specifically at the United Shipbuilding Corporation (OSK), a wholly state-owned corporation established in 2007 by a presidential order. It currently controls 22 shipyards and nine research institutes in Russia. In the new strategy for OSK it is suggested that the Corporation will be restructured along functional rather than territorial principles. It is perfectly possible that plans have been underway to split up OSK for quite some time, and the criticism expressed by Putin has served to kick-start this process into action. However, if that is the case, the change does not appear to be very well coordinated.

### The restructuring of the shipbuilding industry is underway

In late September, the Russian government's maritime collegium (*morskaya kollegiya*), led by Deputy Prime Minister Rogozin, was granted new powers over federal and regional authorities to monitor the implementation of the federal target programmes for civilian shipbuilding and marine technology. Given Rogozin's role as the head of the government commission on military procurement, this move seems quite

logical. Yet, in keeping with media reports, it was the head of Rosneft, Igor Sechin, who suggested that control over the reconstruction of the Far East super-shipyard should be placed under a private consortium.

The decision made in August 2013 means that Russia's major oil company, Rosneft, is set to replace OSK as the company in charge of the project. Rosneft, together with Gazprombank and Sovcomflot, will set up a consortium that will assume control not just over Zvezda, but over all military and civilian shipyards in the Russian Far East. This situation leaves it unclear as to who is actually in control of the undertaking – state-owned companies that order the ships and finance them in large part, or the federal commissions that are supposed to coordinate the state actions in this sphere. Some observations on the situation can consequently be made.

### Observations rather than conclusions

First, the debate about the super-shipyard has illuminated a fundamental difference of opinion over the development of Russia's shipbuilding industry. Russia's Ministry of Industry and Trade holds the view that decisions about shipyards should be made only once the prospects for Arctic energy projects have been confirmed. Rogozin and Economic Presidential Assistant Andrey Belousov, on the other hand, think that the shipyards must be developed swiftly in order to maintain the potential to build new ships in domestic shipyards.

Second, participants in this debate are unanimous about the need for state support for Russian shipyards in the face of international competition. The role of foreign partners is acknowledged as important, yet it is made clear that they are expected to transfer technology and know-how in a way that helps Russia to rebuild its own capabilities. In the meantime, one option is that the supertankers will continue to be built in Korea, while the Zvezda shipyard will do subcontract work for the Koreans.

Lastly, estimations of investments required for the construction of the super-shipyard are either superficial or completely absent from the debate. Only after the principal decision was made in late August was it reported that the reconstruction of the shipyard is estimated to cost 111 billion roubles. In connection with the discussion on the new OSK strategy, it was announced that the total investments up to 2030 would amount to 1 trillion roubles, of which 20 per cent would be covered by the state budget. What these figures tell us is that the modernization of Russia's shipbuilding industry, and the fulfillment of the ambitious military procurement and civilian shipbuilding targets, poses a serious challenge for Russia.

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## Eurozone's model student Finland fell into a debt trap

By Veijo Hyvönen

Finland is known as the eurozone's model student in following the EU regulation for example in public debt. Now Finland is facing a serious debt problem of its own. The financial and the euro crisis and the ongoing restructuring of industry have had a serious impact on Finland's economy. A record growth in public debt is based on lower tax income and increasing public costs.

Finland's public debt grew ten billion euros in 2012 and exceeded one hundred billion euros for the first time in history. The Ministry of Finance expects that in 2014 Finland's public debt is going to exceed 60 percent of gross national product, and so violates the EMU criteria. In 2015 the public debt is estimated to be 62 percent.

Public consumption is 57 percent of the national product, which is a relatively high number among European Union countries. It is expected to stay permanently higher than before the financial crisis. The current problem is how the growth of debt effects on Finland's credit rating. As an AAA country Finland gets loans at a very reasonable price. In a hundred billion euro loan a percentage point growth in interest rate means one billion euro increase in yearly costs.

Although Finland has a serious debt problem, the amount of the debt is not intolerable for now. The latest Eurostat's statistics show that Finland's public debt was 55 percent of the gross national product in the end of March. Only three euro countries – Estonia, Luxemburg and Slovenia – had a smaller debt ratio.

The other AAA countries had clearly bigger debt ratios: Germany 81, Austria 74 and Holland 72 percent. Eurozone's debt ratio was 92 and EU's 86 percent.

The major credit rating agencies do not focus on the debt ratio or EMU criteria, but mainly on long term development of public debt. The government of Finland decided in the end of August on structural reforms and cost reductions. It was a beginning of a reform, which the credit rating agencies have been expected.

German banking company Commerzbank predicted in August that only Finland and Germany will maintain their AAA status. It is generally believed that Finland maintains the best credit rating at least for 18–24 months.

Finland gets loans at record low interest rates. In the eurozone only Germany gets cheaper loans. The cost of borrowing for Finland is now in its lowest in twenty years, although the amount of debt is record high.

Finland has also a very good status in net debt comparison. Finland's public net debt was -51 percent of the gross national product in 2012. It means that Finland has 99 billion euro more outstanding claims than debt.

In Finland the labour pension paid by employers and employees go to pension funds. Government doesn't use the surplus of the pension funds to the general spending, so the capital on the funds grow. There is over 200 billion euros in the public and private pension funds.

Finland's public net debt ratio is the best in EU. In Sweden the ratio is -18, in Estonia 3 and in Denmark 8

percent. Norway, with all the oil money, has an outstanding net debt ratio of -166 percent.

Growth rate is the most worrying thing about Finnish public debt. The debt ratio has increased six percentage points in one year. Only in Slovenia, Slovakia and PIIGS countries has the growth been faster.

The biggest challenge for Finland is the long term sustainability gap in public economy. The credit rating agency Fitch has estimated that if Finland won't do structural reforms, the public debt ratio will be 90 percent in 2030 and 260 percent in 2060.

It is not possible to finance public deficits by increasing debt in the long run. The effects would be too severe to the future generations.

The cost of borrowing will increase when the interest rates come back to normal levels. The more Finland loans from others, the bigger the cost of borrowing is. If the credit rating drops, the interest rate goes further up. Finland can't finance deficits with the pension fund money, because in the future the pension funds start to diminish, as more and more people retire.

European Commission has paid attention to Finland's structural problems and emphasizes measures that prolong careers. These include raising the age of retirement and decreasing youth and long term unemployment. Finnish government has decided on reforms that will increase taxes and decrease public costs by 21 billion euros in 2013–2017.

Vice-president Olli Rehn from the European Commission considers these reforms to be a good start. He reminds that the Finnish government can't decide on its own on important reforms as age of retirement, labour markets and communities' economic efficiency.

The rapid growth of Finland's public debt is a matter of concern for the European Commission. It can damage Finland's reputation as a reliable country. It is also a bit embarrassing, because Finland has demanded strict discipline from the southern countries of Europe.

International media has not been interested in Finland's public debt. In Finland it is an important topic, but in the rest of the world it is hardly noticed.

*Veijo Hyvönen*

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## Latvia and euro – a window of opportunity

By Jānis Ikstens

On the eve of EU accession referendum in September 2003, Prime Minister Einārs Repše delivered a live TV address to the nation urging people to vote in favour of Latvia's EU membership to strengthen the country's security and to foster its economic development. The two considerations were clearly behind a solid majority of two thirds voting in favour of the accession the next day. Yet, many accompanying obligations escaped the public eye and replacing the national currency with euro appears to have been one of those.

The Bank of Latvia (BoL) that had pegged Lats to euro in January 2005 despite limited public discontent, was keen on early transition. However, the post-accession economic boom fuelled by massive inflow of capital and inexpensive loans and facilitated by reckless government policies triggered notable inflation effectively barring Latvia from Eurozone. This did not preclude BoL from setting Eurozone membership as a major political goal at the height of the boom.

The 2008 financial crisis and the resultant economic collapse in Latvia paradoxically presented the country with a chance to introduce euro. Under the premiership of Valdis Dombrovskis, Latvia chose internal devaluation accompanied by an international rescue loan as a way to economic recovery. A series of spending cuts and tax increases were introduced. Labour costs plummeted and prices shrunk to boost competitiveness of Latvian exports. Yet, a change in foreign trade balance came at a high social cost – unemployment stabilized in double-digit area and emigration of economically active persons from the already ageing country intensified.

As the economic recovery in EU turned out to be slow and was further burdened by earlier policies of various Eurozone countries, technocrats of BoL seized an opportunity for Latvia's accession to the common currency: the inflation rate was contained by internal devaluation; the bailout loan was issued on condition of keeping a small budget deficit; the government debt remained within margins set by convergence criteria; long-term interest rates on Eurozone bonds rose in reaction to default risks in several countries mathematically helping Latvia meet the remaining convergence criterion. The government steered by two former bank analysts enthusiastically supported BoL's position and even lowered VAT rate to keep inflation at bay in mid-2012.

The clever plan had only one weakness – a lack of public support. Although officials made nearly bi-monthly pledges to cut through scepticism about euro and achieve a 50% public support to Latvia's accession to euro, that target was never met. Low popular support to accession to euro was also noted by the European Central Bank.

A major source of scepticism towards euro stemmed from the uncertainty surrounding the common currency after several Eurozone countries had to accept a bailout and some other were on the verge of this move. Moreover, Latvians that were recovering from an economic collapse had legitimate concerns about the cost of rescue to wealthier Eurozone countries, debts of which had been partly written off. Further, Latvian Lats is at times called part of national identity, and adoption of euro in a EUroskeptic country would symbolize a further delegation of powers to Brussels. A group of economists and entrepreneurs asserted that giving up national currency would strip Latvia of any instruments of economic policy. Some constitutional lawyers including the Head of Constitutional Court pointed out that circumstances of EU membership had changed since 2004 and a referendum on euro accession could be appropriate.

To win public support, BoL chose to focus on practical advantages of euro such as ease of travel within the Eurozone, elimination of bank fees for currency exchange, and absence of currency risks for persons who had taken loans in euro. In addition, BoL argued that Eurozone membership would save hundreds of millions in servicing government debt as Latvia's credit ratings would improve after accession. Estonian experience was often cited to illustrate the expected influx of foreign investment. Yet, BoL was evasive on financial consequences of Latvia's obligation to assist other members of Eurozone and was rather nervous in live public discussions about the currency union.

These factors set stage for calls to hold a referendum on joining the Eurozone echoed by political opposition. PM Dombrovskis dismissed the popular vote option as unnecessary in view of the 2003 EU accession referendum. Subsequently, Harmony Centre, the largest opposition party, withdrew its objections after backstage negotiations with the Prime Minister's party. The Central Election Commission, in turn, rejected a referendum petition by an anti-euro NGO on the grounds of anti-constitutionality and, thus, removed last obstacles to Latvia becoming the 18<sup>th</sup> member of Eurozone.

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## Regulatory exemption for the Finnish–Baltic gas markets – the impact of an LNG terminal

By Kim Talus

The Finnish – Baltic gas markets are currently not competitive, not integrated and, finally, not connected to any other markets. They constitute what is called an “energy island” in the EU energy parlance. An energy island can be subject to a special regulatory regime under Article 49 of the current gas market directive. Where an EU Member State is not directly connected to the interconnected system of any other Member State and has only one main external supplier (meaning that one supplier has more than 75 per cent of the market), it may derogate from certain requirements of the gas market directive, including the unbundling requirements, the market opening requirement, and the authorization procedure for new gas facilities. The conditions for the derogation for an isolated market cease to exist if one of the above conditions is eliminated. Finland and the Baltic markets (hereinafter the “Region”) are examples of isolated markets and receive their gas supplies from Russia.

