



Estonia

GDP grew by 9.8 % in 2005

According to the statistical authorities, Estonia's gross domestic product increased in 2005 considerably compared to the previous year. Forecasts for last year were 2-3% lower, therefore Estonia's economic performance significantly exceeded forecasts. GDP at current prices was EUR 10.54bn. Economic growth was mainly influenced by net exports and domestic demand. Regarding economic activities, the growth of GDP was mainly based on manufacturing (up by 12.1% y-o-y), wholesale and retail trade (13.2%), financial intermediation (29.2% y-o-y), transport and communication (9.2%) and real estate renting and business activities (6.2%). Relatively the largest growth figures were observed in financial intermediation (29.2%) and hotel and restaurant services (20.4%).

The Estonian Ministry of Finance expects the country's economy to grow 8.2% in 2006 and 7.7% in 2007. IMF estimations are 7.9% and 7.1% respectively.

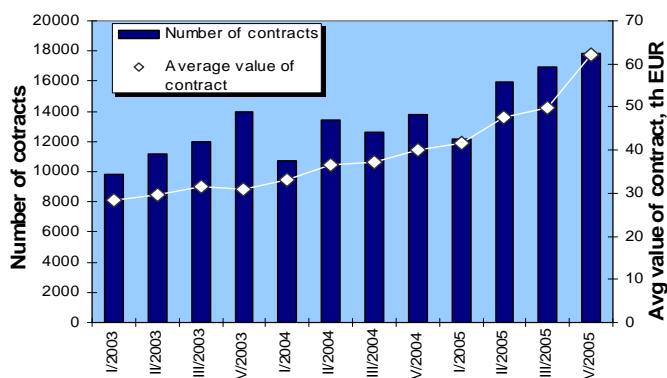
Employment all-time high

Estonia's unemployment rate dropped to 7.9% in 2005, which is the smallest since 1995. In 2005 the number of employed persons grew by 2%. According to Labour market Board on April 1st, there were 19,489 unemployed, which is 2.3% of the country's working-age population and the all-time lowest. The figure fell by 6% or 1,249 people compared to March 2006. Compared with April 1st last year the number of registered jobless fell by 35.7%.

Booming economy raises housing prices

Throughout Europe in 2005, Estonia had the highest increase in real estate prices. The average price for a residence in Estonia increased by a remarkable 28% y-o-y. The trend was mostly due to favourable mortgage loans, a relatively low starting point, an expanding economy, a rise in salaries and a lack of available homes and foreign investors. Since July 2004, mortgage interest rates in Estonia have been lower than comparable rates in the euro zone. It seems as if prices will increase as long as economy continues to grow and people believe in economic growth.

Number of contracts and average price



Source: Central Statistical Bureau of Estonia

Estonia - main economic indicators	1999	2000	2001	2002	2003	2004	2005	2006	as of
GDP (y-o-y %-growth, constant prices)	0.3	7.9	6.5	7.2	6.7	7.8	9.8		1-12/2005
Industrial production (y-o-y %-growth)	-3.4	14.6	8.9	8.2	11.0	8.0	9.7	8.9	1-2/2006
Inflation (CPI, end of period, y-o-y %-change)	3.9	5.0	4.2	2.7	1.1	5.0	3.6	4.1	3/2006
General government budget balance (% of GDP)	-3.7	-0.6	0.3	1.5	2.6	1.7			1-12/2004
Gross wage (period average, EUR)	284	314	352	393	430	466	555		Q4/2005
Unemployment (% end of period, LFS data)	12.9	13.9	11.9	11.3	9.3	8.5	7.0		Q4/2005
Exports (EUR million, current prices)	2 239	3 445	3 698	3 642	4 003	4 770	6 212	1 045	1-2/2006
Imports (EUR million, current prices)	3 224	4 615	4 798	5 079	5 715	6 704	8 192	1 415	1-2/2006
Current account (% of GDP)	-4.4	-5.5	-5.6	-10.2	-12.1	-12.7	10.5		1-12/2005

Source: Statistical Office of Estonia, Bank of Estonia, Eurostat, author's calculations

Estonia's trade deficit is increasing again

The foreign trade deficit for last year was EUR 2bn (EEK 30.8bn). In February 2006, the deficit was almost EUR 160mln (EEK 2.5bn), whereas it was EUR 140mln (EEK 2.2bn) in February a year before. Foreign trade turnover increased by 25% in 2005 EUR 14.3bn, of which exports were EUR 6.2bn (43%) and imports, was EUR 8.2bn (57%). Exports grew by nearly one-fifth last year, and the real growth rate of exports this year is expected to end up in the region of 13%.

In February 2006 the value of foreign trade increased by 26% y-o-y and 8% compared to January 2006. The share of EU-25 countries in exports in February was 63% (78% in 2005) and import 70% (76% in 2005).

Euro adoption will be delayed

Estonia will not join the euro area on January 1 as planned, because the country cannot meet the European Union's inflation target. However Estonia aims to join the euro zone as soon as possible. The decision is made that the necessary technical preparations, with the goal of being prepared for adoption on January 1st, 2008. The latest forecasts show that Estonia will be able to fulfil the inflation criteria in mid-2007. That implies euro adoption may come on January 1, 2008. The Estonian government plans to have its inflation rate measured for euro adoption in the summer of 2007. The long term economic forecast shows that for the next two years will be the best time for determining the inflation rate. Preliminary forecasts show that Estonia can meet the criteria, not by the end of this year as was previously forecast, but in the first half of next year. Estonian inflation, judged by euro-entry rules, was 4.0 percent in March, around 1.5 percentage points too high. Estonia's Central Bank raised its forecast for inflation this year to 3.6% from 3.4% in November. It also forecasts prices will increase by 3% in 2007 and grow to 3.7% in 2008.

Some business highlights

- § Trigon Gardening has opened a gardening centre Hortes in Tallinn. It is the largest gardening centre in Eastern Europe with area of 3,500 m². The investment is worth EUR 2.8mln. It also plans to build up a 20% share of the Finnish garden market.
- § Tallink introduces its new ferry M/S Galaxy, which is one of the biggest ferries in the Baltic Sea region, worth EUR 166mln. The regular Iship routes will start on May 11th.
- § According to Forbes, Estonia is ranked 8th in the world in terms of their welcome.
- § Tallink has borrowed EUR 240 mln to purchase three Superfast ferries The contract being worth EUR 310 mln. The vessels will sail under the Estonian flag on the routes Hanko-Paldiski and Paldiski-Rostock. Tallink purchased four, Superfast ferry IX for EUR 104mln, which run in same routes.
- § Estonian Cell will start to produce cellulose in their new factory in May. The Factory cost EUR 166mln, one of the biggest industrial investment in Estonia.
- § Meridiaane Ltd, owned by Viktor Levada has won the Tallinn City auction for three properties located opposite Hotel Olympia. Properties at Juhkentali 1b, 3d and 3e was transferred at EUR 38 mln.
- § Estonian Railways plans to build a new head office on Tehnika Street in Tallinn. The building will have seven floors and be 28 metres of high.

Latvia

GDP in the 2005 expanded by 10.2%

Latvia's rapid economic growth continued last year and exceeded most forecasts, which were near 7% for 2005. Latvia's GDP increased by the highest rate since the country gained independence and reached the highest growth rate amongst the EU countries. In the fourth quarter, their economy expanded 10.5% and during the previous three quarters of the year, Latvia had the hottest economy in the Baltic region. The increase in 2005 GDP was due to rises in the following sectors: 17.4% increase in trade sector, 16.2% in transport and communications, 6.3% in manufacturing and 15.4% in construction. Approximately one-third of the overall GDP growth is accounted from the trade sector, which has also been the fastest growing among Latvia's key industries.

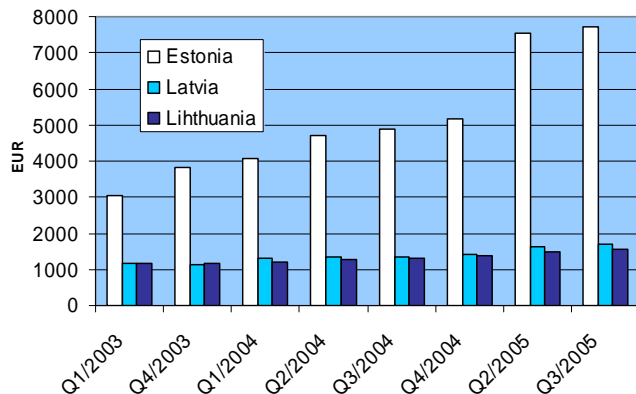
Further robust economic growth is expected, since Latvia's GDP growth for this year is forecasted to be around 8%, which is 10.7% or more than in 2004.

Latvia's budget surplus is 0.2% of GDP

National budget last year had a surplus of EUR 21m or 0.2% of GDP. The budget deficit level in Latvia has never exceeded 3% of GDP. Moreover, the government debt ratio does not exceed the 60% criterion to GDP. In 2005 a reduction of the government debt was observed, to lower Latvia's public debt rate to 11.9% of GDP.

In 2005, Estonia had state budget surplus of 1.6% while Lithuania had a budget deficit as 0.5% of GDP. In the EU25, the aggregate budget deficit fell from 2.6% to 2.4%. In 2005, the lowest ratios of government debt to GDP were recorded in Estonia 4.8%, Luxembourg 6.2%, Latvia 11.9% and Lithuania 18.7%, whereas the overall EU25 public debt ratio was 63.4% of GDP.

Foreign direct investments per capita



Source: Statistics Lithuania

Small companies growth halved in 2005

In 2005 preliminary information shows that growth in small companies has slowed down. The average turnover of 2,190 small companies that have returned their annual reports to the Register of Enterprises for the last five years showed a growth of 10.7% y-o-y, whilst in 2004 the corresponding rate was 21.2%. The net profit of Latvia's small companies last year grew by 14.8%, while a year ago the growth was 28.6%. Nonetheless, 2005's overall turnover and profit as well as profitability index of

these small size companies will be larger than in year 2004. The net turnover growth of these companies increased via economical reasons and via the number of deals of higher value.

Inflation shows no sign of abating

Consumer prices in Latvia continued their stratospheric climb, growing 1.1% month-on-month from December 2005 to January 2006 and 0.4% to January to February. Simultaneously Latvia's annual inflation reached 7.5% being remarkably higher than in the neighbouring countries. Consumer prices were mainly influenced by food (especially vegetables) prices. In addition, gas and fuel prices rose rapidly. In March, annual inflation was 6.6%, being the highest in the EU, while the lowest annual rates were observed in Poland, at 0.9%. Euro-zone's annual inflation was 2.2% in March. Latvia's government is struggling to bring inflation down enough to make the currency switch-over. External factors such as the petrol price rise alone, creates worries about a new inflation peak and a steep rise in consumer prices will not make situation any better.

Real estate market grew strongly

The real-estate market continues to grow and this can be seen in the increasing number of real-estate purchases registered in the Land Register. The number of contracts increased from 63,600 in 2004 to 68,700 in 2005. The proportion of residential buildings was 76%. The highest average value per sales transaction of residential buildings with land was in Jurmala EUR 127,000, followed by Riga EUR 111,000. The average price per square metre of the total floor space of dwelling rose during the year by 27% and was EUR 268 in Riga in 2005. The highest demand and prices for dwellings were in Riga and in the vicinity around Riga.

Some business highlights

- § Tallink and Riga Free Port have signed an agreement on establishing a regular ferry service between Riga and Stockholm. Tallink had been planning to use its passenger liner Fantaasia. Investments for upgrading the Riga Port are worth EUR 1.4 mln.
- § World's largest mobile operator Vodafone has extended its partnership with Latvia's BITE Group. The agreement will allow Vodafone subscribers to access its services in Estonia and Lithuania as well as Latvia.
- § Latvia's leading hotel chain Kolonna Hotel Group plans to open 15 three star hotels in Latvia over the next five to six years. The company presently has three hotels in Riga and the company will no longer renovate old buildings.
- § Finnish state owned Wine and Spirits House Altia Corporation has bought Mobil Plus ADV, Latvia's second biggest vine and spirit company. Altia aspires to become the leading alcohol beverage company in the Baltic countries within three years.
- § Marks&Spencer is planning to open a 930m² shop in Riga this autumn.
- § Hilton and Scandic hotel chains plan to enter the Latvian hotel market with high and mid-market hotels. And talks with potential investors have started.
- § Lietuvos Telekomas changes its name to TEO LT and will launch digital TV rebroadcast services on the internet at the end of this year.
- § Latvian egg producer Balticovo has started to build a new egg production unit at a cost over EUR 12mln. Balticovo produces 265 mln eggs a year at present but hopes to produce 320 mln eggs a year after the new production unit is launched.

Latvia - main economic indicators	1999	2000	2001	2002	2003	2004	2005	2006	as of
GDP (y-o-y %-growth, constant prices)	3.3	6.9	8.0	6.5	7.2	8.5	10.2	9.3	1-2/2006
Industrial production (y-o-y %-growth)	-8.8	3.2	6.9	5.8	6.5	6.0	5.6	9.3	1-2/2006
Inflation (CPI, end of period, y-o-y %-change)	3.2	1.8	3.2	1.4	3.6	7.3	7.0	7.5	3/2006
General government budget balance (% of GDP)	-4.9	-2.8	-2.1	-2.3	-1.2	-0.9	-1.0		1-12/2006
Gross wage (period average, EUR)	225	268	282	297	298	314	350		Q4/2005
Unemployment (% end of period, LFS data)	13.2	13.3	12.9	11.6	10.3	10.3	7.8		Q4/2005
Exports (EUR million, current prices)	1 613	2 020	2 232	2 416	2 559	3 204	4 086	637	1-2/2006
Imports (EUR million, current prices)	2 758	3 453	3 910	4 284	4 634	5 671	6 879	1 131	1-2/2006
Current account (% of GDP)	-9.0	-4.8	-7.6	-6.6	-8.1	-12.9	-12.3		1-12/2005

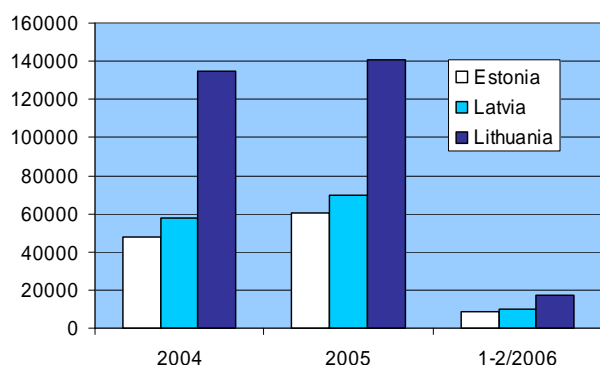
Source: Central Statistical Bureau of Latvia, Bank of Latvia, Eurostat, author's calculations

Lithuania

GDP grew by 8.1% in the first quarter of 2006

According to provisional estimates, over the first quarter of 2006 GDP rose by 8.1% compared to the respective period of 2005. Value added increase was generated in almost all economic activities, in particular in those related with production and consumption. The most vigorous growth over the first quarter was observed in economic activities related with manufacturing (13.7 % y-o-y), real estate, renting and other business activities (10.6 %), construction (9,4 %) as well as in wholesale and retail trade (9.2 %). GDP per capita was 8.5% more than in the corresponding period of the previous year.