Article 49 continues that: “Articles 4, 9, 37 and/or 38 shall not apply to Estonia, Latvia and/or Finland until any of those Member States is directly connected to the interconnected system of any Member State other than Estonia, Latvia, Lithuania and Finland.”

This paper will examine the exemption and the impact of an LNG terminal in the Region to the continuing applicability of the exemption. The exemption for a State in this Region can expire in various situations. First, a State connects to the interconnected system of another EU Member State (except to the other Member States in the Region). Second, a State connects to a new gas source through a pipeline (Finland to Norway, for example) or an LNG terminal with sufficient capacity to supply more than 25 % of the national market. A third option is that internal connections within this Region are created and one of the States then proceeds with option one or two, though in option two, there are other factors to consider. These will be discussed below. Of course, there is also the fourth option that a country voluntarily (most likely for political rather than economic reasons) voluntarily decides to cease the application of the exemption regime, as took place in Estonia. This last option will not be discussed here as it is not connected to the regulatory regime, nor should not have an impact on the other States and markets in the Region.

Baltic natural gas markets are connected to each other. While Finland is currently not connected to the Baltic natural gas markets, there are plans for this connection to take place in the future, through the Balticconnector project. If we assume that this connection will take place, we are in the situation where the above options one, two and three are all possible. Given that the connection to the new source through a pipeline is somewhat unlikely scenario in the short- and mid-term, a possible LNG terminal or a connection to Poland becomes the most likely projects that can end the applicability of the exemption. The connection to Poland is a

relatively straight forward option: the exemption regime is clear about the connection, it does not contain capacity thresholds and, as such, any connection should be sufficient. In other words, if the Baltic States are all interconnected and if Finland connects to Estonia, a connection between Lithuania and Poland will end the application of the exemption. Compared to this, the LNG option is more complicated. It requires a comparison between the regasification capacity of the LNG terminal and the total volumes in the relevant geographical market.

For a Member State in the Region with its own LNG terminal, the impact of an LNG terminal depends on the regasification capacity compared the size of the national market. Where the LNG terminal reduces the market position of the main supplier below 75%, the LNG terminal will end the applicability of the exemption regime. The situation is more complicated if the Region is interconnected and an LNG terminal is constructed to the territory of another State. In this situation it is necessary to consider the capacity of both the LNG terminal and the interconnections between States. An LNG terminal that has sufficient regasification capacity to cease the applicability of the exemption in the Member State where it was constructed, does not necessarily have that impact in the other States that are connected to that Member State, as Article 49 seems to refer to connections to “interconnected system of any other Member State”, not connections to international LNG markets. Only if the capacity of the LNG terminal and the relevant interconnection are both significant enough to allow for alternative supplies constituting more than 25% of the total supplies to the Member State market, will the exemption cease to apply. In other words and concretely, if an LNG terminal is constructed to Estonia, the impact on the Finish markets depend on the capacity of both the LNG terminal and the interconnector between Finland and Estonia. Only if the market share of Gazprom supplies in Finland is reduced to less than 75%, will the exemption regime cease to apply.

As has been examined in this short paper, the impact of an LNG terminal to the regulatory treatment of the Finish-Baltic gas markets is not easy or straight forward. In addition to the questions raised here, there are others. Clearly, when dealing with EU energy regulation, the “devil lies in the details”.

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## The global gas revolution – why European shale might not matter

By Joseph Dutton

When I wrote an article on the 'shale gale' for BRE in 2010 Europe was abuzz with anticipation about indigenous development, with the US shale sector held up as a blueprint for a route to energy independence and breaking Russia's grip on European gas supplies. Despite the sweeping optimism from governments, analysts and operators alike, a single molecule of shale has yet to be commercially produced in Europe. While some have been at pains to stress direct comparisons with the US are not possible and European production is unlikely before 2020, the slow pace of development has frustrated the gas industry and shale proponents in governments. Indifferent drilling results, supply chain constraints and public opposition have all contributed to limited development. Poland and the UK are countries leading shale development in Europe, yet they are both a long way behind where optimists forecast them to be. Poland is the most developed in Europe, with 40 test wells drilled so far and the first producing shale gas well (drilled by San Leon); however, at production of only 8,000cu.m/day commercialisation is some way off. Although Poland still has a number of both independent operators and larger IOCs active in the shale sector, since 2012 Chevron, Talisman Energy and Marathon have all ceased operations. In the UK one shale gas well has been fracked, but operations were suspended after seismic activity occurred at the well site. Other sites have been met with protests, while in October 2013 sector leader Cuadrilla Resources announced it was abandoning one of its primary well sites.

Though European shale gas has of course not impacted gas markets in the way some forecast, US shale has had profound impacts across the continent. Though the impacts are in-direct in their nature, since the early to mid-2000s and the boom in US shale gas production, previously unforeseen structural changes to supply, demand, and pricing in Europe have occurred.

The growth in shale gas production (from 0.39tcf in 2005 to 5tcf by 2010) displaced LNG destined for the US, with the country previously forecast to have a 23% global LNG market share by 2010. A combination of this and a large volume of liquefaction capacity coming online (mainly in Qatar) led to an oversupply of LNG in the Atlantic Basin. US-bound cargoes were redelivered to European and Asian markets, with US LNG import terminals substantially under-utilised. Reflecting the shift in supply patterns, LNG spot sales grew from 10% of the global LNG market share in 2004 to 25% in 2011.

The loss of the US LNG market and redelivery of cargoes to Europe with associated growth in the LNG spot-market, placed pressure on the existing European gas pricing mechanisms. The increase of gas-to-gas priced imports and

spot market gas entering European markets as LNG challenged the oil-indexation system of gas pricing - the mainstay of contracted Russian pipeline gas in Central and Eastern European. Gazprom's European gas market share fell from 47% in 2003 to 34% in 2011 as a result of reduced gas demand and increased flexibility in gas supply. Over this period both Statoil and Qatar increased their market shares with predominantly spot or short-medium term sales.

However the glut in LNG supply did not remain, with strong gas demand in Asia due to continuing Chinese economic growth and Japan's shift to natural gas in the wake of the 2011 Fukushima nuclear accident. In a short time period the LNG glut was replaced by a tightening of marketplace with greater demand in the higher-priced Asian market squeezing both gas supply and prices in Europe.

US shale forced down the Henry Hub gas price from \$12.69 in June 2008 to \$1.82 in April 2012, resulting in the power generation sector shifting away from coal to cheaper gas supplies; consequently, high volumes of coal were exported to Europe, with the region's US coal imports in 2012 29% higher than in 2011. Compounded by LNG sales to the higher-priced Asian market hubs, the high relative cost of gas in Europe compared to coal imports has seen the power sector make the opposite switch to the US - going from gas to coal. This switch underlies the perceived current poor market conditions for natural gas in Europe, with many a number of power generators delaying investment in new gas power plants or mothballing existing facilities.

Shale-fed LNG exports from the US to Europe (expected from 2016) and new production from large fields in East Africa and Australia in the coming decade will greatly add liquidity to global gas markets and may reverse the current market tightness. As a result the future of oil-indexed gas in Europe is uncertain, with gas-to-gas priced LNG and hub-based trading in Europe likely to increase. But in this future scenario the development of European shale is still very uncertain. US shale has fundamentally altered global gas markets, but these changes may well limit both the scale and necessity of any European shale production.

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## Oil refining in Russia – time for a change

By Mikhail I. Levinbuk and Dmitry Yu. Murzin

The Russian oil and gas sector will undergo a number of changes in the coming years. These changes are partly influenced by the shale gas revolution, general trends in global oil refining as well as some other reasons related to changes in the Russian federal law.

The general trends in oil refining are related to processing of heavy oils and bitumen, increase of the refined amount of oil globally with a simultaneous decrease of the overall number of plants thus increasing the average capacity of an oil refining plant.

Processing of heavy bitumen in USA and Canada along with utilization of shale gas will have an impact on export of oil to those countries from Middle East and eventually can decrease the price of oil.

Among another trend we should mention a large increase of diesel cars in Europe, which should be reflected in the ratio between gasoline and diesel needed in Europe.

These changes will have their impact on the Russian economy, which is based very much on exporting natural resources, such as gas and oil, giving 65% of all exported from Russia goods. One of the particular products related to oil refining, which is very profitable for Russian refineries to export is heavy, low quality fuel oil (called mazut in Russian). The taxation policy of the Russian government forced export mazut rather than high margin products of oil refining and petrochemistry due to differences in prices within Russia and in the international market. As the result masut is exported to Central, Eastern and Northern Europe where it is further processed. In addition it should be mentioned that almost 70% of the oil and oil related products export from Russia is just low margin crude oil, which did not undergo any processing.

Currently, Russia has 22 large refineries with the throughput exceeding 4 million t/year and 8 medium refineries with the annual capacity of 1 to 4 million tons and over 200 small refineries with the capacity significantly lower than one million t/year. The latter ones process ca. 5% of all oil.

The plants are running with lower than name-plate capacity producing ca. 50% of more light products (15% of that in gasoline range) and ca. 27% of masut, while in the Western countries more light products constitute 75% and amounts of masut are just 5% in the USA and 12% in Europe.

New limits set few years ago on the quality of fuels consumed in Russia and deadlines for the transfer to higher standards of fuel quality produced in Russia forced oil refineries to start modifications.

In addition new export duties for heavy petroleum products (66% of the crude export tax in effect from October 2011 and 100% starting from 2015) will also force refinery modernization.

Such modernization would require a higher degree of processing calling for wider utilization of such processes as catalytic cracking and hydrocracking.

Fluid catalytic cracking is one of the most important conversion processes used in petroleum refining and is applied to convert high-boiling, high-molecular weight hydrocarbon fractions to more valuable gasoline.

Hydrocracking being also a catalytic process converts gas oil into distillate and jet fuel in the presence of hydrogen.

Currently among the large Russian oil refineries only 13 have catalytic cracking (only 8 of them are modern) and just 5 have hydrocracking units.

Such modernization is coming at a certain cost, which in fact is rather significant. Thus refinery modification with the aim to focus on gasoline would require investments at a level of approximately \$4.3 bln. Such investments can lead to profitable outcome only for large refineries with the capacity exceeding 10 million t/year.

Obviously smaller refineries with the capacity less than 500 thousand t/year would not be able to compete with large ones without substantially increasing their capacity and will eventually have to shut down not being able to comply with stringent regulations and requirements related to higher product quality.

Modification of all small refineries with their capacity increase to a minimum efficient one will result in twofold increase of oil refining output in Russia which is unrealistic. As a consequence small refineries will cease to exist unless they are able to increase their annual capacity to at least one million tons. The degree of oil conversion should be ca. 70%.

Since small refineries contribute to ca. 11 millions of processed oil per year (ca. 5%) if any void is going to happen because of mini-refineries closure, it will be easily filled by big players in oil refining.

Situation with medium-sized oil refineries (1-4 million t/a) is not that straightforward. Due to the fact that they contribute to ca. 10-15% of the total refining capacity and the geographical distribution of them, closing down some of such refineries can strongly influence the regional markets in Russia and could even affect the Russian market for petroleum products.

Preliminary estimates for 2015 when new custom duty for heavy petroleum products is going to be introduced, indicate that a minimum annual processing capacity of a profitable refinery able to get to get return on investments should exceed 8 million tons. Construction of heavy oil residue processing units would be needed requiring heavy investments for most medium refineries with the low level of secondary processes on a par with constructing a new refinery.