Number of car first registrations



Source: Monthly Bulletin of Latvian Statistics

According to statistics, Lithuania takes the last place among 26 European countries by the number of new passenger cars purchased. Even though the number of new cars is much more than in Estonia and Latvia, we should keep in mind that Lithuania has 3.4mln inhabitants instead of Estonia's 1.3mln and Latvia's 2.3mln. However, the Lithuanian growth rate in new cars is more optimistic. The total numbers of passenger and commercial vehicles purchased in Q1 2006 were 4,063 and 3,936 respectively, showing a 34% increase from the same quarter a year ago.

Lithuania's FDI grew 16.1% in 2005.

Foreign direct investment to Lithuania rose to EUR 5,446 mln last year. The amount was up EUR 753mln by y-o-y, which is 16.1% more than previous year. FDI per capita was EUR 1,600, which rose EUR 231mln from 2004. Russia showed an active interest towards Lithuania, with investments making up about 12.9% of total FDI and almost doubled its investments to Lithuania. Meanwhile the share of US and British investments dropped by half. Over 2005, the most significant increase was observed in electricity, gas and water supply (45%), manufacture (12%), and financial intermediation-related enterprises (21%).

Lithuanian investments abroad have been climbing steadily for the last two years and amounted to EUR 597mln in 2005, which is 1.9 times more than a year ago. The biggest share of investment fell per Latvia (41.9 per cent of total FDI abroad), the Ukraine (12.9%) and Russia (12.7%, of which in the Kaliningrad region – 9.9%). Over 2005, Lithuania's FDI in the EU increased by EUR138 million (61.7%).

Three Baltic Prime Ministers approved construction of nuclear plant in Lithuania

The Prime Ministers of the three Baltic States signed a joint communiqué, in which they agreed to prepare, during 2006, a common Baltic Energy Strategy, as well as to support the initiative to construct a new nuclear plant in Lithuania and invite the energy enterprises of the Baltic States, such as "Lietuvos energija", "Latvenergo" and "Eestienergia to invest in the project and construction of the new nuclear plant in Lithuania. The communiqué also states that the possibilities for the development of a liquefied gas terminal and storage facilities should be examined.

Lithuania submitted a formal request for euro

Lithuania submitted a formal request to the European Commission and the ECB to evaluate the country's euro compliance on 16th march. At present Lithuania meets the Maastricht criterias, concerning the public sector deficit (0.6% of GDP) and debt (18.7% of GDP), which are among the lowest in the EU. The inflation indicator is close to The Maastricht criterion, while recent changes in the inflation rate have been influenced mostly by external factors. The European Commission and the ECB will prepare their report in May, whilst the final decision will be passed in July.

However, Lithuanian consumer prices rose 0.2% from February to March, keeping the inflation rate above the limit for adopting the euro. This can mean delays on plans on joining the euro zone in 2007. It seems, that the country's only chance is for the limit, based on a moving 12-month average, to rise closer to Lithuania's inflation rate, now at 2.7%. Euro candidates need to keep their inflation rates to 2.6%, one percentage point lower than Lithuania's 12-month average for that month. Only Slovenia has a good chance of meeting the Maastricht criteria. The commission is due to rule on May 16 whether the countries are eligible.

Some business highlights

- § Klaipeda Furniture has received obligations to manufacture furniture worth 145 mil€ for Ikea in four-year period. The Ikea order will guarantee the utilisation of all Klaipeda Furniture capacities for at least four years.
- § Russia's banks are interested in the Lithuanian market and probably will enter it in the coming years. Minimum language barrier and warm relationships assist achievement and eliminate barriers.
- § YIT Kausta becomes Lithuania's largest construction group, while its growth rate was 94% in 2005. It superseded Ranga IV from first position, while its sale increased 48%.
- § The European Cities & Regions of the future 2006/07 contest has ranked Vilnius as the clear Baltic City of the Future, securing EUR 2.8 bn of FDI in 2004. Vilnius scored highly for its educated workforce, good universities, IT and quality of life.
- § The parliament of Lithuania, the Seimas, has accepted a complement to the criminal code, whereby malpractice of EU-documents may lead to imprisonment up for six years. Until now, penalties concerning malpractice of EU funds have not been imposed in Lithuania.
- § Sanitas purchased the Polish pharmaceutical company Jelfa. The bid for an 84.5% stake was about EUR 135mln. The deal represents the single largest investment by a Lithuanian company in the neighbouring Polish economy.
- § The Lithuanian Ministers of Economics and Transportation met representatives of Boeing, the US aircraft manufacturer and discussions concerning possible cooperation were made.

Lithuania - main economic indicators	1999	2000	2001	2002	2003	2004	2005	2006	as of
GDP (y-o-y %-growth, constant prices)	-1.7	3.0	6.4	6.8	10.5	7.0	7.5	8.1	1-4/2006
Industrial production in sales (y-o-y %-growth)	-9.9	2.2	16.0	3.1	16.1	10.8	7.3	14.3	1-2/2006
Inflation (CPI, end of period, y-o-y %-change)	0.3	1.4	2.0	-1.0	-1.3	2.9	3.0	2.7	3/2006
General government budget balance (% of GDP)	-5.6	-2.5	-2.0	-1.4	-1.2	-1.4			1-12/2004
Gross wage (period average, EUR)	231	263	274	293	311	335	421		1-12/2005
Unemployment (% end of period, LFS data)	15.3	16.9	17.9	13.0	11.6	10.6	7.1		Q4/2005
Exports (EUR million, current prices)	2 583	3 841	4 778	5 526	6 158	7 478	9 502	1 618	1-2/2006
Imports (EUR million, current prices)	4 340	5 650	6 767	7 943	8 526	9 959	12 446	2 017	1-2/2006
Current account (% of GDP)	-11.2	-5.9	-4.7	-5.1	-6.8	-7.7	-7.0		1-12/2005

Source: Statistics Lithuania, Bank of Lithuania, Eurostat, author's calculations

Poland

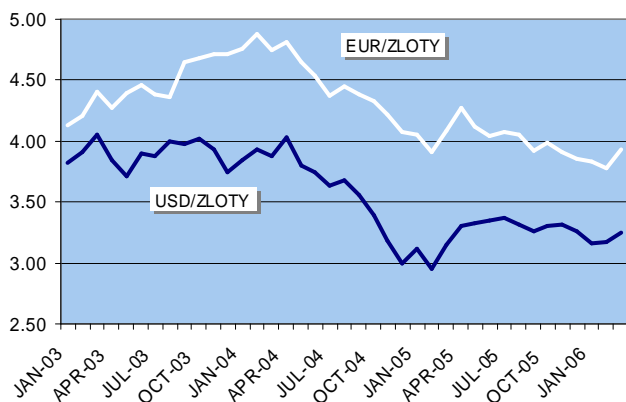
GDP growth 3.2% in 2005

In 2005, the Polish economy grew at a slower rate than economists expected. Poland's GDP grew by 2.1 percentage points less than in 2004. The year began unimpressively with only 2.1% economic growth. The following quarters of 2005 showed that the economy was gaining momentum, with an increase in consumption and investment. In the second quarter GDP grew by 2.8% and in the third, 3.6% compared to the corresponding period in 2004. The last three months of 2005 were particularly successful. Industrial production, sales, wages and construction output and employment increased more than economists predicted. In the fourth quarter, GDP grew 4.0%. In 2005 the Polish economy grew primarily through strong export sale, while domestic demand was slow.