Finally it can be stated that Russia can be a global player in the market of high quality oil refining products only on the conditions of substantial modernization of existing oil refineries or (which is less probable) construction of modern refineries.

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## Germany's energy transformation and the coal 'renaissance'

By Rafal Bajczuk

Since 2010 Germany is pursuing an ambitious energy strategy which aims at increasing renewable energy sources in gross final energy consumption up to 60 percent by 2050. Parallel to that the use of energy should drop by half (this should be achieved by increasing energy efficiency) and CO<sub>2</sub> emissions should go down by 80-95 percent in 2050 compared to 1990 levels. Cutting consumption of fossil in power generation is the most crucial of all sectors involved as it accounts for almost half of all CO<sub>2</sub> emissions generated by the German economy. The transformation of the energy system (German 'Energiewende') is strongly supported by the public opinion and watched closely by the international community. Despite the rapid deployment of wind farms and solar power systems in 2012 greenhouse gas (GHG) emissions have risen by 1,6 percent. This slight change is insignificant compared to the long-term trend (between 1990 and 2012 emissions have fallen by 25.5 percent, exceeding the reduction target under the Kyoto Protocol). However it marks a return to coal as a fuel for power generation in Germany.

When in March 2011, short after the Fukushima Daiichi nuclear disaster, German chancellor Angela Merkel announced nuclear power phase-out and support for development of renewable energy production natural gas was predicted to be the bridge-technology to the renewable energy future. According to the German energy strategy the share of renewable sources in power generation should increase gradually to 80% in 2050. While nuclear power, hard coal and lignite will lose their share in the energy mix, natural gas, as a flexible and low-carbon source of energy, will maintain its share in the power system. Crude reality verified the ambitious plans, however. As the share of RES in the power mix is steadily rising from 17 percent in 2010 to 22 percent in 2012, so does the share of hard coal and lignite. The share of natural gas in turn has decreased from 14 percent in 2010 to 11 percent in 2012. These numbers have a direct impact on natural gas imports. According to the Federal Office of Economics and Export Control between January and March 2013 German natural gas imports have fallen by 16.8 percent in comparison to the same period in 2012. The declining demand has caused a price fall of 3.4 percent compared to the previous year.

Declining consumption of natural gas and an increased demand for coal is a trend observed in most EU member states. Besides Germany, in the last three years, use of coal significantly increased in United Kingdom, Spain, Italy and the Netherlands. This coal 'renaissance' was triggered by the shale gas revolution in the USA. Between 2007 and 2012 natural gas production in USA has risen by circa 25 percent. The industrial price fell by 50 percent. This in return prompted American power sector to switch from coal to gas.

*Surplus US' coal substituted by natural gas has been exported to Europe and caused the global coal price to fall.* As the German Coal Importer Association states, only in the first quarter of 2013, the imports of coal in Germany have risen from 8 to 10 million tons, in comparison to previous year. The import of coal for power generation grew by 15 percent (around 70 percent of hard coal in Germany is used for power generation), biggest suppliers being the CIS states (27 percent) and USA (25 percent). Additionally Germany is using around 170 million tons of lignite per year for power generation. It is the only primary energy source which is produced completely from domestic resources. As a result of these developments the share of hard coal in electricity production has increased between 2011 and 2012 by 3 percent and of lignite by 7 percent.

So far this trend of a growing consumption of coal and declining use of natural gas for power generation is continuing. Currently there are eight power plants under construction that will use hard coal and only two gas fired-power plants. Power companies in Germany are even planning to take their gas fired power plant offline as they are not profitable, taking under account the low wholesale prices of electricity and high prices of natural gas. Just in August the Norwegian utility Statkraft put two of four of its gas-fired power plants into cold reserve. However this situation should not last for a long time. As experts predict United States coal production will decline as the low price of coal makes exports unprofitable. On the other hand both the European institution and Germany will support measures to reduce its GHG emissions. In order to fill the gap left behind by coal with natural gas German politicians and energy experts are currently discussing mechanisms to support this technology. The most discussed option is the introduction of a capacity market, which would make natural gas-fired power plants again profitable. Germany will surely continue its energy transition as it creates *positive* effects on *economic* growth and is widely supported by society.

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## From the Varangians to the Greeks – critical infrastructures interconnector

By Ionut Purica

In 1976 a Richard Dawkins has coined the name of 'meme' for the mind entities that generate collective behavior and change, similar to the evolution, induced by genes. Looking at the last years we think that there was a sort of collective behavior in concentrating on the East –West direction for gas pipelines under the meme name of 'the silk road'. This is a good thing as long as one keeps in mind the big picture. The choice of TAP versus Nabuco has contributed to break the collective almost obsession of Nabuco form the last few years.

Let's get two steps back and look at the map of the 'silk road'. There are several areas of North – South crossing roads: one is the Russian Federation to China, in the East; another one is the Norway to EU and the North Africa to EU in the West.

Looking at the change of energy paradigm in the World today one may identify another North – South road, in East Europe. This is not a new road since the history mentions in this part of the World 'the road from the Varangians to the Greeks' – very popular at the end of the first millennium.

Directive 2008/114/CE defines gas critical infrastructures along with other critical ones. The security of these critical infrastructures needs interconnectors (pipelines) that will be able to transport gas both ways. The discovery of non-conventional (shale and offshore) gas reserves in Poland, Ukraine, Romania and Bulgaria associated with the potential opening of both the Baltic Sea and the Mediterranean and Black Sea for LNG imports from all over the World (e.g. Qatar, USA) supplies new gas sources for the countries on this 'road'. Along with partial imports in the mentioned countries there is a need for gas in Finland, the Baltic States and Greece, leading to full imports. Diversification would be welcomed in order to increase security of supply.

The table below shows an interesting story i.e. that with the nonconventional reserves the region may substantially extend its gas supply availability and its overall energy security.

Maybe it is time to take a 90 degrees rotation from the East – West line in this region and think of an interconnector of gas critical infrastructures along the old road from the Varangians to the Greeks.

Finally, it is important to notice that such an interconnector should not be seen as an isolated project but included in the EU and international gas pipes network. Its main role is to increase security of supply in the region and through this to allow better competition with the associated effect on prices. To make such a project a reality a joint effort is needed to generate credibility that further on will attract the investments. It may not be easy but, we think it would be worth trying.

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Critical gas infrastructures interconnector 'from the Varangians to the Greeks'					
Country	Rezerves	Production	Consumption	Shale gas	Imports
[Gcm]	[Gcm]	[Gcm/y]	[Gcm/y]	[Gcm]	[Gcm/y]
Finland	0.0	0	3.6	0.0	3.6
Estonia	0.0	0	0.7	0.0	0.7
Latvia	0.0	0	0.62	0.0	0.62
Lithuania	0.0	0	3.4	0.0	3.4
Poland	121.8	4.3	15.4	4190.9	11.1
Ukraine	107.6	18.2	53.7	3624.6	35.5
Romania	934.5	11	13.8	1444.2	2.8
Bulgaria	0.0	0	2.9	481.4	2.9
Greece	0.0	0	4.5	0.0	4.5
total	1163.8	33.5	98.62	9741.0	65.12
years					
Reserves/Consumption			12	Gcm	
Reserves/Production			35	Imports for 35 y	2262.3
(Reserves+Shale)/Consumption			111		
Source:	1. BP statistical review of world energy 2012/ Data for reserves production and consumption except Estonia and Latvia				
	2. EIA Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States June 2013/ Data for Shale gas				
	3. <a href="https://www.cia.gov/library/publications/the-world-factbook/">https://www.cia.gov/library/publications/the-world-factbook/</a> data for Estonia and Latvia consumption 2010				

## Development of regional cooperation between South-East Finland and St. Petersburg and Leningrad Region

By Päivi Ilves

### Past

Finland entered the European Union in 1995. As a consequence in the eastern border regions three INTERREG programs began. And the regional cooperation between South Savo, Kymenlaakso, South Karelia, St. Petersburg and Leningrad region under the EU framework was formed.

The program and method was INTERREG and the cooperation was at regional level. The first program period was not a full seven-year period but ending in 1999. In INTERREG programs the majority of project operations were carried out and majority of funds were used in the member state, in this case Finland. The decision-making was done in the member state. The funds were originating from the EU and the national co-financing from Finland. During the first program 1995-1999 there were a lot of new procedures and new methods in several levels. Learning and adopting of them was time consuming. From the first beginning the networks were not ready and existing but they have to be built gradually. The projects were planned in Finland and the needs of cooperation were based on the needs on Finnish side.

The second period 2000-2006 was exceptional as an alteration was made in 2004 when an INTERREG program was changed to a Neighbourhood program in the middle of a program period. During the years 2004-2006 when the Neighbourhood program started cooperation moved a step forward as the selection of projects was made together with Russians. However, funding on Finnish side came from multiannual INTERREG and equivalent Finnish national co-financing and in Russia from yearly allocated TACIS. As the whole decision-making process was not under the same authority the implementation of funded projects was not synchronized and there were remarkable deviations in schedules. Therefore the idea of mirror projects, on both sides of the border, could not be realized. However, cooperation deepened when selecting the projects together and trying to find projects which would benefit both sides of the border area.

### Today

In 2007 a new seven-year period of cooperation began. The cooperation started under the EU's External Action Services instead of DG Regio. The program name changed from Neighbourhood to ENPI. Based on the experience of the previous years there were expectations in both countries that during this period even better results should be achieved. Both participating countries admit the importance of cooperation in border regions. A remarkable sign of it was that the Russian Federation announced to invest their own funds to the programs implemented on the border between Russia and the EU. This information was surprising and the rules and regulations should be partly renewed and it caused an outstanding delay to the launch of programs. Thanks to project planners and all stakeholders the funds have been allocated during two years and it seems that all funded projects can be implemented in due time before the end of 2014. The Russian funding guarantees equal participation and equal partnership of Russians to the program.

The nature of projects has developed as the networks, knowledge and trust of partners have increased. As the global situation has changed, compared to previous years,

there is a need of infrastructure related to border crossings. It was taken into account when allocating the program funds. Half of the program financing was directed to infrastructure projects. Besides concrete projects, on both sides of the border, the most important priority was determined to be economic development. Now, when we are at the stage where the program implementation is in the middle we can state that the measures have been more concrete than in the past. However, the new rules and regulations when changing to ENPI from INTERREG and when the final decisions still have been made in Brussels have caused exceptionally long periods between submission of the application and signature of the grant contract. This cannot be acceptable when thinking the applicants and the future.

During the period there are some major improvements compared to the past. Firstly, there is "pooling" of funds. The funds are coming from three different sources (the European Union, Russia and Finland) but they are pooled by the joint managing authority and the projects receive the funds without a need to request them separately. Secondly, allocation of all funds is multiannual. Thirdly, the planning and implementation of projects have been made jointly on both sides of the border.

### Future

The next programming period 2014-2020 is now under preparation. The experience of the previous and present periods will be taken into account and the difficulties can hopefully be avoided. The contents, priorities and themes of the program will be jointly selected during the coming months taking into account the needs, gathered background information and overall situation in the program area and naturally the objectives of the European Neighbourhood Instrument (ENI) rules.

All participating partners (EU, Russia and Finland) have announced their will to continue to finance the program as today. Hopefully, we can fit together the EU and national legislations and delete some legislative obstacles and hinders of cooperation and guarantee a smooth implementation of the future program.