Exports still growing

Exports, which have been the driving force behind Polish economic growth for the last few years, are still on the rise. In 2005, the value of Polish companies' aggregate exports amounted to EUR 71.4 bn, which is the best result in their history. Export growth was not even slowed down by the exceptionally high value of the zloty. Exporters were able to find new way to reduce their costs and increase the quality of products. Because of the strong zloty they are now able to import the newest technologies at lower price. This in turn allows companies to expand the range of goods, thus they are able to meet and offer new market demands. The Ministry of the Economy predicts that in 2006 the value of Polish exports and imports will rise by about 10%, whilst exports reach a value of EUR 80 billion and the value of imports will grow to EUR 89 billion.

Zloty alteration in rates



Source: National Bank of Poland

Investment on the rise

According to Central Statistical office (GUS), enterprises in Poland reported investment outlays of close to EUR 17bn, which is 9.6% higher than in the previous year. The highest growth in investments during the period in question was noted in such sectors as financial intermediation, mining and construction. Investment outlays in manufacturing rose 3.6%, which is a moderate rate overall, although in certain sub-sectors investment growth was strong, such as in the manufacture of basic metals (up by 80% y-o-y), pulp and paper

(78%) the manufacture of tobacco products (49%) as well as the manufacture of medical precision and optical instruments, watches and clocks (40%). The growth rate of investments is expected to remain high this year.

Unemployment remains the same

According GUS, the registered unemployment rate stood at 18% at the end February, which is the same rate as in January, but down on the figure of 19.4%, recorded in February 2005. In February, there were 2.87 million registered unemployed people in Poland. The situation in the labour market should improve gradually in the following months and the Polish Market Review forecasts that the unemployment rate will fall to 16.4% at the end of 2006. Despite the improvement, this remains the worst result in the EU.

Special Economic Zones will be enlarged

Polish government passed the amendment to the special economic zone (SEZ) bill and the area of SEZs will be enlarged to 12,000ha. It will enable an acceleration and simplification of accomplishment of the investment projects, which have great importance for Polish economic development. The strategic investors have the opportunity to benefit from the support mechanism that is applied in the SEZs, including purchasing land on preferential terms. The Agricultural Property Agency will be allowed to turn over the possessions free of charge for the investment projects in the special economic zones. The possibilities of using the Zone Fund's financial resources for supporting new investments will also be significantly larger.

Some business highlights

- § Hewitt Associates, one of the world's largest contractors in the field of human resources management has opened a centre in Krakow. It is to employ approximately 300 people. It is company's second branch in Poland.
- § Procter&Gamble, the world leader in the fast moving consumer goods branch, is planning to construct another facility near their already existing factory in Warsaw. The investment is estimated to be worth EUR 100m. A final decision is to be made in June.
- § Philips Lighting Poland SA began built a new warehouse and logistic centre in Pita in April. The planned value of the project is EUR 15mln. The 25,000m² investment project is scheduled to be completed in March 2007.
- § Jelenia Plast, a producer of plastic household appliances, intends to build a plant in Kamienna Gora SEZ. Construction is planned to start in 2007 and it is approximately worth EUR 10mln and employ at least 100 people.
- § Shell will open its financial and accounting centre in Poland, which will ultimately provide jobs for around 800 people. Project will start in June this year. It is estimated that Shell will spend some EUR 7mln for the implementation of the project.
- § Sharp, the Japanese electronics concern, is building an LCD television factory in Lysonec. The plant will be launched in January 2007. Investment is worth EUR 44mln and employs 1,700 people
- § Electrolux is planning to launch two new plants in the Walbrzych Special Economic Zone. The first factory is worth EUR 40mln and is scheduled to open in April and second at the end of this year. The first factory is expected to provide work for 400 people.
- § Fiat-GM intends to step up production of diesel engines at its factory in Bielsko-Biala. New production line will cost more than EUR 80mln and create work for 300
- § The banking sector in Poland noted a net profit of approximately EUR 2.3bn last year, which is nearly one third higher than in 2004, which was also very good year.
- § Electronic Data System (EDS), an American company that providing IT business services, is considering locating its service centre in Poland. The new EDS centre would create 2,000-4,000 jobs and value of investment can rose to \$20mln.

Poland - main economic indicators	1999	2000	2001	2002	2003	2004	2005	2006	as of
GDP (y-o-y %-growth, constant prices)	4.5	4.2	1.1	1.4	3.8	5.3	3.2		1-12/2005
Industrial production (y-o-y %-growth)	3.6	6.7	0.6	1.1	8.3	12.6	4.1	10.3	1-2/2006
Inflation (CPI, end of period, y-o-y %-change)	9.8	8.5	3.6	0.8	1.7	4.4	0.7	0.7	2/2006
General government budget balance (% of GDP)	-1.4	-0.7	-3.7	-3.3	-4.8	-3.9			1-12/2004
Gross wage (period average, EUR)	401	472	557	544	497	505	591		1-12/2005
Unemployment (% , last survey in the year, LFS data)	15.3	16.0	18.5	19.7	19.3	18.0	16.7		Q4/2005
Exports (EUR billion, current prices)	25.7	34.4	40.4	43.4	47.5	60.0	71.4	6.2	1/2006
Imports (EUR billion, current prices)	43.2	53.1	56.2	58.3	60.3	71.8	80.6	6.6	1/2006
Current account (% of GDP)	-7.6	-6.0	-2.9	-2.6	-2.1	-4.2	-1.6		1-12/2005

Source: Polish Official Statistics, National Bank of Poland, Eurostat, author's calculations

A Good Foundation for the Future

by Per Stig Møller

The course of events in the Baltic Sea Region has in many ways been extraordinary. The Cold War is merely 16 years away, but in that short time span the region has developed into a very peaceful and prosperous one with crosscutting cooperation among all the countries in the region. Indeed a prime example of development and restoration of relations. Looking forward, regional cooperation is the answer to many challenges.

A prime example

The peacefulness and prosperity of the region has been consolidated through extensive and multifaceted cooperation. A fair amount of good will from all parties has been an important ingredient. Organizations such as the Council of the Baltic Sea States (CBSS) and others have provided important channels of communication for political leaders and officials. Citizens, NGO's, municipalities and private businesses were quick to find ways of exchange and cooperation, laying the ground for restoration of ties at all levels.

In the beginning, relations focused mostly on how we could help the Eastern European countries in their transition from a communist system to democracy and market economy. Ranging from good-lawmaking over the environment and military to advice on business, the projects were as multifaceted as they were constructive. Soon however, such projects became obsolete – one example being the fulfilment of the mandate of the CBSS Commissioner on Democratic Institutions and Human Rights in 2003. Early on, the perspective of EU and NATO membership was a driving force. Denmark played a major role in the fulfilment of that vision. Likewise the Partnership for Peace (PfP) initiative has been a major priority, encompassing not only the countries in the Baltic Sea Region, but also countries in the perimeter of the region. We are now all partners in the EU, NATO and other international fora. The question thus arises: how can our regional cooperation contribute in the future?

Looking forward

In a globalized world, where one does not necessarily look to ones neighbours first, developing regional relationships is still an important priority. True, we cooperate in the UN, EU, NATO and other organizations. There are however areas in which regional cooperation is the best approach or a needed supplement to ongoing cooperation at other levels. Moreover, existing regional initiatives could benefit from being expanded and deepened.

Take the environment for example. The countries in our region border the same sea, and we are all interested in preserving its wildlife and keeping it clean. A lot has been achieved through regional cooperation in this area, but we have to continue our efforts to the benefit of our citizens and future generations.

Another important area is energy. We all have an interest in working together to secure energy supplies and develop new and efficient technologies. Through cooperation we can achieve an adequate supply at competitive prices while still focusing on preserving our environment.

Health, especially when it comes to communicable diseases, is another area where cooperation is important. One compelling example is the recent spread of bird flu. Further efforts are also necessary to combat transnational crime, including trafficking and child abuse, which are serious problems in our region today.

All this said, it is important to stress that regional cooperation should bring additional value to the countries. We should not duplicate efforts of other organizations, nor should we cooperate just for the sake of cooperation. Instead, we should focus on areas where regional cooperation is the natural answer.

Together in a globalized world

These are all concrete ideas for further cooperation. There is however one more reason why cooperation of the Baltic Sea States makes sense: Globalization. Each country will benefit from being located in a strong and prosperous region, where business and welfare thrives. We must be economically and politically strong and we must have something to offer. We have to work together to develop our region further.

Research and development is a strong Danish priority, as it is for many in the region. Some countries in the region exhibit an incredible dynamism and vitality, displaying annual growth rates of 5-6% and thriving businesses. We could learn something from the entrepreneurial environment and we could offer cooperation in research and development. The EuroFaculty program and other such initiatives have laid the grounds for an extended cooperation in research and development, as has the many contacts between businesses.

Our region has a long history of cooperation and trade dating back to the Hanseatic League where the region prospered for the first time. We are so similar in many ways and have such a long common history – according to the legend, the Danish flag appeared across the Baltic Sea in Estonia. The pause in our relations represented by the Cold War was just that, a pause. By working together and building on our joint history, much more can be achieved in the future.

Dr. Per Stig Møller

Minister of Foreign Affairs, Denmark

Baltic Window of Opportunity

by Alexander Stubb

The latest enlargement of the European Union made the Baltic Sea - with the exception of Kaliningrad and St. Petersburg areas - something of an EU inner lake. A northern and modern version of *mare nostrum*, you might say.

After a long period of division and confrontation, the Baltic Sea is once again a gateway for free movement of people, goods and services. Upcoming Finnish and German EU presidencies open a window of opportunity for strengthening the region's economic integration within the EU framework.

In theory, EU's regional and cross-border cooperation should be conducted via the Northern Dimension Policy (ND), established already in 1999. The ND, however, is a part of EU's external relations policy and is often seen as a regional application of the EU-Russian co-operation. EU's Baltic Sea co-operation lacks an inner pillar - A Baltic Sea strategy.

The goals of any regional co-operation are stability, prosperity and sustainable development. In other words, we should be dealing with security, economic and environmental policies. I will concentrate in this article on the economic point of view.

According to the Baltic Development Forum the Baltic Sea Region outperforms European peer regions in competitiveness. We have a strong physical infrastructure, skilled labour force and good educational systems. Still, the region's prosperity is far below peer regions. This can not be solely explained by the Communist period.

The region's main economic problem is the combination of the unfinished European internal market on one hand and our relatively small national markets on the other hand. Together these two factors lead to low competition and low efficiency. The Baltic Sea Chambers of Commerce has pointed out this problem in its 3T campaign: triple trade in ten years. One of the conditions for achieving this aim is to drop all temporary restrictions on the new member states' rights in the internal market. Adoption of the euro in the Baltic States and Poland will also help in further integrating the national economies of the region.

The difficulty of translating theoretical competitiveness and excellent education into economic prosperity is a common feature of almost all member states in the region. One of the key reasons is, once again, the small size of the national economies. This tends to concentrate business-sector R&D in a handful of large companies that rarely leave any breathing space for SMEs and strong clusters to emerge. The region needs a common innovation strategy.

Long distances are a distinctive feature of the region and make efficient logistics all the more important. Current transport systems are unfortunately designed mostly for national needs and are partially unable to meet the needs of growing goods and passenger transport in northern Europe. On top of its own intra-region trade, the region could also benefit transit trade thanks to its position as a link between East and West. This requires strong investing in e.g. sea transportation and the Via Baltica.

EU, Iceland, Norway and Russia are now negotiating new guidelines for the Northern Dimension from 2007 onwards. The practical work should be completed by September. The intention is to include the EU's partner countries more fully to the decision-making of the program and possibly include a new pillar on transport to the program. Finland, that put forward the original proposal for the Northern Dimension in the first place, plays a key role in this work.

This is all good, but will not answer the need for genuine internal co-operation. The region has the potential to become the economic core of Europe and it has an enormous task in saving the fragile sea itself from pollution. This can not be done without a sound political framework, including the Council of Baltic Sea States and the Nordic Council of Ministers.

The European Parliament has already expressed its view on the need for a Baltic Sea Strategy. The ball is now in the member states' court.

Alexander Stubb

Author is a Finnish member of the European Parliament (EPP-ED)



Perspectives of Baltic Sea Co-operation and the Role of the Council of the Baltic Sea States (CBSS)

by Gabriele Kötschau

The dissolution of the former Soviet Union and the breakdown of the Berlin Wall led to significant changes in Europe, including in the Baltic Sea Region. Once such major change that took place during the end of the 1980s and the beginning of 1990s was the establishment of numerous regionally focused organisations, all which aimed to develop and secure stability and prosperity in the Baltic Sea Region. Among these organisations were the "Baltic Sea Parliamentary Conference" (BSPC, 1991), the "Council of the Baltic Sea States" (CBSS, 1992), the "Baltic Sea Chambers of Commerce Association" (BCCA, 1992) as well as the "Baltic Sea States Subregional Cooperation" (BSSSC, 1993), the "Union of the Baltic Cities (UBC, 1991), the "Conference of Peripheral Maritime Regions of Europe – Baltic Sea Commission" (CPMR-BSC, 1996) and the "Baltic Sea Seven Islands Cooperation Network" (B7, 1989). Additional networks were established in the southern and northern regions of Europe, such as the "Black Sea Economic Cooperation" (BSEC, 1992) the "Central European Initiative" (CEI, 1989), as well as the "Barents Euro-Arctic Council" (BEAC, 1993) and the "Arctic Council" (AC, 1996; AEPS 1991).

The Baltic Sea Region is today at the "forefront of the enlarged European Union (EU)", situated within the core of the EU. It is without doubt that the latest EU-enlargement in May 2004 was yet another important milestone for regional co-operation in Europe. From a forward-looking perspective, there is good reason to believe that this enlargement will lead to better economic and social conditions for all, including in the countries that neighbour the European Union.

The CBSS, established by the region's Foreign Ministers in Copenhagen in 1992 as a response to the geopolitical changes in Europe, consists of eleven Member States and the European Commission. Notably, since the enlargement of the EU, eight out of the eleven CBSS Member States have become members of the EU. The valuable and constructive cooperation between the EU- and non-EU Member States within the CBSS is one very important, but not the only part of the colourful spectrum of activities in our region. The diversity of experiences in the countries around the Baltic Sea, stemming from their different systems, cultures and traditions, are an enriching factor for our entire area. Similarly, a shared history and a strong collective will to achieve economic growth and ecological development provide the driving forces for building a prosperous future and meeting the challenges globalisation. The increasing level of cooperation and networking in the region have promoted security and stability not only in the Baltic Sea Region, but also for the whole of Europe!

The newly independent states have, to differing extents, largely transformed themselves in just fifteen years – less than a generation. In particular, four of the new EU member states belong to the Baltic Sea Region. This process of transformation is ongoing, and, needless to say, it is already apparent that reforms are being implemented increasingly from the East, not from the West. Their economies are developing at a commendable pace and conditions are ideal for enhancing competitiveness. Moreover, these countries have a strong political will to capitalise on the present opportunities, and most certainly, their peoples are equipped with the skills required to see such changes through.

Whereas at the outset, the CBSS was mainly a forum for fostering trust and confidence – as well as for increasing cohesion between the countries with differing political, economic and historical backgrounds – the organisation today faces new challenges in developing and promoting issues of common interest.