### Experience and benefits of cooperation

The benefits of this cooperation are stronger networks, better knowledge of each other's culture, greater opportunities, more prosperity to border areas and a gateway for Finns to Russia and for Russians to Finland and to the whole Europe. Even though it takes years before the benefits and importance of cooperation can be seen, the results and impacts are clearly visible in South-East Finland and St. Petersburg and Leningrad Region. One obvious, but not at all insignificant and unimportant benefit is capacity building. During the coming years we should enhance the favourable development and cooperation in all areas, sectors and levels.

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## Bothnian Arc – vital cross-border area in northernmost part of the Baltic Sea

By Heikki Aalto

The Bothnian Arc is a coastal zone shaped like an inverted letter U at the northernmost end of the Gulf of Bothnia. The arc connects two countries; it begins in Skellefteå on the Swedish side, crosses the border at Haparanda and Tornio, and extends to Kokkola on Finnish side. The biggest city on Finnish side is Oulu and Luleå on Swedish side. The region is already marked by vitality and activity, but it holds the potential for much more.

This dynamic northern cross-border area has a strategic location at the intersection of the Baltic Sea Region and the Barents Region. The Bothnian Arc can serve as a link and a meeting place between these areas, improving communications, and enabling social, cultural and economic exchange. At the same time this growing area can be part of the international area of operations, and act as one market area.

The population of the northern areas of Finland and Sweden is concentrated in the Bothnian Arc region, which has around 700 000 inhabitants. The Arc has an abundance of young people, know-how, universities and other higher education institutions, large international companies, top technology, large ports, and international airports.

Northern Sweden and Finland have many centers of education with a varied range of courses. Most educational facilities are centered on the coastal area of Bothnian Arc. The largest educational institution of the area in Finland is University of Oulu while the Luleå University of Technology is the largest one in Sweden. Together they have over 30 000 students, more than 3000 researchers and teachers, and 350 professors. Concrete example from cooperation between those two universities is Nordic Mining School. They agreed on the opening of the School which will offer a new degree program in the field of mining industry. The purpose of this project is to strengthen Nordic education cooperation, and support the competitiveness of the mining industry.

Cross-border activity has increased significantly in EU and also in Baltic Sea area. There is more and more activities between the countries and across the borders. At the same time there is more developed financing instruments to be used in different kind of cross-border actions.

The Bothnian Arc fits in well with this trend. Now we just have to come with modes of operating that benefit and interest the region's companies and other operators and people as much as possible. It is quite often a question of knowledge and the opportunities to notice the benefits from cross-border cooperation.

Many interesting projects and networks have already been made. Quite naturally universities and other education institutes participate to cross-border activities. Also same branch of industries have found each other and they have started networking. We have started many cross-border projects financed by EU. Effective examples can be mentioned from metal industry, audiovisual sector, ICT, logistics, tourism, culture and energy. In many cases these

projects have been like pilots for cooperation and afterwards partners continue the activities.

Long-term sustainability is a primary consideration in the development of the area. The attention of people must be drawn to areas of natural beauty, heritage sites and other sights and attractions which are then to be used to develop tourism. At the same time, we must safeguard sensitive environments for the enjoyment of future generations.

Business development agencies owned by municipalities are supporting companies' internationalization. This is one reason why these municipalities wanted to establish an association called "Bothnian Arc" to support cooperation in Bothnian Arc area. During last 10 years Bothnian Arc association has encouraged and activated various parties to collaborate across borders by building networks, lobbying and creating new projects.

Northern dimension is coming more important all the time. The Barents area is situated on both sides of the Arctic Circle and covers also the northern parts of Sweden and Finland. The development of the Barents Sea area and the use of its natural resources provide Northern Finland and Sweden with significant economic cooperation opportunities, such as transit traffic and the related economic activities, and new business activities and improved employment rates. The investments in north Scandinavia are almost astronomical and that gives huge possibilities for growth and development.

Improved cooperation between different instances is still crucial in the Bothnian Arc area. A commitment to regional policies and extensive partnership is necessary in order to ensure development. This calls for active people and participation from businesses and organizations. This is the only way for cross-border activities to remain lively in the future. In recent years, new organizations and actors have joined in the cooperation, and they have taken charge of duties from various fields. In the future, more and more interested participants are required in the networks, in order to reach the desired objective, top-level growth and development in EU.

It is not yet very widely known what a gold nugget the Bothnian Arc at its best could be, nor what opportunities it offers. So far, this is like a hidden treasure even to the people living in the Bothnian Arc. Cooperation is key word and as our slogan in Bothnian Arc says; Together we are more!

*Heikki Aalto*

*CEO*

*Bothnian Arc*

*Finland*



## Cross-border cooperation in eHealth issues in the Baltic Sea Region – the eHealth for Regions Network as facilitator and booster

By Roland Trill and Anna-Lena Pohl

The Baltic Sea Region is a region with striking differences in health care systems, but nonetheless countries are facing similar challenges. This applies not only to the financing but to the organization of different health care levels, the integration of other stakeholders involved in health care issues and at the same time to the use and acceptance of eHealth. In Germany eHealth as an important facilitator of the whole health care-puzzle is rather seen as a marginal phenomenon than an appropriate and potential tool to deal with up-to-date challenges. In Estonia on the other hand the use of eHealth applications is much more common and accepted by the citizen.

When it comes to a generally accepted definition of what eHealth actually is one is confronted with several sources trying to put in words what many of them are not able to define clearly.

The World Health Organisation (WHO) for example defines eHealth as “ (...) the transfer of health resources and health care by electronic means. (...)”<sup>1</sup>. It identifies access to the required technologies as one of the major issues for the distribution of eHealth applications.

But eHealth does not only stand for electronic devices and the use of ICT in health care. Another objective is to increase efficiency in health care and decrease costs, a challenge all countries around the Baltic Sea are facing nowadays. Furthermore the empowerment of patients is a purpose when introducing eHealth applications. They are a proper tool to motivate people to take over responsibility for their own health. By making knowledge accessible via internet citizen are enabled to make own choices and to manage their health care on a self-determined basis. Patients are encouraged to change the relationship with their GDP to a partnership and take decisions in a shared manner.<sup>2</sup>

This is not so much a problem of people being not interested or being just opposed without trying to understand what is meant. It is more a problem of an open dialogue and a more citizen centered approach of explaining. And it is a question of how to integrate technical progress in such a sensitive field health care still is. People are often afraid of being left alone with IT and computer without having a real person to talk to. And it is a question of time since at least in Germany the health care system was something dominated by medical professionals being the experts the patient relies blindly on. The understanding of managing the own health instead of being treated when ill needs time to grow up from a vague idea to a common agreement between citizen, medical professionals and the political level.

In Germany the discussion on the electronic health card, going on for several years now, show how tricky it is to achieve a fair balance between the regulatory framework and security concerns of citizen on the one hand and the need of a more technical advanced and more efficient health care system on the other hand.

And again differences between countries are striking. Data security being one major issue in Germany has been one of the easiest solved questions in Denmark.

But why do we need cross-border cooperation in eHealth issues? The field of eHealth has long been seen as having great potential in making health care more efficient. But eHealth has not developed as expected. It is referred to as a sick market and one which does not fully exploit its potential. There are many reasons for this and the EU Commission's lead market initiative is focusing especially on this problem. The main factors contributing to the sick market perception are a **lack of interoperability, obsolete and unharmonised laws and regulations and a lack of business plans** to guarantee reimbursement for services offered. Finding solutions to these transnational problems requires transnational cooperation.

Another aspect is the **need for infrastructure and software applications** to support health cooperation across borders. This can be seen as a 'chicken and egg' dilemma. Making things happen might require two elements to co-exist and there are problems in pushing the development of one element before the other exists.

The eHealth for Regions network is a platform for all the different stakeholders from all Baltic Sea Region countries to discuss eHealth issues, find project partners and develop project ideas up to concrete project applications. It aims at fostering the development of eHealth infrastructure and applications within in the region and beyond. By promoting eHealth issues it serves as a link connecting eHealth actors to all other stakeholders and issues in health care and making it compatible to the surrounding pieces of the bigger puzzle of health care. The network strives to establish links to other more conventional approaches so eHealth is not seen as a separate but rather inclusive approach to the major challenges in today's health care systems.

The network initiated several successful flagship projects coping with up-to-date challenges in health care. For example *ICT for Health* (2009 - 2012) worked to strengthen social capacities for the utilisation of eHealth technologies in the framework of an ageing population. Partners from eight countries in the Baltic Sea Region participated in the project: Denmark, Finland, Germany, Lithuania, Norway, Poland, Sweden and Russia.

*PrimCareIT* (2011-2014) aims at raising the attractiveness of remote primary health care for medical professionals by the means of tele-consultation and tele-mentoring. Thereby the project counteracts brain drain and professional isolation in sparsely populated areas for more equal access to primary health care in the Baltic Sea Region. 16 partners from eight countries including Belorussia are part of this ambitious project.

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<sup>1</sup> See <http://www.who.int/trade/glossary/story021/en/>, last access 6. June 2013.

<sup>2</sup> See Eysenbach, Gunther: What is e-health?, in: Journal of Medical Internet Research, Vol. 3 (2), 2001.

## Gdansk University of Technology and its cooperation in the Baltic Sea Region

By Aniola Tejchman

Gdansk University of Technology (GUT) as the most renowned technical university in Northern Poland, which educates more than 25 thousand students at the undergraduate, graduate and doctoral level, strives to provide high quality education for the needs of a dynamically developing economy in the region and a knowledge-based society.

GUT is expanding its study programmes and research activities in a number of scientific fields related to the Baltic Sea Region (BSR), including among others environmental issues, transport, economy, policy and also construction of vessels and ports. These activities are often carried out in cooperation with BSR institutions involved in education, research and innovation.

The political and economic transition in Poland in the nineties boosted opportunities for new forms of cooperation. Financial funds accessible within EU Programmes stimulated the dynamic development of academic cooperation in various fields.

Some of BSR Universities became our partners in TEMPUS Programme launched in 1990. For our University TEMPUS had a significant impact on the development of new methods of engineering education, also with the use of modern laboratory equipment. It initiated the processes of harmonization of the Polish education system with EU partner countries' systems, including also international relations, library service and university management.

Since 1998, when Poland became a country eligible to participate in ERASMUS Programme, GUT has been receiving substantial funds to support the educational mobility of university staff and students. Till present more than 8 million EUR have been allocated to fulfil this aim.

In the year 2000 our university was among 16 institutions from Finland, Poland, Lithuania, Latvia, Estonia, Russia and Belarus which signed an agreement on the creation of the Baltic Sea Region University Network (BSRUN) in Turku. The network aimed at facilitating and enhancing cooperation between its members, establishing a platform for new ideas, contacts and projects. Active participation in BSRUN enabled us to develop partnership with a growing number of member universities in various areas of cooperation, mainly in internationalization, regional development, management and administration, but also to exchange information and participate in seminars and meetings.

In the year 2004 Poland joined the EU. The accession opened new opportunities for education and research for our country and the region. Poland became eligible for many new programmes on central and regional level. The staff of our university began to apply for new funds for education and research programmes, which was possible due to long lasting cooperation with partner institutions from the Baltic Sea area. An increase in funding is best reflected in

ERASMUS expenditure. The funds allocated to GUT for 2003/2004 amounted to 165 thousand EUR, for 2004/2005 to over 320 thousand and for 2005/2006 to about 590 thousand EUR.