To develop the Baltic Sea Region, we need close and constructive co-operation with the Russian Federation. As a full member

of the CBSS, Russia participates and contributes to regional work at equal footing with the other member-states and the European Commission. This fact makes our framework for interaction an important element in the ongoing EU-Russia dialogue concerning the creation of the four Common Spaces. The CBSS cannot replace bilateral dialogue between Russia and the EU-member states, or between Russia and the EU itself. Their relations, however, can be strengthened through enhanced cooperation in the fields of common interest, while respecting the need for more flexibility and pragmatism.

In addition, there is an obvious need for closer co-operation with the EU's new neighbouring countries, especially as this co-operation relates to Ukraine and Belarus. Already an observer-country to CBSS, Ukraine is now working to improve its contacts and concrete cooperation with the Council. As to Belarus, co-operation with the "family" of the CBSS working structures presently takes place on a practical level. Identifying and enacting solutions to the problems of illegal migration, organised crime, the trafficking of human beings and the spread of communicable diseases (including combating the spread of the bird flu!) require that we co-operate closely with all our neighbour countries in order to achieve success. This vision of "broader co-operation" should be treated as an opportunity to establish security and stability in a wider Europe, as well as an opportunity to solve common problems through joint efforts.

The variety of cultures found in the Baltic Sea Region makes the area very attractive, as well as the presence of well-educated and highly motivated people. To this end, the Euro-Faculties have hastened the extent of integration in the European higher education environment. Let us now focus our attention on activities that enhance cross-border learning and research, in order to make the Baltic Sea Region a region of knowledge, a region of tolerance and mutual understanding. Let us also give young people the tools to get to know their neighbours, their cultures, traditions and languages. By offering internships and scholarship opportunities at the CBSS Secretariat in Stockholm, the CBSS attracts young people from Iceland to Russia, from Italy to the United States.

Although we must admit that there still is a lot of work to do (as for example in the case of the removal of barriers to trade and investment in the region), and there still is a certain lack of overall trust and confidence in our region, the Baltic Sea Region is an excellent example of cross-border-cooperation and of the integration of regions in the developing area of Europe. Very importantly, dialogue and cooperation must continue; while concrete projects on all levels, including those emphasising the people-to-people-approach and the valuable role of NGOs, can contribute to further confidence-building and an optimal level of development.

This concept has proved to be successful for more than a decade and could potentially serve as a model for other regions in Europe and globally. The exchange of information and experiences with the Black Sea Economic Cooperation, but also with other regional organisations could be of value in working towards the peaceful and successful development of the whole of Europe and beyond. The CBSS is ready to actively contribute to the success.

Dr. Gabriele Kötschau

Director of the CBSS Secretariat

Development of the Kaliningrad Region - New Perspectives

by Felix Lapin

The Kaliningrad region is a special region of Russia endowed with a number of unique competitive advantages as concerns the location of industrial enterprises and implementation of investment projects.

Without any exaggeration the region can be considered as one of the most dynamically developing regions of the Russian Federation. It is proved by growth of the economy, volumes of the industrial production, wide range of trade links, cargo turnover of the Kaliningrad ice-free port. According to the experts' estimations in 2006 the growth of domestic regional product will make 14,6%, whereas the increase in the national average DGP will make only 7,8%. The growth of industrial production in the Kaliningrad region made 57% (whereas the Russian average was registered at 9%).

In the Kaliningrad region the most important industries are mechanical engineering, metal-working, wood-processing, food industry, fuel and energy complex. Composite processing production index reached 104% in January-December 2005. The most significant increase was in wood processing industry – by two folds, food industry – 117%, textile and clothing manufactures – 112,3%.

The dynamics of development of the external economic ties demonstrate that the region gradually becoming a large center of export and import operations. At present, about 300 enterprises in the region are engaged in export of their products to over 70 countries of the world. The structure of export is dominated by oil, fish products, vessels and boats, fertilizers, cellulose pulp, products of inorganic chemistry, ferrous and nonferrous metals and products manufactured of these metals, paper and cardboard, machine-tools, machinery, and equipment.

Increase of import is determined by the establishing of local enterprises dealing with automobile and household appliances assembling, manufacturing of ready-made fish and meat production, and rapidly developing construction industry.

The main factors, which determine economic development of the Kaliningrad region, are the following:

- § Nearness to European markets
- § Intersection of inland, water and air ways and routs of transportation and communication.
- § European and Russian railroad gauges
- § Ice free ports
- § State policy of the Kaliningrad region
- § Determined priorities for the future regional development
- § Special economic zone (two laws on SEZ in vigor)
- § Federal Target Program for Development of the Kaliningrad region up to the year 2010
- § Wide experience of international cooperation

- § -Region of cooperation between EU and Russia on social, economic and political development.

Implementation of the Special economic zone (SEZ) on the territory of the Kaliningrad region laid the groundwork for sustainable and dynamic development of the region. Legal status of the SEZ was determined by the Federal law "On special economic zone" from January 22, 1996. Changes happened in the Kaliningrad region and Russia as a whole, determined the necessity to adjust the existed regime of the special economic zone to new realities. The new version of the law, signed by the President of the Russian Federation on January 10, 2006 became the result of active work on the regional and federal levels. This law comes into force since April 1, 2006.

Preferences for investors are summarized in the table below: The new law will provide favourable investment climate, boost competitiveness of the produced goods, and create effective mechanism for the economic relations in the Kaliningrad region, which contributes to the development of exclave as a region of Russian-European integration.

It is clear for the Government of the region, that there is a necessity to accomplish the targeted transformation of the regional infrastructure in the nearest future. First and foremost, it concerns the following perspective activities:

- § Encouragement of export-oriented production
- § Development of import-substituting production
- § Encouragement of innovations, research and development activities in production
- § Implementation of resource-saving technology
- § Development of small-scale power generation (compact water-driven power station, wind-powered generator, bio-fuel etc.)
- § Positioning of the Kaliningrad region as an export site to European and USA markets
- § Adaptation of EU and Russia standards on industry, ecology, infrastructure etc.

There is still a lot of work ahead aimed at large-scale development of energetic and transport complexes of the region. On the top priorities is the development of tourism, creation of resorts, leisure facilities and scientific centers. The Kaliningrad region is ready to provide support to all companies coming to the region with mutually beneficial proposals.

Felix Lapin

Minister of Economic Development

The Government of the Kaliningrad region

The Kaliningrad Region	
SEZ of the Kaliningrad region: two preferential regimes for investors	
Customs preferences	Tax preferences
<ul style="list-style-type: none"> - Established for the enterprises, which have been registered in the Kaliningrad region before April 1, 2006 and which enjoy preferences, provided by the Law from 26.01.1996 №13-FZ - Foreign goods imported in the territory of the region should be exempted from customs duties and taxes. - Goods exported from the Kaliningrad region to other regions of the RF should be exempted from customs duties if: <ul style="list-style-type: none"> - the commodity classification code has changed at the level of any of the first four digits - the share of the added value has reached 30% These conditions of SEZ will function for 10 years	Pre-conditions: <ul style="list-style-type: none"> -make capital investments -the volume of capital investments should be no less than 150 million rubles -investment period for capital investments should be three years Benefits for investors: <ul style="list-style-type: none"> -Income and property tax rates are: <ul style="list-style-type: none"> -0% for the first 6 years -50% reduction from tax for the next 6years -guarantees to the investors are provided by the law -the law will function for 25 years

Prospects and Challenges of the New Law on Kaliningrad Special Economic Zone

by Elina Pelto

Kaliningrad region is in many ways unique among Russian regions: it is the smallest of Russian regions, the youngest subject of the Russian Federation and the most western part of Russia. But first and foremost, it is the only enclave region of the Russian Federation.