Cooperation with the eleven Baltic Sea Region countries, i.e., Denmark, Estonia, Finland, Island, Lithuania, Latvia, Germany, Norway, Poland, Russia and Sweden (classification by the Council of Baltic Sea States), which involves education mobility and research, is very essential for our University. On the basis of ERASMUS reports, mobility of outgoing students and staff to the Baltic Sea countries averages about 30%. However, in the years 2009-2011 due to support of the EEA & Norway Grants, mobility to BSR countries reached 40% of the total GUT mobility within education.

An increasing interest in mobility, including student and teacher exchange, introduction of innovative actions as practical trainings for students and staff, allowed developing cooperation in the region and signing many new bilateral and multilateral agreements. Gdansk University of Technology currently carries out cooperation with BSR partner institutions within around 70 ERASMUS agreements. Since the year 2000 GUT has spent around 2.5m EUR for the mobility of more than 1000 outgoing students and about 350 staff within educational programmes.

In the year 2012 our University and BSRUN organized Baltic Seminar for University Administrators on "Knowledge Triangle: Education, Research, Innovation", which gathered almost 80 participants from the region. The event created an opportunity for the participants to attend sessions and a round table discussion on new perspectives for the Baltic Sea community in education quality, commercialization, innovation, cooperation with industry, competences related to the development of the region based on cooperation between BSRUN Universities.

Gdansk University of Technology and our partner Higher Education Institutions in the Baltic Sea Region are aware that the sustainable development of this area, its economy and environmental protection are our mutual interest and concern.

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## Russia's small business tax regimes

By Michael Alexeev and Robert Conrad

In order to promote faster development of small business, Russia, like several other transition economies, has been using special tax regimes (STRs) aimed at reducing compliance costs and the tax burden on small businesses. Russia has four different STRs, including one for agricultural businesses. All small enterprises, including legal persons, are eligible for a so-called simplified tax system (STS). Under STS the business can choose to be taxed either on a gross revenue basis at a 6% rate, or on a profit basis at a rate of 15%. Small businesses, again including legal persons, providing certain types of services may be taxed on a presumptive basis where the amount of tax is determined by activity-specific physical indicators such as the number of employees or the square footage of the trade area. (This tax regime is to be phased out by 2018.) Finally physical persons engaged in provision of certain services and whose gross revenue is below a specified threshold can be eligible for a "patent" system under which the entrepreneur pays a fixed amount independent of revenue or profits. As of 1/1/2013, the patent system has been modified giving the regions more autonomy in tailoring the charge to their own needs and in expanding eligibility. In particular, the maximum number of employees of a business using the patent system has been increased from 5 to 15. All of these tax regimes replace either the profits tax or the individual income tax (whichever is relevant) and the property tax. The STS also replaces VAT. All system are voluntary and small businesses can opt out of these tax regimes if they prefer to be taxed under the regular system.

Justifications for STRs for small business include reducing compliance costs for taxpayers and reducing administrative expenses for tax administrators which might result in little net revenue gain. Unfortunately, Russian implementation of STRs has serious shortcomings and the latest developments exacerbate some of the problems by expanding eligibility. Optional participation (and optional tax base under STS) provides an incentive for taxpayers to self-select into regimes that reduce tax. That is, holding compliance constant, regime choice leads to legal tax arbitrage. For example, under STS, high margin businesses would choose the gross revenue as a tax base while low margin businesses would choose net profit, other things equal. Also, businesses just under a patent threshold would benefit from the patent system while those with lower revenues would be hurt by it because the average tax rate decreases with profit. The results in different taxpayers paying different effective rates leading to significant economic distortions. Moreover, STRs provide disincentives for enterprise growth by imposing extremely high marginal rates at the eligibility thresholds. The same consideration provides incentives for splitting businesses and registering them under different owners in order to preserve eligibility. The thresholds based on the number of employees and the existence of a patent regime also strongly encourage reclassifying workers as independent contractors.

The eligibility of legal persons for STS and the presumptive tax regimes combined with difficulties of ascertaining true ownership of a corporation may result in large businesses taking advantage of tax breaks aimed at small businesses. This is exacerbated by the high eligibility

threshold for STS in Russia (almost \$1.9 million at current exchange rates). Thus, a number of related parties, might be created all of which are small businesses, reducing total taxes for the owners.

While the special regimes could indeed lower compliance costs of taxpayers who choose to comply, administrative costs might not be reduced. Eligibility thresholds need to be monitored and specialized skills need to be developed in tax administration because audit rules differ between regular tax regimes and special ones. Moreover, even significant improvement in compliance is not assured despite relatively low rates. For instance, taxpayers with employees are still expected to withhold taxes on wages paid. In addition, small taxpayers might be reluctant to be identified by the tax system no matter how low the effective rate. This latter consideration is particularly relevant in a country with high degree of corruption. It is not surprising that despite a favorable tax regime, small and medium enterprise (SME) sector in Russia remains relatively small even after 20 years of transition. While SMEs account for two thirds of private sector employment in the EU, the corresponding share for Russia in 2010 was less than one half. The total SME sales revenue in Russia is approximately the same as in the Netherlands and only 50% greater than in Poland.

We think the overall economic costs of STRs exceed their benefits. If, however, such regimes are to be preserved, they should target a much narrower group of taxpayers. Most important, the revenue threshold for STRs should be coordinated with the VAT threshold and legal persons should not be eligible for any STR. In addition, clear rules for distinguishing between employees and independent contractors should be developed and transition rules should allow for a gradual transfer of growing businesses from an STR to a regular tax regime. Such reforms may be politically difficult as the recently reversed attempt by the government to bring social tax on individual entrepreneurs closer to that paid for employees has demonstrated. Nonetheless, we believe that such reforms are important in the long run for improving Russia's tax system.

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## Science Link adds value to BSR's industry and SMEs

By Johanna Aaltonen, Graham Appleby, María Fernanda Bocángel and Taina Laiho

Science Link is a project based network operating in the Baltic Sea Region (BSR). The network's function is to connect industry with science within Research, Development, and Innovation (R&D&I) of materials, to add to the competitiveness of the BSR. Within Science Link, the R&D&I of materials are based on applications of synchrotron and neutron radiation (a well known example of such a large-scale particle accelerator research infrastructures is CERN in Switzerland). In the BSR, they are located in Germany and Sweden. The main drive of the network is to make these German and Swedish top synchrotron facilities accessible for businesses and non-research users, and especially for Small and Medium Enterprises (SMEs), from all over the BSR. The network's ability to function has been tested by calling piloting companies in three open calls during 2012–2013, with outstanding results.

Science Link's geographical coverage includes Denmark, Estonia, Finland, Germany, Lithuania, Latvia, Poland, and Sweden, and there are a total of 17 involved organisations. Science Link is a multi-organisational performer, and operated by: 1) synchrotron and neutron facilities, 2) regional research infrastructures like universities, who support material science research and applications, and 3) Contact Points such as regional business development units, who know the contacts and needs of local industries. All of them are possible doorways into the entire expertise network.

The network is also a multifaceted performer, and serves not only limited industries. The involved radiation facilities are DESY, Helmholtz-Zentrum Berlin, Helmholtz-Zentrum Geesthacht, and Max IV Laboratory. Each facility employs Industrial Liaison Officers, who are physicists with a wide range of expertise of industrial cases. The entire network has been able to match with the needs of the Calls' applicants representing a varied range of industries, from life science, construction, automotive, personal care, chemistry, and engineering to agriculture.

In the Calls during 2012–2013, Science Link offered companies free, high-level supporting services and intensive consulting during the application phase, and if the company was approved, pre, during, and after the measurements within the relevant research facility. The companies were appointed a maximum of two days of free measurements. More than 60 companies from the BSR applied, of which 47 were approved and 70 % were SMEs. 17 approved companies have already performed the measurements with success.

Science Link has already added value to companies at society, company, and personal level. The main added value at the society level could be the more competitive role of SMEs in the field of R&D&I, and the simplified access to measurement time for industrial users. The project has also produced better access to information about the existence and possibilities of the facilities; face-to-face at the project events and consultations, as well as in the media and social media, and has popularised it.

At the company level, the relatively short manifestation time is important for companies such as SMEs who cannot wait for long-time profits. Pilot companies could simultaneously overcome the process of application for industrial measurements, their lack of workforce, and the financing, as the process were led and mostly resourced by the Science Link partnership. Most of the companies have been new users of synchrotron facilities, and the experience has encouraged some of them to continue the co-operation at their own cost, when they have realised how it works and what the facilities can do for their company, and manifold better and more cost-efficient than as 'R&D&I as usual'. Importantly, the companies have been able to directly exploit the research results of their Science Link measurements.

Furthermore, Science Link has offered companies tailored and personal consultations in their own native language, and face-to-face meetings with the personnel of regional contact points and research infrastructures. The Science Link network has been able to share the material science challenges with the companies and work side by side with them to develop better products and processes. The companies' contacts with Industrial Liaison Officers at the synchrotron and neutron facilities have continued the individual learning processes of the company participants, when they have taken part at the measurements at the synchrotrons. Personal contacts construct trust and confidence, and new entries are always personal decisions in the end.

The partnership has also shown success to the network operators themselves. This is why the goal for the near future is to make the network self-sustaining after the Science Link project ends in 2014, and develop a public-private financing partnership onward. Geographically, the area is also planned to enlarge, and will include the St. Petersburg region more closely.

The network is looking after new leads of industrial users and SMEs. The network is looking after new high-performers, who are interested in corporate entrepreneurship. The network is also applying for supporting public finance for a number of spin-off projects.

More information for example about the approved companies and their cases, and the Science Link project are available at: [www.science-link.eu](http://www.science-link.eu). The main part of the project finance is ERDF of BRS Programme 2007–2013.

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## Sustainable exploitation of the Baltic Sea fish resources require integration of thinking

By Eero Aro

We agree that fisheries are at first economic activities, which are very much dependent on and interact with the ecosystem and other exploitable resources. The volume of the total annual fish catch in the Baltic Sea has varied last fifty years roughly between 600 000-1 000 000 tonnes (value of 480-690 million US\$) This variation is caused by normal nature variation, population dynamics and by management actions taken.

The Baltic Sea fish community is dominated by three species i.e. cod, herring and sprat. They form more than 90 % of the total catch and round 60 % of the biomass in the system. The nature of the fishery of cod, herring and sprat consists mainly of single species fisheries. However, fisheries are closely connected as there are strong ecological inter-connections between the species. Cod is predated by herring and sprat, and herring and sprat are competing on plankton food resources. Therefore, a management measure taken for one species will inevitably affect the other species, their abundance, distribution and economy.

The necessary decisions for future sustainable management of fish resources are driven not only by changes in the environment and population dynamics but also by the economic activities. On the other hand environment- and fisheries management objectives are many, covering ecological, economic and social dimensions, which are often conflicting.

Sustainability in fisheries management is a demanding goal for policy makers. It forms an integral part of maximum sustainable yield (MSY), which has become the chosen reference marker for European fisheries management under the new Common Fisheries Policy.

Most of the European fish stocks are now managed according to harvest control rules (HCRs), one of the key questions for the future. HCRs should contain environmental, economic, and social sustainability as well as the further definition of sustainability objectives.

As conservation targets of exploited fish populations are typically near those quantities that will maximize long-term sustainable yield (MSY) and best economic gains typically occur in the neighborhood of these same quantities. Thus we should not necessarily expect too much trade-offs between conservation and economic objectives, at least.