The special location of the Kaliningrad region has worried Russian authorities since the region became separated from the rest of the country after the disintegration of the Soviet Union. In order to help the economic development of the region and ensure the supply of inexpensive consumer goods from abroad, the Yantar Free Economic Zone was created in Kaliningrad in 1991. In 1996 it was replaced by the law on Special Economic Zone (SEZ), and in the beginning of this month a new law on Kaliningrad SEZ came into force.

The SEZ regime from 1996 was based on free customs zone where the goods imported to the region were exempt from import customs duties and other customs levies. Also the goods produced in the SEZ and 'exported' to main territory of Russian Federation were exempt from customs duties and not limited by import quotas.

The status of SEZ was hoped to improve the region's economy and its population's living standard with the help of foreign trade and investment. However, the goal was not fully achieved: whereas the foreign trade of Kaliningrad region – especially imports – has grown substantially and the region has become a favorable import channel to the Russian markets, foreign investment to the region has remained very modest. Furthermore, the regime offering substantial customs privileges is considered to have contributed to the decline in the local industrial output as many local producers failed to sustain the pressure of cheap imports. Although the industrial production of the Kaliningrad region has experienced relatively strong growth in the last few years, the economic development of the region is hoped to yet improve with the help of large investment projects that the new law on Kaliningrad Special Economic Zone is expected to attract to the region.

The new law on Kaliningrad SEZ was accepted in January 2006, came into force in the beginning of April 2006, and will be in force for at least 25 years. The new law offers tax breaks for new but sizeable investments: companies who invest at least 150 million rubles (USD 5.3 million) in the Kaliningrad region's production over a three year period are exempt from paying tax on profit (24%) and on property (up to 2,2%) for six years. For the following six years, investors are given a 50 percent discount on profit tax. However, for the companies that have been active in the region before the new law came into force, the customs privileges of the former regime will remain unchanged during a ten year transition period.

Already before its implementation, the new law created active debates over its pros and cons. First of all, the ten year transition period when both old and new regimes co-exist can, on one hand, be seen as a good idea, as firms operating in the region need some time to adjust their business processes and too fast changes might be disastrous for the region's economy. On the other hand, two simultaneous SEZ regimes create a complicated situation where some firms are

entitled to the tax breaks of the new regime, some firms to customs privileges of the former regime, and some to neither. The complexity requires more administrative capacity and control as the situation can easily lead to companies finding loopholes in order to minimize their taxes.

Secondly, the law offering privileges to large investment projects only, have not been welcomed by all. Some firms already operating in the region may find the legislative change debilitating their competitiveness. Small and medium sized enterprises (SMEs) are left outside the benefits of the new regime, although SMEs are generally considered to be one of the main sources of growth, economic flexibility and employment. Furthermore, probably the most promising regional cluster developed from the scratch within the last ten years in the Kaliningrad region is the furniture industry where the companies clearly belong to the group of SMEs.

Also the average foreign investment in the region is substantially below the limit required by the new law. Potential for attracting great amount of large new industrial companies to the region may be diminished also by the lack of available labor. Unemployment in Kaliningrad region is relatively low: on the first half of 2005 the official unemployment level was 1,7% and according to the ILO 4,5%. This is lower than in Russia on average and in the neighboring Lithuania and Poland.

Thirdly, the whole idea of offering tax breaks in order to attract large amounts of (foreign) capital to the region has been criticized. International evidence have shown that tax relieves do not play key role in firms' investment decisions. More important than tax breaks or customs privileges is a fair and predictable business environment. In this respect, probably one of the most important measures taken in the new law is securing its minimal term of existence for 25 years. The discussions of the destiny of the previous regime created uncertainty among local businessmen in planning their future activities. Thus, the new law is likely to strengthen the economic stability of the region, and decrease the investment risk.

The unique location of Kaliningrad region surrounded by the EU and the Baltic Sea could be seen not only as a disadvantage for the region's development. The location close to the European markets with relative good transportation connections certainly offers potential for the Kaliningrad region to become an important foreign trade hub in Russia. Only future will show how well the new SEZ regime manages to fulfill the expectations and attract also export oriented investments to the region.

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Co-operation and New Thinking Required for Protecting the Baltic Sea

by Juha Nurminen

The Baltic Sea is the most polluted sea in the world. Its biggest problem is eutrophication, i.e. the increase of basic biologic production caused by nutrient loads in the form of phosphorus and nitrogen. All seafarers are familiar with the symptoms of eutrophication: slimy shorelines, decreased visibility and, above all, the blooms of blue-green algae abundant every summer. Our common sea is in urgent need of practical and efficient protective measures. This is the eleventh hour for researchers and environmental actors, the public and private sectors and, above all, different countries to start addressing the problems as a unified front.

When the sea is in a state of distress, we must launch our efforts by analysing the overall situation. The metaphor about a doctor by the bedside of a dying patient is apt: we should set our priorities for the most urgent operations. St. Petersburg is by far the largest single source of pollution. More than 40% of all algal phosphorus, the key nutrient of blue-green algae, entering the Gulf of Finland originates from the sewage of St. Petersburg. Reducing phosphorus emissions is of primary importance for marine conservation, also in relation to other protective measures: if phosphorus is not eliminated, the abundance of blue-green algae may even increase when nitrogen emissions are being reduced by the states surrounding the Baltic Sea.

This is because the change in the nutritional balance makes the situation more favourable to blue-green algae at the expense of other species of algae. When the other groups of algae have used up all nitrogen, they can no longer proliferate too quickly. The blue-green alga, on the other hand, is capable of absorbing nitrogen direct from the atmosphere that always contains 78% of this element. The blue-green algae exploit this competitive advantage while also utilising the phosphorus reserves that are plentiful in the sea even towards the end of summer. Therefore, the phosphorus emissions of the main source, St. Petersburg, must be reduced immediately in order to avoid any negative side-effects resulting from protective measures taken in Finland, for example.

It is very challenging to try to motivate nations and countries recovering from social upheavals and serious environmental crises to invest resources in marine conservation, particularly when the impact of emissions is only visible after a long delay. The impact of the pollution loads of the 14 states in the catchment area of the Baltic Sea is wide-spread, making the problem everybody's problem. We must work together to solve these problems. Co-operation between the countries in the Baltic Rim is the only way to save the Baltic Sea.

Strategy researcher Michael E. Porter has stressed how important it is to have a thorough understanding of the circumstances and to seek the competitive edge. Looking at the matter from Finland's perspective, one may ask what strategic aces we have in our hands that allow us to stand out from other countries or regions. History shows that this is not the first time we have benefited from co-operation with our neighbour Russia. Co-operation seeks new forms in addition to the traditional ones when neighbourliness is also efficiently utilised for preserving the Baltic Sea. After all, only actions across borders will achieve sufficient changes in the ecology of our endangered sea.

Porter has also outlined a new kind of efficient philanthropy and called for a professional approach to charitable causes. He is challenging the actors to deliberate on the strategically best way to operate using the resources available. Porter emphasises the importance of the strategy — as in business life, it should define ways of setting yourself apart from the other actors and determine the goalposts for the organisation's operations. In order for a strategy to work, it must be put to practical use.

Enhancing charitable operations will have a considerably more significant positive impact on society, which is the basic purpose of the whole operation. The John Nurminen Foundation has endeavoured to apply a new way of thinking for solving the environmental problem. The strategic cornerstones of the Clean Baltic project initiated by the Foundation are clearly defined. Dur-

ing the analysis phase, experts were used to survey the available measures, and from these, a method was chosen that is measurably practical, cost-efficient, quick-acting and carefully defined.

The Foundation initiated the Clean Baltic project, which aims to expedite the introduction of the chemical phosphorus removal process at the main wastewater treatment plants of St. Petersburg. Finnish environmental experts have been stressing the importance of this project for a long time: "Removing phosphorus chemically from the effluent of St. Petersburg is by far the most cost-efficient and quick method of improving the state of the open sea areas of the Gulf of Finland", stresses Ms. Lea Kauppi, General Director of the Finnish Environment Institute.