The evaluation of the Baltic Sea natural resources and their sustainable exploitation call for a new integrated thinking to take into account ecosystem components and

processes like various habitats and marine protected areas, interacting species, system productivity, biodiversity, other ecosystem services, and many human activities.

Modern biological stock assessment models are rather sophisticated with regard to biological content, but they rarely account for economic objectives. On the other hand biologists have criticized traditional biomass models in fishery economics for being oversimplified and too general.

There is a clear political agreement that sustainable development of aquatic sector requires a comprehensive, ecosystem-based approach that looks beyond the traditional focus on yields and profits. To move toward this goal, aquatic and fishery systems must be recognized as being comprised of at least four subsystems that are connected in a powerful feedback loop – the natural system, ecosystem services, the management system, and the relevant socioeconomic system. Each subsystem in turn consists of complex components that deal with everything from multi-species population dynamics to multi-fleet fisheries, social dependencies and ecological interactions.

A next step in integrated assessment and management should be to include interactions between the fisheries sector, environmental issues and other sectors on a more regional scale. A global scale is not enough. This more regional evaluation framework of fisheries and ecosystem-based management should *inter alia* contain models with varying levels of complexity of the ecosystem and the fishery and socio-economic systems that would increase the understanding of the feedback between subsystems.

The goal of new integrated thinking should in the first place to alter the widespread present practice of assessing fishery biological subsystem in a very quantitative detail, while human dimensions and ecosystem services are considered only qualitatively.

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## Context matters

By Henrik Meinander

Two things are frequently in mind if you live somewhere around the Baltic Sea: Russia and Germany. This includes also the Germans and Russians, who measure themselves either against each other or search for their point of reference more far away. However, for the rest of the Baltic people their lives between Russian-German poles have usually been exciting enough – to put it politely – and this bipolar world view has in much shaped also Finland and its people.

After 600 years as a part of Sweden this region often called Finland was joined to the Russian empire 1809 as a consequence of the Napoleonic War. Due to its Swedish laws and values, which were Northern variations of the German Lutheran culture, the Grand Duchy of Finland would from the start begin to develop into a state within the state. And when the driving forces in geopolitics, world trade and technological environment in the 1890's began to change the balance in European power politics more rapidly, this cultural gap between Finland and Russia widened swiftly and lead eventually to Finnish independency in 1917.

The Republic of Finland will thus after four years rejoice its 100 anniversary as an independent republic. This is certainly something worth celebrating, not least because the country was able to maintain its political system and western values also during the Second World War and Cold War Era. But when we look at the Finnish path to national sovereignty, parliamentary democracy and a generous welfare state it is much too easy to explain it as a straightforward outcome of wise decisions taken by good Finns. In fact they were equally much chain reactions of various developments on macro level in European power politics, trade and technological change.

Take for example the declaration of Finnish independency in December 1917. The Finnish parliament would certainly not have taken this step, had it not been for two strong impulses from abroad. The first was the Bolshevik coup de etat in Petrograd, which sharply increased the criminality in the empire and raised fears of that the revolution would spread also to Finland. The second strong impulse came from the German government, which during the ongoing World War encouraged countries in the western parts of the Russian empire to declare their independency in order to force the Bolsheviks to peace treaty.

The development in Finland during the next 18 months was a terrible mess. First a tragic civil war, then a German controlled government, and finally a swift normalization of the diplomatic relationship with the Western victors of the war. The development would most probably have been much graver if the Bolsheviks had lost their grip or Germany would have won the war.

In either case Finland would have been dragged into a new empire. But now the newborn republic got its chance to find its domestic balance as a parliamentary democracy and strengthen its defense, which paid well off during the next war.

Another obvious example of how the societal development in Finland has been framed, formed and facilitated by external forces is the postwar era, the golden age of the European nation states. Although a wartime ally with Germany, Finland escaped a Soviet occupation and built up a good relationship with Moscow. This made it possible for Finland to recover swiftly, find markets both in the eastern block and Western Europe, and fund its transformation into a Scandinavian type welfare state. However, this evolution would not have been possible without the sharp division of Europe, which cynically speaking was rather favorable for the Finnish industry. The socialist Eastern Europe was out ruled from the competition, whereas the EEC- block again was keen to maintain Finland as a Western society and was thus prepared to ease its export westwards.

The Cold War era was also in other respects a stable era for Finland. Never before or after has the Finnish culture and society been so strongly united around the imagined community called Finland. One reason for this was the fresh memories from the war, which made the Finns do whatever they could to avoid a new confrontation with the Soviet Union. The media technology was also very suitable for this. As elsewhere in Europe the national message was cabled out through a couple of state controlled TV-channels, which served "correct" interpretations of the political life on both the domestic stage and abroad.

There are many other examples of the strong impact of external driving forces in Finnish history. When the country joined the European Union in 1995 a new era of Finnish dependency began, which nevertheless has many similarities with earlier experiences of how the context dictates much of the content. If you want to know more about this, please read my short cut book *A History of Finland*, which has been published also in a number of Baltic languages!<sup>1</sup>

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<sup>1</sup> Finlands historia: Linjer, strukturer, vändpunkter, Helsingfors & Stockholm 2006, paperback 2010.– **Translations:** Suomen historia: Linjat, rakenteet, käännekohtat, Helsinki 2006, paperback 2010; История Финляндии, Moscow 2008; Історія Фінляндії: Лінії, структури, переломні моменти, Lviv 2009; A History of Finland, London 2011.; Soome ajalugu: Suundumused, pohjooned ja pöörded, Tartu 2012; Somijas Vesture: Linija, strukturas, paversienpunkti, Riga 2013.

## Finnophobia replaces finlandization

By Veikko Saksi

In their early history Finns were brave. In the twentieth century reigned Finlandization. By the early years of the twenty-first century a sort of Finnophobia began to develop. Finlandization was adapting Finnish domestic and foreign policy to the will of the Soviet Union, even though the outside appearance of independence was maintained.

Finlandization was called by several names in the 1960s: silent "Satellization", running for Moscow matters, time of self-censorship or incompetence to select their own political leaders. Some people looked at Finlandization positively: skillful promotion of our own benefits, proportional victory of foreign policy, cold-bloodedness and competence of the administration, or reduction of dependency.

It does not pay to be proud of Finlandization. It was submission under the authority of a stronger state. A powerful example of this was the Agreement of Friendship, Cooperation, and Mutual Assistance.

A positive Soviet attitude was projected as the visible manifestation. Those politicians, people and representatives of the media who did not bow to the East, were anti-Soviet. It was an effective weapon that ended the careers of several people.

Finlandization had greatly influenced Finnish society in almost all spheres, although its grip has diluted during the decades. First the shackles slipped from people's grip, then gradually from the media. Lies or propaganda will not last indefinitely. The politicians in power are slow to become aware of this matter.

Not even the collapse of the Soviet Union in 1991 fully devastated Finlandization, although Finns dared to breathe more freely and self-censorship weakened.

Finlandization is no longer the sole right of the Finns. Some Estonian politicians are "Finlandized", because they see that the Finnish politicians have managed to cooperate so well with Russia.

Germans are strongly "Finlandized". They are still whipping themselves because of crimes of the Nazi era, although they have apologized repeatedly for those actions, and compensated the victims. A German is afraid of political suicide, if he or she dared ask for a balanced treatment.

The Soviet Union and Russia have never made a genuine apology for Soviet crimes, not to mention compensation for their actions to the victims or returning the occupied territories. Yet the Russian people are "Finlandized".

At first Homo Sovieticus was cultivated in the Soviet Union. Now **Vladimir Putin** leads Russians with a powerful stance to accept the atrocities of **Stalin's** time as economically crucial. For instance, acceptance of the power vertical, widely spread corruption and managing by violation are part of this Russian "Finlandization".

"Finlandization" in Russia has not led to outside but inside bowing. The state leader is bowed to and feared. A Cossack

leader was afraid of the collapsed Soviet Union so much that he refused to take back Cossacks' own land, even though the government offered it to him. This Cossack leader behaved exactly as Finland's president did in the 1990s because of the fear.

Finlandization is a passing folklore. It has now been replaced by Finnophobia, which means the Finnish fear of advocating for own rights and legal benefits. It is to invalidate their own achievements and leads to feelings of guilt for those crimes that Finland never committed.

Finnophobia is thus self-repression and claiming of guilt, the need to defend a stronger party's right to use pressure and to accept aggression against oneself. It has similar characteristics as Stockholm syndrome, i.e., to identify with the will of the oppressor.

Finlandization as a concept is broader than Finlandization. It considers not only the Soviet or Russian attitude, it also insists Finns should support corrupt countries and financiers of southern Europe.

Finnophobic people accept that violent treaties bind them and do not consider that it is allowed to try to change them peacefully. This means that, for example, the war guilt sentences, which are against the Finnish Constitution, or the return of Karelia, could not be opened, not even as a win-win event.

Englishmen have a good expression – chilling effect – which means ice cold and hamstringing effect. This concept is often translated in Finnish as an atmosphere of fear. This is part of Finnophobia.

In jurisprudence the chilling effect means preventing use of one's constitutional rights. For this reason a significant part of the population do not dare to the use their freedom of speech.

Finnophobia can be described as a concept or an attitude. Attitudes will change and other people can affect them. Change is always a possibility. A Roman poet Horace articulated immortal words: *Sapere aude*, i.e., dare to be wise.

Using your own common sense to stop Finlandization and Finnophobia is a positive thing. It means adhering to a sound national identity that is ultimately possible only by accepting the truth.

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## Gender equality the Nordic way – an asset in soft diplomacy towards the Baltic Sea Region?

By Helene Carlbäck

In contemporary political global discourse and practice, the degree to which a nation recognizes human rights has become a measure of civilization and democracy. It is an asset with which states can compete through techniques of soft diplomacy. In this connection gender equality should be mentioned as one of the basic democratic and human rights. When the socio-economic and political systems of Eastern Europe and Russia were drastically changed after the end of the Cold War, Western actors could market values and transfer knowledge about human rights and democracy in the former communist states in a new way with fresh possibilities of exerting soft diplomacy. The Nordic countries have for long been regarded as maybe the most progressive among European countries in developing successful gender equality politics. Thus the new geopolitical situation in the Northern and Northeastern parts of Europe contributed to a niche opening up for the Nordic countries to work on the basis of cooperation with the aim of developing values regarding gender politics in their near abroad.

Since the 1990s the Nordic Council and the Nordic Council of Ministers have sought to promote gender equality in the Baltic States and Russia, specifically in the region of Northwest Russia. Recently, scholars at the universities of Stockholm and Södertörn in Sweden have set out to investigate the outcome of these efforts through a research project named "Mourning becomes Electra. Gender discrimination and human rights". The project asks questions to what degree influence can be attributed to the Nordic Council and its Council of Ministers in developing gender equality and if the methods applied are optimal in reaching the cooperation partners. According to the researchers, the Nordic countries have contributed much to the establishment of arenas for political recognition of gender equality, especially in terms of funding. Conferences and workshops have functioned as meeting places for scholars, experts, politicians, activists, trade associations and lobby groups on both the local and international level.

Regarding e.g. Lithuania, one report notes that a widespread opinion can now be challenged that all democratic changes, including the establishment of new democratic institutions, have come about under strong pressure from the EU and transnational agencies in exchange for EU and NATO membership. Instead the establishment of the Lithuanian Office of Equal Opportunities Ombudsman (EOO) is an example of how the Nordic Council of Ministers has played a significant role in building bridges between women's NGOs and local government. The same report concludes that Lithuanians have become more sensitive to public representations of gender, especially in commercial advertising. This is due to the EOO pressuring companies to change their portrayal of female inferiority, undue focus on physical appearance and women's eroticism as opposed to moral and intellectual values.