The Clean Baltic project will cut up to 70% of the phosphorus emissions from the effluent of St. Petersburg, corresponding to 27% of the total algal phosphorus load in the Gulf of Finland and the Finnish Archipelago. This will have the visible effect of reducing the blooms of blue-green algae after just a few years of enhanced phosphorus removal.

The John Nurminen Foundation has proven to be a natural choice for implementing the project: it is agile, non-bureaucratic and independent. It has no hidden agenda; its only goal is to expedite the implementation of a protective measure that is vitally important to the Baltic Sea, which is a good formula for seamless co-operation.

Co-operation with the St. Petersburg waterworks Vodokanal and the City of St. Petersburg has proven to work well. Establishing a relationship of mutual trust, the St. Petersburg water utility Vodokanal has been the most important element of the Clean Baltic project. Vodokanal is now strongly committed to the joint project, which is a good indication of Russia's own willingness to invest efforts in improving the condition of our common sea. As a European city, St. Petersburg will comply with the wastewater treatment norms, as put by Mr. Felix Karmazinov, Director General of Vodokanal.

Curbing the local emissions from St. Petersburg is technically simple, inexpensive and cost-efficient. The Russians have no previous experience with phosphorus removal, which means that co-operation is necessary for speeding up the commissioning process. We do not have a day to waste since the ecologic situation of the sea is rapidly deteriorating.

The project will produce visible results, and is it very cost-efficient. The investments amount to approximately EUR 2 million and the total operating costs of the three treatment plants removing phosphorus are approximately EUR 2 to 2.5 million per annum. In order to implement the project, the John Nurminen Foundation has set up the "Clean Sea Fund", which takes donations from private citizens and enterprises concerned with the state of the Baltic Sea. The project has been received with enthusiasm, which is a good indication of how eager people are to really make a difference when it comes to the state of the Baltic Sea. Thanks to the donated working hours and media space, the fundraising costs are minimal. Many have also wanted to carry the message forward and taken the initiative to challenge their friends to contribute to providing first aid for the Baltic Sea.

We feel that the Clean Baltic project is a good example of a positive international environment project. Borders are crossed in many ways, both between states and between the private and public sectors. These, days, civic initiatives or private sector actors may also possess, in addition to their willingness to do voluntary work, skills or knowledge that is useful in supplementing the efforts of the public sector.

I hope that the practical project initiated by the John Nurminen Foundation will encourage others to join in the work of protecting the Baltic Sea. Where there is a will, there is a way.

Juha Nurminen

The Chairman of the John Nurminen Foundation

Tourism Development in the Baltic Sea Region in 2005

by Thomas Mielke

As UNWTO reported, the year 2005 sustained a sharp upturn in international tourism despite of several events which had a negative influence on tourism, e.g. the tsunami in the Indian Ocean, the war in Iraq, the crisis in the middle east, avian flu etc. The number of international arrivals has increased by 5.5% compared to 2004 (2004: 766 mil.; 2005: 808 mil.). Though the growth in 2004 was even higher (10%) the growth rate for 2005 is still 1.5% over the average annual growth of 4.5%. The prospects for 2006 are good – an estimated growth of 4-5% is to be expected, with a strong increase especially in the Eurozone.

According to the UNWTO, Northern Europe achieved an above average growth level – 7.1%. The main reason is certainly the good summer, an economic recovery in the main source market – Germany and last but not least, the image of Scandinavia as a safe and secure destination.* Germany itself also had a growth rate above average – the hotel accommodation statistic showed a plus of 6.4% for all foreign guests – the top source destinations were Europe and Asia.

In 2005 year there were 64.6 million arrivals (4.3% more than in 2004) in Poland. The considerable growth in arrivals from Germany consists mainly of same-day visitors. It is also worth noting that there was a 12.6% growth in visits from other, non-adjacent, countries of the 15 EU states. Inbound travel, mainly from overseas (USA, Australia, Japan, Korea Rep., Canada) went up substantially: by 27.6%. **

The Baltic countries still show an extraordinary growth rate. In 2005, the number of foreign overnight visitors to Estonia is estimated to have increased to 1.9 million (9% increase compared to 2004). Among them, 1.45 million stayed at accommodation establishments, whereas 0.45 million stayed with friends or relatives or at their own apartments. In 2005, the number of foreign overnights at accommodation establishments increased by 9%, reaching 2.98 million. In 2004, Estonia's total tourism receipts (foreign visitors' expenditures in Estonia and their payments to Estonian transport companies) amounted to EUR 891 mil. Tourism receipts accounted for 13% of Estonia's total exports and 40% of total services exports. In 2005, tourism receipts are forecasted to have increased by 5-6% (final data will be published by the Bank of Estonia in June 2006). ***

The growth in Lithuania is even higher: the number of foreign accommodation nights for the first two quarters increased by 20% compared to the same period in 2004. Europe and especially Germany contributed mainly to this development.

An important factor in this tremendous growth, especially in the Baltic's, is the radical infrastructure improvement. New hotels were opened in all three Baltic capitals – although there is still a lack of tourist accommodation, especially in the summer season. All three Baltic airlines recorded passenger growth despite the advent of low cost airlines (Ryanair, Easyjet). Air Baltic especially dramatically increased its network – offering flights to European destinations and to the CIS area or in 2006, even to Tel Aviv.

Ferry connections in the regions are constantly improved and volume has been increased. For example, the port of Helsinki had in 2005 8.83 mil. passengers – a growth of 2% compared to 2004. The biggest increase was recorded on the Helsinki-Tallinn route: 4%. The Estonian shipping company Tallink became one of the biggest shipping companies in the Baltic Sea region, introducing new ships on the Tallinn – Stockholm line and reopening Stockholm-Riga and last, but not least, by acquiring the Baltic Sea passenger division of the Greek shipping company Superfast which connects Finland and Germany. However competition in the ferry business in our region has become very tough and can be described as having reached overcapacity. Silja Line's Finnjet left the Baltic Sea for good, the ship Silja Opera is for sale and the Birka Princess had been sold.

Also the cruise business developed nicely within 2005. The number of cruise ships and passengers to the Baltic Sea increased. In 2005 Tallinn had 324 cruise ship calls. Last year the amount of cruise shipping was 40% bigger than in 2004, when cruise ships made 232 calls to Tallinn. And the number of cruise passengers rose from 205578 in 2004 to 295424 (including 46322 overnight cruise passengers) in 2005. Compared to these figures Helsinki had 248 cruise ship calls and Copenhagen 284.

In general the year 2005 was a very successful year for all countries in the Baltic Sea region, as our region becomes a more and more well-known tourist destination. No mass tourism, a safe and secure environment and clean nature are the main assets of future tourism development. Also world events like the IAAF world championship in Helsinki in 2005, the world championship in ice hockey in Riga and the football world championship in Germany this year will contribute positively to the tourism influx and the image of our region.

The Baltic Sea Tourism Commission (BTC) was founded in 1983 in Lübeck and is one of the oldest Baltic Sea organisations. The primary aim of the BTC is to promote tourism to the Baltic Sea region. Activities of the BTC are: general information to the public and travel trade about tourism in the Baltic Sea region, financed by membership fees and other contributions from our members. The BTC publication issued annually is "Baltic Sea Breezes". For more information please visit www.balticsea.com or call +46 708 123 580 or e-mail: info@balticsea.com.

Thomas Mielke

Baltic Sea Tourism Commission (BTC)

* UNWTONews Year XX, Issue 1/2006

** Institute of Tourism, Warsaw, March 2006

*** By ENTERPRISE ESTONIA/ ESTONIAN TOURIST BOARD as of 7 March 2006.