When it comes to Northwest Russia, a positive result of the Nordic-Russian cooperation is a growing awareness

among local policy-makers and civil servants of the importance of gender equality and women's rights. The cooperation has facilitated the founding of many new women's rights NGOs, providing assistance with organizational management and encouraging political and educational activities. It has also helped increase the general public's knowledge about the legal and welfare systems of the Nordic countries and the international system of safeguarding of women's rights and gender equality. The report points to certain problems, however. In contrast to the intentions of the Nordic cooperation partners, most women's NGOs in Russia have been focused on charity and policies for the survival of certain layers of the population that were hit hard in the transition politics more than acting as independent organizations within civil society. Accordingly, they have been more interested in defending social rights, and less focused on promoting (Western) democratic values. The local authorities in Russia have also shown scant interest in the development of civil society and even less in dealing with women's NGOs. With the onset of a more authoritarian political regime in Russia during recent years, with attempts to reintroduce a more Soviet-style protection of women as mothers, the conflict between independent feminist organizations and local authorities' policies for the protection of women has become more pronounced.

Another problem being addressed is the somewhat asymmetric relations in the cooperation work in developing gender equality. Although statements to the effect that Nordic countries and the Baltic states and Russia shall promote jointly the Nordic dimension of gender equality, the underlying idea seems to be that the Nordic countries are best qualified to decide the political content of this Nordic dimension expressing their task in the following way: "Singled out as the most gender-equal societies in the world, the Nordic countries have contributed essentially to developing their Baltic neighbours' understanding of the goal of gender equality so we can truly work together to achieve it." Thus the mission of the Nordic countries in the cooperation reflects a certain effort to induce gender equality the Nordic way, a method that might be seen as counterproductive in the work of soft diplomacy.

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## Baltic States – choices on citizenship and Western integration

By Li Bennich-Björkman

More than 20 years ago, the political leaders in the two Baltic States of Estonia and Latvia in the process of transforming from being part of the Soviet federation made some formative constitutional choices that as a consequence disenfranchised large numbers of the Russian-speaking minorities residing in the countries. These constitutional choices have come to affect the societies and politics in terms of integration, in particular in Latvia. In the process of moving from Soviet republics to independent states, these two – in contrast to the rest of the former Soviet republics – did not opt for what at the time was called the “zero-solution”, basically offering citizenship to all residents living in the territory at the time according to a *jus soli* principle. Instead, the political majority of Estonia and Latvia decided to restrict entitlement to citizenship to those who either had been citizens before 1940 or who had close relatives who had been. This *jus sanguinis* principle was justified by legal arguments pointing to that what was being done was a process of restoration, and not creation, of these states. The constitutional choices resulted in an electorate dominated, and still so, by titular Estonians and Latvians, since in both countries the largest numbers of Russian-speaking immigrants had arrived during the 1940 and 50s. However, a larger minority of Russian origin that had settled before World War II resided in Latvia, which resulted in a more substantial Russian-speaking electorate than in Estonia. In Latvia, party politics have thus come to revolve partly around an ethnic dimension which still persists. Lithuania, the third Baltic State, in the end opted for the *jus soli* principle. Given her divergent ethnic composition with over 80 percent ethnic Lithuanians at the time of independence and a much smaller minority of Poles (around eight percent), Lithuania’s geopolitical and cultural situation was much less complicated.

The choice made by the then political leaders was clearly controversial at the time, and was questioned internationally if not from a legal then from a democratic point of view. In the years that have followed, citizenship and more broadly minority policies have belonged to the issues gaining most attention when the Baltic States are in focus, both in academia and in the more popular debate. The common knowledge regarding the motives behind the citizenship legislation has pointed out profoundly emotional considerations, a wish to revenge the Soviet occupation and to – at high costs – safe-guard national survival and culture.

I maintain that a more accurate historical description takes into account the fact that it was a combination of “emotional” motives and motives involving purely political calculations concerning how Russian minority voters would view integration with the West, or “geopolitical” motives, that led to the provocative position adopted in respect to the question of citizenship. Western integration quickly became a central question of great priority for Estonian and Latvian politicians. However, they regarded the Russian-speaking

population as having a different agenda that in large part involved continued integration, admittedly as independent states, with Russia and the former Soviet republics. The processes of state formation in both of these countries thus involved explicit considerations in which the end – Western integration – justified the means chosen – restricted citizenship. Both Estonia and Latvia started membership negotiations in 1997-1998, and became both EU- and NATO members in 2004.

Was it right – in order, for example, to reach a goal that made NATO and EU-membership possible – to deviate from what many viewed as fundamental democratic principles? Did the exclusion of the Russian-speaking population work to prevent ethnic mobilization, such as the one that shook, for example, Moldova? The answer is not self-evident against the background of what we now know about the serious economic and political paths and ethnic conflicts that have left their mark on the majority of the new states – including Russia – that emerged after the demise of the Soviet Union. The two Baltic States comprise a remarkable exception in this regard. Moreover, NATO and EU-membership has had clearly positive effects when it comes to human and military security, including the creation of new opportunities to work in Europe not least of all for young Baltic Russians. These are possibilities that Ukraine, Georgia, and Moldova still strive after in vain.

When judging the choices made at the time of transition, the easy option is to condemn as is often done by Western academics and observers. However, that is to look away from the complicated geopolitical and demographical situations that faced decision-makers in these two countries at the time, faced with large minorities who for historical and cultural reasons felt greater affinity towards the Russian civilization than towards the West. Today, however, the two countries could well re-consider and allow for more generous citizenship legislation. Old loyalties have transformed as time has passed, and both Estonia and Latvia are embedded in the European and Western structures that the leaders once desired.

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## How can the post-Soviet countries use the Belarusian subsurface regulations?

By Oleg Bukhovets

In summer-autumn in 2013 an acute conflict blazed up between "Belaruskali" and "Uralkali" which formed an alliance in 2005 to strengthen their positions in the international potassium market. The conflict has found a great resonance on the international level and it seems not to have been resolved yet. There are certain circumstances that make it difficult to predict if it can be resolved: "Uralkali" is a private company, run by Mr. Kerimov, a known Russian "oligarch" and a high-powered politician; and "Belaruskali" is like a "nationwide property" and it is of strategic importance for setting the Belarussian budget.

The latter circumstance has been the main reason for most Russians to support the Belarussian government taking a tough stand in the conflict.

What is more important is that the present conflict attracted the Russian general public and the community of professionals's attention to the way Russia's ample natural resources are being disposed of. In fact, most recently, in November 2012, there was held the VIIIth All-Russian Congress of Geologists attended by nearly four thousand delegates and guests from 83 regions of Russian Federation and other countries.

A large number of reports which were made in the congress focused generally on expressing alarm over the condition of the Russian geology and subsurface management. Mr. V.Orlov, the President of the Russian Geological Society, described the major problems in the field to be solved as "black spots" for the country and the people.

Mr. E.Kozlovsky, Honorary President of the Association of Russian Geological Organizations, wrote in his article after the Congress: "right now we are 15-20 years behind on critical areas of advanced mining countries in the scientific and technical developments". (The Russian Resources, №4, March, 5, 2013, P.10). This understanding provided the "joyless consensus" that emerged at the Congress on the current state and the future of the Russian resource-raw sector.

The speakers were very tough about the current situation: "we are wasting resources", "the government is losing control", "all gimmicks are useless", "imminent danger", etc. Mr. V.Orlov, the above-said President of the Russian Geological Society is firmly convinced that "if we are thoughtful of the future of the country, the restoration of mineral resources, it is essential to invest public funds".

Mr. A. Natalenko, Chairman of the Board of Directors of NOVATEK, a highly informed member of the Congress, made a distinctive and dismal remark. In the situation, he said, when "the government is persistently late" with taking urgent measures, "the sector *degrades faster than we make decisions* (personal remark – O.B.)" (A.Fateev. Black Signs of Russian Geology. *Tyumen news. Parliamentary newspaper. No 201 (5643). 09.11.2012*).

In connection with such a bleak diagnosis of the Russian subsurface use, there is a reason to look at the experience closest ally for Russia in the post-Soviet space – the Republic of Belarus.

The Natural Resources Code of the Republic of Belarus was approved in 2008. Its key point is proprietorship on natural resources. What is the importance of the modern Belarusian regulatory version determined by? The point is that still starting with the "perestroyka" times and the next 10-15 years of independent existence of states USSR

successors the idea of necessity and expedience of the most large-scale denationalization, in general and subsurface resources management, in particular has gained a vast ground in public opinion, expert groups and consciousness of élites in power. "Less governmental intervention!" - this is the lapidatory form the supporters of market fundamentalism have transformed the principle into. It's based on the idea that private proprietorship is the "heart" of the market economy widespread all over the world (especially in Anglo-Saxon countries). The famous Russian economist R. Grinberg ironically said at the Belarus-Russia "round" table in 2009 that the world financial and economic crisis has refuted this "general illusion". "Competition is the real heart of the market", he highlighted. (Belarusian Economic Journal. 2009. № 4. P. 40).

The Natural Resources Code 2008 has drawn a line on this legal matter which used to be long-lasting and has made people's mouth sore. Article 5 of the Code reads as follows.

1. "Natural resources are exclusively state proprietorship. The state exercises his rights of ownership, use and disposal of natural resources via authorized state bodies.
2. Resources can't be a subject to collateral, donation, purchase-sale, inheritance, contributions to charter fund and a subject to alienation in any form" (<http://www.pravo.by/main.aspx?guid=3871&p0=Hk0800406&p2=> (NRPA).

In 2013 Belarusian legislators continued improving Resources Code: on April, 2 the House of Representatives passed the draft of "Law about introducing amendments and additions to Resources Code of the Republic of Belarus" and on April, 18 the Council of the Republic ratified it. After being signed by the President the new law was registered in the National register NCPA RB №2/2017 06.05.2013. The law becomes effective on January, 1, 2014.

Becoming effective this law will simplify both the procedure of allocating resources and using them. The law specifies the increase in terms of using resources for mining and using geothermal resources; cancels the limits to their mining, reduces the time and costs on execution of documents. The law pursues general reduction of the list of sites coming within industrial safety expert examination by the government.

The law also specifies the reduction of job specification on geological examination of resources if state geological examination of their project documentation is carried out. This will allow cutting costs of the Republic's budget.

The law introduces the equality of opportunity while allocating resources sites for making both investment and concession contracts. In future this must ensure more investors getting involved in the exploitation of deposits, as nowadays investing activities based on making concession contracts are not in high demand as their terms are less beneficial as compared with the terms of investment contracts.

The new law simplifies the process of geological and mining leases for legal entities formed as a result of the reorganization. If the firm had already acquired the right to mine minerals, newly reorganized company will continue to



do the same on the basis of the application of the legal entity in accordance with the transfer or separation regulations.

After the entry into force of the Natural Resources Code 2008, the executive and legislative branches of Belarus were constantly engaged in monitoring its enforcement practices. The executive and legislative branches of Belarus took into account the enforcement practices and the justified proposals of subsoil users and amended the law. The changes and additions of the above-mentioned law reflect the liberalization of the Natural Resources Code.

However, in some important areas a legislator enhances the protective function of the government in the use of mineral resources. The government imposed restrictions and prohibitions on mining in the areas under special protection. The aim of such a protection is achieved by introducing a certain order of conservation and liquidation of mine openings because the procedures of liquidation and conservation of mines and underground facilities not related to mining and excavation differ in the nature and volume of work performed and in the possible impact on the environment.

Such a balance between liberalization and protectiveness of legislation on mineral resources is justified in the light of current global trends. The basic principle of the exclusive state ownership on the subsoil helps to maintain this balance. The foregoing aspects of the Belarusian legislation on mineral resources are especially important for the functioning of the Customs Union of Belarus, Russia and Kazakhstan, as well as for the future of Eurasian Economic Union. In fact, while these three countries produce now just 2.6 % of world's GDP and 4% of world's export, there are 9% of world's proven oil stock and 25% of natural gas on their territory (I.V.Khalevinski, V.B.Kudryavtsev 20 years of CIS. *World and Politics*. 2012. no 2 (65), February, P.53).

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## Belarus is pregnant with charity

By Valentina Simkhovich

Socially responsible initiatives have been known in Western and Eastern societies for many years. The first form of social responsibility that was widely spread out in antique Mediterranean, later – in European countries, was charity. The result was that private business responsibility acquired a free will character and became seen through the prism of charity. Even today corporate social responsibility (CSR) and charity are often viewed as equal.

The Belarusian CSR practice in this regard is not an exception. Priority given to charity by home companies has the rational grounds for: the UNDP documents appropriate charity the highest CSR level. Most Belarusian companies start their way to CSR with charity projects, i.e. the forms supplied with their resources available and it complies with the world CSR practice.

Charity domination in Belarus has got another explanation. Socially oriented business was given the state support which was fixed by law acts and right there a growth of charity acts undertaken by businesses was noticed. The growth happened despite the economic crisis that according to the data of December 2011 poll revealed the businesses' positive attitude to the CSR practice in general. It was proved by their higher corporate social activities due to available possibilities and resources and increased charitable aid to those who are in great need under the crisis.

Figuratively one can say that Belarus is pregnant with charity and the latest realities prove its dominating position in Belarusian business social activity. Charity is realized in such forms as corporate philanthropy, charity marketing, social marketing, volunteering, sponsorship etc.

Of highest popularity among them is charity marketing, often called "percent policy". Many Belarusian companies transfer a certain percentage of their sales to accounts of various establishments – orphan or elderly homes, medical centers to buy drugs, equipment or cure the sick, help the disabled etc. The known examples of the policy are "Make good together!" act arranged by *Master's kitchen*, a frozen foodstuff producer, "Rainbow of Hope" by *Conte-Spa*, a hosiery producer, "Red Dress Collection" clothes' demonstration by *Mobile Telephone System*, a cellular operator, "Velcom Nice Numbers" charitable auction by *Velcom*, a cellular operator etc.

At the same time lack of simple and convenient mechanisms of giving aid is a certain barrier to charity wider development in Belarus. Its first aspect is in the fiscal area: lack of privileges and access to soft loans for business, complexity of paperwork of arranging donors' aid, indistinct understanding of whom and how to help etc. In particular, social projects are financed with the after-tax profits, and they are not the grounds to have any tax privileges or preferences. Moreover, due to mentioning in legislation the CSR events can entail different tax loading for the company.

The other aspect lies in legislation. Due to lack of the systems approach to regulating different kinds of charity, charity and its form of sponsorship are regulated by isolated normative acts, realizing various, sometimes contradicting each other, approaches to regulating charitable activity. They do not give a mono-semantic interpretation of the terms relating with charity, but put an equal-sign between charitable (gratuitous) and sponsor aid. The donors' right to render charity is restricted by a limited number of purposes. The only criterion is compliance with the purposes determined by law but often the purposes of gratuitous help do not comply with the purposes determined by law. The list of organizations in the development of which the state can see social benefit is too limited and includes only entities of culture, information, physical culture and sport. These and other restrictions mean that legislation more constrains than stimulates charity development in Belarus.

Domination of charity may hide a number of other problems. One says that companies, willing to demonstrate their social orientation, render help to the needed ignoring their personnel interests. It is not

the situation in Belarus and the 2011-2012 sociological research revealed home businesses' understanding a connection between CSR and investments in personnel development (65%), bettering of working conditions (60%) and payment of high legal wages (49%). Willing to keep high quality employees under crisis Belarusian business did not apply to socially irresponsible restructuring, in particular to mass discharge of employees. Although large companies were the main source of unemployment in the republic, the prognostic indices of unemployment rate of 1.2-1.5% determined for 2012 by the State program of assistance of employment among the population were not exceeded.

Another problem is social dependence caused by charity. The Belarusian mass media inform of the people whose children have recovered thanks to charitable help but the still arriving money is spent by them on their personal needs – car purchase, rest abroad etc. In other words, using humanity of our society, some citizens are able to make profit on their own grief.

Despite its significance charity is a less favorable form of business and society interacting. As a rule, it is outside main business. For a company, it costs in the short time while for the society it is money "fallen from the heaven".

But as a form of investing into a social idea charity reveals a certain economic benefit for business. A company's participation in the social life via arranging charitable acts and projects is an additional stimulus for customers, investors, society of the whole to pay attention to its produce and results of activities that entail increased sales, stronger brand and reputation position, higher investments etc. As development of any business should be coordinated with solving social problems, CSR programs, charitable ones among them, should be integrated into its corporate strategy of sustainable development. If a company views its social programs as social investments, these programs have a big positive effect for both business and society. In particular, an enterprise's aid to a profile educational establishment produces a higher effect than its support of education in general.

There are examples of strategic charity in the republic, as well. *EPAM SYSTEMS* corporation interested in training Belarusian IT-specialists equipped laboratories in Belarus State University of Informatics and Radio-Electronics and Belarus State Economic University with SAP software. In March 2013 *TOMS Shoes* corporation started a "Walk together" charitable project aimed at making shoes for the needed children in Grodno region. The project is part of the state program of creating the system of rehabilitative and preventive services to avoid social orphanage.

At the same time corporate strategy does not deny charitable aid to those who are in need. In this regard priorities are coordinated in the dialogue with key stakeholders. Charity should promote initiative, intensify the stakeholder's resources and, finally, change the situation but not create dependence. It should attract potential partners giving them a chance for participation. Anyway, it should be coordinated with priorities of the state policy.

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## NATO occupies a half of Russia's foreign economic relations

By Kari Liuhto

The Russian military doctrine of 2010 identifies the expansion of NATO to Russia's borders as one of the main external threats of war (Moscow Times 8.2.2010). Contrary to Russia's military doctrine, Anders Fogh Rasmussen, Secretary General of NATO, said a year ago that the alliance does not present a threat to Russia, and furthermore, NATO currently does not consider Russia as a potential enemy (Sergei Vasilenkov, pradv.ru, 20.11.2012). Less than half a year later, Dmitry Rogozin, Deputy Prime Minister of Russia, who oversees the country's military-industrial sector, stated: "*We really need to understand what our strategic threats are, clearly define who our adversary is, what kind of adversary, and configure our Armed Forces and military-technical systems to counter those threats*" (RIA Novosti 20.3.2013). Russia's 2011-2020 arms procurement programme stipulates an annual upgrade of up to 11% of the military equipment (ibid). While Russia increases its military spending, several NATO members have simultaneously cut their defence budgets.

As an economist specialising in the Russian economy, I try to find an answer to this imbalanced situation through analysing the current state of the economic relations between Russia and the NATO member countries.

According to the statistics of the Customs Russia, the 28 NATO members account for a half of Russia's foreign trade. The majority of the Russian exports to the NATO countries consists of oil, natural gas, metals and other raw materials, and correspondingly, the NATO countries supply Russia with machinery and a great variety of consumer goods. Such an extensive trade would hardly take place among adversaries. Only the wildest conspiracy theorists suggest that the extensive trading is used as a means to destroy the counterpart.

The data of the Central Bank of Russia indicates that the role of the NATO countries as a source of capital and an investment target is more modest than the trade ties. A quarter of Russia's inward foreign direct investment (FDI) stock originates from the NATO member states and a third of the country's outward FDI stock has landed on the NATO territory. Before jumping into any conclusions, two essential issues should be kept in mind. First, if the tax havens and Cyprus, representing mainly the round tripping of Russian capital, would be excluded, the share of the NATO countries would be approximately 60% of Russia's inward FDI stock. The NATO stake in Russia's outward FDI stock would be even larger, close to 70%. Second, the capital inflows from the NATO countries to Russia are almost the same as the capital outflows from Russia to the NATO member states (approximately \$ 120 billion each) i.e. both parties have equally gained in this money exchange.

According to the Russian Federal Agency for Tourism, the NATO countries account for nearly a half of the outbound tourism of Russians. In 2012, over 7 million Russian tourists visited a NATO country. If we look the reverse side of the tourism, it becomes evident that only a bit more than one million tourists from the NATO area travelled to Russia last year. In relative terms, however, the NATO citizens cover a half of the inbound tourism to Russia. This statistical peculiarity is due to the fact that the outbound tourism from Russia is six times larger than the inbound tourism to Russia.

The tourism flows, the emigration data of Russia, the information on Russians studying abroad and the location of the Russian businessmen's and politicians' residencies abroad show that Russians are not afraid of spending their time in the NATO territory or even sending their younger generation to be educated there. If NATO would be a genuine enemy, we would

hardly witness such a widespread move of Russians to the NATO countries.

Russia's elder military staff and the personnel of security agencies have most likely spent less time in the West, which partially explains their reserved and antiquated attitude towards NATO. When the post-Soviet generation jumps into the boots, they will discover that the military threats have fundamentally changed since the end of the Cold War. A slight contradiction between the East and the West may still exist but they will find out that neither the West nor the East in particular is the same what it used to be during the Cold War. While having concluded so, one should be aware that there are strong interest groups inside Russia, NATO and elsewhere, which benefit from the NATO-Russia antagonism and hence are ready to a lot in order to preserve the illusion of adversary and by doing so maintain their revenues and influence.

When the economic relations between Russia and NATO are analysed as a whole, it becomes evident that about a half of Russia's foreign trade, foreign investment and foreign tourism are done with the NATO member states. The importance of NATO to the external economic relations of Russia is much stronger than Russia's economic significance to NATO. However, NATO is dependent on Russia as well due to Russia's large energy exports. Though the interdependency is by no means symmetric, it is hard to understand those views arguing that Russia and NATO are still enemies. One can ironically conclude: who needs friends if the economic relations with the foes are so good.

The accession of Finland and Sweden to NATO would further increase the economic relations between the Western military pact and Russia, since Sweden is a notable investor into the Russian economy and Finland's trade intensity per capita with Russia is the highest within the EU, excluding the Lilliput EU member states. Moreover, Finland is the 10th most attractive tourist destination for the Russians in the world. As Finland and Sweden are the most R&D-intensive economies in the globe, they could contribute to the on-going modernisation of Russia. Should Russia fail in its modernisation, the Russian Far East may turn into "*a raw material appendage of China*" as the Russian forefront professor Sergey Karaganov has phrased it (Russia in Global Affairs, 2.7.2011).

The appendage path will be a probable outcome if Russia has only one centre of external gravity. In order to avoid the Eastern appendage scenario, Russia will need both the EU and NATO as its second centre of gravity. The Eurasian integration will paradoxically fasten Russia's slide towards China, since most of the CIS states will decelerate Russia's modernisation pace rather than accelerate it.

It is easy to agree with Russia's Deputy Prime Minister Rogozin concerning Russia's need to understand its contemporary strategic threats and adversaries; sooner the better.

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